INTEGRATED REPORTING <IR>

International <IR> Framework Implementation Feedback

Invitation to comment

Help shape the future of Integrated Reporting

About the IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

Purpose

The purpose of this Invitation to Comment is to gather feedback to inform:

- The technical programme of the IIRC to ensure it responds to market needs for guidance, research and other resources
- Other aspects of the IIRC's work, including strategy development, policy efforts, communications and <IR> Network activities.

Audience

The IIRC encourages feedback from all stakeholders with a knowledge of:

- How the International <IR> Framework (the 'Framework') is being implemented
- Enablers, incentives or barriers to Framework implementation.

Feedback is sought, in particular, from those involved with the preparation of integrated reports, providers of financial capital and other users of integrated reports. Feedback from policy makers, regulators, standard setters, assurance providers and academics is also invited.

How to comment

All feedback, no matter how brief, is welcome and should be submitted via the online form at www.integratedreporting.org/invitation-to-comment. The form includes each question in this Invitation to Comment, as well as a section for any introductory comments (e.g., if the response is the result of a focus group, who attended the focus group).

It is not necessary to answer all questions posed in this Invitation to Comment. Comments are most helpful when they refer to specific paragraphs in the Framework (where relevant), include the reasons for the comments and offer specific recommendations.

All comments received will be considered a matter of public record and will be posted on the IIRC's website after the closing date of this Invitation to Comment. A summary of feedback received will also be posted at a later date.

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1. Executive summary

About Integrated Reporting and the International <IR> Framework

1.1 The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting as the corporate reporting norm.

1.2 Integrated Reporting is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world.

1.3 Integrated Reporting aims to:

- Improve the quality of information available to providers of financial capital
- Promote a more cohesive and efficient approach to corporate reporting
- Enhance accountability and stewardship for the broad base of capitals
- Support the creation of value over the short, medium and long term.

1.4 The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

1.5 The International <IR> Framework (the 'Framework') was released in December 2013 after an extensive due process to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.

Implementation Feedback

1.6 The purpose of this Invitation to Comment is to gather feedback to inform:

- The technical programme of the <IR> Framework Panel to ensure it responds to market needs for guidance, research and other resources.
- Other aspects of the IIRC's work, including strategy development, policy efforts, communications and <IR> Network activities.

1.7 The questions on pages 8-14 invite your feedback in such areas as:

- Multiple capitals
- Connectivity and integrated thinking
- Key stakeholders' legitimate needs and interests
- Materiality and value creation
- Conciseness
- Business model – outputs and outcomes
- Involvement of those charged with governance and identification of the Framework
- Other Guiding Principles
- Other Content Elements
- Other quality issues
- Other enablers, incentives and barriers.

2. About Integrated Reporting and the International <IR> Framework

Vision

2.1 The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

Aims

2.2 Integrated Reporting aims to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Corporate Reporting Norm

2.3 Integrated Reporting is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world. It is intended that the International <IR> Framework, which provides principles-based guidance for companies and other organizations wishing to prepare an integrated report, will accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting globally to unlock the benefits of Integrated Reporting, including the increased efficiency of the reporting process itself.

2.4 It is anticipated that, over time, Integrated Reporting will become the corporate reporting norm. No longer will an organization produce numerous, disconnected and static communications. This will be delivered by the process of integrated thinking and the application of principles such as connectivity of information.

2.5 Integrated Reporting is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organization to create value in the short, medium and long term. In so doing it:

- Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies
- Emphasizes the importance of integrated thinking within the organization

Integrated thinking

2.6 Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

2.7 Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

2.8 The more integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.

The Framework

2.9 The Framework was released in December 2013 after an extensive due process.[1]

2.10 The purpose of the Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. The Framework:

- Identifies information to be included in an integrated report for use in assessing the organization's ability to create value; it does not set benchmarks for such things as the quality of an organization's strategy or the level of its performance
- Is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

[1] Summarized in Summary of Significant Issues

3. Implementation Feedback

3.1 The purpose of this Invitation to Comment is to gather feedback that will inform:

- The technical programme of the <IR> Framework Panel to ensure it responds to market needs for guidance, research and other resources.
- Other aspects of the IIRC's work, including strategy development, policy efforts, communications and <IR> Network activities.

3.2 The IIRC welcomes comments on all matters related to the implementation of the Framework. Q1-Q7 below have been formulated to address key issues identified through preliminary research conducted or reviewed by the IIRC, including a review of <IR> Business Network participants' reports undertaken by investors and specialists in Integrated Reporting. Four "catch-all" questions are also included to accommodate other feedback that respondents might like to provide (Q8-Q11).

Multiple capitals

3.3 The Framework states that "All organizations depend on various forms of capital for their success" (Paragraph 2.10)[2] and notes that one of the aims of Integrated Reporting is to "enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies" (page 2).

3.4 There are many references to the capitals throughout the Framework, including:

- Requirements to provide insight into how the organization's strategy relates to its use of and effects on the capitals (Paragraph 3.3) and to report on performance in terms of effects on the capitals (Paragraph 4.30)
- Guidance that disclosures about the capitals are determined by their effects on the organization's ability to create value over time (rather than whether or not they are owned by the organization) and include the factors that affect their availability, quality and affordability (Paragraph 4.54).

3.5 Some aspects of the capitals appear to be better addressed than others, for example, the relationship aspects of social and relationship capital (Paragraph 2.15) and trade-offs between capitals owned by the organization and those owned by others or not at all (Paragraph 4.56) appear to be less well reported.

[2] Paragraph and page numbers shown in parentheses indicate corresponding references in the International <IR> Framework.

Q1a What is your experience with the multiple capitals approach in integrated reports?

Q1b What, if anything, should be done and by whom to improve this aspect of implementation?

Connectivity and integrated thinking

3.6 The Framework notes that one of the aims of Integrated Reporting is to "Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term" (page 2). Integrated thinking is "The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects" (page 33).

3.7 While the extent and quality of an organization's integrated thinking can be difficult to judge, the connectivity of information in its integrated report can provide some insights; as the Framework notes: "The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report" (Paragraph 3.7).

3.8 The guidance to the requirement about connectivity of information notes that key forms include the connectivity between:

- The Content Elements
- The past, present and future
- The capitals
- Financial information and other information
- Quantitative and qualitative information
- Management information, board information and information reported externally.

Q2a What is your experience with connectivity in integrated reports as an indication of integrated thinking and/or enabler of enhanced decisions?

Q2b What, if anything, should be done and by whom to improve this aspect of implementation?

Key stakeholders' legitimate needs and interests

3.9 The Framework requires an integrated report to "provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests" (Paragraph 3.10).

3.10 While many integrated reports identify key stakeholders and describe aspects of the nature and quality of the organization's relationships with them, it appears to be less common for reports to clearly articulate how and to what extent the organization understands, takes into account and responds to key stakeholders legitimate needs and interests.

Q3a What is your experience with the identification, in integrated reports, of key stakeholders' legitimate needs and interests and how those needs and interests are considered and addressed?

Q3b What, if anything, should be done and by whom to improve this aspect of implementation?

Materiality and value creation

3.11 The Framework requires an integrated report to answer the question "How does the organization determine what matters to include in the integrated report ... ?" (Paragraph 4.40), which involves disclosures about the organization's materiality determination process (Paragraph 4.42).

3.12 There is considerable guidance in the Framework about materiality (Paragraphs 3.18-3.35 and Paragraphs 4.50-4.52), all of which is premised on the definition of material/materiality: "A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term" (page 33).

3.13 Key features of this definition are that it requires the organization to view materiality over a range of time periods and through a value creation lens, where value is interpreted as having two interrelated aspects – value created for the organization itself and value created for others. This focus on value creation is an essential element of Integrated Reporting (see Statement of Common Principles of Materiality of the Corporate Reporting Dialogue and Materiality in <IR>: Guidance for the preparation of integrated reports).

3.14 A number of reports that are identified as 'integrated reports' appear to apply a different lens when determining materiality, including:

- Influence on stakeholders
- Importance to investors
- Importance to others
- Influence on external decisions
- Social and environmental focus.

Q4a What is your experience with the Framework's definition of materiality, in particular:

- Application of the value creation lens?
- Use of different time periods to identify material matters?

Q4b What, if anything, should be done and by whom to improve this aspect of implementation?

Conciseness

3.15 The Framework requires an integrated report to be concise (Paragraph 3.36). Few, if any, other reporting frameworks/standards include an explicit requirement about conciseness.

3.16 The Framework does not define "conciseness", or offer a benchmark with respect to report length. Rather, the guidance to the conciseness requirement states that a report "includes sufficient context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information", refers to the need for balance "between conciseness and the other Guiding Principles, in particular completeness and comparability" and provides a number of pointers that can help achieve conciseness (Paragraphs 3.3 and 3.38).

3.17 As organizations gain experience with the Framework, their integrated reports often become more concise.

Q5a What is your experience with the conciseness of integrated reports?

Q5b What, if anything, should be done and by whom to improve this aspect of implementation?

Business model – outputs and outcomes

3.18 The Framework requires an integrated report to answer the question "What is the organization's business model?" (Paragraph 4.10). An organization's business model is "its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term" (Paragraph 4.10).

3.19 The Framework's Glossary defines **outputs** as "an organization's products and services, and any by-products and waste" and **outcomes** as "the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs" (page 33).

3.20 While many integrated reports include a discussion of the organization's business model, reporting on outcomes and distinguishing them from outputs appears to be a challenge.

Q6a What is your experience with the reporting of business model information, particularly outputs and outcomes?

Q6b What, if anything, should be done and by whom to improve this aspect of implementation?

Involvement of those charged with governance and identification of the Framework

3.21 The Framework requires (Paragraph 1.20) an integrated report to include a statement from those charged with governance[3] that acknowledges their responsibility for ensuring the integrity of the report and that they have applied their collective mind to its preparation and presentation. The statement also provides their conclusion about whether the report is presented in accordance with the Framework.[4]

3.22 While the IIRC acknowledged when the Framework was approved that requiring such a statement might result in a slower uptake of Integrated Reporting for the reasons noted in the Basis for Conclusions, it was considered "more important that integrated reports be, and be seen to be, developed with the involvement of those charged with governance; reports in which they were not involved would not only lack credibility themselves, but the skepticism they induce could also discredit the broader Integrated Reporting movement."

3.23 There appear to be instances of reports that are presented substantially in accordance with the Framework except that such a statement is missing or does not include all the elements required by Paragraph 1.20. Some such reports are presented in accordance with local regulatory or other requirements and do not refer to the Framework.

Q7a What is your experience with whether reports: (i) identify the involvement of those charged with governance, and (ii) indicate that they are presented in accordance with the Framework? What are the implications of excluding such information?

Q7b What, if anything, should be done and by whom to improve these aspects of implementation?

Other Guiding Principles

3.24 The Framework identifies seven Guiding Principles. Four of these are the subject of questions above (Connectivity of information, Stakeholder relationships, Materiality and Conciseness –

[3] Defined in the Framework as "The person(s) or organization(s) (e.g., the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organization and its obligations with respect to accountability and stewardship" (Glossary).

[4] A transition time of two reporting cycles is allowed to include such a statement, during which a report is required to explain what role those charged with governance played in its preparation and presentation and what steps are being taken to include such a statement in future.

please include comments about them in your answers to Q2, Q3, Q4 and Q5 respectively, rather than here). The remaining three Guiding Principles are:

- Strategic focus and future orientation
- Reliability and completeness[5]
- Consistency and comparability.

Q8a What is your experience with the application of these remaining three Guiding Principles in integrated reports?

Q8b What, if anything, should be done and by whom to improve these aspects of implementation?

Other Content Elements

3.25 Framework identifies eight Content Elements. One of these is mentioned above (please include comments about Business Model in your answers to Q6, rather than here). The remaining seven Content Elements are:

- Organizational overview and external environment
- Governance
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation

Q9a What is your experience with how these remaining Content Elements are reported in integrated reports?

Q9b What, if anything, should be done and by whom to improve these aspects of implementation?

[5] Reliability, in particular, is often associated with assurance, which was explored in Assurance on <IR> - Overview of feedback and call to action and is being considered by the International Auditing and Assurance Standards Board's Integrated Reporting Working Group.

Other quality issues

Q10a Aside from any quality issues already raised in Q1-Q9, what is your experience with the quality of integrated reports?

Q10b What, if anything, should be done and by whom to improve this aspect of implementation?

Other enablers, incentive and barriers

Q11a What is your experience with enablers, incentives or barriers to Framework implementation not covered by other questions, including the extent to which they apply particularly to:

- Specific jurisdictions?
- Large or small organizations?
- Private, public or non-profit sectors?
- Different stages of Framework implementation?

Q11b What, if anything, should be done and by whom to improve these aspects of implementation?

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