

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:	<input type="text" value="Professional bodies – Other"/>

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

Organization name:	<input type="text" value="The Hong Kong Institute of Chartered Secretaries"/>
Industry sector:	<input type="text" value="Not applicable"/>
Geographical region:	<input type="text" value="Asia"/>

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.

<p>We submit that the development of integrated reporting requires serious consideration, and we have consulted some senior members accordingly.</p> <p>The opinion that emerged is that is that while there may be good reasons in principle for integrated reporting, including cross department cohesion, there are significant concerns relating to resources allocations. There will be need to hire additional staff and incur costs and time in producing the integrated report. This is especially at the initial stage when talent is limited. In Hong Kong, as with elsewhere in Asia, the family, and not the investors, the main target for IR, are major providers of financial capital. Also, there are concerns that there are no benchmarks or standards as to how to gauge the standards of IR reporting.</p> <p>We accept that inevitably there is a need to go beyond traditional reporting to facilitate communication with stakeholders as to where a company is heading. As to whether integrated reporting IR will become a force will depend on resources considerations, developing the talent, investor demands and detailed practical guidelines and guidance. These are practical issues and concerns of our members who are an integral part of the reporting process.</p>

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.*

As there may be legal prohibitions that are not "specific" but nevertheless applicable, the word "specific" may be deleted (paragraphs 1.11-1.12). Also, in certain situations, it may not be possible to discuss the bullet points (paragraph 1.12) because of legal reasons. These need to be recognised under the principal based statements.

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?*

The company reporting on IR should be encouraged to adopt consistent standards and reporting policies throughout IR. For example, there is widespread use of IFRS and GRI and it is useful to have these standards or benchmarks to assess IR.

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?*

The use of IFRS and GRI, which are consistently used in financial and sustainability reporting, subject to local rules and regulations may be encouraged.

Other

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

No further comments.

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 report on financial capital is straightforward. For other capitals, there needs to be more guidelines and guidance and experience sharing by those under the pilot programs. Thus, more case studies and practical guidance are welcome.

Also, detailed explanation as to how traditional financial reporting, sustainability reporting and integrated reporting differ will be useful. The forward looking nature of IR should be demonstrated by examples to highlight the difference with other reporting.

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

No further comments.

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?*

For the purpose of IR we have no objections. Please consider mentioning that the purpose of any business model is to create sustainable competitive advantage in the competitive environment.

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?*

For the purpose of IR we have no objections.

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)?*

How is the balance between communications with investors and retention of commercial sensitive information relating to the business models and related processes to be maintained. There needs to be practical guidance as to how to achieve this.

Other

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

No further comments.

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?*

For the purpose of IR we have no objections. There needs to be practical guidance as to how to achieve this.

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

As the primary audience of IR is investors, the concise approach with reference to other reports like financial and sustainability reporting is an appropriate approach to adopt.

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?

The use of external assurance is the best way to demonstrate reliability. However, as mentioned, this is part of the key point as to resources allocations. IIRC could consider a phase in approach, whereby over a time period what is expected in terms of reliability will be developed and at the same time, the requisite talent will be trained up.

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

No further comments.

Other

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

No further comments.

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).*

No further comments with the approach which is welcome.

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?*

This will be expected by investors and in principle, those in charge with governance should take responsibility for statements made. Their protections are their forward-looking disclaimers.

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

No further comments.

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?

This is in part a cost benefit analysis. There needs to be data for the question to be accurately assessed. However, in logic, external assurance could only be over the hard data and the processes, but not the subjective conclusions and strategies of an organisation which depends on whether the investor buys into the conclusions. We suggest a phased on approach on the topic whereby the talent and processes could develop over time.

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.

No further comments.

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).

The process flow of the methodology should be disclosed under the IR.

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?*

In principle it is appropriate. For the report to become widespread in use, it will take time, along with development of investor stewardship in the Asian market.

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?*

Materiality
Assurance
Case Studies

Other

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

Any information to address the concerns as set forth under the key points and to explain the value creation process to the family provider of capitals, if any, and the relationship with investor stewardship.

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