

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:

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.

FEE is pleased to provide you with its comments on the IIRC Consultation Draft of the Draft International <IR> Framework (the Draft Framework). This response should be seen in light of FEE's continued support for <IR> and its appreciation for the gradual transition towards <IR>. This letter first highlights our key points, followed by the answers to the consultation questions in the appendix.

Strong and continued support for the work of the IIRC and for developing <IR>

1) FEE commends the IIRC for the significant achievement of issuing the Draft Framework and recognises that redesigning the direction and focus of corporate reporting is a journey. Making the step towards integrated thinking and integrated reporting takes time; the Draft Framework is an important and laudable milestone in this process.

2) The IIRC is strongly encouraged in advancing the Draft Framework and in engaging all stakeholders, including policymakers, regulators, and private sector entities, in creating a shared vision on <IR>.

3) FEE supports the IIRC's objective of gaining as much practical experience with the Draft Framework as possible, such as provided by the Pilot Programme and Emerging Integrated Reporting Database. The lessons learnt from the Pilot Programme will be instrumental in further developing the Draft Framework. When the final Framework is instated, it is expected this will need to be reviewed and updated periodically, depending on the practical experiences with <IR>.

4) FEE fully endorses the way in which <IR> is currently being developed, by largely drawing on stakeholders' involvement and gaining practical experience. FEE is convinced that, at least for the time being, <IR> should continue to be market driven instead of being mandated by public authorities. Legislation on this matter could in fact hinder such promising evolution and stifle innovation. However, it is necessary to involve public authorities as stakeholders in developing <IR> as regulators can be influential in promoting the widespread acceptance and use of <IR> or in removing obstacles to the application or adoption of <IR>.

The focus on a principal audience for <IR> is very useful

5) In our view, it is very useful that the IIRC has chosen to focus <IR> in the first instance on the information needs of providers of financial capital. This pragmatic approach aids in making the Draft Framework operational. FEE fully agrees with the Draft Framework's recognition (Paragraph 1.7) that <IR> benefits all stakeholders who are interested in an organisation's ability to create value over time. The IIRC is encouraged to investigate further how information needs of other stakeholders align with, or differ from, those of providers of financial capital.

6) FEE also finds the principles of <IR> useful for reports prepared by not-for-profit organisations and the public sector, as well as reports prepared for specific stakeholder groups. In such reports, different materiality considerations may apply.

7) The desirability and practicability of applying the Framework's principles to small and medium-sized enterprises (SMEs) merits consideration, in particular to explore how <IR> can play a role in improving access to capital for SMEs. However, FEE also acknowledges that there is a balance to be struck between the potential benefits of <IR> for SMEs, market pressure that imposes <IR> participation on SMEs (for example as part of the supply chain of a listed food manufacturer) and the risk of adding unnecessary administrative burdens for SMEs. Whilst the initial focus of <IR> has primarily been on reporting by larger companies, it is recommended that the IIRC keeps including some larger SMEs in the Pilot Programme.

The transition towards <IR> is a gradual one

8) The interaction between <IR> and other reports and communications largely depends on how the transition towards <IR> is being made. FEE expects that the shift towards <IR> will have a significant impact on the current corporate reporting cycle. The Draft Framework anticipates that <IR> will lead to an additional stand-alone report, in addition to other reports and communications. FEE would like the IIRC to address the concern that it might be difficult to convince stakeholders of the benefits of <IR>, when this leads to an additional report and a perceived need for extra resources. In our view, it is important that <IR> contributes to reducing the overall reporting burden for organisations.

9) To ease the shift to <IR>, a transition process for the organisation and preparation of corporate reports is needed. This could include practical guidance on changing the current reporting towards <IR> and making recommendations for (temporary) solutions, such as incorporating the Draft Framework principles in the management commentary.

FEE advocates the Draft Framework's principles-based approach

10) FEE welcomes the principles-based approach of the requirements in the Draft Framework, as opposed to setting detailed rules. Based on the Draft Framework, companies will be able to tell their value creation story by focussing on the relevant principles. However, consideration should be given to the need for suitable and clear criteria to guide preparers in applying the Draft Framework, see also paragraph 17) below. FEE believes suitable criteria will be needed for an organisation to substantiate its decision for including or excluding particular information within its integrated report. However, the specific matters to be included in an integrated report should be dictated by the circumstances of the individual organisation.

11) The Draft Framework sets minimum requirements that integrated reports need to comply with in order for them to be in accordance with the Draft Framework. FEE supports this approach and encourages the IIRC to continue identifying these minimum requirements.

12) If the Framework is applied effectively, FEE believes that <IR> could contribute three essential features to the quality of understanding that users can derive from business reporting:

- A better explanation of the key resources ('capitals') on which the business depends
- A more comprehensive view of operating performance
- A better basis for understanding the future outlook of the business.

More connectivity within the text of the Draft Framework would make it more user-friendly

13) FEE supports connectivity of information as one of the Draft Framework's Guiding Principles, meaning that <IR> should show the combination, inter-relatedness and dependencies between the components that are material to the organisation's ability to create value over time.

14) The text of the Draft Framework also features connectivity by linking the different principles, concepts and elements related to value creation. Making this linkage even more apparent would make the Draft Framework more user-friendly.

FEE expects that there will be a demand for external assurance on <IR>

15) FEE considers external independent assurance essential in making the information in the integrated report more reliable and credible. External assurance can increase the confidence of investors and other users of <IR> as they rely more and more on the information provided in an integrated report. Therefore, FEE assumes that in the process of further developing <IR> a market demand for external assurance will arise, which calls for all relevant stakeholders to adopt a proactive approach in this regard. The accountancy profession is willing and able to innovate in order to develop assurance techniques that can provide a suitable level of assurance on <IR>.

16) Specific standards are needed for providing external assurance on <IR>, for which the International Auditing and Assurance Standards Board (IAASB), as standard setter for assurance, would be the designated authority. FEE would be happy to contribute to any work undertaken by the IAASB to adapt its current standards to respond to needs for new or adapted forms of assurance that may emerge as a result of the gradual transition to <IR>.

17) The level of assurance that can be provided depends on the type of information underpinning the report; this is not self-evident for <IR> which combines past, present and forward looking, financial and non-financial information. In developing external

assurance on <IR>, it will be necessary to distinguish between the different types of information to be presented in the integrated report whereby different levels of assurance might need to be provided on different elements of the integrated report.

18) In further developing the Draft Framework, as pointed out in paragraph 10) above, suitable criteria will need to be established that preparers can use to prepare the information in their integrated report. Those criteria would provide the benchmark against which assurance can be provided on the integrated report.

FEE is highly committed to supporting the IIRC in its next steps in advancing <IR>. It is particularly looking forward to the initial version of the Framework to be issued in December 2013.

Please do not hesitate to contact us if you wish to further discuss any of the points raised in our response, or if we can contribute to the IIRC achieving its objectives in developing the International <IR> Framework.

For further information on this letter, please contact Laura Buijs, Project Manager, at the FEE Secretariat on +32 2 285 40 71 or via e-mail at laura.buijs@fee.be.

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.*

a) FEE agrees with the current principles-based requirements. The specific matters to be included in an individual organisation's integrated report will be governed by the circumstances of the individual organisation. Thus, while detailed reporting rules might be counterproductive FEE believes suitable criteria will be needed for an organisation to substantiate its decision for including or excluding particular information within its integrated report.

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?*

a) FEE suggests the IIRC clarify Paragraph 1.18 in Chapter 1: Overview, which states that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle in addition to all other relevant reports and communications.

More specifically, FEE believes there is a need for further clarification on how in practice this stand-alone integrated report

o Relates to the relevant existing reports on financial and non-financial information?

o Replaces all, or some, of the current reports, or serves solely as an addition?

b) FEE commends the IIRC for deepening its cooperation with the International Accounting Standards Board (IASB) and the Global Reporting Initiative (GRI) by signing a Memorandum of Understanding with each organisation. Coordination with the IASB and GRI reporting frameworks will be essential in further developing the Draft Framework.

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?*

a) FEE suggests that the Sustainability Reporting Guidelines, set by the GRI, and the Sustainability Accounting Standards, set by the Sustainability Accounting Standards Board, be considered for inclusion in the proposed database.

Other

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

Audience (Paragraphs 1.6 and 1.8)

a) As mentioned in the cover letter, FEE believes it is very useful that the IIRC has chosen to focus <IR> in the first instance on the information needs of providers of financial capital. This pragmatic approach aids in making the Draft Framework operational. The IIRC is recommended to investigate further how information needs of other stakeholders align with, or differ from, those of providers of financial capital.

Disclosure of competition-sensitive information (Paragraphs 1.11 and 1.12)

b) FEE commends the IIRC for addressing the confidentiality issues which arise from the disclosure of relevant information (Paragraphs 1.11 and 1.12). The addition of competitive harm to the two other reasons for allowing non-disclosure of material information (unavailability of reliable data and specific legal prohibitions) has resolved this issue.

c) FEE suggests altering the wording in Paragraphs 1.11 and 1.12 from competitive harm to significant competitive harm. This would indicate that only serious harm would be a reason for non-disclosure. This proposed change aligns more closely with Paragraph 3.42 which refers to (...) information ... that would significantly harm its competitive advantage.

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?*

- a) FEE agrees with this approach to capitals. Capitals are essential to an organisation's existence, its operation and its ability to create value. Therefore, it is very important for an organisation to report on various capitals that it uses or affects.
- b) Paragraph 2.24 of the Draft Framework on quantitative and qualitative information, states that when quantitative indicators do not suffice, qualitative indicators (or narrative reporting) should explain the organisation's use of and effects on capitals. According to Paragraph 3.38 narrative reporting should provide information on capitals that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own value creation story. Further guidance should be developed on how to use narrative reporting in practice in order to achieve this comparability and consistency.
- c) As stated in Paragraph 2.23, an organisation does not control all capitals that it uses or affects. Some (non-financial) capitals are held by other parties who also have a stake in maintaining or increasing their value. It would be helpful if the IIRC would provide more guidance on how an organisation should report on capitals outside its span of control. For example, how far down the value chain organisations should go to report on these capitals? This item is not resolved in the section relating to the reporting boundaries of the integrated report in Section 5G of the Draft Framework.

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

N/A

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?*

- a) FEE agrees in principle with this definition of an organization's business model, but would like to ask the IIRC to further clarify this. The current use of the word chosen implies the organisation's responsibility and accountability for its business model and the resulting outcomes (both positive and negative) this choice entails. It would be helpful for this definition to reflect that organisations cannot fully choose the outcomes of their business model as these are also influenced by many external factors.

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?*

FEE agrees 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)?*

N/A

Other

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

a) The concept of value creation (Section 2D) is paramount to the Draft Framework. FEE would consider it useful for the IIRC to further develop this concept. In addition, the resources allocation and the monetisation of intangibles and externalities are the subject of extensive research. However, there does not yet seem to be an applicable methodological framework or much relevant practical experience. Any future work of the IIRC in this regard should consider the demands of providers of financial capital.

b) Regarding an organisation's value drivers as referred to in Paragraph 2.45 of the Draft Framework; FEE considers a company's strategy as one of the main drivers for its success. Strategy namely forms the linking pin between capitals and value creation. FEE therefore supports the IIRC's emphasis on the importance of strategy in the Draft Framework by identifying strategic focus and future orientation as a Guiding Principle (Section 3A) and strategy and resource allocation as a Content Element (Section 4D) of the integrated report.

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?

a) FEE agrees in principle with the Draft Framework's approach to materiality.

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

Materiality and conciseness (Section 3D)

a) FEE applauds the inclusion of conciseness as (part of) this Guiding Principle in the Draft Framework. This will prevent <IR> from leading to very sizeable reports which would lack accessibility and user-friendliness. In order to achieve a concise integrated report, FEE support the alternatives of linking it to additional detailed information as suggested in the Draft Framework (Paragraph 3.29) or compiling a multi-tier report, consisting of varying levels of detail.

Materiality determination process

b) The Draft Framework states that a matter is only material if the primary intended report users (the providers of financial capital) could be substantively influenced by it. As mentioned in our cover letter, FEE finds it is very useful that the IIRC has chosen to focus <IR> in the first instance on the information needs of providers of financial capital, as a pragmatic approach. Without this focus, materiality would be hard to determine. FEE believes that the principles of <IR> are also useful for reports to specific stakeholder groups. In such reports, different materiality considerations may apply.

c) Whereas Paragraph 2.24 of the Draft Framework distinguishes between quantitative and qualitative information, the difference between quantitative and qualitative materiality does not yet become clear in the Draft Framework. Financial impacts can differ greatly from non-financial impacts, such as reputation damage. FEE would find it useful for this distinction to be reflected in the materiality determination process as set out in the Draft Framework.

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?

a) FEE welcomes the Draft Framework's acknowledgement of external assurance as a mechanism to enhance the reliability (Paragraph 3.31) and credibility of information (Paragraph 5.20). External assurance is essential in making the information in the integrated report more reliable and credible and thereby increasing the confidence of users. FEE expects that in the process of further developing <IR> a need for external assurance will arise.

b) Specific standards are needed for providing external assurance on specific subject matters. FEE would be more than willing to contribute actively to considerations as to how global assurance standards may have to be adapted for <IR>. The IAASB, as standard setter for assurance, would be the designated authority to lead this work. In our view, it is in the public interest for these standards to tie into a robust system of quality control for those organisations or individuals providing these assurance services. For example, International Standard on Quality Control (ISQC) 1 currently applies to firms that provide services covered by the IAASB's international standards.

c) The level of assurance that can be provided depends on the type of information on which the report is based; this is not self-evident for <IR> which combines past, present and forward looking, financial and non-financial information. FEE finds it crucial that the information underpinning the integrated report is assurable in accordance with generally accepted global standards. This means that it is supported by sufficient evidence and is prepared according to specific criteria so that it can be checked against these criteria. This assurability is not necessarily obvious for future-oriented and non-financial information (as referred to in Paragraph 3.46 and 3.47 of the Draft Framework). Therefore, in developing external assurance on <IR>, it may be necessary to distinguish between the different types of information to be presented in the integrated report so that challenges that could be associated with providing assurance on these different types of information can be considered. Different levels of assurance might need to be provided on different elements of the integrated report.

d) There is also a need to develop clear criteria which preparers can use to prepare the information in their integrated report which would also be the criteria or benchmark against which assurance can be provided on the integrated report.

e) FEE expects that there will be market demand for assurance over an integrated report, because assurance enhances the credibility of information, which is of value to investors and other users of <IR> as they increasingly come to rely on the information provided in an integrated report.

f) Regarding the provision of assurance by the auditor, the following should at least be considered: competences, experience and skill sets required, and the need to use independent experts.

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

- a) The accountancy profession is willing and able to innovate in order to develop assurance techniques that can provide a suitable level of assurance on <IR>. It is recommended the IIRC work with the IAASB in this area, as they are the responsible global standards setter for assurance. FEE is more than happy to contribute to any work undertaken by the IAASB to adapt its current standards to respond to needs for new or adapted forms of assurance that may emerge as a result of the gradual transition to <IR>.
- b) FEE suggests altering the wording in Paragraph 3.30 from material error to material error or bias, to align with Paragraph 3.33.

Other

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

Connectivity within the text of the Framework

- a) FEE is very supportive of stating connectivity of information as one of the Draft Framework's Guiding Principles in Section 3B. This means that <IR> should show the combination, inter-relatedness and dependencies between the components that are material to the organisation's ability to create value over time.
- b) FEE recognises that the text of the Draft Framework also features connectivity by linking the different principles, concepts, and elements related to value creation. FEE finds that making this linkage even more apparent would make the Draft Framework more user-friendly. This could be accomplished by explicitly and consistently cross referencing within the Draft Framework, such as by inserting hyperlinks.
- c) Examples of where the interconnection between concepts stated in the Draft Framework could be improved include:

Capitals and Stakeholders

FEE fully supports the IIRC in focusing the Draft Framework on a principal audience being the information needs of providers of financial capital while the IIRC is also encouraged to consider how the information needs of other stakeholders align of those of providers of financial capital, see paragraph 5) above Within this context, FEE would like to point out that paragraph 3.24 of the Draft Framework points to capitals in determining whether a matter is material, but does not explicitly link the capitals, which the organisation uses or affects, to the stakeholders of the organisation.

The Materiality Background Paper for <IR> makes the connection between stakeholders and the concept of capitals more explicit. For example, in identifying relevant matters for <IR> purposes, this background paper (page 3, Paragraph 16, bullet 2) makes a direct link between stakeholders and the organisation's effects on capitals. FEE suggests that this critical interconnection should become apparent in the Draft Framework as well and not be left to indirect or implicit references.

Strategy, materiality and capitals

The interconnection between strategy and the concept of materiality is not adequately reflected in the Draft Framework. An organisation's strategy has a material effect on its value creation ability (see section 2.4 above), but other than in Paragraph 1.17, this connection is not specifically made in the Draft Framework. The Draft Framework does

not make an explicit link between strategy and capital. Namely, the preparer of an integrated report should provide insight into how an organisation's strategy relates to capitals it depends on for its value creation.

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).

a) FEE recommends keeping the <IR> Framework principles-based, including Chapter 4.

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?

a) Requiring such a statement by those charged with governance could add value to the report, in light of their oversight responsibilities for <IR>.

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

N/A

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?

a) The demand for assurance with respect to <IR> may equally develop gradually over time, similar to the fact that the development of <IR> in practice is expected to be a gradual process. FEE could envisage that assurance on different elements of the report would be useful in an initial stage. However, over time, we expect that assurance on the integrated report as a whole would be considered most useful by investors, and which in our view can be provided if and when suitable criteria have been further developed, including through significant practical experience.

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.

a) The current format of the Draft Framework seems less practical and more conceptual

and high level, which would make it difficult to provide assurance on <IR>. The Draft Framework thus does not contain suitable criteria for an assurance engagement, nor for preparers, at this point. As previously stated, FEE is well aware of the emerging nature of <IR>, especially with regard to external assurance. Therefore, FEE encourages the IIRC to consider the need for criteria to determine the content of an integrated report. The Draft Framework would need to be further developed to guide preparers and to enable a suitable assurance framework to be developed.

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).*

Aggregation and disaggregation (Section 5H, Paragraph 5.33)

a) The Draft Framework (in Paragraph 5.33) makes an important link between the way the organisation (dis)aggregates information and how the organisation is managed. FEE notes that this connection may reveal issues that may be material to the organisation's ability to create value, such as a concern regarding human rights.

b) Aggregation and disaggregation of information have both a financial and a non-financial dimension. The financial one presents financial information based on the business or geographical segments that are commonly used for financial reporting purposes (Paragraph 5.33). The non-financial dimension shows how other capitals (such as natural or social capital) are taken into account. FEE agrees with this approach, but also seeks to identify if information which is based on the business or geographical segments, primarily aimed at financial reporting, would also address material non-financial disclosure.

c) FEE encourages the IIRC to further explore the non-financial dimension of (dis) aggregation of information. In particular, the IIRC should assess whether (dis)aggregating information for non-financial reporting is manageable for companies and whether this information can be compared between and within different business and geographical segments.

XBRL (Section 5I, Paragraph 5.40-41)

a) FEE welcomes the IIRC's suggestion of using XBRL as a standardized technology platform for <IR>. When <IR> is in a later stage of development, it would be helpful to have more guidance on how an integrated report can be best captured in XBRL.

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?*

a) As previously stated, FEE thinks that the Draft Framework taken as a whole is appropriate for preparing an integrated report. The Draft Framework is still in its initial and conceptual stages. More practical experience is needed to enable large scale implementation of the Draft Framework to be a smooth development.

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?*

a) FEE actually does not consider it to be the role of the IIRC to develop extensive guidance on <IR>. The IIRC can give priority to keep providing examples and best practices of implementing <IR> and structuring the integrated report, as is being done via the Emerging Integrated Reporting Database.

Other

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

N/A



Professor Mervyn E. King
Chairman
International Integrated Reporting Council
(IIRC)

Submitted through:
<http://www.theiirc.org/consultationdraft2013/feedback/>

16 July 2013

Ref.: CRPG/AKI/LBU/IDS

Dear Professor King,

Re: FEE Comments on the IIRC Consultation Draft of the Draft International Integrated Reporting <IR> Framework

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Strong and continued support for the work of the IIRC and for developing <IR>

- 1) FEE commends¹ the IIRC for the significant achievement of issuing the Draft Framework and recognises that redesigning the direction and focus of corporate reporting is a journey. Making the step towards integrated thinking and integrated reporting takes time; the Draft Framework is an important and laudable milestone in this process.
- 2) The IIRC is strongly encouraged in advancing the Draft Framework and in engaging all stakeholders, including policymakers, regulators, and private sector entities, in creating a shared vision on <IR>.
- 3) FEE supports the IIRC's objective of gaining as much practical experience with the Draft Framework as possible, such as provided by the [Pilot Programme](#) and [Emerging Integrated Reporting Database](#). The lessons learnt from the Pilot Programme will be instrumental in further developing the Draft Framework. When the final Framework is instated, it is expected this will need to be reviewed and updated periodically, depending on the practical experiences with <IR>.

¹ See the [press release](#) of 16 April 2013 in which FEE has welcomed the issuance of the Draft Framework. Hereby FEE summed up its view as follows: <IR> is the most promising development to improve the quality of businesses' and investors' decision-making and help make our economy more sustainable and stable.

- 4) FEE fully endorses the way in which <IR> is currently being developed, by largely drawing on stakeholders' involvement and gaining practical experience. FEE is convinced that, at least for the time being, <IR> should continue to be market driven instead of being mandated by public authorities. Legislation on this matter could in fact hinder such promising evolution and stifle innovation. However, it is necessary to involve public authorities as stakeholders in developing <IR> as regulators can be influential in promoting the widespread acceptance and use of <IR> or in removing obstacles to the application or adoption of <IR>.

The focus on a principal audience for <IR> is very useful²

- 5) In our view, it is very useful that the IIRC has chosen to focus <IR> in the first instance on the information needs of providers of financial capital. This pragmatic approach aids in making the Draft Framework operational. FEE fully agrees with the Draft Framework's recognition (Paragraph 1.7) that <IR> benefits all stakeholders who are interested in an organisation's ability to create value over time. The IIRC is encouraged to investigate further how information needs of other stakeholders align with, or differ from, those of providers of financial capital.
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The transition towards <IR> is a gradual one³

- 8) The interaction between <IR> and other reports and communications largely depends on how the transition towards <IR> is being made. FEE expects that the shift towards <IR> will have a significant impact on the current corporate reporting cycle. The Draft Framework anticipates that <IR> will lead to an additional stand-alone report, in addition to other reports and communications. FEE would like the IIRC to address the concern that it might be difficult to convince stakeholders of the benefits of <IR>, when this leads to an additional report and a perceived need for extra resources. In our view, it is important that <IR> contributes to reducing the overall reporting burden for organisations.
- 9) To ease the shift to <IR>, a transition process for the organisation and preparation of corporate reports is needed. This could include practical guidance on changing the current reporting towards <IR> and making recommendations for (temporary) solutions, such as incorporating the Draft Framework principles in the management commentary.

² See Paragraphs 1.6 - 1.8 of the Draft Framework and the answer to Consultation Question 4.

³ See Paragraph 1.18 of the Draft Framework and the answer to Consultation Question 2.

FEE advocates the Draft Framework's principles-based approach⁴

- 10) FEE welcomes the principles-based approach of the requirements in the Draft Framework, as opposed to setting detailed rules. Based on the Draft Framework, companies will be able to tell their value creation story by focussing on the relevant principles. However, consideration should be given to the need for suitable and clear criteria to guide preparers in applying the Draft Framework, see also paragraph 17) below. FEE believes suitable criteria will be needed for an organisation to substantiate its decision for including or excluding particular information within its integrated report. However, the specific matters to be included in an integrated report should be dictated by the circumstances of the individual organisation.
- 11) The Draft Framework sets minimum requirements that integrated reports need to comply with in order for them to be in accordance with the Draft Framework. FEE supports this approach and encourages the IIRC to continue identifying these minimum requirements.
- 12) If the Framework is applied effectively, FEE believes that <IR> could contribute three essential features to the quality of understanding that users can derive from business reporting:
 - A better explanation of the key resources ('capitals') on which the business depends
 - A more comprehensive view of operating performance
 - A better basis for understanding the future outlook of the business.

More *connectivity* within the text of the Draft Framework would make it more user-friendly⁵

- 13) FEE supports *connectivity of information* as one of the Draft Framework's Guiding Principles, meaning that <IR> should show the combination, inter-relatedness and dependencies between the components that are material to the organisation's ability to create value over time.
- 14) The text of the Draft Framework also features connectivity by linking the different principles, concepts and elements related to value creation. Making this linkage even more apparent would make the Draft Framework more user-friendly.

FEE expects that there will be a demand for external assurance on <IR>⁶

- 15) FEE considers external independent assurance essential in making the information in the integrated report more reliable and credible. External assurance can increase the confidence of investors and other users of <IR> as they rely more and more on the information provided in an integrated report. Therefore, FEE assumes that in the process of further developing <IR> a market demand for external assurance will arise, which calls for all relevant stakeholders to adopt a proactive approach in this regard. The accountancy profession is willing and able to innovate in order to develop assurance techniques that can provide a suitable level of assurance on <IR>.

⁴ See Paragraphs 1.13 and 1.14 of the Draft Framework.

⁵ See Section 3B of the Draft Framework and the answer to Consultation Question 15.

⁶ See Paragraphs 3.31 and 5.20-21 of the Draft Framework and the answer to Consultation Question 13.

- 16) Specific standards are needed for providing external assurance on <IR>, for which the International Auditing and Assurance Standards Board (IAASB), as standard setter for assurance, would be the designated authority. FEE would be happy to contribute to any work undertaken by the IAASB to adapt its current standards to respond to needs for new or adapted forms of assurance that may emerge as a result of the gradual transition to <IR>.
- 17) The level of assurance that can be provided depends on the type of information underpinning the report; this is not self-evident for <IR> which combines past, present and forward looking, financial and non-financial information. In developing external assurance on <IR>, it will be necessary to distinguish between the different types of information to be presented in the integrated report whereby different levels of assurance might need to be provided on different elements of the integrated report.
- 18) In further developing the Draft Framework, as pointed out in paragraph 10) above, suitable criteria will need to be established that preparers can use to prepare the information in their integrated report. Those criteria would provide the benchmark against which assurance can be provided on the integrated report.

FEE is highly committed to supporting the IIRC in its next steps in advancing <IR>. It is particularly looking forward to the initial version of the Framework to be issued in December 2013.

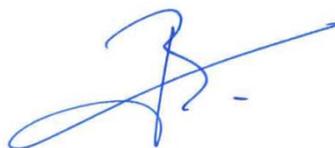
Please do not hesitate to contact us if you wish to further discuss any of the points raised in our response, or if we can contribute to the IIRC achieving its objectives in developing the International <IR> Framework.

For further information on this letter, please contact Laura Buijs, Project Manager, at the FEE Secretariat on +32 2 285 40 71 or via e-mail at laura.buijs@fee.be.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive

Appendix - ANSWERS TO THE CONSULTATION QUESTIONS

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.

- a) FEE agrees with the current *principles-based requirements*. The specific matters to be included in an individual organisation's integrated report will be governed by the circumstances of the individual organisation. Thus, while detailed reporting rules might be counterproductive FEE believes suitable criteria will be needed for an organisation to substantiate its decision for including or excluding particular information within its integrated report.

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?

- a) FEE suggests the IIRC clarify Paragraph 1.18 in Chapter 1: Overview, which states that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle in addition to all other relevant reports and communications.
- More specifically, FEE believes there is a need for further clarification on how in practice this *stand-alone integrated report*
- o Relates to the relevant existing reports on financial and non-financial information?
 - o Replaces all, or some, of the current reports, or serves solely as an addition?
- b) FEE commends the IIRC for deepening its cooperation with the International Accounting Standards Board (IASB) and the Global Reporting Initiative (GRI) by signing a Memorandum of Understanding with each organisation. Coordination with the IASB and GRI reporting frameworks will be essential in further developing the Draft Framework.

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?

- a) FEE suggests that the Sustainability Reporting Guidelines, set by the GRI, and the Sustainability Accounting Standards, set by the Sustainability Accounting Standards Board, be considered for inclusion in the proposed database.

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

Audience (Paragraphs 1.6 and 1.8)

- a) As mentioned in the cover letter, FEE believes it is very useful that the IIRC has chosen to focus <IR> in the first instance on the information needs of providers of financial capital. This pragmatic approach aids in making the Draft Framework operational. The IIRC is recommended to investigate further how information needs of other stakeholders align with, or differ from, those of providers of financial capital.

Disclosure of competition-sensitive information (Paragraphs 1.11 and 1.12)

- b) FEE commends the IIRC for addressing the confidentiality issues which arise from the disclosure of relevant information (Paragraphs 1.11 and 1.12). The addition of *competitive harm* to the two other reasons for allowing non-disclosure of material information (unavailability of reliable data and specific legal prohibitions) has resolved this issue.
- c) FEE suggests altering the wording in Paragraphs 1.11 and 1.12 from *competitive harm* to *significant competitive harm*. This would indicate that only serious harm would be a reason for non-disclosure. This proposed change aligns more closely with Paragraph 3.42 which refers to (...) *information ... that would significantly harm its competitive advantage*.

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?

- a) FEE agrees with this approach to capitals. Capitals are essential to an organisation's existence, its operation and its ability to create value. Therefore, it is very important for an organisation to report on various capitals that it uses or affects.
- b) Paragraph 2.24 of the Draft Framework on quantitative and qualitative information, states that when quantitative indicators do not suffice, qualitative indicators (or narrative reporting) should explain the organisation's use of and effects on capitals. According to Paragraph 3.38 narrative reporting should provide information on capitals that is *consistent over time and in a way that enables comparison with*

other organizations to the extent it is material to the organization's own value creation story. Further guidance should be developed on how to use narrative reporting in practice in order to achieve this comparability and consistency.

- c) As stated in Paragraph 2.23, an organisation does not control all capitals that it uses or affects. Some (non-financial) capitals are held by other parties who also have a stake in maintaining or increasing their value. It would be helpful if the IIRC would provide more guidance on how an organisation should report on capitals outside its span of control. For example, how far down the value chain organisations should go to report on these capitals? This item is not resolved in the section relating to the reporting boundaries of the integrated report in Section 5G of the Draft Framework.

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

N/A

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?

- a) FEE agrees in principle with this definition of an organization's business model, but would like to ask the IIRC to further clarify this. The current use of the word *chosen* implies the organisation's responsibility and accountability for its business model and the resulting outcomes (both positive and negative) this choice entails. It would be helpful for this definition to reflect that organisations cannot fully choose the outcomes of their business model as these are also influenced by many external factors.

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?

FEE agrees 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)?

N/A

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

- a) The concept of value creation (Section 2D) is paramount to the Draft Framework. FEE would consider it useful for the IIRC to further develop this concept. In addition, the resources allocation and the monetisation of intangibles and externalities are the subject of extensive research. However, there does not yet seem to be an applicable methodological framework or much relevant practical experience. Any future work of the IIRC in this regard should consider the demands of providers of financial capital.
- b) Regarding an organisation's value drivers as referred to in Paragraph 2.45 of the Draft Framework; FEE considers a company's strategy as one of the main drivers for its success. Strategy namely forms the linking pin between capitals and value creation. FEE therefore supports the IIRC's emphasis on the importance of strategy in the Draft Framework by identifying *strategic focus and future orientation* as a Guiding Principle (Section 3A) and *strategy and resource allocation* as a Content Element (Section 4D) of the integrated report.

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?

- a) FEE agrees in principle with the Draft Framework's approach to materiality.

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

Materiality and conciseness (Section 3D)

- a) FEE applauds the inclusion of *conciseness* as (part of) this Guiding Principle in the Draft Framework. This will prevent <IR> from leading to very sizeable reports which would lack accessibility and user-friendliness. In order to achieve a concise integrated report, FEE support the alternatives of linking it to additional detailed information as suggested in the Draft Framework (Paragraph 3.29) or compiling a multi-tier report, consisting of varying levels of detail.

Materiality determination process

- b) The Draft Framework states that a matter is only material if the primary intended report users (the providers of financial capital) could be substantively influenced by it. As mentioned in our cover letter, FEE finds it is very useful that the IIRC has chosen to focus <IR> in the first instance on the information needs of providers of financial capital, as a pragmatic approach. Without this focus, materiality would be hard to determine. FEE believes that the principles of <IR> are also useful for reports to specific stakeholder groups. In such reports, different materiality considerations may apply.

- c) Whereas Paragraph 2.24 of the Draft Framework distinguishes between quantitative and qualitative information, the difference between quantitative and qualitative materiality does not yet become clear in the Draft Framework. Financial impacts can differ greatly from non-financial impacts, such as reputation damage. FEE would find it useful for this distinction to be reflected in the materiality determination process as set out in the Draft Framework.

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?

- a) FEE welcomes the Draft Framework's acknowledgement of external assurance as a mechanism to enhance the reliability (Paragraph 3.31) and credibility of information (Paragraph 5.20). External assurance is essential in making the information in the integrated report more reliable and credible and thereby increasing the confidence of users. FEE expects that in the process of further developing <IR> a need for external assurance will arise.
- b) Specific standards are needed for providing external assurance on specific subject matters. FEE would be more than willing to contribute actively to considerations as to how global assurance standards may have to be adapted for <IR>. The IAASB, as standard setter for assurance, would be the designated authority to lead this work. In our view, it is in the public interest for these standards to tie into a robust system of quality control for those organisations or individuals providing these assurance services. For example, International Standard on Quality Control (ISQC) 1 currently applies to firms that provide services covered by the IAASB's international standards.
- c) The level of assurance that can be provided depends on the type of information on which the report is based; this is not self-evident for <IR> which combines past, present and forward looking, financial and non-financial information. FEE finds it crucial that the information underpinning the integrated report is *assurable* in accordance with generally accepted global standards. This means that it is supported by sufficient evidence and is prepared according to specific criteria so that it can be checked against these criteria. This *assurability* is not necessarily obvious for future-oriented and non-financial information (as referred to in Paragraph 3.46 and 3.47 of the Draft Framework). Therefore, in developing external assurance on <IR>, it may be necessary to distinguish between the different types of information to be presented in the integrated report so that challenges that could be associated with providing assurance on these different types of information can be considered. Different levels of assurance might need to be provided on different elements of the integrated report.
- d) There is also a need to develop clear criteria which preparers can use to prepare the information in their integrated report which would also be the criteria or benchmark against which assurance can be provided on the integrated report.
- e) FEE expects that there will be market demand for assurance over an integrated report, because assurance enhances the credibility of information, which is of value to investors and other users of <IR> as they increasingly come to rely on the information provided in an integrated report.

- f) Regarding the provision of assurance by the auditor, the following should at least be considered: competences, experience and skill sets required, and the need to use independent experts.

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

- a) The accountancy profession is willing and able to innovate in order to develop assurance techniques that can provide a suitable level of assurance on <IR>. It is recommended the IIRC work with the IAASB in this area, as they are the responsible global standards setter for assurance. FEE is more than happy to contribute to any work undertaken by the IAASB to adapt its current standards to respond to needs for new or adapted forms of assurance that may emerge as a result of the gradual transition to <IR>.
- b) FEE suggests altering the wording in Paragraph 3.30 from *material error* to *material error or bias*, to align with Paragraph 3.33.

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

Connectivity within the text of the Framework

- a) FEE is very supportive of stating *connectivity of information* as one of the Draft Framework's Guiding Principles in Section 3B. This means that <IR> should show the combination, inter-relatedness and dependencies between the components that are material to the organisation's ability to create value over time.
- b) FEE recognises that the text of the Draft Framework also features connectivity by linking the different principles, concepts, and elements related to value creation. FEE finds that making this linkage even more apparent would make the Draft Framework more user-friendly. This could be accomplished by explicitly and consistently cross referencing within the Draft Framework, such as by inserting hyperlinks.
- c) Examples of where the interconnection between concepts stated in the Draft Framework could be improved include:

▪ **Capitals and stakeholders**

FEE fully supports the IIRC in focusing the Draft Framework on a principal audience being the information needs of providers of financial capital while the IIRC is also encouraged to consider how the information needs of other stakeholders align of those of providers of financial capital, see paragraph 5) above Within this context, FEE would like to point out that paragraph 3.24 of the Draft Framework points to *capitals* in determining whether a matter is material, but does not explicitly link the capitals, which the organisation uses or affects, to the *stakeholders* of the organisation.

The [Materiality Background Paper for <IR>](#) makes the connection between *stakeholders* and the concept of *capitals* more explicit. For example, in identifying relevant matters for <IR> purposes, this background paper (page 3, Paragraph 16, bullet 2) makes a direct link between stakeholders and the organisation's effects on capitals. FEE suggests that this critical interconnection should become apparent in the Draft Framework as well and not be left to indirect or implicit references.

- **Strategy, materiality and capitals**

The interconnection between *strategy* and the concept of *materiality* is not adequately reflected in the Draft Framework. An organisation's strategy has a material effect on its value creation ability (see section 2.4 above), but other than in Paragraph 1.17, this connection is not specifically made in the Draft Framework. The Draft Framework does not make an explicit link between *strategy* and *capital*. Namely, the preparer of an integrated report should provide insight into how an organisation's strategy relates to capitals it depends on for its value creation.

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).

- a) FEE recommends keeping the <IR> Framework principles-based, including Chapter 4.

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?

- a) Requiring such a statement by those charged with governance could add value to the report, in light of their oversight responsibilities for <IR>.

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

N/A

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?

- a) The demand for assurance with respect to <IR> may equally develop gradually over time, similar to the fact that the development of <IR> in practice is expected to be a gradual process. FEE could envisage that assurance on different elements of the report would be useful in an initial stage. However, over time, we expect that assurance on the integrated report as a whole would be considered most useful by

investors, and which in our view can be provided if and when suitable criteria have been further developed, including through significant practical experience.

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.

- a) The current format of the Draft Framework seems less practical and more conceptual and high level, which would make it difficult to provide assurance on <IR>. The Draft Framework thus does not contain suitable criteria for an assurance engagement, nor for preparers, at this point. As previously stated, FEE is well aware of the emerging nature of <IR>, especially with regard to external assurance. Therefore, FEE encourages the IIRC to consider the need for criteria to determine the content of an integrated report. The Draft Framework would need to be further developed to guide preparers and to enable a suitable assurance framework to be developed.

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).

Aggregation and disaggregation (Section 5H, Paragraph 5.33)

- a) The Draft Framework (in Paragraph 5.33) makes an important link between the way the organisation (dis)aggregates information and how the organisation is managed. FEE notes that this connection may reveal issues that may be material to the organisation's ability to create value, such as a concern regarding human rights.
- b) Aggregation and disaggregation of information have both a financial and a non-financial dimension. The financial one presents financial information based on the business or geographical segments that are commonly used for financial reporting purposes (Paragraph 5.33). The non-financial dimension shows how other capitals (such as natural or social capital) are taken into account. FEE agrees with this approach, but also seeks to identify if information which is based on the business or geographical segments, primarily aimed at financial reporting, would also address material non-financial disclosure.
- c) FEE encourages the IIRC to further explore the non-financial dimension of (dis) aggregation of information. In particular, the IIRC should assess whether (dis)aggregating information for non-financial reporting is manageable for companies and whether this information can be compared between and within different business and geographical segments.

XBRL (Section 5I, Paragraph 5.40-41)

- a) FEE welcomes the IIRC's suggestion of using XBRL as a standardized technology platform for <IR>. When <IR> is in a later stage of development, it would be helpful to have more guidance on how an integrated report can be best captured in XBRL.

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?

- a) As previously stated, FEE thinks that the Draft Framework taken as a whole is appropriate for preparing an integrated report. The Draft Framework is still in its initial and conceptual stages. More practical experience is needed to enable large scale implementation of the Draft Framework to be a smooth development.

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?

- a) FEE actually does not consider it to be the role of the IIRC to develop extensive guidance on <IR>. The IIRC can give priority to keep providing examples and best practices of implementing <IR> and structuring the integrated report, as is being done via the Emerging Integrated Reporting Database.

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

N/A