Integrated reporting – Threadneedle Investments reply to Integrated Reporting (IIRC) consultation

June 2013

Threadneedle believes that the principles around integrated reporting facilitate a holistic understanding of the material inputs a business uses and related outcomes on several time horizons. This is a relevant way of thinking in the context of a rapidly changing climate and increasing expectations on corporate behaviour. We believe that considering wider aspects and a longer time horizon can highlight material risks and opportunities and drive shareholder value in the long run.

In regards to question 1: The overall principle
We are broadly in consensus on the principles stated in the framework. However, we question the view that. *"An integrated report should stand alone as a concise communication, linked to other reports and communications for those stakeholders who want additional information" (4.4)*

The nature of the document is necessarily broad and attempts to allow for some level of flexibility which we fully support as we agree that corporations are very different. In the same way we believe that some corporations have come a long way to make their annual report and accounts a holistic document that attempts to fully understand, to the extent that it is possible, the way the different capitals impact on their business both in the short and long term. As such we believe it would be a shame for those corporations to have to generate a third report where they repeat much of what has already been said. As such we would support a more flexible statement to say that an integrated report may take the form of the existing annual reports and accounts or as a stand alone document.

Furthermore we question the following statement *The information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own value creation story (3.48).* In our view it may be difficult to request that information is comparable unless the framework provides guidance for how to achieve such comparability. While comparability is important we also believe that the story that is told is unique to every company. As such we would either suggest removing this statement or making specific reference to international guidelines that provide a reasonable basis for such comparability on an issues level although not on an indicator basis (eg UN Global Compact, GRI index, SASB).

Overall, we believe that the integrated report should encourage companies to use what is already in place (eg a risk assessment) but with an extended thought process that covers a more holistic set of factors that are the "capitals". This comment is particularly directed towards the statements: *An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*

Similarly, we believe that the business strategy section could be enhanced with the guiding questions highlighted in 1.11. However we do not believe that these questions should be the only things to consider in a discussion around the strategy, the business and its outlook. Indeed the Chairman's and CEOs introductions in exisiting reports can often provide insights to how the business is thinking. As such we would encourage the following points to be part of an existing overview and strategy discussion in the annual report and accounts.

- *An integrated report should answer the question: What is the organization's business model and to what extent is it resilient?*
- *An integrated report should answer the question: To what extent has the organization achieved its strategic objectives and what are its outcomes in terms of effects on the capitals?*
- *An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*

In regards to question 2: Format of the report
Threadneedle do not agree with the wording in 1.18 which stipulates that *"a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle".* We agree that the report that is suggested will differ from existing reporting but would suggest that the elements of the capitals and an appreciation of short, medium and longer term aspects can be incorporated into the existing annual report.

In regards to question 3: Suggestion for KPIs
Threadneedle would be supportive of the IIRC creating a database of sources and best practice examples. The types of sources that could be used include: Global Reporting Initiative; SASB; EFFAS (The European federation of financial analysts societies" KPIs for ESG.

In regards to question 4: General comment
Overall the framework seems complex and likely to prove difficult to realistically achieve in practice. We wonder if this puts an unnecessary burden on companies and deter them from even attempting to incorporate the wider set of "capitals". That would be a shame as fundamentally we see the IIRC as a positive step towards internalising what has previously been considered externalities.

In regards to question 5: Definition of capitals
Yes to a large extent we agree with these categories and description of financial, manufactured, intellectual, human capital, social and relationship capital and natural capital.

In regards to question 6: Comment on the discussion on the capitals
The point around not having targets or KPIs linked to the capitals is valid but may make it difficult to assess the materiality or relevance of a capital. We would encourage the framework to be a bit stronger in its encouragement to address outcomes or goals related to the various areas in the short, medium and longer term.

In regards to question 7: Definition of the business model
This definition is appropriate but we believe it is important to define "value creation" and how to best measure it – whether it be total return over a given period or a more holistic economic value metric. This section should be more clearly linked to section 2D but that section needs to more clearly define the measurement and not just the definition and meaning.

In regards to question 8: Definition of outcomes
Outcomes, as the section describes, can be many different things and described differently for each capital. Again, we would encourage the outcomes to be linked to measurement of value creation.

In regards to question 9: Any other comments on inputs/outcomes
This is a complex idea and it will vary for every company.

In regards to question 10: General comment on chapter 2
More work is required to link the sections. For example value creation is a core concept which needs to be one of the first aspects to the guidance document – essentially we would recommend lifting its importance by putting it right up front with the discussion of the definition of a business model and the inputs/outputs of capitals.

In regards to question 11: Approach to materiality
We believe it is positive to include senior management and those charged with governance but we would also consider the risk teams, procurement and marketing teams as relevant stakeholders in the discussion to name a few. In some businesses it may be a wider or a smaller group so we would encourage the framework to name senior management, the board, sustainability/governance representatives and other relevant internal stakeholders.

In regards to question 12: General focus on materiality
In general this focus is positive but we believe this is also the section where the guidance document could leverage the GRI 4 efforts to incorporate materiality and we would encourage the document to mention that there are international efforts to guide companies in this process. We would also encourage the framework to include that companies could consider taking on an external stakeholder advisory board for part of this discussion which is something many companies already do today.

In regards to question 13: Reliability of a report
Auditing of the report could be encouraged but as many of the statements will be subjective that may not be practical. An external advisory would provide some sort of external reflections but we would also be looking

to the board for assurance that the information is consistent with a true and fair view of the state of affairs of the business.

In regards to question 14: General comments on balance & completeness
In general, we agree that the report should be free from material error. We would place greater emphasis on cost/benefit – ie companies should wherever possible attempt to quantify the costs and benefits associated with the capitals.

In regards to question 15: Other comments on chapter 3
None

In regards to question 16: Content elements
Related to our comments above, we believe that the list of areas that are highlighted a fairly prescriptive and categorises without following the recommendation in the guidance document of materiality assessment; risk assessment; capitals flow of inputs & outputs. Furthermore we believe it should more closely follow an existing annual report framework and "performance" in our view encompasses both management of risk and capturing opportunity.

A suggestion could be: Overview and definition of business model & strategy; Materiality and risk assessment; Corporate governance & remuneration including a letter from the Chair; Financial performance & overall value creation; intellectual capital performance; human capital performance; natural capital performance; manufactured capital performance; social and relationship capital performance; accounts; future outlook.

In regards to question 17: Acknowledging responsibility
No. We believe it is the responsibility of the entire business.

In regards to question 18: Governance responsibilities
This is a very strict definition and firmly puts the reporting requirement on the governance bodies when in fact usually it is reporting specialists and investor relations that carry out reporting. In our view it may prove more practical to encourage a cross-functional collaboration but with ultimate oversight responsibility to lie with the board.

In regards to question 19: Assurance
Assurance at minimum should cover the financial report and accounts.

In regards to question 20: Assurance
No comment

In regards to question 21: Other
No comment

In regards to question 22: Overall view – is the content appropriate for use by an organisation?
As stated in question 4 above, we consider the guidance document very complex and vast and highly aspirational. We agree that the financial reporting to investors should and can be enhanced and applaud the IIRC for starting the debate. However in the current format, integrated reporting will not be applicable directly by most organisations at this point in time. This is a shame and could be addressed by simplifying the requirements somewhat.

We believe there should be one report to investors so the report needs to address all elements of value creation relevant to investors. As such it is not appropriate to report financial accounts in a separate document. For the wider NGO and community stakeholder groups we agree that separate document is appropriate.

Overall the guidance document seems disjointed and it would seem that each section has been addressed by different groups as many of the sections include similar concepts. In our view the document would benefit from and could fairly easily be made more concise.
In regards to question 23: Three key priorities

- Explanation and definition of the capitals
- Holistic materiality assessment
- Value creation measurement

We believe that these are the most crucial elements that need to be better explained to companies as they are not currently included or addressed in the traditional annual report or sustainability report.

Question 24: Any other comments
None