

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.

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the Consultation Draft of the International <IR> Framework published by the International Integrated Reporting Council (IIRC) in April 2013.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council (FRC). We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and

apply rigour, and so help create long-term sustainable economic value.

4. Integrated reporting is a subject that crosses traditional boundaries of expertise, raising issues of financial and broader corporate reporting, assurance, corporate governance and sustainability. Through the work of its Financial Reporting Faculty, Audit and Assurance Faculty and Corporate Governance and Sustainability teams, ICAEW is recognised as a leading authority in all of these areas. Our thought leadership work is at the forefront of global debates on the future evolution of corporate reporting, assurance, corporate governance, and sustainable business practices. ICAEW's own Annual Review continues to move towards an integrated reporting model.

MAJOR POINTS

Support for the work of the IIRC

5. ICAEW supports the vision of the IIRC, and believes that the <IR> initiative has the potential to act as a catalyst for major improvements in business reporting and the adoption of sustainable business practices. Our comments and recommendations below should be read in this context.

6. We welcome publication of the consultation draft (CD), and believe, notwithstanding our reservations on a number of important issues, that it marks a significant step towards the realisation of integrated reporting. Clearly, a great deal of work has been done since publication of the 2011 discussion paper on integrated reporting in a relatively short space of time, and many of the questions that we and other commentators raised on the earlier document have now been addressed. This is a considerable achievement. In our view, though, a number of difficulties still need to be dealt with before the case for <IR> is sufficiently compelling to ensure that is taken up voluntarily by more than a minority of companies and is regarded by mainstream investors as essential information. We explain these points in our responses to the various questions posed in the CD and highlight the more important points in the paragraphs immediately below.

<IR> and other business reporting

7. An <IR> report is intended to be a standalone document (CD 5.2) that would be additional to companies' existing reports, but would be linked or referenced to them. It may or may not form part of the annual report; this would be for each company to decide. We think that leaving this matter for companies to decide for themselves is the right approach. This is partly because existing reports are usually produced in accordance with requirements that vary from jurisdiction to jurisdiction and are not about to disappear. But it is also because, while <IR> is still in the experimental phase, it would be premature to replace any of the established components of corporate reporting. Unfortunately, this means that <IR> seems likely to impose additional costs and disclosure requirements on companies at a time when there is already a strong drive to streamline the disclosure regime.

8. How far <IR> will provide additional information to that currently reported is something that will vary from jurisdiction to jurisdiction, depending on companies' existing reporting practices. For some companies in certain jurisdictions – in the UK, for example – the inclusion of the type (though not necessarily the range) of disclosures suggested by the draft framework may not be a radical departure from existing practice. For such companies, it may be most sensible to integrate with their existing disclosures any additional points arising from the issues raised by the framework, rather than to take the approach of preparing a separate report. Indeed, as business reporting evolves, and the principles set out in the framework are increasingly accepted over time, we would expect to see increasing integration of integrated reporting with existing reports, so that standalone <IR> reports may become less common.

Timing and due process

9. We note the IIRC's firm plans to publish the final framework in December 2013. This is an ambitious timetable. It may be achievable, but this will depend critically on the nature of the comments received by the IIRC from respondents during the formal consultation process and how much further work they give rise to. Given the large number of responses that we understand the IIRC has already received, the timetable seems to be especially ambitious. The IIRC should moreover continue to be receptive to stakeholder comment following the end of the formal consultation period; indeed, it should welcome further comments and plan to meet with stakeholders to discuss their key concerns and to validate any major changes proposed to the current draft. A less ambitious timetable would allow more time for this and allow the IIRC to take into account the results of the Pilot Programme (see below). The publication of a widely-supported and high quality document is far more important than meeting self-imposed deadlines for publication. If, as we suggest, publication of the final framework is deferred, it would be advisable to take this decision and announce it sooner rather than later.

10. We would also point out that, at least from a US and European perspective, December is not the best time of year to publish new reporting proposals that it is hoped will be adopted as soon as possible, as it will be too late for those many companies and other organisations with December financial reporting dates to reflect them in their 2013 reports. From this point of view, publication in March or April 2014 would be better as it would allow adequate time for boards to start thinking about how to incorporate the proposals in their 2014 reports. No doubt in choosing the publication date for the final framework, the IIRC will take into account when companies in different parts of the world might be most receptive to new ideas for the annual reporting cycle.

Results of the Pilot Programme

11. There is a real prospect that improvements in communication might flow from the proposals in the draft framework, and we are keen to see these improvements realised. But this will often require organisations to disclose much more than they do now, particularly non-financial information, which may put them at a disadvantage against competitors. For this reason, many organisations are likely to find the proposals challenging when they try to apply them in practice. The experience of companies engaged in the Pilot Programme would be of great interest in this respect, and it would have been helpful if the draft framework could have included a clear analysis of experiences to date. We understand that a number of major companies will be experimenting with integrated reporting in 2013, and it would also be useful to be able to learn from their experiences before finally issuing the framework. All this adds to our concerns about the timetable for publication of the framework.

Focus

12. We support the draft framework's stated position that integrated reports 'should be prepared primarily for providers of financial capital' (CD 1.6). However, the CD's wording sometimes suggests an uncertain focus. We believe that the framework's focus needs to be more clearly on the providers of financial capital for for-profit companies. We recognise that such a focus may be unwelcome to some of those who have supported the idea of integrated reporting, but we believe that it is essential if it is to be accepted voluntarily by more than a minority of businesses and their investors. We would not, of course, want this focus to dilute or undermine the potential of the <IR> initiative to catalyse more sustainable business practices. In particular, integrated reporting should seek to demonstrate to businesses and their investors that sustainable business practices are consistent with their long-term interests.

13. The concept of the six capitals is very important and has the potential to improve business practices, as well as reporting. It may be helpful in this context to distinguish

more clearly between the capitals as objectives in their own right and as tools to help thinking about what drives value creation in a business. At the moment, the draft framework gives equal weight to each of the six capitals, which may be helpful as a means for telling the business's story. However, the implication of the investor focus of integrated reporting is that references to the various capitals should be made for the specific purpose of explaining how shareholder value has been created for the providers of financial capital – ie, how the earnings or future earnings prospects of the business have been enhanced. This in turn suggests that priority should be given throughout the framework to a focus on thinking about the effects of the other five capitals on financial capital.

14. At CD 2.17, 'financial capital' is defined to include grants. Some think grant providers should not be regarded as providers of financial capital (though they would be more relevant perhaps for non-commercial organisations). This highlights, in our view, an ambiguity that currently exists in the concept of capital.

Investor engagement

15. Although <IR> is primarily aimed at the providers of financial capital (investors), it is still not clear that it will give mainstream investors and the investment analysts who serve them the information that they want. Investors and investment analysts are not a homogeneous group, and there are important differences in their information needs. To achieve widespread recognition, <IR> will need to provide useful information to mainstream investors, not just to those with an explicit focus on socially responsible investment (SRI). There are important aspects of <IR> that should appeal to mainstream investors and investment analysts, but we do not believe that this is as widely recognised as it should be. We are concerned that illustrations and language in the draft framework may reinforce the view that <IR> is purely or mainly for SRI investors, and we would encourage the IIRC to emphasise how information provided in accordance with the framework should support fundamentals-based assessments of shareholder value.

16. For these reasons, we believe that it is very important that the IIRC should maintain its efforts to engage with mainstream investors and analysts, in order to ensure that <IR> gains their active support. This may well mean that <IR> is in significant respects experimental for some time to come; not only because preparers will at first be unfamiliar with it, but because it will not be immediately clear how it can best be adapted to meet those users' needs.

17. It will also be important for individual companies to engage with investors so as to understand their particular information needs.

Structure and scope of the document

18. The draft framework is a rather difficult document to read, and it will be important in the final version to provide an accessible overview at the beginning. It is also difficult to see many small and medium-sized organisations being willing to make the investment of time and effort that the document requires, and if it is intended that they should adopt its principles, a simplified version would be essential.

Assurance

19. While the most effective way of demonstrating reliability is external assurance, at this experimental stage in the development of integrated reporting, we think it is too early to establish principles on how much of it should be assured or exactly what form of assurance should be provided. We believe that these matters should be left to businesses to decide for themselves, in consultation with their investors.

Looking ahead

20. There remains important work for the IIRC to undertake. However, at some point reasonably soon after the framework and any associated guidance has been issued the IIRC might wish to consider initiating a debate with and between its stakeholders about the future role of the IIRC, and indeed about whether or not in the long run integrated reporting will need a standing body to keep the framework updated and to encourage and monitor its application. We understand that the IIRC intends to issue next year a consultation document on its future governance structure, and this may provide an opportunity for stakeholders to comment on what the organisation's future should 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.*

21. On the guiding principles (Chapter 3), as we explain below (paragraph 53), we believe that the stakeholder responsiveness principle needs to be significantly revised; stakeholder responsiveness should not be an objective in its own right. We believe that the reliability and completeness principle needs to be moved towards a requirement that <IR> should be fair, balanced and understandable (paragraphs 44-45 below). We also suggest a rewording of the consistency and comparability principle (paragraph 54 below) and a re-ordering of the content elements in order to emphasise the connectivity between the different elements in an integrated report (paragraph 57).

22. On the content elements (Chapter 4), we think that – contrary to the principle expressed at CD 4.4 – standalone <IR> reports should not be the only way of doing integrated reporting. As explained above (paragraphs 7-8), in the short term a requirement to prepare an additional report may well be a deterrent to adopting <IR>, and in the longer term we expect that integrated reporting will be increasingly integrated with other reports. We have doubts about some of the disclosures required in the principle at CD 4.5 (see paragraph 59 below). The principle that an integrated report should answer the question 'To what extent is the organisation's business model resilient?' (CD 4.21) is open to objection, and we suggest below (paragraph 36) that it should be changed to deal instead with allowing users to make their own judgements on a company's resilience. We question (paragraph 64 below) whether reporting effects on all the capitals should be a principle in its own right (CD 4.27).

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?*

23. As already explained, we think that integrated reports will increasingly either overlap with firms' other reports or – and this might be the more sensible solution – be integrated with them, so that standalone integrated reports would gradually disappear or become less common.

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?*

24. We do not think that an online database of authoritative sources would be a good idea. If they are deemed to be authoritative, this implies that people should comply with them, which would put the IIRC into the inappropriate position of a sort of accreditation body for other bodies.

Other

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

25. We have no other comments on Chapter 1.

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?*

26. We agree with the approach of using the six capitals as benchmarks in preparing an integrated report, subject to the point we made earlier (in paragraph 13) about giving priority to thinking about the effects on financial capital of the other five capitals. We are not sure, though, that useful disclosures would result from any requirement to disclose why something is not material. Something either is or is not material, and there may be nothing that can usefully be said to elaborate the point. The assumption that all six capitals will usually be material for all organisations also seems to be inconsistent with the approach taken at CD 2.19-2.21. We are also concerned that the description of social and relationship capital is too narrow. We have suggested (paragraph 28) a wider definition that places greater emphasis on relationships, which we think will usually be of most interest in practice to investors.

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

27. It would be helpful to explain why it is right to include 'shared norms, and common values and behaviours' as social and relationship capital. Elsewhere, the draft framework stresses the value of diversity, which presumably includes diversity of norms, values and behaviours. Norms operate at different levels, so that is possible for diversity of norms at one level to co-exist with a shared, higher level norm of respect for such diversity. If the current wording is to be retained, it needs to be explained why, in some instances, uniformity rather than diversity of norms is desirable.

28. We recognise that 'social capital' is a commonly used term in the social sciences, where it refers to trust as well as relationships. Trust is of course helpful for business, even – or perhaps especially – in communities where there are diverse norms, values and behaviours. But except where there is a question about an entity's licence to operate, relationship capital is typically of more immediate relevance to a business than other aspects of social capital, and we suggest 'relationship and social capital' would be a more appropriate term than 'social and relationship capital'. In our view, the importance of relationships does not come across clearly from the description of this capital as currently drafted.

29. The term 'reporting boundary' appears at paragraph CD 2.25, although it is not explained until Section 5G. This term will be unfamiliar to readers, and it may be useful to explain it at this point in the framework. Alternatively, perhaps the glossary should appear at the front of the framework rather than at the back.

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?*

30. We agree with this definition, although the inclusion of outcomes goes beyond what is conventionally regarded as belonging to a firm's business model. We would not expect business model disclosures in accordance with The UK Corporate Governance Code, for example, to include outcomes unless the disclosures were deliberately extended for the purposes of integrated reporting.

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?*

31. We agree with the definition, but it needs to be recognised that it will be difficult to get people to report on the negatives as fully as on the positives; greater emphasis on the connectivity between different content elements may help in this respect. The examples of relevant outcomes at CD 2.35 are perhaps not the most persuasive that could be found. Staff morale, for example, is a difficult matter to report on objectively or for an organisation as a whole, and it is also difficult to know what the results of staff surveys (for instance) imply for future success. Perhaps turnover of critical personnel would be a better illustration.

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)?*

32. CD 2.40 notes that 'Business strategies that are overly focused on optimizing short term financial performance can impede the ability to create long term value.' This is of course true, but it is equally true that business strategies that are overly focused on the creation of long-term value can impede the ability to survive in the short term. We doubt whether advice of this sort adds anything useful to the framework.

33. The second sentence of CD 2.43 also dispenses unnecessary advice, but is arguably self-contradictory as well as it appears to say that the maximisation of financial capital does not necessarily maximise financial capital. Perhaps in this section generally ('The

meaning of value' – CD 2.41-2.44) it would be better to focus on explaining the meaning of shareholder value. This should be done by reference to the future earnings capability of the business and by explaining how an integrated report provides information on value created in all relevant capitals in order to support better investor assessments of this capability.

34. CD 4.21 would require organisations not only to describe their business model, but also to say how resilient it is. We think that it will be very difficult for organisations to provide a useful answer on resilience, and so the temptation will be for them to give bland assurances that they are indeed resilient. Perhaps more fundamentally, it is the business's resilience that is important rather than that of its business model. Business models are constantly changing in response to changing circumstances and opportunities; this is an important part of how a business stays resilient.

35. The question of resilience overlaps with the financial reporting and auditing question of going concern. This is currently under consideration in the UK, largely as a result of the financial crisis. The 2012 report of the Sharman Inquiry, Going Concern and Liquidity Risks: Lessons for Companies and Auditors, provides a good review of the issues, and it may be worthwhile for the IIRC to consider it in deciding what can usefully be said about resilience. The UK debate on this subject continues as the Financial Reporting Council's January 2013 proposals on implementation of the Sharman Inquiry's recommendations – recommendations that we support – were, in our view, in need of improvement (see ICAEW Rep 65/13). As we pointed out in our response to the FRC: 'Directors are able to take a clear view on their company's short term liquidity and solvency but the future is inherently uncertain. The longer the assessment period, the less confident directors can be.' Any reporting on resilience would face similar limitations.

36. We suggest that rather than reporting on resilience directly, the emphasis should be on providing investors with sufficient information to form their own judgements on resilience. It would also be helpful for the framework to define 'resilience' clearly in the Glossary, and for the term to be explained when it appears at CD 4.21.

Other

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

37. We have no further comments on Chapter 2.

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?*

38. While the draft framework's definition of materiality is a reasonable one, we are concerned that there should not be a multiplicity of authoritative statements on what constitutes materiality in corporate reporting. The definition of materiality used by the International Accounting Standards Board (IASB) is: 'Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity' (2010 Conceptual Framework, QC11). The reference to 'financial information' is too restrictive for <IR>, but we suggest that, apart from a necessary modification on this point, the framework should adopt the IASB's

definition. Engagement with investors should help to determine what is material to them.

39. The description of the materiality determination process is also reasonable, but we are not sure that it adds much to the framework, and we wonder whether it could be dispensed with. The draft framework proposes (CD 3.28) that the materiality determination process should be disclosed, but we doubt whether, as far as most organisations are concerned, such disclosures would provide more than boilerplate.

40. CD 3.29 says that there should be a balance between conciseness and completeness. In our view, the need to disclose all material information should not be constrained by a desire for conciseness, desirable though this is. The requirement should be to disclose all material information (completeness), but to do so as concisely as possible.

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

41. Notwithstanding the comments above, we support the materiality and conciseness principle. If standalone reports described as integrated reports are too long – and we understand that experience in South Africa highlights the risk of this outcome – some of the value of <IR> will be lost.

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?

42. We assume that external stakeholders would not have access to an organisation's internal records, so we do not see how engagement with them would either enhance or demonstrate the reliability of an integrated report. And while it is true that robust internal reporting systems enhance reliability, users of an integrated report will not be in a position to judge how far this is the case in relation to the report. As noted earlier, the most effective way of demonstrating reliability, in our view, is external assurance.

43. We do not think, though, that the question of external assurance needs to be settled at this stage. External assurance imposes additional costs and, if the assurance is to be useful, may impose constraints on what can usefully be disclosed; both points may diminish <IR>'s attractiveness to potential adopters. While integrated reporting is still at an early stage of development, there would be advantages in allowing organisations to decide for themselves, in consultation with investors, how far they want reported information to be externally assured. They may decide that some parts of an integrated report should be subject to assurance and some not. To avoid confusing readers, the assured parts might be printed on different colour paper or visually distinguished in some other way – and there are of course other ways of explaining what is assured and what is not. But the IIRC is right to flag the question of how reliability can be demonstrated, which will be important for the long-term success of <IR>.

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

44. Subject to the comments below, we support the reliability and completeness principle, though it would be more accurate to call it the 'reliability, completeness and balance' principle.

45. We are doubtful how far the guidance set out at CD 3.33 is practical. At the moment, it reads like a counsel of perfection. The 2012 revision of The UK Corporate Governance

Code includes a requirement (C.1) that 'The board should present a fair, balanced and understandable assessment of the company's position and prospects', which seems to us to be a sensible approach. Perhaps it would be sufficient to say that <IR> should be 'fair, balanced and understandable'.

46. While no one would suggest that <IR> should contain errors, we wonder whether 'freedom from error' is the right concept for what is essentially a forward-looking report. It seems more appropriate for something backward-looking and factual.

47. While there will always be some managements that rely on poor information and inadequate systems, CD 3.41 rather carries the flavour that the authors of the framework know better than the people who run businesses how the latter ought to do their jobs – which will not help sell <IR> to them. It may therefore be worth considering whether this paragraph needs to be retained.

48. We support the proposal (CD 3.42) that organisations should not have to disclose information for <IR> that would damage their interests. But the draft framework's caution that this exemption should not be used inappropriately is pertinent, and obviously there is a risk that it will be used as an excuse for all sorts of non-disclosures. This is a point on which some examples of when the exemption might or might not be used in practice would be helpful.

Other

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

49. We support the strategic focus and future orientation principle (CD 3.2).

50. The connectivity principle (CD 3.7) is also a good one, but it will be difficult in practice to comply with it well. This is a question for which examples of good practice would be very helpful to preparers.

51. On a point of detail, it is debatable whether every organisation has a 'unique value creation story'. While in a sense every organisation is indeed unique, it is also true that organisations in the same line of business are often pretty well identical in important respects. Perhaps 'particular' would be better than 'unique'.

52. We suggest that CD 3.9 should be deleted. It gives the impression that those issuing the framework know better than the people currently running organisations how they ought to think. This is likely to put people off.

53. In our view, the stakeholder responsiveness principle (CD 3.13) needs to be significantly revised. The avowed primary focus of <IR> is reporting to capital providers, but this paragraph gives the opposite impression, apparently putting all 'key' stakeholders on an equal footing. It also raises questions about what stakeholders' legitimate needs are. And while it is true that 'value is ... created through relationships with others' (CD 3.14), these relationships may be purely commercial, in which case there may not be much to be said about them. We suggest a redraft of the principle along the following lines: 'An integrated report should provide insight into the organization's relationships with key stakeholders so far as these are relevant to the providers of financial capital'. Understanding of the capitals on which a firm depends may also be enhanced by engagement with stakeholders, but this does not require responsiveness to stakeholders as an objective in its own right.

54. We support the consistency and comparability principle (CD 3.48), subject to some rewording, as follows:

- Consistency over time: Changes in the way in which information is prepared or presented should not be made arbitrarily, but corporate reporting improves progressively over time, and we would not want it to be tied to old practices just for the sake of consistency.

- Comparability with other organisations: This is desirable, but especially for non-financial information, can lead to an inappropriate one-size-fits-all approach. Organisations will no doubt be under pressure from users to disclose the information that their competitors in the same sector disclose, but different disclosures will be right for different sectors.

We suggest accordingly that the principle should be redrafted as follows:

'To the extent that this is useful to the providers of financial capital, the information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations'.

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).*

55. As explained at paragraphs 7-8 and 22 above, we do not think that it should be a principle that an integrated report has to be a standalone document (CD 4.4).

56. We like the question-based approach to describing the various content elements. This should encourage organisations to think more about what they should disclose and should therefore help secure more helpful and relevant disclosures than would a detailed list of required contents.

57. We suggest that a more logical ordering for the content elements, which would support connectivity between them, would be: mission and vision (currently described as 'organizational overview'); strategy; business model; performance; governance; future outlook and risks.

58. We believe that the reference to stakeholders at CD 4.4 should be restricted to the providers of financial capital, rather than to stakeholders generally. Organisations may of course wish to communicate with other stakeholders, but bringing them within the scope of integrated reporting is likely to lead to a loss of focus.

59. We have various concerns about CD 4.5, as follows:

- We have already commented (paragraph 39) that most organisations' disclosures on their materiality determination process are unlikely to be useful.

- On the question of the governance body with oversight responsibilities for <IR>, it seems inevitable, in the case of companies, that it will be the board, which cannot escape responsibility for the company's external reporting.

- On the question of the reporting boundary, we doubt whether this is a key issue for <IR>; materiality, rather than boundaries, should determine what is reported.

- The proposed requirement to disclose 'the nature and magnitude of material trade-offs' is a very difficult one. Every decision an organisation makes is a trade-off, but we doubt whether the framework really means that <IR> should report on all important decisions, and it is difficult to envisage what sort of useful disclosures organisations would be likely

in practice to make about them. Perhaps a requirement to discuss any material depletion of a particular capital would be more to the point, if this is what this particular proposal is getting at.

- Finally, we would expect that the requirement to explain why a capital is immaterial to an organisation will often generate bland and unhelpful disclosures (see paragraph 26 above).

60. CD 4.6 as currently drafted overlaps with the business model question at CD 4.21. We suggest that it is redrafted to focus on the external environment and business context.

61. The reference to diversity in the first bullet at CD 4.11 could be understood as referring to matters such as gender, race or age. In our view, the important diversity for a board will usually be to have a range of different backgrounds and skills.

62. Also at CD 4.11, we doubt whether the fourth and sixth bullets – ‘governance practices that go beyond legal requirements’ and ‘responsibility ... for promoting and enabling innovation’ – will produce useful disclosures.

63. We agree that it is desirable that organisations should avoid boilerplate in their reporting, but suggest that exhortations to avoid boilerplate (as in CD 4.17) should be left out of the framework as they can give it a slightly hectoring tone.

64. We believe that most providers of financial capital will be interested primarily in financial capital, and we therefore suggest that the focus of Section 4F should be on this form of capital and how changes to other capitals affect it. In particular, the principle that an organisation should report on outcomes in terms of effects on the capitals (CD 4.27) does not focus on what is of interest to the company’s financial capital providers. In most cases, we would expect effects on other capitals to be of interest only to the extent that they ultimately impact on financial capital. However, financial capital providers’ interests may differ from business to business.

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?*

65. This proposal seems to us to be reasonable provided such an acknowledgement does not create new legal responsibilities for those concerned, which would be a deterrent to adopting <IR>.

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

66. The phrase ‘collective mind’ at CD 5.18 (second bullet) sounds odd to us, but the IIRC may perhaps be aware of a jurisdiction where it would be appropriate.

67. We are not confident that the framework has yet reached the point where it will be possible for the governance body to assert that any report is in accordance with it. This

is not a criticism of the draft; integrated reporting is still in an early experimental phase.

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?

68. As stated above (paragraph 43), we believe that it would be appropriate to have a period of experimentation with assurance on integrated reports. This might well include some assurance reports that cover a complete integrated report and others that cover only parts of it.

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.

69. While we believe that, subject to a satisfactory conclusion on the question of resilience, it would certainly be possible to provide assurance on an integrated report, this does not mean that it is possible to develop universally applicable criteria specifically for such engagements. This process will be easier after the period of experimentation that we have suggested, but even then it may be appropriate to tailor assurance engagements for different sizes of enterprise and for different types of integrated report that may emerge in different jurisdictions. More generally, we would expect criteria for such engagements to be developed in accordance with the framework provided by ISAE 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information (which is currently being revised). Firms providing assurance on sustainability reporting already do so in accordance with this standard's requirements. We expect useful criteria to emerge from the period of experimentation, and we consider it probable that a single assurance opinion could be offered over <IR> reports once this has occurred.

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).

70. For the reasons indicated at paragraphs 7-8 above, we do not believe that an integrated report should invariably be a separate report additional to the rest of a company's reports. In some jurisdictions it may be better to integrate integrated reporting with existing reports.

71. It will be helpful for preparers to have some examples of how to do integrated reporting. This should be done in a way that does not become a template that would be adopted by businesses regardless of how appropriate it is to their particular circumstances. Each company will have to make its own decisions on what needs to be reported and how best to report it, but at the moment it will be difficult for them to work out exactly what they should be doing.

72. Investors do not seem to have a place in the list of stakeholders in the diagram at Figure 7. Perhaps they come under the heading 'Others', in which case they do not have the central position that we would expect given the stated focus of integrated reporting.

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?*

73. We agree that <IR> will evolve over time, and as its principles become accepted it is likely that it will be integrated with other reporting rather than remain a standalone report. As we indicated earlier (paragraphs 15-16), we believe that more work needs to be done to talk with mainstream investors and analysts about their information needs. Until these consultations have made further progress and there is more experience of <IR> in practice, it will not be clear how much useful new information it is able to deliver for users. However, it is a journey that should be well worth undertaking.

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?*

74. While practical examples of <IR> would be useful for preparers, we think that it is too early to identify specific topics where explanatory material is needed. We are also concerned that guidance could lead down the road to ever-greater detail. We believe that it is important to keep an approach based on principles rather than detailed requirements.

Other

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

75. It would be helpful to define 'value' in the Glossary.