

Consultation questions

The IIRC welcomes comments on all aspects of the 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 Framework are also encouraged through the questions.

All comments received will be considered a matter of public record and will be posted on 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 express any key points, or to emphasise particular aspects of your submission, or add comments in the nature of a covering letter, then the following space can be used for this purpose

There are two issues/fundamental flaws which come to light in the IR draft:

- **Since IR report is principally addressing the concerns of just one stakeholder group 'Investors' this limits its usefulness to other stakeholder groups. However, for an IR report to be credible the needs of all relevant stakeholders have to be considered and responded to. Hence possibly calling it an IR report is erroneous, and what it really pretends to be is an investors sustainability report.**
- **Many believed that an IR report would be synonymous to one overarching report. However, the IR itself says there will still be need for other reports, hence, it is questionable what value it will have for both the reporting organizations and report users, since instead of simplifying reporting, arguably it is adding to the problem.**

For reporting, what is important is integrating sustainability into on-going management practices and reporting of the subsequent performance. Guidance on this is already available since 2003, The Sigma Project <http://www.projectsigma.co.uk/> and the IR would appear to be essentially a

plagiarism of this.

Why try and reinvent the wheel?

Possibly it would be better to base <IR> on the important work already invested in The SIGMA Project, continuing it and in so doing help businesses improve their sustainability performance.

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.*

*Surely it should be the response to the stakeholders' concerns on those **sustainability issues that are material for them and the business** which will determine the contents of an integrated report. In this context, the guiding principles are not to inform the content of an IR but how it should be elaborated.*

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. (Paragraph 1.18-1.20)

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

For a well-managed business really focused on sustainability, if it's other reports are prepared well, it would appear that an IR report possibly would not be necessary. If it is not well managed, IR isn't proposing a management system, and a resulting IR report could actually mislead investors. (e.g. the disaster with GRI's A, B & C system)

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?*

First of all, is this the role of IIRC? Secondly, if IIRC were to create a database surely this will be leading organizations to focus more on the indicators than management system.

An organization which has really integrated sustainability into its management system will, as a result of this knows the indicators and measurement methods which it needs to apply. If it doesn't, this in itself would mean that it is not sufficiently prepared to elaborate an IR report.

Other

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

Admittedly the IR is a framework for reporting, however, reporting is a means to an end, and not an end in itself. Organizations which have integrated sustainability into their management processes will be accustomed to reporting their performance to their relevant stakeholders, and the IR won't add much value, if any, to their reporting processes. Those organizations which have yet to integrate sustainability into their core management processes, need to do that first before they can start reporting about it, and hence the IR doesn't serve their needs either. The SIGMA Project would be much more useful for them, and easier to understand to achieve real results than the IR framework.

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?*

As mentioned before this is essentially a plagiarism of The SIGMA Project but lacking all the supporting information which underlies it.

Furthermore, in addition to the five capitals of the SIGMA Project, these are encircled by the principle of ACCOUNTABILITY, and it is this later which adds overall robustness to the all the other capitals, and enhances the management systems, the resulting performance of which should be the content for an IR report.

The sixth capital of IR 'Intellectual' is really an element of 'Financial' and so really is superfluous, and actually could mislead investors to attributing more value to intangible assets that is appropriate.

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

For someone who doesn't have prior knowledge of the SIGMA Project, probably this how section would be difficult to understand let alone implement.

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?*

The definition would appear to have been drafted to coincide with the value creation process (Fig. 3), and only make's sense in that context. Possibly it is not a definition which would coincide with how many organizations would define it.

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?*

This would appear very academic and it is doubtful that in boardrooms directors will be using this language. The distinction between outputs and outcomes is not clear. Surely by-products fits better with the definition of outcomes than an output?

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 whole section would appear to be very academic and it is doubtful that this is actually the language usually used by businesses for managing these issues. The IR needs to be written in a language easily understandable by companies, if it is expected to be used.

Other

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

The fundamental concepts could be summarized in two:

- *Accountability to all relevant stakeholders: here the AA1000APS principles: Inclusivity, materiality and responsiveness: These are easy for any business manager and investor to come to grips with, and respond to the basic question what issues should be covered in an IR report.*
- *The SIGMA Project, which in addition to laying down the five capitals and the overarching principle of accountability, provides a wealth of guidance on how to put it into practice.*

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?

To limit the definition of materiality to effectively 'investors' runs the risk of the possible exclusion of other issues which are not so easy to predict their impact in future performance.

The definition of material issues needs to be inclusive and consider all stakeholders to avoid issues, which may not be initially quantifiable in economic terms, but could subsequently have significant impacts on the organization being excluded.

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

Obviously, materiality is important for any type of sustainability report, but should it be the objective of the IR framework to guide organizations how to determine what is or is not material? If a company has integrated sustainability issues into its management processes, surely they will know what is material. If not, surely they need to do that first before starting to report anything?

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?

Rather than speak about reliability, the issue is how an organization enhances its accountability. When it is accountable to its stakeholders, automatically it needs to ensure that the information is reliable otherwise it runs the risk of failing to achieve their support. Independent report assurance is important when demanded and valued by some/all of its stakeholders (See The Co-operative UK). However, it is only part of the

accountability process. Investors should be more interested in evaluating if an organization's stakeholders are assured rather than the external assurance of an IR report.

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

If a reporter is deliberately going to present unreliable and incomplete information, it is doubtful how the IR framework would safeguard investors from being misled.

Other

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

The whole chapter would appear to be very academic, and superfluous for those organizations which already have integrated sustainability issues in their management processes, and possibly, if obliged to use the IR framework, force them to explain issues unnaturally. Those which haven't integrated sustainability issues in the management process would try to use this chapter to cover up what they are really doing and try to present a different image. Either way, it would not appear to achieve its objective.

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 company really focused on its stakeholders, knows their information needs and attends to them; hence, the relevance of this chapter for them is dubious. Organizations not so advanced (probably the majority) have G4, and before that G3, which essentially covered all these issues and is much more useful for new reporters.

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?

What value does it add? If a company is genuinely reporting what it is doing, the evidence will speak for itself. If not, is there really any benefit getting the management to sign off on the report>?

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

The report should be a reflection of how the organization is managing sustainability and its resulting performance. The report's content in itself should be sufficient evidence of the management team and how effective is the governance structure.

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?*

It is a common mistake when referring to assurance to confuse the outcome, that the organizations stakeholders area assured, with the process.

With the '+' system in G3, GRI saw how companies were able to appear as credible, even when the assurance statements didn't achieve their objective of assuring the stakeholders.

Credibility is much more than just assurance of an IR report, it is ensuring that an organization is accountable to its stakeholders in order to achieve their input and commitment to its sustainability.

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 only internationally recognized standard for the assurance of sustainability reports is AA1000AS. The objective of the IR Framework should not be to provide suitable criteria for an assurance engagement, that will depend on who the stakeholders are and what are their assurance requirements.

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).

For an experienced reporter this is really irrelevant, and for a non-experience one it is very academic, and of little practical use. Really, G4, and G3 before that covers the space on elaborating sustainability reports.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

The content of the Framework falls into a 'no-man land'. Probably experienced reporters will continue to base their reporting on their sound systems, and albeit could make some cross-references to the IR, would not use it as a basis for their reporting. For inexperienced reporters it is far too academic, and probably be very difficult to follow.

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?

Is it really the objective for the IIRC to develop explanatory material? It would appear that <IR> possibly isn't achieving the objective for which it was set up in the first place, and if it fails to generate real value added for reporters and report users alike, maybe it won't get much further.

Other

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

*Having followed the <IR> since its outset over three years ago, it would appear that the marketplace has moved on, and it is has lost touch with reality. Organizations want to do less reporting, not more. Investors want more concise and **comparable** information. The essence of any sustainability report must be focused on addressing the material issues for itself and its stakeholders, and the report is only a means and not an end in*

itself. Possibly, with the benefit of hindsight, giving undue attention to reporting, inadvertently <IR> itself has gone off track of what it was set up to do in the first place. What investors and organizations should be interested in is not Integrated Reporting, but integrating sustainability issues into management processes and reporting on that, whoever the stakeholders are. The better an organization does this, the more sustainable will be its activities and the lower risk for investors.