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Paul Druckman
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Comments filed by internet at: www.theiirc.org

Dear Mr. Druckman,

Consultation Draft of the International <IR> Framework

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your invitation to comment on the Consultation Draft of the International <IR> Framework.

We encourage further development of Integrated Reporting, and support the overall aims and objectives of the Committee to create a wider reporting framework taking account of the greater needs and expectations of stakeholders. Having commented on the discussion paper in December 2011 we are pleased to see that a significant amount of progress has been made with this Framework.

Responses to specific questions

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.

The principles-based requirements are complete and appropriate. However, we are concerned that users will not accept unavailability of data as a reason for not providing all of the information required by the Framework, requiring companies to undertake costly data gathering and validation programmes. We believe that the Framework should include more guidance on the costs and benefits of application and where to reasonably draw the line.

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, eg, 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?

We agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications. In the early years of application, there is a risk of duplication and redundancy as best practice develops. However, we consider that at present the Framework is broad enough in most areas, to allow the application and development of the different reporting standards and frameworks used by different jurisdictions.

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?

Such a database of sources could be helpful to preparers and users. However, before we could support such a measure fully, we would need to understand the accreditation process and criteria for organisations to be included.

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

We have no further comments on this Chapter.

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?

We agree with the approach to the capitals because they correctly address the key categories of capital used by companies. We also agree that where Key Performance Indicators (KPIs) are not available a narrative approach should be used for material capitals. Disclosing and describing non-material areas (in this case the capitals) would be a departure from reporting practices developed by other authorised bodies, including the International Accounting Standards Board. However, because the six capitals are fundamental to most businesses, we consider it appropriate to explain why a capital is not material should that situation arise.

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

It is not clear from the diagram used in Figure 4 how the capitals interact. For instance there appears to be no linkage between the Social and relationship and Financial capitals, for which there must be many? A more detailed explanation of the diagram is required at present, for it to clearly demonstrate the interactions between capitals.

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?

We agree with this definition. However, we expect that companies will be reluctant to disclose commercially sensitive aspects of their business models that result in a perceived competitive advantage. This constraint on full disclosure could be acknowledged in the Framework and suitable guidance provided to mitigate by providing examples of what may constitute commercially sensitive information. For instance, further guidance should make it clear whether such omissions should be acknowledged in some way in the Integrated Report.

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?

We agree with this definition. However, we expect that companies will talk-up positives and down-play negatives for obvious reasons. This tendency could be acknowledged in the Framework and suitable guidance provided to mitigate this in terms of encouraging a balanced approach.

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

We have no further comments on Section 4E.

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

We have no further comments on this Chapter.

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?

We agree with the general approach to materiality. However, we believe that with a suitable modification to allow for non-financial matters, the IASB's definition could be a suitable working definition to reduce the number of authoritative definitions. A suitable revision to the IASB definition could be:

"Information is material if omitting it or misstating it could influence decisions that users make on the basis of ~~financial~~ information about ~~a specific reporting entity~~ the organization"

The references to the views of senior management and those charged with governance are superfluous because it can be taken for granted that the preparers of the reports will be influential.

In paragraph 3.23 there is reference to value creation over the short, medium and long term. However, the Framework does not encourage preparers to consider reporting information using these time ranges in sufficient detail. Instead the Framework refers to "value creation over time" in other sections. It may be helpful to an investor to know that a company plans to develop value from a particular capital in the long term, rather than the short term. An investor could then determine whether the timing of the value creation meets their investment needs more broadly.

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

We have no further comments on Section 3D or the materiality determination process.

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?

External assurance is a proven method to provide information about the reliability of information presented in the Integrated Report. Stakeholders will not have access to the company's internal records and they will not have a sufficient knowledge of the controls over the internal reporting systems used by management to prepare information in the Integrated Report. In some jurisdictions elements of the Integrated Report captured in other reports may already be subject to assurance services.

However, external assurance will create additional costs, which may limit the use of Integrated Reporting because, at least initially, stakeholders and management may not fully understand the benefits of preparing integrated reports. Therefore at this development phase of the Framework, we believe that it may be beneficial to allow participating companies and their stakeholders decide nature and level of external assurance required. Following experience and further consultations, we believe that independent third-party assurance should be required and that such third-party assurance should be provided in accordance with high quality, internationally accepted assurance standards such as those established by the International Auditing and Assurance Standards Board (IAASB).

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

We have no further comments on Section 3E.

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

We believe that there is a conflicting link between conciseness and the value of external assurance that needs to be considered more thoroughly in the Framework, if both of these features of Integrated Reporting are considered a priority. For instance, if external assurance is to be provided over the entire or majority of the Integrated Report, then conciseness is likely to reduce because to be of value the information over which external assurance is provided will need to include sufficient detail and evidence.

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).

We have no further comments on this Chapter.

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?

Yes, we believe that those charged with governance should include a statement acknowledging their responsibility for the integrated report because such a statement enhances transparency for users and ensures that those charged with governance acknowledge their responsibilities. We believe the Framework's principles based style will enable it to be adopted by local regulators more readily in jurisdictions where such reporting is less common, making this new acknowledgement of responsibilities by those charged with governance more important.

We do not believe that the Audit Committee should be responsible for the Integrated Report, because it is not its function or purpose. The Framework could do more to address the division of responsibilities in this respect.

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

We have no further comments on Section 5D.

The Framework provides 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 stated above, we believe that companies should have discretion in the first phase in the provision of external assurance services over their Integrated Report.

However, when external assurance services are mandated, we believe that it will be difficult to provide external assurance services over the entire report because of the wide ranging matters being reported on and because the Integrated Report may refer to other documents. In particular, it will be difficult to determine the level of assurance provided due to the mix of financial, non-financial, historic and future information within the Integrated Report and to determine the extent of external assurance provided over information that summarises other reports or sources of information.

The wide mix of matters reported will also be challenging for one assurance provider to report without the need to rely on third party expertise. If external assurance is to be mandated, the Framework should include more guidance on the use of third party experts and the reliance to be placed on their reports. At present the assurance standards issued by the IAASB, which are used by the primary assurance providers (Chartered or Certified Public Accountants), could only provide partial assurance over the entire Integrated Report. We believe that assurance standards issued by the IAASB will need to be amended before these providers could provide assurance services over the entire Integrated Report. While the Framework could provide guidance for preparers and experts to use, the requirements or guidance applied by Chartered or Certified Public Accountants would need to reside in the IAASB standards and not the Framework.

In addition, the mix of information types and sources gives rise to a clear issue in determining the nature and extent of external assurance and how that assurance is documented within the integrated report without the reporting itself becoming cumbersome.

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.

We have no further comments on Section 5E.

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).

We have no further comments on this Chapter.

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?

We agree that the Framework will evolve over time and that a key element of that evolution will be further consultations and feedback from investors and other users of Integrated Reports, after a suitable initial phase.

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?

We believe as far as possible guidance relating to specific matters should be documented within the Framework itself to avoid there being multiple sources of reference and escalating levels of detail. However, we do feel that more detail could be given in the Framework with respect to materiality, and conciseness and provision of assurance services for the reasons explained above.

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

We have no further comments.

We would be pleased to discuss our comments further with members of the IIRC or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsmi.com).

Yours sincerely

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