IIRC Working Group
22 October 2013

Item 3 – The Framework
Overview

- Process to date
- Consultation Draft
- Comment letter review process
- Key issues and proposed responses
Process to date

1\textsuperscript{st} stage
- To September 2011
- Discussion Paper

2\textsuperscript{nd} stage
- To April 2013
- Consultation Draft

3\textsuperscript{rd} stage
- To December 2013
- Framework
Global reach covering all stakeholder groups
About 1,500 pages
Over ½ million words
Generally positive
Comment Letter Review Process

- Comment analysis prepared by question
- Technical Task Force
  - 4 x calls + 3-day meeting
  - Identify key issues and review iterations
  - Papers available to the Working Group
- Changes to the Framework
  - Consistent with objectives
  - Consistent with principles-based approach
  - Practical to implement
  - Improvements: clarity, connectivity, structure, duplication, and accessibility
- Basis for conclusions
Key Technical Issues

- Fundamental Terminology
- Relationship with other information
- Materiality
- Value/value creation and the capitals
- Suitable criteria for preparation and assurance
- Measurement and KPIs
- Involvement of those charged with governance
- Legal liability and competitive harm
- Other issues raised prior to the meeting
**Issue 1: Fundamental Terminology**

**Issue:**
- Confusion between: Integrated Reporting ↔ integrated thinking ↔ integrated report

**Framework considerations:**
- Context/process info → Preface
- How to use Framework, and fundamental concepts → Part 1
- Content of an integrated report → Part II
- Definition of <IR>:
  
  “a process, founded on integrated thinking, that results in a periodic integrated report about value creation over time, and related communications regarding aspects of value creation by an organization”
Issue 2: Relationship with other information

Issues:
- How align/refer to/avoid duplication with other reports?
- A standalone report or incorporated into existing reports?

Framework considerations: (Paragraphs 1.15-1.17)
- Separately identifiable communication
- Can be:
  - Stand alone
  - Part of another report/communication
  - Satisfy compliance requirement
- More than a summary; often an entry point
- No universal diagram → pathways project

Subsequent feedback:
- Not adding to the reporting burden – is it clear enough?
- Is relationship with SR (GRI) and FR (IASB) clear enough?
Issue 3: Materiality

Issues:

- **Audience** (places investors/financial capital above others; implies monetization)
- **Terminology** (alignment with other definitions; legal baggage)

Framework considerations:

- Paragraphs 1.9-1.10
  - “Primary” qualifier – from audience to purpose
  - Tie direct to value creation
  - Clear that providers of financial capital consider non-financial factors
- Considered, but concluded not to, replace material with “significant”, “relevant”, “important” or “priority”
Issue 4: Value/value creation and the capitals

Issues:
- What is value/value creation?
- Value for whom?
- Is quantification required?

Framework considerations:
- Section 2C
- Value created by organization manifests itself in increases/decreases/transformations of the capitals and has 2 aspects:
  - Value created for itself
  - Value created for others
- Reconfirmed it need not be quantified
Issue 5: Suitable criteria for preparation and assurance

Issues:
- Framework suitable as criteria for preparation (and assurance)?
  - Measurement standards
  - Completeness
  - Connectivity
  - Future-oriented disclosures

Framework considerations:
- New Content Element *Basis of Presentation*
  - Significant frameworks/methods
  - Requirements formerly in paragraph 4.5 of Consultation Draft
**Issue 6: Measurement and KPIs**

*Issues:*
- Rules for measurement
- Specific KPIs
- Impact on comparability

*Framework considerations:*
- Reaffirm principles-based
- Emphasize need for consistent measurements
- Move characteristics of quantitative indicators to new Section 4I *General reporting guidance*

*Subsequent feedback:*
- Is it clear enough that KPI are always necessary?
- Identify leading frameworks to encourage consistency
- Para 1.12 – reconciliation should be required
**Issue 7: Involvement of those charged with governance**

**Issues:**
- Require a statement from those charged with governance?
  - Slim majority agreed – accountability, reliability, and credibility
  - Others – unnecessary, and unknown legal consequences

**Framework considerations:**
- Premature to require a statement
- Requirement to identify governance body:
  - Governance body or the highest level of management responsible for the integrated report

**Subsequent feedback:**
- Encourage momentum towards statements being included
**Issue 8: Legal liability and competitive harm**

*Issues:*
- Some disclosures → legal liability and/or competitive harm
- Future-oriented information in particular

*Framework considerations:*
- Policy issue: legal barriers to implementation (e.g., safe harbours)
- Exclusions in paragraph 1.7
- Guidance re commercially sensitive information in paragraph 3.51
- Guidance re future-oriented information in paragraphs 3.52-3.53 and 4.40

*Subsequent feedback:*
- Cautionary language re future oriented information
Other – raised prior to the meeting

- Overall – very positive
- Preface/Chapter 1 – emphasize market-led, not mandatory
- Para 4.5 – use of links for standing data
- Para 4.22 – multiple business models
- Consider more visuals
IIRC Working Group
23 October 2013

Item 3 – The Framework (Cont)
• Ideally, TCwG should accept responsibility

• Who are TCwG?
  – Senior management?
  – Those who sign statutory reports?
  – The highest governance body?
  – Per glossary definition?

• Accept responsibility?
  – A formal statement included in report (para 4.44)?
  – Identification of the body (para 4.43)?

• If not prepared to do so?
A requirement

- “The report should identify /include a statement from TCwG”

Temporary relief

- “Within 3 years of publishing its first integrated report, the report should identify/include a statement from TCwG”
  or
- “The report should identify/include a statement from TCwG. If it does not, it should explain what steps are being taken to include such a statement in future and the time frame for doing so”

Comply or explain

- “The report should include identify/include a statement from TCwG. If it does not, it should explain why”

Explain role

- “The report should explain what role TCwG play in its preparation”

Management plus expectation

- “The report should identify/include a statement from the highest level of management” accompanied by an expectation of statement from TCwG

Management plus encouragement

- As above plus encouragement of statement from TCwG