

ANALYSIS OF FRAMEWORK

CHAPTER 5: PREPARATION AND PRESENTATION - OTHER

Question 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).

NOTE: This objective analysis includes only the most prevalent, significant or controversial issues as far as they relate directly to the content of the Consultation Draft of the International <IR> Framework¹, for the attention of the Working Group and therefore not all matters raised in submissions are referenced in it.

Drafting this analysis involved considerable judgment in deciding how to categories comments into issues/themes and how to summaries the underlying positions. Statistics have been included to provide a snapshot and starting point for analysis. Although the statistics indicate the prevalence of different views, due consideration will be given to the substance of all positions expressed.

In total the IIRC received 359 submissions to the Consultation Draft. 352 are included in this analysis. The remaining 7 submissions (of which 6 were late and one was in too complex for collation) are being reviewed separately.

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A – OVERVIEW

- A1 We received 112 responses to question 21 out of 352 responses in total. The most frequently mentioned topics in the feedback were about:
- Reporting boundary; *individual comments 43*; there seems to be agreement that the boundary should extend beyond the financial reporting boundary but respondents asked for more clarity regarding the boundary for <IR>. Some respondents call for the reporting boundary approach reflected in the final International <IR> Framework to align with approaches specified in other leading reporting frameworks although there is some reluctance for the IIRC to go so far as fully adopting the boundary approaches of other frameworks such as GRI's G4, ISO 26000 and others.
 - Use of technology; *individual comments 31*; there is overall support for section 5I of the Framework with an emphasis on XBRL. Respondents advised that the IIRC should take the lead in / own the process of developing a suitable taxonomy for <IR>.
 - The materiality determination process and disclosure of material matters (sections 5B and 5C of the framework, comments on which have been combined in this analysis); *individual comments 18*; more clarity is needed on the relationship between the materiality definition in section 3D, the process described in section 5B and the role of the primary intended report user.

¹ <http://www.theiirc.org/consultationdraft2013/>.

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- Time frames for short, medium and long term; individual comments 12; more guidance is needed. Respondents find the text on time frames too vague therefore giving report preparers too much scope for different approaches to be taken.
- A2 Some comments covered more than one aspect of Chapter 5 and its relationship with other parts of the framework. For example, some contributors noted the interdependency between the Capitals, time horizons for <IR> and the definitions of materiality and reporting boundaries.
- A3 There was one extensive comment by a global consultant (response 250). The contribution was “from a technology perspective”. Therefore only comments that pertain to Chapter 5 have been taken into account in this analysis.

B – REPORTING BOUNDARY

MORE GUIDANCE NEEDED / SECTION 5G UNCLEAR

- B1 There were multiple feedbacks saying that Section 5G was not entirely clear or that more guidance is needed although few respondents were specific about the actual guidance needed. An NGO from Oceania (submission 287) said it is “too woolly”. A global assurance provider asks for guidance on the limits to assessing opportunities, risks and outcomes.
- B2 Two of the feedbacks specifically comment on the potential confusion that might arise from the combined application of processes to identify materiality and relevant matters (section 5B), the reporting boundary, including opportunities, risks and outcomes beyond the financial reporting entity (5.25) and the disclosure of uncertainties surrounding relevant matters (5.15). “Risks and uncertainties are fundamentally the same” says a global professional accounting body (submission 219). A US NGO argues that boundary can be approached from determining impacts in the value chain and from a materiality point of view. At this stage, the NGO states, the apparent requirement in the framework that both should be applied might not be feasible.
- B3 Another recurring comment questions whether the reporting boundary described in Section 5G is sufficiently wide to capture, for example, “social and environmental risks and impacts” (submission 288). Respondent 288 goes on to suggest that the “report should focus on the company’s “sphere of influence” as defined in ISO 26000.

COMMENTS ABOUT THE <IR> REPORTING BOUNDARY

- B4 18 feedbacks explicitly commented on whether the boundary as described in the draft Framework is appropriate, sufficient or too broad.
- B5 11 feedbacks commented on the relationship between the reporting boundary for <IR> purposes as described in Section 5G and other possible approaches including reporting boundaries prescribed by other reporting requirements and practices. The comments included:
 - The reporting boundary should extend to the impacts through the value chain of corporate activity rather than being confined to matters within the reporting company’s control. For example, response 312 illustrates this as follows:

“I think Section 5G should more strongly encourage / acknowledge company accountability for the life cycle impacts of its products and services throughout their value chains. These extended boundaries are now incorporated into GRI G4 and will be in GISR. It would be good if IR stressed this new accountability, as well.” Similarly response 009 – “While Section 5G lays out a convenient dividing line between the mandated and voluntary levels of reporting (“control and significant influence”), it does not seem sufficient to me. What readers of sustainability reports care about generally are the impacts of the lifecycle of the company’s products on the environment and society, not just the direct operations of the company and its subsidiaries. Thus, I would encourage IIRC to find a way to incorporate the outcomes of suppliers, employees, etc. in the mandatory reporting boundary.”

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- One respondent (246) said that “a financial basis may not always be the most appropriate boundary for all KPIs and other determinants of performance or measured impacts on value. A company may have legal or contractual responsibility for 100% of non-financial risks associated with a subsidiary, where the equity share of value creation could be much less than 50%.”
- The boundary should be determined based on the needs of all stakeholders instead of the financial reporting community.
- The boundary should align with other frameworks such as GRI's G4 and ISO 26000.
- Contributor 031 questioned whether it was appropriate to refer to reporting boundary in the singular because “based on the principle of materiality the boundary may vary for each material issue identified - e.g. financial boundary for the financial accounts and certain direct environmental impacts while a discussion of human rights abuses in the supply chain would have a different boundary.”
- One contributor (155) suggested that the reporting boundary could be linked to the concept of the capitals: “While we agree that the integrated reporting entity needs to consider employees, customers, etc., we believe it would be easier to define the boundary if the opportunities, risks and outcomes were better linked to the concept of capitals. Without this linkage to the capitals it is difficult to see where the reporting boundary might end. ”

B6 4 fully agreed with the current definition of the reporting boundary (various stakeholder groups).

B7 3 feedbacks stated that the reporting boundary should be limited to the financial reporting boundary, (2 of which represented assurance providers and one a business in Western Europe).

COMPARABILITY

B8 1 feedback (107) supports the financial reporting boundary described in paragraph 5.28 on the basis that it provides “the best way to ensure comparability and consistency”.

B9 4 feedbacks had concerns that the description of the reporting boundary was too vague to support comparability as it may be explained differently by different reporters and there is room for judgment. One of the Western Europe report preparers (225) stated: “one company will determine that carbon footprint across the value chain is material, whereas another will select footprint from own operations”.

B10 This point is illustrated by contributor 246 who says that “The reporting boundary described is based on financial reporting, but overall the definition is rather vague and could lead to a diversity of approaches and more extensive reporting than intended.”

FIGURE 7

B11 There were 6 feedbacks regarding figure 7 in chapter 5G. Some felt that the primary intended user of the integrated report should be featured and one contributor suggested that tax authorities/government should also be considered as “other entity/stakeholder”. There were also some concerns around employees being outside the financial reporting entity.

B12 There was a question from contributor 268 about why the Joint arrangements box and the Investments box in figure 7 fell outside the reporting entity.

B13 One comment from a global assurance provider questioned whether, instead of the current “other entities/stakeholders”, the link should be made with the capitals. By doing this a link is created with the impact of an organization as well as with figure 3 of the framework.

REPORTING BOUNDARY COMPARED TO EXISTING FRAMEWORKS

- B14 There were a number of comments about the relationship between the <IR> reporting boundary and those of other reporting frameworks. The risk of duplication or omission in other reports might result from apparently conflicting or overlapping boundaries. There is a risk that information referred to in the integrated report but reported elsewhere will be based on a different boundary than used for the preparation of the integrated report. If <IR> builds on existing reporting frameworks for quantitative information, there might be more than one boundary used in a report (compare financial and non-financial), one respondent thinks this has to be mentioned specifically in the framework.
- B15 There might be administrative/practical problems/constraints in using various reporting boundaries in an organization.

C – USE OF TECHNOLOGY

GENERAL FEEDBACK

- C1 Out of 31 responses, six consultation feedbacks assessed this chapter in general, all but one are supportive. The one not being supportive finds that the use of technology does not add value in the context of the framework.
- XBRL*
- C2 Most of the consultation feedback on use of technology referred to XBRL (about 20 individual feedbacks noted). 12 of these were supportive of including XBRL in the framework. The reasons for this were:
- increasing comparability and consistency
 - increasing connectivity
 - decreasing administrative burden related also to the increasing amount of information
- C3 Organizations giving positive feedback are from stakeholder groups, academic, professional bodies, NGO, consultants, policy makers and one report preparer.
- C4 Four responses that did not support the use of XBRL, 3 of which were from report preparers. The main criticisms are that the framework seems to give exclusivity to XBRL as a tool for reporting; that investors do not use XBRL information (092) (although contrast this with respondent 113 who claims that XBRL would be useful to investors) and that this might lead to additional administrative burden for report preparers.
- C5 One respondent (120) states that “paragraphs 5.40 and 5.41 on XBRL as written are not technically accurate or clear, nor do they effectively capture the potential value of XBRL to Integrated Reporting.” The respondent suggests alternative text for the paragraphs concerned, explaining how XBRL may be used to structure and analyze <IR>.
- C6 The other feedbacks were mainly indifferent but nevertheless concerned about the possibility of capturing the value creation story in XBRL. In addition the accessibility for other stakeholders might be limited (113).
- C7 If XBRL is to feature in the framework, 6 respondents commented that taxonomy should be developed preferably through a process led and owned by the IIRC.

MINOR QUALIFICATIONS ON THE USE OF TECHNOLOGY IN THE FRAMEWORK

- C8 Some of the qualifications on paragraph 5I were:
- Questions were asked about whether a stand-alone annual integrated report (refer to 5.2 of the framework) is consistent with the dynamic approach of <IR> and technical possibilities such as web-based media. A respondent said that more guidance would be needed on whether an integrated report should be a hard copy report or downloadable static document (such as a pdf submission 133).
 - A policy maker comments that the use of technology as described in the framework might be restricted by current requirements in UK company law (submission 181).
 - Respondent 220 says that compared to the rest of chapter 5, paragraph 5I goes into too much detail. Given that “the platform for communicating the integrated reporting information is still unclear.”
 - Respondent 333 points out that linking of information should not be confused with connectivity of information - “In “Use of technology (5I),” it is recommended to take advantage of technology platforms such as Web-based media and XBRL in order to increase connectivity. We do not mean to deny the usefulness of these platforms. What connectivity should truly suggest, however, is that corporate management understands their unique value creation story in an integrated manner and provides material information concisely. If management and users of reports take merely searching or linking existing data as a tool of connectivity, it is not only different in essence from the true nature of connectivity but could also obstruct it. From this reason, although associating the use of such technologies with comparability could be reasonable, relating it with connectivity is considered inappropriate.”

D – THE MATERIALITY DETERMINATION PROCESS AND DISCLOSURE OF MATERIAL MATTERS

- D1 Although the consultation question specifically indicates that comments on the materiality determination process should be included in the feedback on question 11, we received 18 individual comments on paragraph 5B and 5C. Rather than dealing with those feedbacks in the analysis of question 11, they are dealt with here but the relevant comments have been shared with the team analyzing question 11.

ASSESSING LIKELIHOOD OF OCCURRENCE

- D2 In paragraph 5.11 the framework states: “(...) the importance of a matter with a large effect and a low likelihood of occurrence (...) is greater (...)”. A policy maker from Western Europe (079) states: “Paragraph 5.11 might be taken to imply that low risk events with a catastrophic impact are not worthy of mention. In the context of occasional disasters with oil production facilities which have had huge environmental impact and effects on the company and returns to shareholders, such risks need to be managed and mentioned.”
- D3 A respondent (174) warned that assessing the likelihood of occurrences could lead to prioritization of short-term matters. The respondent suggested that figure 6 should take account of time as well as likelihood of the occurrence and magnitude of effect.
- D4 A global accounting professional body (respondent 194) states that as well as assessing the likelihood of an occurrence and the magnitude of its effect, “it is important that... the effects of ranges of outcomes are considered: the emerging concept of ‘confidence accounting’ may be relevant here”.

CLARITY OF PARAGRAPH 5B AND 5C

- D5 Respondents called for more clarity on the definition of materiality in paragraph 5B. The difference between identifying relevant matters and material matters was not understood in a number of instances, for example respondent 174: “.. on page 30 par 5.4, relevant matters are those that can have an “effect on the organizations ability to create value over time.” On the glossary, materiality is defined as matters, of relevance and importance, that can effect

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the “organization’s ability to create value over the short, medium and long term.” These are essentially the same! However, not all relevant matters will be considered material (page 30).”

D6 This respondent (174), a South American NGO, adds that the reference in 5.6 to “(...) its known or potential effect on value creation” is confusing.

OTHER COMMENTS ON SECTIONS 5B AND 5C

- **PARAGRAPH 5.13** - Two respondents (040 and 191) suggest that the words “key personnel” should be replaced with key stakeholders in paragraph 5.13. Furthermore a respondent notes that a description of the process used to identify relevant matters already implies that key personnel/stakeholders and the role of those charged with governance are disclosed.
- **STRUCTURE** - There were 2 comments on the structure of paragraphs 5B and 5C. First (by a global assurance provider, submission 031) who suggests that paragraph 5C should be extended to include “disclosure of detailed reporting principles and criteria” and “reporting boundary and boundary considerations”. (This links with some general comments , for example in paragraph H4 below. Secondly,(respondent 273) that paragraph 5.13 would fit better in paragraph 5C.
- **COMPARABILITY** - A recurring comment on question 21 in general is that respondents have concerns about comparability. This relates to paragraph 5B and 5C as well as a number of process-steps that rely on the application of judgment including paragraph 5.4, 5.7, 5.11. An academic respondent (131) suggests that disclosure of risk appetite might help for the purposes of assessing importance as described in paragraphs 5.6 – 5.11 of the draft framework.
- **DISCLOSURE OF MATERIAL MATTERS (5.15)** - 2 respondents explicitly supported paragraph 5.15 about disclosures on material matters. Respondent 170 suggests how further value could be added for users – “The framework highlights the need to disclose material matters, including where information is indeterminable and the reason for its indeterminacy. Further value could be added to the users, if this para (5.15 bullet 3) also included the need to state the consequences of the absence of information.”

E – TIME FRAMES FOR SHORT, MEDIUM AND LONG TERM (SECTION 5F)

E1 There were 12 individual comments on paragraph 5F.

GUIDANCE

E2 7 of the 12 respondents request more guidance on the time frames. 3 think that a sectoral approach to time frames should be prescribed to recognise the different time horizons over which different sectors operate and to aid comparability.

E3 A policy maker from Oceania (submission 158) gave a particularly detailed comment on timeframes, in summary:

- A time frame of 8-10 years mentioned in 5.23 is “well beyond the detailed planning cycles of most organizations and in many cases will extend past the typical length of career that the directors and senior executives signing off on the integrated report will expect to have with the organization.” [ownership]
- “(...) with the uncertainty inherent in a world of rapid social, technological and regulatory change, the FRC questions how much store can reasonably be placed on other forward looking information that attempts to predict the future out as far as 8 to 10 years” [reliability]
- “the corporate reporting community is particularly concerned about the personal liability they may attract under our corporate and trade practices laws for forward looking statements. The longer the period for which forward looking statements are required, the greater those concerns” [liability]

E4 Respondent 158 refers to the manner in which this issue has been addressed in Australian Securities and Investments Commission (ASIC) Regulatory Guide 247 Effective disclosure in an operating and financial review

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(RG247.54) and invites the IIRC to consider incorporating in its work the way in which other regions have been able to successfully address timeframes in reporting without exposing directors to potential liability

- E5 One of the global report preparers suggests that references to the short and medium term should be removed from the framework.

F – FREQUENCY OF REPORTING

- F1 There were 10 individual responses that related to paragraph 5A.
- F2 3 of the respondents commented on the expectation in 5.2 that a report would be prepared annually in line with the statutory financial reporting cycle.
- F3 All commented that a more variable approach should be considered. It might be necessary to report on certain topics more frequently than on an annual basis, while for other topics a longer period might be considered.
- F4 Other respondents commented on the fact that it might prove difficult to align the <IR> reporting process with the financial reporting cycle due to the very strict financial reporting deadlines. A US representative (217) commenting on behalf of report preparers noted that currently sustainability reports are often published later than the financial statements. An NGO (273) who responded to this topic recommended adding to the framework “the latest date for disclosing information in the integrated report specifying a number of months after the fiscal year has been concluded”.
- F5 Some respondents expressed confusion about the first part of paragraph 5.2. Two report preparers (153 and 315) comment that the concept of continuous reporting is confusing and should be explained better. Some respondents seem to make a link between paragraph 5.2 and the need for the continuous application of <R> to all relevant reports and communications referred to in paragraph 1.18.

G – AGGREGATION AND DISAGGREGATION

- G1 We received 5 individual comments (147, 222,241,256, 301) on paragraph 5H.
- G2 3 of the respondents (assurance provider, analyst and professional body accounting) are concerned that the level of aggregation and disaggregation is based on the way “senior management and those charged with governance manage the organization and its operation” (5.33), which is not necessarily aligned with the requirements of the primary intended user (5.31). The analyst mentions that “Investors generally favour more information, as opposed to limited, high-level information only.”
- G3 The other comments focus on the absence of a process for determining the level of aggregation and disaggregation (professional body) and on the fact that aggregation and disaggregation can vary within the report, which is not stated specifically in the framework (report preparer).

H – OTHER COMMENTS

- H1 This last part of the analysis is used to consider the comments that were not easy to one of the categories above.

ASSURANCE

- H2 Although there are specific consultation questions on credibility (Questions 19-20); 4 individual comments (all by professional accounting bodies for external and internal auditors) on that topic were made in response question 21.
- H3 <IR> is seen by a professional accounting body in Oceania (094) as a catalyst to develop assurance standards. A western European professional accounting body (109) adds to this by saying that “specific attention is necessary

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for future outlook information, for collaboration with multi-disciplinary teams and auditor competence and specific IAASB initiatives on audit quality and auditor reporting, including the discussion on publication of management-letters". Another professional accounting body from Western Europe (183) comments that "a single integrated assurance opinion over the whole integrated report would be desirable".

- H4 A global policy maker for internal auditors (114) adds to this by saying that internal auditors can play a role in providing assurance by applying the core competencies used for internal audit purposes, given that non-financial areas are "not subject to the same control and rigor as financial reporting data".

FINANCIAL INFORMATION

- H5 Two respondents comment on the financial information to be disclosed in an integrated report. One report preparer (053) requires guidance on the minimum level of information to be disclosed while a provider of financial capital (103) refers to the IASB's work on "integration" of Financial Statement elements, documented in a discussion paper (2010)".

APPROACH TO <IR>

- H6 4 respondents (all from Asia, but different stakeholders) would prefer a more detailed standardized approach on how to prepare an integrated report.
- H7 3 respondents state that they need more guidance and examples on Chapter 5 in general. One of them (an Asian policy maker respondent 333) states "Chapter 5, supposed to provide not concepts or requirements but practical guidance, needs a close reassessment as to whether the content is realistic and practical enough to be understood and used in light of actual corporate practice in making reports or current reporting practices in order to ensure the usefulness of the guideline."

DISCLOSURE OF REPORTING PRINCIPLES

- H8 3 respondents (none of them report preparers) would like to see a requirement in the framework for report preparers to disclose the reporting principles they have applied. 2 responses (Asian academic (027) and a professional accounting body (171)) commented that an integrated report should have "an '<IR> Home Page' which enables readers to (a) quickly determine whether a report follows the <IR> framework; (b) locate the reports coverage of each <IR> Content Element and (c) find out the extent of assurance and the firm providing the assurance. This '<IR> Home page' should include the declaration from the governance body per 5.18".

REPORTING REQUIREMENTS

- H9 There are no bold paragraphs in Chapter 5. Two respondents commented that as a result it was not clear to determine what the actual reporting requirements are.

HOW TO POSITION AN INTEGRATED REPORT

- H10 4 respondents (different stakeholders and geographical regions) would like more clarity on how an integrated report is positioned. Paragraph 5.2 talks about a stand-alone integrated report, but the respondents question whether this could be part of a Management Discussion & Analysis or if the corporate reports of the company can be integrated in one report (including a full statutory financial statement) or if the integrated report is an enhanced sustainability report.
- H11 One of the respondents (global report preparer 321)) would not welcome a stand-alone integrated report. In contrast, another respondent (315) said that an integrated report should be a stand-alone report provided that it becomes mandatory in line with statutory reporting guidelines.

OTHER GENERAL COMMENTS

H12 There were a number of isolated comments including;

- the difference between <IR> and an integrated report should be made more explicit. It is an <IR> framework, but chapter 3, 4 and 5 are on an integrated report. Nevertheless these chapters have requirements for <IR>.
- the benefits and business case for <IR> should be included in the framework. The respondent (consultant, respondent 250) suggests "the overriding objective is to help the organisation become more connected to and inclusive of its stakeholders and more agile in its response to opportunity, risk and stakeholder demand."
- the general, principles based character of the framework provides flexibility, but the lack of structure and standardization is a risk for the framework to be usable for analysts (092).
- to come to a concise integrated report a respondent (205) proposes to that other information should be cross referenced as supplementary (for example materiality determination process).
- publication of an integrated report should be announced publicly on a relevant platform to ensure timely information of the market (148)
- the framework should be made better applicable for non-public entities
- how to address the issue of liability regarding future oriented information (refer also to section E1 of this report)

APPENDIX – SUGGESTED TEXT AMENDMENTS

RESPONSE 120; NORTH AMERICAN PROFESSIONAL ACCOUNTING BODY

The lead in to paragraph 5.38 states "An integrated report will also often be on a separate section of an organization's website..." We suggest this lead-in would be clearer if it simply stated "An integrated report will often be posted to an organizations website, hyperlinked to information elsewhere on that website or on other websites."

Paragraphs 5.40 and 5.41 on XBRL as written are not technically accurate or clear, nor do they effectively capture the potential value of XBRL to Integrated Reporting. We suggest deleting paragraph 5.41, and revising paragraph 5.40 to read as follows:

5.40 Many jurisdictions are currently standardizing the electronic format of corporate reporting using information standards such as XBRL. XBRL can be applied to <IR> just as it is applied to financial report disclosures and other business processes and reporting streams. Information structured in XBRL can be automatically transferred, consumed and analyzed across multiple software platforms without the need for manual entry or conversion, and carries with it key contextual information such as definitions, calculations, references to related information, currency, dates, etc. XBRL would empower the users of integrated reports to automatically upload, view and analyze the reported information according to their own needs and preferences.

RESPONSE 181; WESTERN EUROPEAN POLICY MAKER

Section 5G of the CD on the reporting boundary is confusing. Figure 7 implies that other stakeholders are part of the reporting boundary. The first bullet in 5.26 however, states that "providers of financial capital are the primary intended users of an Integrated Report. The third bullet in 5.30 goes on to say "the purpose is not to identify *entities* to be included in the reporting boundary..." but the second sentence says "the *entities/stakeholders* within this portion of the reporting boundary..."

RESPONSE 278; NORTH AMERICAN REPORT PREPARER

Section 5.23: The reference to "time frames differ by: the nature of certain matters (...)" appears too vague. We suggest "time frames differ by: the complexity of measurement for natural, social and relationship capitals."

Section 5.11: The graph could be improved by keeping P(event) on the Y axis and substituting Impact of event for Magnitude of event on the X axis.

RESPONSE 287; AUSTRALIAN NGO

Para 5.25 implies two aspects are to be considered - financial reporting and stockholder reporting. We suggest that the only way to define a boundary under integrated reporting is to define the boundary through the nature of the effects and the stakeholders (not as an add on to financial reporting). This means 5.25 should be written along the following lines:

5.25 "As required by para 4.5, an integrated report identifies its reporting boundary and explains how it is determined. Determining the boundary for an integrated report should be driven by two questions:

- (i) what effects will the entity generate while creating, capturing and delivering value? and
- (ii) who are the stakeholders that will be affected by those effects?

I do not think you need para 5.26, as I cannot see why this context is needed.