

## 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](http://www.theiirc.org)).

### Comments should be submitted by Monday 15<sup>th</sup>, July 2013.

Name:

Email:

Stakeholder group:

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

Organization name:

Industry sector:

Geographical region:

### 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.

### 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.*

Recommended change to paragraph 1.3:

Add to the end of the paragraph: "given the fact that the organisation is operating in an

increasingly resource constrained environment”.

Reason for addition: The current wording of the paragraph makes no reference to the need to integrating sustainability thinking into business strategies. Given the importance of sustainability going forward, we believe that it is critical that this be highlighted from the outset.

Comment on paragraph 1.12:

It is concerning that many organisations use the fact that they are ‘unable to quantify’ or that they ‘do not have reliable data’ as justification for non-disclosure of certain issues that are in fact material to their business operations.

In order to prevent this being used as an excuse, it is important that organisations be required to attempt to price / quantify material externalities (e.g. carbon, water and HIV/AIDS). The pricing of such externalities is particularly relevant in light of a resource-constrained world economy.

Achieving this would require extensive research and take a fair amount of time. However the outcomes will be hugely beneficial in terms of placing financial issues and these other more traditionally-neglected areas (environmental and social) on equal footing in terms of being reported on.

It is therefore recommended that Bullet number 2 of Paragraph 5.15 is along the same lines and we suggest that this be brought higher up to follow on from paragraph 1.12.

“If there is uncertainty surrounding a matter, disclosures about the uncertainty should be made, such as:

- an explanation of the uncertainty
- the range of possible outcomes and associated assumptions and probabilities
- the certainty range or confidence interval associated with the information provided”

Additional principle to be added between paragraphs 1.14 and 1.15:

It is recommended that organisations clearly highlight and report on the most material country-specific issues and sector-specific issues, as well as on the relevant organisation-specific issues. An independent local body or industry association in each country should develop a comprehensive database of country and sector specific issues which would then inform the integrated reports for all organisations operating in that country.

Note: The rationale for this recommendation is that the current approach to integrated reporting leaves too much room for organisations to report selectively on issues. However, there are critical issues that face each country and sector that should always be reported upon by organisations operating in those environments. The suggested principle does dictate how organisations report on these issues but rather makes provision for the fact that they need to make reference to these issues in their reports.

### ***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 feel that another bullet point could be added to this section that expresses that internal management information and reporting should be done on an integrated basis within an organisation.

By management information being maintained in a similar integrated manner, the collation of information necessary for disclosure in an integrated report would be easily accessible and therefore make reporting at this level less of a 'burden'.

More importantly, it would also ensure that the day-to-day management of businesses becomes more integrated which would go a long way in changing mindsets and behaviours from 'silo-thinking'.

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?*

We agree that a database would be useful, however we feel that it would perhaps be more relevant to be conducted at a national and sector-level. A possible challenge worth pointing out is finding appropriate and 'trustworthy' industry bodies to benchmark or set standards in each country. It would then be up to industry bodies in each country to define material issues that should be referred to in these data bases.

#### **Other**

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

Audience for IR: 1.6 and 1.7: "An integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments".

We strongly recommend that the word "financial" should be removed in both cases, as it gives financial capital and financial capital providers a greater weighting over the other capitals and integrated report users. We suggest that a distinction is not made (as in 1.7) and that "in order to support their financial capital allocation assessment" is changed to "in order to enable long term sustainability and value-add to providers of all capital types.

Objective of the Framework: 1.10" The Framework is intended primarily for application by private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations".

This paragraph is too restrictive, as ideally all organisations (including government departments) to prepare integrated reports. We recommend that this paragraph be removed. Instead the above could fall under a definition of organisations in the glossary. This definition should include reference to small, medium and large organisations, private, public sector and non-profit organisations.

Integrated thinking 1.17:

This paragraph should emphasise the need to afford equal weighting be given to financial, social and environmental issues if true integrated thinking, decision making and actions are the desired outcomes. This will require organisations' awareness of external factors (natural and social capital) to be heightened and due cognisance to be

taken of how these are changing.

We recommend that the resource-constrained world economy be strongly emphasised in this paragraph. In our opinion, the framework as it stands now does not make sufficient reference to the key social and environmental sustainability issues.

## 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?*

Although we agree that it is necessary to separate each capital for definition purposes, we are concerned that these capitals will be viewed as stand-alone issues, which is contrary to integrated thinking and reporting. To avoid this, the interdependencies of all six capitals need to perhaps be more strongly emphasized.

Incorporating a focus on the pricing of externalities could assist with this and ensure that organisations apply their minds to their value creation across the capitals, rather than just focusing on financial capital.

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

We believe that organisations should be encouraged to weight their reports in line with their impact on the various capitals. Although this may take time, it again highlights the importance and necessity to price and then have organisations internalise what are often considered as externalities.

### ***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?*

We largely agree with this definition although we recommend adding "relationships" to the definition. Although it may be inherent in the term "inputs", by emphasising relationships in the definition, the need for stakeholder engagement is highlighted.

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.

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 section relating to business activities should make reference to how organisations conduct their business. The current definition addresses what they do, but not how they do it. The 'how' is often more important than the 'what' when determining the long-term success of a business.

An additional section should be added to address relationships. This section should provide guidance on how organisations should identify their key stakeholders and report on how the relationships with these stakeholders will impact their ability to operate, in the short, medium and long-term.

On disclosure requirement:

The need to disclose the negative as much as the positive should be more strongly stressed at this point.

Paragraph 2.34:

This paragraph is too weak as it is currently stands ("There may be other outputs, such as by-products and waste (including emissions), that need to be discussed within the business model disclosure depending on their materiality.")

We recommend rewording the paragraph to "Material outputs, such as by-products and waste (including emissions), need to be discussed within the business model disclosure."

### ***Other***

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

2A: Introduction 2.1:

We recommend that wording be changed to "influenced by the external environment" to "dependent on the external environment".

2.37 Second bullet: "Value created in this way manifests itself in financial returns to providers of financial capital".

We believe that the specificity of financial capital and financial capital providers be removed, as it is contradictory to the consideration of all forms of capital and resources that integrated thinking calls for.

## 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?*

We suggest that insufficient emphasis is placed on the need to report both the negative, along with the positive impacts of business activities. It should provide the reader with a realistic and balanced story. As it stands currently, companies have free reign to tell their own story and dismiss whatever may place them in a bad light. In order to get around this, we feel that it may be necessary to be more prescriptive in highlighting to organisations what material issues they should be considering.

A possible way to achieve this is for appropriate industry bodies in various countries (e.g. SAICA in South Africa) to identify a) the country-specific material issues/risks, and b) sector-specific material issues/risks. Along with each material issue / risk identified, all affected stakeholders could also be mapped out for each.

Keeping these in mind, it should then be up to organisations to identify their specific material issues / risks using this as a guide. Providing a high level view might assist companies to recognize the materiality of certain issues that might have otherwise been easily ignored or thought to be extraneous.

The identification of country and sector-specific risks might also serve as a good indicator of forward-thinking organisations that have a clear understanding of what being sustainable truly entails. Conversely, organisations that do not have integrated thinking at the core of their organization will be highlighted. It could therefore be especially useful for investors needing to make decisions based on the long-term sustainability of organisations.

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

Paragraph 3.29 – Conciseness:

Perhaps it might be useful to encourage organizations to present a summary of their integrated reports, which would be a consolidated statement on their long-term sustainability.

Current integrated reports tend to be very large documents that few users work through in detail. An executive summary of the salient points that is no longer than a few pages would provide an overview to readers and potentially extend the audience of the IR beyond the more traditional users. Preparing such a summary would also force organisations to apply their minds to what is truly critical to convey beyond the traditional financial results.

### **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?*

We recommend that apart from the signing off by the preparer of the report and the MD/CEO/Chairman, that there should ideally be some sort of external assurance provided to all integrated reports. This is discussed further under credibility.

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

Paragraph 2.25. Complexity, interdependencies and trade-offs: "The Framework does not require, and it would not be practical to expect, <IR> to provide an exhaustive account of all the complex interdependencies"

It is our belief that cases where material risks and issues are highly complex and inter-related, should be even more reason for organisations to demonstrate how they have applied their minds to these issues and how they intend to deal with them going forward.

It should therefore be strongly emphasised in this section that organisations should not simply ignore those issues that are as 'too challenging' in their reports. Encouraging organisations to price externalities could assist with this.

Paragraph 4.5: "It is important, however, that an integrated report disclose the interdependencies...":

We recommend that the above statement be made stronger. For example, "that attention / due cognisance be given to an organisations' most material issues".

### **Other**

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

3F. We believe that in order for the report to be truly integrated and to display an organizations' awareness and understanding of the relationship between itself and the social and natural environment in which it operates, reports should be weighted in line with the organisation's impact on the various capitals.

Comparability:

One of the challenges with integrated reporting is the mismatch between the time horizons for financial, social and environmental performance / issues. Although it is almost impossible to match revenue and cost streams across these capitals over time, we recommend that the framework suggests that organisations apply similar principles to reporting on and quantifying impacts across the various capitals.

## 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).

Section 4B: Organisations should be required to clearly identify the regulation and legislation that has the most material impacts on the business and to state how such regulation and legislation currently affects and will likely affect the business going forward.

## 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?

Yes, the Integrated Report should be signed off by those charged with governance. Without such a signoff, the IR will not have the credibility that is required for it to become a critical document. Furthermore, this will hopefully ensure that the IR is more balanced in nature (i.e. not prepared as a PR document but rather as a fair reflection of the state of the organisation).

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

### ***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?

Although a detailed account of every action is unrealistic, a Limited Assurance Provider could perhaps give a high-level assessment. This should be an appropriately skilled and recognised person of high integrity. We therefore recommend Registered Auditors (RAs) with the required add-on knowledge and training. The assessment would be on an organisation's processes that they have used to decide on the information disclosed in the report, as well as the extent to which organisations appear to have applied their minds in all areas that are material to their operations.



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.*

International auditing standards could be tailored to local conditions, and assurance providers could evaluate reports by comparing it to industry benchmarks / best practices / industry averages. This could again perhaps be the role of industry bodies once the country and sector-specific material issues and stakeholders have been identified.

Another option is for certain "high impact" industries to have compulsory assurance. This could be based on whether it is a public company, the size or nature of the operation, industries with a high environmental risk, or whether it is in the public's best interest for the organization to be audited.

### **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).*

Paragraph 5.4 – additional reference should be made to reporting on country-specific and sector-specific issues (as per Chapter 1 recommendations).

### **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 framework is relatively robust as it currently stands. Our greatest concern with the current framework is the fact that the focus on financial issues is still too strong. The emphasis on issues resulting from a resource-constrained world economy should be greater, particularly given the impact that these issues will have on the medium and long-term sustainability of organisations.

### **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?*

## Other

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

The concept of integrated thinking and its importance started out very strong in the beginning of the framework, and then as the paper progressed it began to revert back to silo-thinking and placing unwarranted emphasis on financial capital and financial capital providers above the rest. It is crucial that integrated thinking, decision-making and actions are encouraged throughout.

Something that has not been adequately covered in the above framework is the link between sustainability, strategy, risk and performance management. With regards to the latter, we believe that short-term motivation or incentivisation is a key issue and constraining factor to longer-term thinking. Not only should the above linkages be brought to attention, but perhaps best practice guiding principles should be provided as to how to align all the above in order to achieve an organisation that creates long-term value.

We suggest 2 additions for the glossary, namely "organisations" and "externalities".