INTEGRATED REPORTING <IR>

International <IR> Framework revision

Focused engagement

Submission deadline: 20 March 2020

Topic Paper 3

Charting a path forward

Help shape the future of integrated reporting

About the IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.

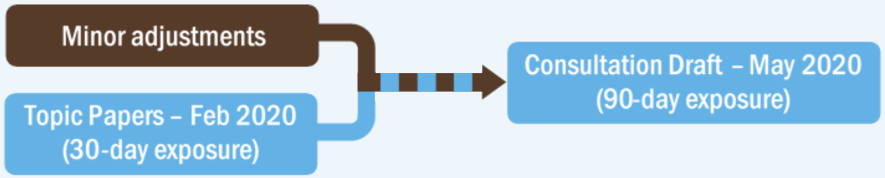
About the International <IR> Framework

Released in December 2013, the <IR> Framework explains the Fundamental Concepts underpinning integrated reporting and includes Guiding Principles and Content Elements that govern the preparation of an integrated report. The <IR> Framework is written primarily in the context of private sector, for-profit companies of any size, but it can also be applied to public sector and not-for-profit organizations. An integrated report is used to assess the organization's ability to create value over time.

Context for a revision

In 2017, the IIRC invited market feedback on the <IR> Framework's overall effectiveness and ease of implementation. Through regional roundtables and an online survey, one point became very clear: the core principles of integrated reporting continue to stand the test of time. The IIRC Council echoed this view in November 2019 when it endorsed a modest 2020 update to the <IR> Framework. Such a revision would mark the IIRC's ten-year anniversary and ensure the <IR> Framework's continued relevance in an evolving business and policy environment.

With this in mind, minor adjustments – including simple corrections and clarifications – are now underway. Concurrently, the IIRC seeks input on select themes raised by users and preparers of integrated reports. These include: (1) responsibility for an integrated report, (2) business model considerations and (3) charting a path forward. Each theme is explored in a dedicated Topic Paper, which invites feedback during a 30-day window. Responses to Topic Papers will inform the direction of <IR> Framework proposals. Per the IIRC's Procedures Handbook, all proposals will receive 90-day public exposure via a Consultation Draft.



How to respond to Topic Paper 3

All feedback, no matter how brief, is welcome and should be submitted via our online form at www.integratedreporting.org/2020revision/topic-paper-3. Your time is valuable, so we've limited the number of survey questions to just five, as shown on page 6 of this Topic Paper. Input is most helpful when it includes supporting rationale and specific recommendations.

Deadline for submissions: Friday 20 March, 2020 (23:59 GMT)

All comments received will be considered a matter of public record and will be posted on the IIRC's website after the closing date. A summary of feedback received will also be posted at a later date.

Introduction

Topic Paper 3 is the final in a series of thematic papers. Whereas Topic Paper 1 (Responsibility for an integrated report) and Topic Paper 2 (Business model considerations) will inform near-term revisions to the International <IR> Framework, this paper takes a longer-term view of the following:

- Purpose of an integrated report
- Role of technology in corporate reporting
- Assurance in integrated reporting
- Further matters affecting the corporate reporting landscape.

Purpose of an integrated report

One of the more debated sections of the <IR> Framework is Section 1C, which describes the purpose and users of integrated reports:

1.7 The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other.

1.8 An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

Matters under consideration

Based on feedback on Section 1C, the IIRC has identified two criticisms:

- In tailoring the organization's value creation story to providers of financial capital, the integrated report is thought to place the needs and interests of investors above those of all other stakeholders
- For a movement that champions a shift from financial capitalism to one based on multiple forms of capital, integrated reporting itself focuses disproportionately on informing financial capital allocation decisions.

Analysis

Context for framework development. The integrated reporting movement coalesced in the wake of the 2007-08 global financial crisis, which many attributed to short-termism, opaque business models and weak transparency, among other factors. As the IIRC's 2010 discussion paper Towards Integrated Reporting: Communicating Value in the 21st Century set out, "The recent global financial crisis has made it clear that risks can develop, be harboured and be transmitted through market participants and practices that fall outside the traditionally prudentially regulated institutions. One important tool in addressing these risks is greater transparency of market participants, which integrated reporting can facilitate."

The <IR> Framework's 2013 release followed extensive public consultation and offered a useful tool for businesses to explain their value creation story.

Meeting the needs and interests of key stakeholders. Since its formation, the IIRC has held that value creation requires an understanding of the range of resources and relationships (or capitals) on which organizations rely or have an effect. To identify the issues influencing value creation, organizations should engage key stakeholders during the normal course of business. So entrenched is this belief that it forms one of seven Guiding Principles in the <IR> Framework:

3.10 An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Simply put, liaising with customers, employees, strategic partners and others to understand their views on 'value' should inform business decisions. As critical drivers of net value creation, such perspectives necessarily permeate the integrated report. Connecting this logic to investment decisions does not undermine this process, nor does it negate the importance of other stakeholders. On the contrary, integrated reports infuse the collection of stakeholder views as integral to the value equation and as a proxy for the organization's quality of leadership. Notwithstanding this explanation, this message is often misconstrued, and so further clarification is needed.

Assumed investor primacy. Integrated reports centre on a wider interpretation of value than found in traditional reporting. When developing the <IR> Framework, the IIRC and its coalition recognized the immense power of providers of financial capital to align capital allocation and corporate behaviour to the wider goals of financial stability and sustainable development. This rationale found moderate support in public consultation. As the IIRC's Basis for Conclusions (2013) notes, "Even for respondents whose driving interest in integrated reporting is the contribution it can make to a sustainable planet, how financial capital is directed is one of the keys."

Paragraph 1.8 of the <IR> Framework notes, "An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers." Despite this clarification, there is perhaps an implied primacy of providers of financial capital insofar as:

- The purpose stated in Paragraph 1.7 is built around investor decisions
- Other stakeholders are introduced, secondarily, in Paragraph 1.8.

Addressing the matters under consideration

Perpetuating mono-capitalism. To support the shift from a financial capital focus to multi-capitalism, the IIRC can modify the primary purpose of the integrated report, as defined in **Paragraph 1.7**, as follows:

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time.	➡	The primary purpose of an integrated report is to explain to providers of ~~financial~~ capital[1] how an organization creates value over time.

[1] Including financial, manufactured, intellectual, human, social and relationship, and natural capital

Implication of investor primacy. There are opportunities to infuse the explanations offered in this paper into Section 1C and introductory narrative of the <IR> Framework. Further, in the spirit of leading and reflecting market change, the IIRC will consider whether its allocation of 'other stakeholders' to a separate paragraph sends an unintended message. Assuming Paragraph 1.7 were to be amended as above, Paragraph 1.8 might also be revised to reflect all beneficiaries of integrated reports as follows:

An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.	➡	An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including **providers of financial capital**, employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

This change, we believe, does not mark a retreat from providers of financial capital, but rather a growing recognition of the contribution of providers of other capitals, leading to a greater sense of 'joint primacy'.

Role of technology in corporate reporting

Paragraph 3.9 of the <IR> Framework points to information and communication technology as "important enablers of an organization's ability to search, access, combine, connect, customize, re-use or analyze information". Such abilities can highlight dependencies and support decision making.

During the <IR> Framework's development, the landscape already featured a range of technology-enabled communication tools and languages – from XBRL, QR codes and mobile apps to Twitter, Instagram and other forms of social media – with varying degrees of use in reporting. The IIRC saw reporting at the cusp of a digital transformation, with one foot in a world of static PDFs and the other in a world of information that was interactive, machine-readable, customized and available in real-time. Front office applications, affecting how information is consumed, would find back office support in data mining and analysis, machine learning, deep learning and artificial intelligence – influencing how information is gathered and analyzed.

In the years since the <IR> Framework's release, the model of an annual report and quarterly updates as an orchestrated series of engagements persists. So, too, does a reliance on conventional PDFs, with XBRL reporting more prevalent in some regions than others.

Matters under consideration

There is debate regarding when, and to what extent, technology will influence corporate reporting. With this in mind, there are questions concerning:

- Organizations' readiness for a modified reporting regime and the extent to which such technology changes present risks versus opportunities
- How corporate reporting standards and frameworks can, or should, anticipate technology-enabled advances
- Implications of a modified reporting regime on the context, connectivity, comparability and reliability of information produced and consumed.

Analysis

To grasp the full potential of technology-based change, the IIRC formed an <IR> Technology Initiative to provoke discussion in business and reporting software and systems integration. Participants explore how technology can spur new trends in reporting and help in the adoption of integrated reporting. The IIRC is keen to extend this conversation to the broader market to inform strategic deliberations beyond the current <IR> Framework revision.

Addressing the matters under consideration

Before structuring concrete proposals to address the above matters, the IIRC seeks input on potential future scenarios regarding the role of technology in corporate reporting and the associated benefits and risks.

Assurance in integrated reporting

The <IR> Framework touches on the topic of assurance as follows:

3.40 The reliability of information is affected by its balance and freedom from material error. Reliability (which is often referred to as faithful representation) is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance.

3.42 Maintaining an audit trail when preparing an integrated report helps senior management and those charged with governance review the report and exercise judgement in deciding whether information is sufficiently reliable to be included. It might be appropriate in some cases (e.g. with respect to future-oriented information) for an integrated report to describe the mechanisms employed to ensure reliability.

Matters under consideration

Assurance has proved a pervasive theme through the integrated reporting movement, with an inherent complexity arising from the following factors:

- The growing contribution of intangibles, for which measures may not exist, or for which direct measurement may be cost-prohibitive
- Addressing outcomes (including broader and longer-term societal effects), which are inherently difficult to measure due to causality issues
- Addressing externalities arising from others, which generally lie beyond the organization's reach in terms of measurement or calculation
- Strong reliance on narrative to provide context (e.g. external factors, governance, risks, opportunities, strategy and business model)
- Emphasis on future-oriented information (e.g. outlook, strategy, longer-term business model viability) as a core tenet of integrated reporting.

Further, some question who should legitimately call for mandatory assurance on 'beyond financial statement' information (e.g. KPIs and business model disclosures,). Does this lie with regulators, or should the <IR> Framework elevate the matter, beyond its Paragraph 3.40 reference?

Analysis

Historical context. Based on extensive consultation, the IIRC embedded a range of assurance-friendly features in the <IR> Framework to reflect the attributes of suitable criteria (relevance, completeness, reliability, neutrality and understandability)[2]. Section 4H – Basis of preparation and presentation was introduced to require disclosures on the materiality determination process, reporting boundary and significant frameworks and methods used.

Beyond the <IR> Framework, the IIRC held a four-month consultation on assurance in integrated reporting in 2014. Two publications were developed: Assurance on <IR> - An introduction to the discussion and Assurance on <IR> - An exploration of issues. IIRC staff also discussed assurance in integrated reporting at the March and December 2014 meetings of the International Audit and Assurance Standards Board (IAASB). Finally, in 2015, the IIRC shared consultation feedback in a publication called Assurance on <IR> - Overview of feedback and call to action. The publication provided a platform for continued engagement between IIRC staff and the IAASB. Assurance in the context of integrated reporting was discussed during the IAASB's March, June and September 2015 meetings.

Assurance of integrated reports. According to ACCA's Insights into integrated reporting 2.0: walking the talk (2018), 60% of reports in the IIRC's annual Report Critique Programme received some form of assurance in addition to the statutory audit. This figure was up from 46% in the prior year. Notably, the subject matter and scope of assurance varied considerably, from limited assurance on specific metrics to a broader review of the overall report's compliance with the <IR> Framework. In its Insights into integrated reporting 3.0: the drive for authenticity (2019) publication, ACCA noted: "2019 saw the emergence of a higher level of assurance on the content of integrated reports. For the first time, some companies have sought 'reasonable' assurance on aspects of their integrated report, a step up from the 'limited' assurance that companies usually seek on their non-financial reporting."

Emerging standards. The IAASB issued an interim consultation paper on extended external reporting (EER) assurance in February 2019 and invited comments in June 2019. According to the IAASB, "EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters." Work on a complete non-authoritative guidance document on how to apply ISAE 3000 to EER assurance engagements is ongoing and will be published as an exposure draft during the project's second phase. The ACCA's earlier-referenced 2019 report remarked: "The pace of innovations and the increasing demand for assurance shows that the IAASB's project could not be more timely."

Addressing the matters under consideration

This Topic Paper lists assurance-related challenges as a basis for continued discussion. We welcome input from the market – and assurance providers in particular – to inform IIRC strategies and <IR> Framework improvements.

Further matters

The reporting landscape has evolved since the <IR> Framework's release in 2013. The Corporate Reporting Dialogue formed in 2014 in response to calls for greater coherence, consistency and comparability between reporting frameworks, standards and related requirements. In 2015, the Sustainable Development Goals were ratified by the UN General Assembly, setting the stage for new disclosures by companies and, in 2017, the recommendations of the Task Force on Climate-related Financial Disclosures were released. In 2017, the International Accounting Standards Board initiated its revision of the Practice Statement on Management Commentary Finally, in 2019, the International Audit and Assurance Standards Board's Consultation Paper on Extended External Reporting Assurance was released. Calls for consolidation have accompanied these developments, prompting this Topic Paper to invite thoughts on the changing external environment and how the IIRC can react.

[2] Per the International Auditing and Assurance Standards Board's International Framework for Assurance Engagement

Proposals and consultation questions

Purpose of an integrated report

Simple changes can clarify current misinterpretations and advance the IIRC's position on the importance of providers of all forms of capital. Specifically, the <IR> Framework can amend **Section 1C – Purpose and users of an integrated report** as follows:

Current		Proposed
1.7 The primary purpose of an integrated report is to explain to providers of **financial capital** how an organization creates value over time. It therefore contains relevant information, both financial and other.	→	1.7 The primary purpose of an integrated report is to explain to providers of ~~financial~~ **capital** how an organization creates value over time. It therefore contains relevant information, both financial and other.
1.8 An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.	→	1.8 An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including **providers of financial capital**, employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

Q1 a. Do you agree with the proposed change to Paragraph 1.7? Why or why not?
b. Do you agree with the proposed change to Paragraph 1.8? Why or why not?

Role of technology in corporate reporting

We invite market views on how technology might significantly influence the field of corporate reporting in the years to come.

Q2 What considerations should inform the IIRC's strategic deliberations on the role of technology in future corporate reporting?

Assurance in integrated reporting

This Topic Paper outlines the <IR> Framework's 'assurance-friendly features', including suitable criteria for assessment and required disclosures on the materiality determination process, reporting boundary and significant frameworks and methods used to quantify or evaluate material matters.

Q3 Are there further ways in which the <IR> Framework can enhance the assurance-readiness of integrated reports?

Q4 Consider the following statement: Matters of assurance rest with regulators and related standard setters, and not with voluntary reporting frameworks. Do you agree or disagree? Please explain.

Further matters

The reporting landscape has evolved considerably since the 2013 release of the <IR> Framework. Amid various new developments, heightened calls for consolidation have emerged. The following question invites input on the changing external environment and how the IIRC can respond.

Q5 Are there further matters that the IIRC should consider:
a. In the modernization of the <IR> Framework?
b. As part of its strategic agenda?

Integrated reporting enhances the way organizations think, plan and report.