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.

Name:	Andrew Howard
Email:	andy@didasresearch.com
Stakeholder group:	Analyst

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

Organization name:	Didas Research
Industry sector:	Financials
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.

This response is written from the perspective of a financial user of reported corporate information. We should also highlight at the outset that we are very supportive of the principles IR seeks to achieve and the initiative as a movement towards more valuable communications with shareholders; the content of the draft document covers those goals. The comments that follow are designed as constructive input from our perspective. Please contact us directly if further elaboration would prove useful

1) In seeking broader uptake from investors outside the currently-engaged groups, many will need a roadmap to understand its relevance to their decision making and process (eg a "translation" document) - we would suggest engaging sell side research providers where possible to articulate the relevance of this information and format to "normal" investors. Much is written in a way that is difficult for someone unfamiliar with the process or topic to understand and some readers will struggle to understand how to make it relevant to their work. Alternatively, the value will likely become apparent after reporting has become established, which will limit the potential for investors to act as change catalysts themselves

2) On a related vein, we believe a range of interpretations exists from corporates - we see significant value in articulating throughout IR communication materials the purpose and goals of IR, ahead of details of its definitions or structure

3) For wider dissemination, the draft itself could usefully be significantly shortened and de-jargoned and screened for buzz words. There are a range of areas where common business terms are used out of context (business model and value creation, subsequently defined in unconventional ways). There are also large portions of the draft that could usefully be pushed to a separate explanatory document to clarify the messages of the main report

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.*

Would it be possible to bring the over-arching principles of the draft together at the outset. Ie to clearly articulate what the process is seeking to achieve - ie what is the one paragraph summary of what integrated reports should look like (in terms of the information that is conveyed) and how does the IIRC envisage this information will be useful to investors. We realize much of this information is included throughout the report, but its a challenge of concentration to bring all of this together into a coherent message.

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?*

We agree with the underlying message. However, its communication is somewhat confusing - the first sentence refers to IR as a process of developing reports and communications with investors and analysts, whereas the tone through the rest of the document is that IR is a report.

We think the key here is that IR is a way of communicating the way a company creates value for its shareholders - financial reports do a pretty good job of communicating how much value a company creates but do little to articulate how a company creates value. IR is way of integrating the output (value created) with the inputs (the things a company does) to provide a clearer understanding for investors into the sustainability of company's business model and value creation.

As currently written, these paragraphs are a little unclear - we think its v important to lead with what IR is trying to achieve before getting into the details.

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?*

GRI should be the primary reference standard - this is already the de-facto ESG reporting standard globally. The G4 standard is the main over-arching framework but there are additionally indicators developed outside the G4 for individual sectors
Others to reference include: Project Delphi, SASB, Effas/DVFA KPIs

Ensuring comparability is referenced throughout the report (eg 3.51) but is regularly followed by comments on benchmarking etc - For investors, raw data of comparable measures presented in a comparable way is key - benchmark relative performance or proprietary metrics are of v little use to financial users

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?

The capitals approach is as good as any other - there are many that could work - the key is that whatever framework is used is flexible enough to adapt to whatever approach companies use internally - IR is a reporting mechanism and therefore must focus on creating a mechanism for companies to report on their activities. This is different to a framework for managing a business, on which every company will have different perspectives. The capitals approach provides a good basis for incorporating most of the different operating / strategic systems companies have in place but should not become any more prescriptive than it is currently, so that companies operating in different ways are still able to report on their activities through a common logic.

On the capitals specifically, the main contention we have is with financial capital (which as defined, essentially means the cash companies hold on their balance sheet) - this is a very narrow capital. People seem to confuse this with the profits a company makes (they are not the same thing - one is a flow and the other is a stock (=capital). We are unclear if this capital is really needed and could be combined with manufactured capital easily (the two types are essentially interchangeable). Similarly, more emphasis should be placed on the earnings and cash flow generation of a company, which are essentially the rate at which capitals are translated from one form to another and form the basis for measuring value creation. Ie its the interaction between capitals and the company that is critical, not the capitals themselves.

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

The schematic shown in section 2B is almost impossible to understand or practically use. In our interpretation there are broadly two dimensions - ownership (does the company own the capital in a legal sense) and common use (is the capital available for only the company to use or ubiquiitous). Ie
Owned & exclusive use = financial and manufactured
Not owned & exclusive use = human
Not owned and common use = environmental
etc etc - whatever method is used, some mechanism for helping companies think about identifying capitals relevant to their business will be very valuable

Insofar as companies are asked to develop their own capitals or decide which matter to them, some simpler way of articulating the different categories and development of the framework would be v helpful - if a company sits down to map its capitals, what logic could it follow to identify different types

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?

No - a business model refers to the activities a company undertakes in order to create value for its shareholders - it is the organisation of a system of activities. The definition used in the draft is much broader and seems to include inputs, outputs and outcomes - the latter two of these at least are the result of the decisions a company makes about its business model (the products it sells, the benefits they bring etc). Business model = organizational structure and processes not the results of those activities. The description appears to be trying to encompass the entire value chain

Business model (Section 2C) continued

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?

Definition is ok. Brings focus onto the interaction between a company and its capitals (which is the key here). However, outcomes are a result of the business model (not part of it); the business model concept here is somewhat confusing. It would also be useful to drop the allusions to measuring outcomes (positive/negative implies they are measurable in each instance, which is unlikely to be the case.

We would also suggest placing as much emphasis on companies' use of capitals as on their effect on them (outcomes definition used in the draft)

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)?

The key to thinking about capitals should be on assessing the interactions companies have with each capital - ie contributing to each capital and taking from each. Eg with human capital - companies "put in" training and compensation etc and "take out" work done, creativity etc. Having identified the capitals that matter to a business (its dependencies), the focus of IR should be on assessing the contributions to and deductions from each capital over time. This provides a gauge of whether the use of each capital is sustainable or not without getting bogged down in theoretical discussions of how to measure the size of a capital (essentially impossible)

2.16 mentions value creation in reference to the total stock of capitals, which is neither a conventional definition nor a focus for investors. 2.38 is a more common and useful definition. Referring to value creation across all capitals implies that all can be measured and converted to common units, which seems improbable

Other

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

2.45 references to value drivers seems particularly redundant - confuses causes and effects (eg social perceptions vs. sales growth)

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?

The approach is probably ok for the purposes of this report but is also a tautology - something is material if the key users think it is material. 5.3 provides a similar tautology to assessing materiality - find all matters, rank by importance, choose the ones at the top of the list.
We don't actually see why a complex and specific definition of materiality is needed. Users will dictate the conclusions over time in any instance. Companies know what is material in most cases without this definition. The whole discussion of materiality invariably gets bogged down in theoretical discussion that leads nowhere unless there are actual numbers of concrete definitions used (eg 5% of profit or value given probable/possible outcome rule)

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

Circular as currently articulated - see above

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?

Ought not be an issue in most cases. I have never come across a large company willing to lie in its reports, whether verified or not. Perhaps this may differ for smaller companies, but overall we see no issue with leaving the integrity of the reporting to the company. Articulating the process used to determine the information provided is v helpful to provide investors with an understanding of the robustness of the output, but further verification is probably redundant. If IR is providing details of "how" a company creates values vs. financial reporting details on "what" value a company creates for investors, the capacity for prescriptive methodologies and audits is necessarily lower.

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.

The principles are hard to disagree with; all are logical goals of corporate reporting

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?*

No. Where compliance requirements are explicitly placed on any individuals, any material is likely to become much curtailed to mitigate potential liability, particularly if those individuals are not employees of the company. Insofar as IR is meant to provide a basis for companies to articulate their business models and the process of value creation and dependencies in doing so, it is not data-driven in the same way as a financial report which in turn will make it v difficult to audit in the same way as a financial report would be audited. Also, to the extent any additional reports published as standalone reports should tie together other existing reports, which are more likely to be audited, auditing that standalone report would be redundant.

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

We do not think the onus should be placed on any individual group - in particular not the governance committee. IR is a voluntary process and creating perceived liabilities is likely to prove counterproductive.

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?*

Assurance can only really cover the quantitive elements of any report - business model descriptions etc cannot really be audited. Insofar as those elements would ordinarily be audited when published in existing reports (financial always, ESG data sometimes) then that assurance would exist and could reasonably be existed if those reports were folded into a single report but otherwise its unclear what else would be audited

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.*

There are very few public companies that would publish any material that they were not confident was accurate, whether audited or not. Auditing may prove lucrative for assurance providers but is likely to be counterproductive a this early stage in the development of IR unless entirely voluntary

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?*

The content of the draft report contains the main elements we expect companies will need. However, we expect a lot of companies to struggle to distill the logic from the draft as currently circulated - its likely a lot of readers will reach different conclusions on the overall purpose. In places, IR is a process, in others it is a report. More emphasis is placed on the elements for inclusion and reporting approach than on the purpose and principles of IR - eg capitals are tools to articulate dependencies in a company's business model not a reporting goal in themselves (in our interpretation) which is a key message readers will need to extract and focus on

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?*

1) Develop a clear one page articulation of what IR is designed to achieve - a framework for reporting on the process of value creation with reference to the dependencies companies have on the environment, people, knowledge etc. Those dependencies are organised as capitals to help provide a structure applicable to most companies. The focus is on understanding which capitals companies rely on, what they receive from each, what they invest into it and the sustainability of that source of value
2) We would also de-prioritise much of the technical discussion re governance structures, auditing, definitions etc to try to focus documentation on the overall principles and IR as a tool rather than as a compliance document

Other

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

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013