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Mr Paul Druckman
Chief Executive Officer
International Integrated Reporting Council
29 Lincoln's Inn Fields
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Dear Mr Druckman

Integrated Reporting Framework – Consultation Draft

We are pleased to present our Comment Letter on the Consultation Draft for the Integrated Reporting Framework.

We support the adoption of a principles based Framework for Integrated Reporting. The International Integrated Council is providing important leadership. Overall the Consultation Draft for the IR Framework sets out an informative and transparent approach to reporting that is of benefit to stakeholders.

Our detailed response to the questions contained in the Consultation Draft is given below. In this summary, we briefly comment upon the scope of Integrated Reporting and “complexity in financial reporting”.

The scope of Integrated Reporting has to be considered. Paragraph 1.10 specifies that “The Framework is intended primarily for application by private sector, for-profit companies of any size”. The formal scope of the Framework should be limited to listed companies. Given the limited group of stakeholders, and the cost of preparing the report, Integrated Reporting is of questionable benefit to unlisted companies. The comments in 3.38 – 3.41 ought to be revised to reflect this.

Regulators in several jurisdictions, such as Australia and the United Kingdom, have projects in progress to consider “complexity in financial reporting”. The IIRC should consider the objectives of these projects as it prepares the final text of the Framework, so that Integrated Reporting is not seen as adding to “complexity”.

1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.

No need for changes.

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

1.18 specifies that the Integrated Report shall constitute a separate, self-containing document, able by itself to address the aspects of the framework. There are merits in giving links to other communications, but there we have a concern that in the event that there are too many links, then the Integrated Report will become difficult to follow. This will undermine the objective of presenting a clear and transparent report.

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?

Selected references should be free of charge and publicly available. They may provide guidance on specific aspects of transparency in business management. Examples could include:

- The majority of declarations from the International Labour Organization;
- The OECD Guidelines, the Universal Declaration of Human Rights;
- The UN Guiding Principles on Business and Human Rights;
- The ILO MNE Declaration;
- The UN Global Compact ten principles; and
- The Transparency International Business Principles For Countering Bribery.

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

1.3, last sentence may refer to ‘sustainable value’ instead of ‘value’ over the short, medium and long term.

1.10, this consideration appears unnecessary. The framework should be applicable for any organisation that may report to a provider of financial capital.

5. Do you agree with this approach to the capitals? Why/why not?

Intellectual capital can be changed to “organisational”. Not all the capitals identified under “intellectual” in the draft are actually intellectual, these look more related to organisational capabilities instead of intellectual products

The description of “Natural Capital” (in bullet points) should include materials and wastes and other environmental aspects as additional bullet points.

The Draft states that categories of capital are non-mandatory ‘benchmarks’, but also requires disclosure of the reason if any of the capital are not deemed to be material. If categories of capital are not material, we would not require this disclosure.

The Draft Framework requires disclosure of the materiality basis for determining disclosures. In no other area of financial (IFRS) or non-financial reporting is this required. We believe that this proposed disclosure is subjective, and does not add any benefit and should not be required.

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

2.13, the clause ends with 'better trained'. It should be 'better skilled'. Training is a process, which if successful, can end in creation of real value. In the long term poor training may result in “impairment” of the supposed value. It would be better to use terms like “skills” or “capabilities” when referring to the retained value of an organisation’s people.

7. Do you agree with this definition? Why/why not?

2.26. We do not agree. It is not clear to whom the value is created. To the shareholder? To the provider of capital? Both perhaps?

8. Do you agree with this definition? Why/why not?

We agree and suggest that a third category, “Actual or Expected” should be added (as an outcome category).

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 (Section 4E).

Additional “Business Activities” that can be referred to are:

- Compliance mechanisms and risk management processes; and
- Grievance mechanisms and conflicts resolution on integrity, corruption and other misbehaviour-related issues.

4.25. If the audience of the report is the provider of capital, then the reference to the “corporate centre” may not be applicable. The business model can vary for different locations/operations, so the information provided must be relevant for the provider of capital, instead of the “corporate centre”.

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

Second bullet in 2.1 may include “Government” as an additional stakeholder.

In 2.9, it should be mandatory to depict the value chain and describe to what extent the key relationships across the value chain can impact the use of Capitals.

In 2.45, instead of 'competitive advantage' it should say 'sustainable competitive advantage'.

11. Do you agree with this approach to materiality? If not, how would you change it?

Materiality is determined by reference to the primary intended users who are identified as providers of financial capital, although the document clearly identifies other users/stakeholders who would be interested in value creation. If the focus is on the primary users (capital providers), inevitable questions on how the concept of materiality in the IR relates to materiality in financial reporting (IFRS) will arise.

There may be no clear cross over because one approach to reporting deals with non-financial measures (capital components), while the other deals with financial measures (IFRS), but we think this needs further thought/explanation.

This is especially true once the possibility of external assurance on the IR (5.20-.21) is considered.

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

No comments

13. How should the reliability of an integrated report be demonstrated?

3.31, agree with this statement

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

In 3.34, the framework should stress the need to report forecasts/future outlook for key material matters. If it is compulsory, all the organisations would have to report their performance against targets from their second IR report.

In 3.30 or 3.31, the clause should include the sentence 'in a timely manner' to assure reliability. Many non-financial reports take too long to be published. Timeliness is critical to provide information for decision makers, and to assist stakeholders such as external analysts and rating agencies.

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

1.8 should include "relationship with key stakeholders".

There needs to be clearer guidance on terms used in Chapter 3 such as "free from material error", an "acceptably low level of risk" and "significant harm".

It follows that it seems to defeat the purpose of IR to claim non-disclosure on the basis of competitive disadvantage and then have a disclosure requirement to state this fact and why it is disadvantageous (3.45).

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).

4.1, Integrity can be included within Governance as 'Governance and Integrity'

4.2, Given the need to harmonise with different disclosure frameworks, it would be helpful to add a reference table at the end of the Integrated Report with the identification of the different disclosures applicable to different frameworks

4.11, the framework should provide more detail on what it means by "providing insight about leadership structure".

4.11, as additional bullets, the company's supply chain should be described as should the mechanisms for addressing integrity and ethical issues.

4.20. Last bullet point is misplaced. It should be part of 4C instead of 4B. Stakeholder consultations are critical for defining materiality (4.17), not for defining strategy. Strategy is an informed choice for the company in terms of both positioning and resource management, not the outcome of a consultative process.

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?

There should be a responsibility statement, signed by most senior governance member of the organisation (normally, the Chair of the Board). It is importance that those charged with governance are seen to take responsibility for the report.

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

No comment.

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

We would not include reference to external assurance as a means to satisfy the Credibility criterion until the IAASB has considered and issued guidance on the reporting framework for such assignments. Ideally the IAASB should address this before the launch of the IR Framework.

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.

The Framework does provide suitable criteria for an assurance engagement. As we comment in

19 above, this is a matter that should be addressed by the IAASB.

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).

In 5.13 the second bullet should indicate “stakeholders” instead of “personnel”.

In 5.27 (boundaries) & 5.28 (financial reporting entity), in line with the ‘integrated thinking’ concept, a detailed appraisal of countries of operation should be included in the report.

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?

IR is a key tool to cope with the reporting needs. It may be harmonised with other mainstream reporting initiatives to ensure its success.

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?

- Mapping with similar reporting initiatives, to reduce complexity and double-reporting. There are both global (GRI, GC) and local (such as UK Companies Act 2006 and BOVESPA initiative for listed firms) frameworks that are mature enough to be considered as source of experience for the integration of reports.
- Guidance for assurance procedures, to harmonise the current approaches from different disciplines (accounting, environmental, social) and to prevent whitewashing on assurance engagements that are not focused on material aspects.
- Competence of assurance providers, to clarify from the point of view of IR what are the capabilities to provide an independent view and an informed opinion on reports. It is important to clarify the skills needed to approach an external assurance engagement.

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

In global businesses, it is important to disclose that global policies and procedures have been implemented at operational sites.

We look forward to seeing the further development of the IIRC’s proposals.

Kind regards

Yours sincerely

David Chitty
International Accounting and Audit Director

