Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

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Stakeholder group: | Assurance provider

If replying on behalf of an Organization please complete the following:

Organization name: | DNV Two Tomorrows Limited

Industry sector: | Not applicable

Geographical region: | Western Europe

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

DNV Two Tomorrows Ltd hosted a roundtable on 2nd May 2013 to discuss the Integrated Reporting Framework, its strengths and weaknesses, and the opportunities and challenges that it might pose for business. The section below summarises the prevailing outputs from the discussion:

1. The idea that before an Integrated Report can be created, a company needs an integrated strategy and business model, really came to the fore. Attendees from across all industries argued that the IR framework provides an excellent tool for reporting, but it comes with the pre-requisite of an integrated business strategy, which most companies do not yet have. Attendees said:

"You need a process behind the delivery of an integrated report, but <IR> doesn't have guidance on this. <IR> seems like the end is trying to provide the beginning."

"It's a tail-wagging-the-dog situation.   The IR Framework seems to be retrofitting it backwards, starting with an output; the report."

"The IR Framework should be an Integrated 'Doing' Framework – focusing on achieving an integrated strategy, after which, you'll get an integrated report. At the moment there's too great a focus on the reporting side of things."

"The governance piece (4B) should be moved upfront in the framework."

"How many companies already have strategy in place to go and write this report, and how many will have to rewrite their governance and business model?"

"The challenge for us is to think in an 'integrated' manner. Organisations need to change the way they think rather than the way they report."

2. Leading on from this, a debate ensued about the level of buy-in required to get an integrated strategy off the ground. Arguably, the IR Framework could provide a stimulus to adopting a more integrated business model, however, the general consensus was that a top down approach is needed.

"It's a challenge to get the right people involved."

"It needs to be set up by the Board."

"We need to bring allies on board from across the business to champion IR internally. The hope is that the IR might bring a conversation from elsewhere in the company, rather than sustainability people always instigating these conversations."

"The IIRC has successfully engaged CFOs and CEOs, and it's drawing in the right stakeholders, but more work is needed. The benefits of adopting <IR> need to be better articulated".

"I need to educate people across my organisation about what we really mean by IR. It's going to be a big challenge."

3. The synergies and comparisons between <IR> and other standards and frameworks, such as GRI, were touched upon. However, despite the potential synergies, the fact that the <IR> Framework is yet another framework in a crowded space, where no universal governance for sustainability exists, was a hot topic:

"<IR> requires a company to consider its use of, and effect on, different types of capital. It does not prescribe a method of doing this, or of reporting on it. This is where GRI could provide a useful synergy with IR: once a company has decided what to report on, GRI indicators can be used to enable companies to disclose useful and correct information. GRI indicators also facilitate an element of comparability. "

"<IR> should be very much seen as a tool; a framework to aid reporting used in conjunction with other reporting tools."

 "All of these frameworks and initiatives are a minefield. It's the responsibility of someone to tell us how they all fit together."

"The reason of this chaos is the absence of an institutional home for these negotiations to take place. Perhaps the IIRC could become this institutional home if there are enough responses to the consultation draft which indicate this desire?"

"Do all these frameworks need to exist when everyone's asking for the same thing?

"The EU legislation requires companies to comply or explain. When a regulator sets a requirement, it usually then refers to a standard for compliance. Perhaps if IR gains sufficient market support, as the draft law goes through the EU process, they might use

IR as the compliance mechanism? There's a lot going on, but no answer about how it could emerge at the end."

"<IR> is an opportunity to rationalise communications and offer a standardised approach. It holds the potential to limit mixed messages and bring people onto the same page."

4. Companies must comply with the principles based requirements (identifiable by the text in bold throughout the framework) in order to claim they're reporting against the Framework. But who determines whether you're compliant? This raised questions over the assurance of <IR> reports, and the fact that there isn't yet an assurance standard against which to assure integrated reports.

"The IIRC is preparing a paper on assurance, but don't yet know whether the principles based requirements are a suitable baseline for assurance. As yet, there isn't an assurance process, but that's not to say companies can't follow usual assurance procedures and come to individual arrangements with their assurance providers."

5. Furthermore, the capitals model, or the 'octopus diagram' was the subject of great debate. It was generally considered to be a valuable model, yet it stimulated conversation about the definition of value, and the primary audience of companies' annual reporting; it is heavily investor focussed, leaving little scope for engaging wider stakeholders.

"The octopus model shows capitals coming out of the internal governance, but the external governance and the company's stakeholders are not represented here."

 "<IR> seems to be primarily focussed at privately-owned, heavily regulated industries whose reporting is very much focussed on investors and shareholders. However, many organisations – namely public organisations - are held accountable to a much broader array of stakeholders. These companies don't have the same financial pressures as the companies that <IR> seems to aim at, which has a knock-on effect on how these companies define value, because it's not about immediate financial value."

6. Some of the companies present have not seen an appetite for Integrated Reporting, and raise concerns about whether <IR> will satisfy investors' requirements. This contradicts the purpose of integrated reporting, which has been designed to satisfy apparent investor requirements.

"Getting investors interested is a challenge for us. Investors of the companies in the room aren't asking these questions and aren't showing much interest. How should we get them engaged and asking the right questions?"

"Are we giving investors everything they want or will they need to seek out info outside of this report?"

7. To round things off, we asked how those present at the roundtable will use and prepare for <IR> in their companies going forward:

"This could influence the way we deal with our suppliers – it'll help us engage our supply chain."

"We'll look at our financial reporting through lens of IR. New ways of thinking? Different inputs? We probably won't move to an integrated report, but it'll help us think differently. We''ll use it as a tool to demonstrate how we could evolve our reporting."

"I need to get a sense of where as a business we're going and where we want to get to. We need to develop our own processes before even looking at IR. Does my company want <IR> or does everyone have completely different ideas? I really like the concept

of IR and framework, but it's also a case of how much work is involved."

"I'll find out how we can best present the parts of the IR Framework which will be seen by leadership as solutions to problems we face at the moment, and leave behind aspects that will be seen as too scary and unattainable".

"I'll work on creating a greater appetite for IR, possibly by holding workshops, to create allies around different parts of company, in order to take it forward. The only way it can be successful is if different areas of business to agree to work together."

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

Other

4. *Please provide any other comments you have about Chapter 1.*

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

6. Please provide any other comments you have about Section 2B?

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

12.   Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

14. Please provide any other comments you have about Section 3E.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

18. *Please provide any other comments you have about Involvement of those charged with governance (Section 5D).*

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

As long as assurance addresses the most material issues and the scope of the assurance process is clear with respect to what has and has not been included and why, it should not matter. By stipulating that the integrated report (ie financial and non-financial information) should be assured as a whole, this would essentially restrict assurance providers to financial accountants only. Organisations which are not accountancy firms should not be excluded from the assurance process, as they may have specific expertise of relevant non-financial issues and can offer an informed view and an impartial analysis of an organisation's strategic approach. A multidisciplinary team of appropriately trained sustainability professionals is able to offer equivalent sustainability assurance services as an accountancy firm, and we encourage the IR framework to acknowledge and enable this.

20. *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

Other

21. *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

Integrated Reporting roundtable

2nd May 2013

DNV Two Tomorrows Limited hosted a roundtable on 2nd May 2013 to discuss the recently-released Integrated Reporting <IR> Framework, its strengths and weaknesses, and the opportunities and challenges that it might pose for business. This document summarises the prevailing outputs from the discussion, and the feedback will be provided to the IIRC as a contribution to their consultation process. Overall, delegates welcomed the concept of integrated strategies and business models and therefore integrated reporting.

Integrated strategy and business model is a pre-requisite

The idea that a company needs an integrated strategy and business model before an Integrated Report can be created came to the fore. Attendees from across a wide range of industries argued that the <IR> framework provides an excellent tool for reporting, but it comes with the pre-requisite of an integrated business strategy, which most companies do not yet have**.**

"It's a tail-wagging-the-dog situation. The <IR> Framework seems to be retrofitting it backwards, starting with an output; the report."

"The challenge for us is to think in an 'integrated' manner. Organisations need to change the way they think rather than the way they report."

"How many companies already have strategy in place to go and write this report, and how many will have to rewrite their governance and business model?"

Must be led from the top – and <IR> can help this

Leading on from this, a debate ensued about the level of buy-in required to get an integrated strategy off the ground. Arguably, the <IR> Framework could provide a stimulus to adopting a more integrated business model, however, the general consensus was that this must be driven from the top, and that <IR> could play a helpful role in raising awareness and buy-in among senior executives**.**

"The IIRC has successfully engaged CFOs and CEOs, and it's drawing in the right stakeholders, but more work is needed. The benefits of adopting <IR> need to be better articulated".

"We need to bring allies on board from across the business to champion IR internally. The hope is that the <IR> might bring a conversation from elsewhere in the company, rather than sustainability people always instigating these conversations."

Is it just another initiative?

This year marks a milestone in new reporting legislation and frameworks. The synergies and comparisons between <IR> and other standards and frameworks, such as GRI, were touched upon. However, despite the potential synergies, the fact that the <IR> Framework is yet another framework in a crowded space, where no universal governance for sustainability exists, was a hot topic:

"This is where GRI could provide a useful synergy with <IR>: once a company has decided what to report on, GRI indicators can be used to enable companies to disclose useful and correct information. GRI indicators also facilitate an element of comparability."

"<IR> should be very much seen as a tool; a framework to aid reporting used in conjunction with other reporting tools."

"<IR> is an opportunity to rationalise communications and offer a standardised approach. It holds the potential to limit mixed messages and bring people onto the same page."

"Do all these frameworks need to exist when everyone's asking for the same thing?"

"It would be helpful to have a roadmap to help us navigate all of the frameworks, legislation and initiatives."
[Seven of the companies present at the roundtable agreed to support Two Tomorrows in the production of such a roadmap.]

Who's going to check?

Companies must comply with the principles based requirements (identifiable by the text in bold throughout the Framework) in order to claim they're reporting against the Framework. But who determines whether you're compliant? This raised questions over the assurance of <IR> reports:

"The IIRC is preparing a paper on assurance, but don't yet know whether the principles based requirements are a suitable baseline for assurance. As yet, there isn't an assurance process, but that's not to say companies can't follow usual assurance procedures and come to individual arrangements with their assurance providers."

Value to who?

The capitals model, or the 'octopus diagram' was the subject of great debate. It was generally considered to be a useful model, yet it stimulated conversation about the definition of value, and the primary audience of companies' annual reporting; it is heavily investor focussed, leaving little scope for engaging wider stakeholders.

"The octopus model shows capitals coming out of the internal governance, but the external governance and the company's stakeholders are not represented here."

"<IR> seems to be primarily focussed at privately-owned, heavily regulated industries whose reporting is very much focussed on investors and shareholders. However, many organisations – namely public organisations - are held accountable to a much broader array of stakeholders. These companies don't have the same financial pressures as the companies that <IR> seems to aim at, which has a knock-on effect on how these companies define value, because it's not about immediate financial value."

Will <IR> satisfy investors?

Some of the companies present have not yet seen an appetite for Integrated Reporting, and raise concerns about whether <IR> will satisfy investors' requirements:

"Getting investors interested is a challenge for us. Investors of the companies in the room aren't asking these questions and aren't showing much interest. How should we get them engaged and asking the right questions?"

"Are we giving investors everything they want or will they need to seek out info outside of this report?"

What next for delegates?

To round things off, we asked how those present at the roundtable will use and prepare for <IR> in their companies going forward:

"This could influence the way we engage our supply chain."

"I really like the concept of <IR> and the Framework, but I need to work out how much work is involved."

"We'll look at our financial reporting through the lens of <IR>."

"I'll find out how we can best present the parts of the <IR> Framework which will be seen by leadership as solutions to problems we face at the moment, and leave behind aspects that will be seen as too scary and unattainable".

"I'll work on creating a greater appetite for <IR>, possibly by holding workshops, to create allies around different parts of company, in order to take it forward."