

Paul Druckman  
Chief Executive Officer  
International Integrated Reporting Council  
[www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)

15 July 2013

Dear Mr Druckman

## Consultation Draft of the International Integrated Reporting Framework

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Integrated Reporting Council's (the IIRC's) *Consultation Draft of the International Integrated Reporting Framework* ('the Consultation Draft' or 'draft Framework').

We support the IIRC in its efforts to develop an international framework for Integrated Reporting (the 'Framework'). Its development is timely. Annual reports are getting longer, running to hundreds of pages with significant time and effort invested in the front half of reports, but the story of an organisation's value proposition can often be lost in all that information.

### Scope and Purpose

We agree that Integrated Reporting responds to a demand from market participants for better information, in particular for a comprehensive but succinct, integrated report which includes the information that really matters and gives a broader picture that reflects the key value drivers of the organisation. This includes an understanding of the wider role that an organisation plays in society and provides a cohesive, not piecemeal, strategic picture of the organisation, which includes, in addition to its value creation story to date, its evaluation of its future prospects. While this is clear from the Consultation Draft, it is not clear what role an integrated report plays in relation to existing financial, sustainability, and corporate governance reports, and that it would not replace these reports. So there is still uncertainty amongst some constituents who are concerned that an integrated report would be a comprehensive report to replace the annual report containing financial statements.

We observe that the role of existing corporate reports as a communication tool has been hampered over time with an ever-increasing focus on compliance and, therefore, we agree that an integrated report should aim to become a primary communication document, telling the value creation story, rather than be compliance-focused. However, we believe the positioning and concise nature of an integrated report could be further articulated in the draft Framework.

We agree, therefore, that the purpose of Integrated Reporting and of an integrated report should be to provide a point of access for information on all significant matters that may affect the future performance of an organisation, linking as appropriate to more detailed information available elsewhere. Integrated

Reporting should aim to be an entity's primary means of regular, timely and dynamic dialogue with providers of financial capital and other stakeholders. It should not be limited to a point-in-time or standalone document, although we acknowledge that this may be the starting point for Integrated Reporting initially, as organisations consider and work towards what an integrated report, one of the outputs of such reporting should look like. At this stage, we think that flexibility in Integrated Reporting is critical to foster innovation. Many communications between a reporting entity and its investors are subject to regulation; hence, companies will need to consider the interplay between these compliance requirements and evolution to an integrated report.

We agree that an organisation's health and ability to create short, medium and long-term value relies on all manner of resources, some of which are captured by accounting and other data conventions, and others which are not necessarily quantifiable. We agree that Integrated Reporting should provide a clear picture of how value is created through the interaction and blending of the organisation's strategy, business model, governance, and the capitals (resources and relationships) it uses and affects.

## **Primary user group**

We agree that the primary audience for integrated reports should be providers of financial capital in order to support their financial capital allocation assessments. It is important to identify a primary user to serve as a lens through which those matters critical to an understanding of the organisation are identified and assessed. We note that the IASB's *Conceptual Framework for Financial Reporting* also supports the need for a primary user group for IFRS financial statements for the same reasons. With multiple user groups, it would be necessary to have multiple thresholds, which would make it challenging to keep the integrated report concise because different user groups require different information sets. Without a clear user group to determine what to include, there is a risk that an integrated report reverts to becoming compliance-based. It would be useful for the Framework to acknowledge explicitly that providers of financial capital are rarely a homogenous group, allowing companies flexibility to meet the information needs of various types of providers of financial capital.

## **Materiality**

Preparing an integrated report will involve determining what information is important or relevant to providers of financial capital, as the primary user group, with respect to an organisation's ability to create value over time. 'Materiality' is the determining factor proposed by the draft Framework. It is not clear how materiality for an integrated report relates to materiality as defined in existing reporting frameworks. We are concerned, therefore, that the use of the term "materiality" in the draft Framework has the potential to create confusion for users, as well as for preparers and auditors. It may be difficult to achieve the objective of an integrated report as a concise communication if existing definitions of materiality as applied to financial or sustainability reports are applied to an integrated report. As such, understanding how materiality is different for an integrated report becomes critical. Accordingly, we believe a better and clearer articulation is required in the Framework on how materiality for an integrated report is distinct from materiality for other reports such as financial reports and how to handle the tension between application of materiality and achieving conciseness.

## **Evolution**

As noted by the IIRC in its Consultation Draft, real Integrated Reporting will come through integrated behaviours, and together with an integrated strategy and business model. Integrated Reporting will be an evolutionary process; accordingly, we are of the view that the Framework should contain only the objectives, concepts and principles and minimum content elements for an integrated report in order to

allow for experimentation. We agree, therefore, with the Council's positioning of the document as a Framework document. It would be premature to portray it as a reporting standard at this stage.

The Framework should permit a dialogue and context for organisations to consider how to evaluate and discuss all aspects of their value creation story and prospects, with a view to working towards the output of an integrated report, based on the evolution in thinking which will occur as organisations consider what this should look like. It would be useful, therefore, for the background to the Framework to explain that it is a response to a market-led demand for information that moves beyond the historical financial information to give a full and strategic picture of the organisation, which requires an assessment of its future prospects. This demand adds weight and credibility to the Integrated Reporting proposition. Companies should be encouraged to view Integrated Reporting not as a further reporting burden but as a way of attracting long term investment.

## Assurance

We agree that the ability to obtain independent third party assurance on the information presented will be of utmost importance to the integrity and credibility of an integrated report. For an integrated report to become an organisation's primary reporting vehicle, its information set will need to be credible and capable of assurance as the integrated report information set will be driven by management's view of the business and will include judgements in respect of future-oriented information in addition to statements containing historical information. Given the nature of some of the information expected to be included in an integrated report, the ability to provide assurance and the type and level of assurance possible requires investigation and research. Accordingly, we believe that an international standard or applicable assurance guidance specific to Integrated Reporting will be required.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact David Pearson in Stamford, CT, United States at +1 (203) 708 4799 or Veronica Poole in London, United Kingdom at +44 (0) 20 7007 0884.

Yours sincerely



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## Appendix

### Question 1

#### 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.*

As noted by the IIRC in its Consultation Draft, real Integrated Reporting will come through integrated behaviours, and together with an integrated strategy and business model. Integrated Reporting will be an evolutionary process; accordingly, we are of the view that the Framework should contain only the objectives, concepts and principles and minimum content elements for an integrated report in order to allow for experimentation. We agree, therefore, with the Council's positioning of the document as a Framework document. It would be premature to portray it as a reporting standard at this stage.

We find the principles identified in the Framework to be comprehensive and do not think any should be eliminated. We agree with the Framework's principles-based approach as this permits flexibility and enables management to exercise judgement on how best to meet the requirements and to explain the organisation's value proposition in the short, medium and long-term in their own words. Flexibility is also necessary for the Framework to be globally acceptable as it allows for the accommodation of jurisdictional and cultural diversities.

We agree that the primary audience for an integrated report (paragraph 1.6) should be providers of financial capital in order to support their financial capital allocation assessments. It is important that it is clear to whom the organisation is reporting and that a primary user group is identified to serve as a lens through which those matters critical to an understanding of the organisation are identified. It would be useful for the Framework to acknowledge that, in this way, the providers of financial capital act as a surrogate user group for all non-insiders (i.e., for all stakeholders who cannot require reporting entities to provide information directly to them and must rely on the entity's external reports for much of the information they need).

We are concerned with "competitive harm" as a possible reason for non-disclosure of information (paragraph 1.11) on the basis that it could provide a means for noncompliance, as companies may invoke this exemption to avoid making disclosures and only provide boiler plate disclosure under paragraph 1.12 as to why information has been excluded. For example, IFRS had a competitive harm disclosure exception for segment information until 1997 when it was removed for this reason. Similarly, the current segment reporting standard IFRS 8, *Operating Segments* which replaced the 1997 Standard states that "a competitive-harm exemption was [deemed] inappropriate because it would provide a means for broad noncompliance with this Statement" (IFRS 8.BC111). We, therefore, recommend that the Framework exclude "competitive harm" as a reason for omitting information.

If the 'competitive harm' information exception in paragraph 1.12 is retained in the Framework, guidance on or examples of when this might apply and the level of disclosure required would be useful.

With respect to paragraph 1.11's other disclosure exceptions; we think that "specific legal prohibitions" should be revised to be "specific statutory or regulatory prohibitions" to avoid the introduction of non-disclosure clauses into contracts with a view to omitting material information.

Overall, we believe that the 'comply or explain' principle embedded in paragraphs 1.11 and 1.12 is the right and effective principle to apply. We agree that an integrated report should disclose (and the Framework should require disclosure of) significant events even if the impact on the capitals is not yet known.

## Questions 2 and 3

### Interaction with other reports and communications

*The Integrated Reporting process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraph 1.18-1.20).*

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

We agree that an integrated report should not duplicate content, should not be a compliance-focused report, and should aim to be an entity's primary means of communication of its value creation model and future prospects in light of its use of and effect on the capitals. It should also be used for updating as necessary its description of its business model and "significant" shifts in risks and opportunities. It should support a regular, timely and dynamic dialogue with the primary user group. It should not be limited to a point-in-time or standalone documents, although we acknowledge that this may be the starting point for initial Integrated Reporting. The purpose of Integrated Reporting and of an integrated report should be to provide a point of access for information on all significant matters that may affect the performance of an organisation. Users interested in specific information sets should be cross-referred to additional reports providing more detail, as necessary.

We would also note that, at this stage, Integrated Reporting constitutes a new process and new form of corporate reporting; hence, integrated reports may require reporting content not previously reported or identified.

Furthermore, at this stage, we think that flexibility in Integrated Reporting is critical to foster innovation. Many communications between a reporting entity and its providers of financial capital are subject to regulation; hence companies will need to consider the interplay between these compliance requirements and how to develop an integrated report.

We agree that Integrated Reporting responds to a demand from market participants for better information, in particular for a comprehensive but succinct, integrated report which includes the information that really matters and gives a broader picture that reflects the key value drivers of the organisation. This includes an understanding of the wider role that an organisation plays in society and provides a cohesive, not piecemeal, strategic picture of the organisation, which includes, in addition to its value creation story to date, its evaluation of its future prospects. While this is clear from the Consultation Draft, it is not clear what role an integrated report plays in relation to existing financial, sustainability, and corporate governance reports, and that it would not replace these reports. So there is still uncertainty amongst

some constituents who are concerned that an integrated report would be a comprehensive report to replace the annual report containing financial statements.

We observe that the role of existing corporate reports as a communication tool has been hampered over time with an ever-increasing focus on compliance and, therefore, we agree that an integrated report should aim to become a primary communication document, telling the value creation story, rather than be compliance-focused.

We believe the positioning and concise nature of an integrated report could be further articulated in the draft Framework.

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?*

We recommend that the Framework state that, in preparing an integrated report, companies may rely on accepted national, regional or international frameworks and should disclose the frameworks used.

What could be very useful at this stage is a mechanism for, or examples of, integrating some typical components from these Frameworks into an integrated report. For example, should condensed or summary financial statements be included in an integrated report? How should measurements under such other frameworks be identified in an integrated report?

Some of the standards and bodies we would expect organisations to look to for guidance include, amongst others: International Financial Reporting Standards (or IFRSs) and the Management Commentary Practice Statement issued by the International Accounting Standards Board (IASB), International Standards on Assurance Engagements (ISAEs), the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, AA1000AccountAbility Principles Standard and the recommendations of the International Corporate Governance Network (ICGN).

We also note that national and regional standard-setters and their related standards may have relevant guidance.

Furthermore, for heavily-regulated industries, such as the financial services sector, regulatory frameworks (for example capital adequacy ratios) could also be critical sources of indicators or measurement methods.

#### **Question 4 - Other**

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

We note that there is some overlap between the requirements which might be simplified or streamlined – for example, between section 3.2 (the Guiding Principle of Strategic focus and future orientation) and section 4.18 (requirement for Content Element on Strategy and resource allocation).

Paragraph 1.5 states that Integrated Reporting aims to “enhance accountability and stewardship with respect to the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural)”. We commend the Council for including the stewardship concept as an objective of Integrated Reporting. We believe that stewardship is a fundamental principle of mainstream corporate reporting. The stewardship concept highlights the fact that management, in addition to having the

responsibility for allocation of the resources entrusted to it for the benefit of shareholders, also has an obligation to provide its shareholders with an account of what it has done and will do with those resources. A stewardship objective emphasises the role of Integrated Reporting as a dialogue between management and the providers of financial capital. To satisfy the stewardship objective of corporate reporting, senior management, as preparers of the integrated report, must provide a comprehensive and concise picture of the organisation's value creation story, not only as overseers of the organisation but also as the communicators of the entity's performance to its stakeholders. As such, stewardship aligns management's behaviour with many objectives of the entity's stakeholders. We recommend that the IIRC evaluate the value of adding stewardship as a Guiding Principle.

## Questions 5 and 6

### Chapter 2: Fundamental concepts

*The Framework describes six categories of capital (paragraph 2.17). An organisation 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?

We find the concept of the capitals easy to understand and apply, particularly when explained as "resources and relationships" (footnote one on page 11 of the Consultation Draft). The capitals provide a useful frame of reference for considering the factors on which an organisation's performance and position in the short, medium and long term depends. We suggest that the description of the capitals as "resources and relationships" should be included in the main body of the Framework and be further articulated, rather than included as a footnote. Further explanation on how an organisation's assessment of the capitals (i.e. its "resources" and "relationships") in the context of determining its boundary for reporting the capitals and outcomes (i.e., reporting boundary) would be helpful, particularly as the Framework emphasises that the organisation's effects on the capitals extend beyond the organisation. As such, the significance of the six capitals for an organisation and its reporting boundary for Integrated Reporting purposes would appear to be interdependent. In addition, we note that the Glossary and paragraph 2.13 define the concept of capitals as stores of value without referencing "resources" and "relationships". The definition of the capitals in the Glossary should integrate both aspects in a single concept that is clearly understandable to constituents.

We agree with the draft Framework that organisations should formulate their own policies for capital categorisation (paragraph 2.12). This permits senior management and those charged with corporate governance to communicate the organisation's value creation process using the terminology used internally therefore providing insight to the language, vision and strategy of the organisation.

We agree that "it would not be practical to expect organisations to attempt to quantify all uses of and effects on the capitals" (paragraph 2.24). However the capitals are described as "stores of value" that are increased, decreased or transformed through the activities and outputs of the organisation (paragraph 2.13). From the perspective of consistency and practical guidance for organisations, an indication as to whether and to what extent companies should attempt to quantify uses of and effects on the capitals would be helpful. For example, the Framework could include a clear guiding principle at this stage that organisations should attempt quantification to the extent already performed under existing reporting frameworks.

## 6. Please provide any other comments you have about Section 2B The Capitals

Paragraph 2.25 of the draft Framework observes that: “It is important, however, that an integrated report disclose (as required by paragraph 4.5) the interdependencies that are considered in determining its reporting boundary and the material trade-offs that influence value creation over time, including trade-offs:

- Between capitals or between components of a capital (e.g., creating employment through an activity that negatively affects the environment)
- Over time (e.g., choosing one course of action when another course of action would result in superior capital increment but not until a later period)
- Between capitals owned by the organisation and those owned by others or not at all.”

We believe that disclosure of material trade-offs between the capitals is a different topic from that of the reporting boundary and accordingly, that it would be helpful if trade-offs were discussed separately from interdependencies with respect to determining the reporting boundary. It is also not clear what the Framework means here: is it requesting that an organisation explains (i) how it chose its reporting boundary for the purposes of its integrated report or (ii) its sphere of influence and how the organisation structures itself operationally, for example through strategic relationships with its supply chain?

## Questions 7, 8 and 9

### **Business model (Section 2C)**

*A business model is defined as an organisation’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?

We agree with the business model definition. We agree that an integrated report should demonstrate how all aspects of an entity’s business model interact to create value over not only the short, but medium and long term. We note that the definition is, in large part, similar to existing definitions except for the inclusion of “outcomes” for the six capitals of an organisation’s activities. We therefore note that embedded in this definition there is a need to change business behaviour to focus on an assessment of the outcomes of a business’s activities for the capitals. We would note that narrative and other disclosures, including policies and key performance indicators, relating to environmental, social and employee matters are required today for many companies around the world (in particular, listed companies). However, as these disclosures are not necessarily provided in the context of value creation, we agree that evolution and experimentation in how they are provided may be necessary as per the draft Framework.

The Framework should acknowledge that there will be some outcomes that will be unknown at a point in time and may become known through additional knowledge, experience or scientific discovery (for example, matters such as asbestosis and ground water pollution through industrial or human activity were unknown outcomes of some business activities until many years later).

We encourage the Council to explore further whether the proposed business model definition works without adjustment for not-for-profit or public benefit/sector organisations. We think that many not-for-profit organisations might benefit from an Integrated Reporting approach and encourage the Council to consider this as soon as practicable.



*Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organisation's business activities and outputs (paragraphs 2.35-2.36).*

8. *Do you agree with this definition? Why/why not?*

We agree that outcomes can be both positive and negative and note that existing corporate and social responsibility, sustainability, and corporate governance reports are designed to communicate outcomes in a balanced and transparent way.

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 (Section 4E).*

Consideration could be given to providing more guidance on the elements to be included in the "business activities" component of the business model. For example, the proposed business model definition does not explicitly address the internal competencies that underlie an entity's competitive advantage, which are also essential to value creation, other than requiring discussion on how resilient the business model is in Section 4E. We believe that an integrated disclosure of management's view both on the synergy between the elements of the company's business model and how the business creates and preserves value in the short, medium and long term would be insightful.

#### **Question 10 – Other**

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

Section 2D refers to "value drivers" (paragraph 2.45) but this concept is not shown in Figure 3 (the complete picture of an organisation's value creation process). Knowledge of the key value drivers of an organisation is very useful in understanding a company's value creation process. Accordingly, we recommend that the concept of value drivers be articulated and captured in Figure 3, noting that the value creation process diagram in the Consultation Draft (Figure 3) is an excellent tool for an organisation seeking to ensure that it covers all aspects of its value creation proposition in its integrated report.

#### **Questions 11 and 12**

### **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?*

As noted above, we agree that the primary audience for Integrated Reporting should be providers of financial capital in order to support their financial capital allocation assessments. It is important to identify a primary user to serve as a lens through which those matters critical to an understanding of the organisation are identified and assessed. Whether an organisation creates or maximises value over time will be a qualitative assessment by the reader of the integrated report. It is critical, therefore, that (i)

integrated reports be prepared through the eyes of management reflecting management's view of how the organisation has created, and is expected to create, value over time (and enhanced accountability and demonstration of stewardship with respect to capitals) and that (ii) there be a primary user group for integrated reports to serve as a guide for management to determine what is most important to the primary user group in making their financial allocation assessments.

Preparing an integrated report will involve determining what information is important or relevant to providers of financial capital, as the primary user group, with respect to an organisation's ability to create value over time. 'Materiality' is the determining factor proposed by the draft Framework. It is not clear how materiality for an integrated report relates to materiality as defined in existing reporting frameworks. We are concerned, therefore, that its use in the draft Framework has the potential to create confusion for users, as well as for preparers and auditors. In addition, it will not be possible to achieve the objective of an integrated report as a concise communication if existing definitions of materiality as applied to financial or sustainability reports are applied to an integrated report. As such, how materiality is different for an integrated report becomes critical. Accordingly, we believe further articulation and clarity is required in the Framework on how materiality for an integrated report is distinct from materiality for other reports and how to handle the tension between application of materiality and achieving conciseness.

We also believe companies will need more guidance and experience in this area to ensure consistency for determining those matters relevant for the integrated report.

Additionally, it is not clear whether the materiality threshold for an integrated report is a single threshold or whether a different threshold should be determined for each capital.

To illustrate further the challenge with the use of 'materiality' as the threshold, organisations will continue to publish a separate set of financial statements. As such, it must be clear that the threshold for an integrated report is different from materiality for the purposes of financial reporting or this will be confusing for readers and, in particular, for the primary user group which is the same for both forms of reports (described as the providers of financial capital under the draft Framework and as existing and potential investors, lenders and other creditors in the IFRS Conceptual Framework for Financial Reporting).

We agree that it is appropriate to link the threshold to determine what is important for inclusion in an integrated report with the concept of conciseness of an integrated report in a single guiding principle. Inherently, the threshold here must be affected by a principle of conciseness so that an integrated report only communicates what really matters to the organisation's value creation story in a succinct manner without burying the reader in detail. Without the inherent conciseness principle within the threshold, an integrated report will simply provide more information rather than be succinct and communication-focused.

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

We support the Framework's reference to the role that senior management and those charged with governance play in the determination and application of the filter to be used to determine the information for inclusion in an integrated report. We agree that senior management and those charged with governance should be involved in setting and applying the threshold for inclusion of information in an integrated report. This is necessary for the credibility of the report.

The threshold for inclusion of information in an integrated report should be determined by reference to the potential effect on strategy, the business model, performance and the capitals. We note, therefore, that

the threshold for inclusion in an integrated report will probably not be the same as that determined for financial or non-financial reporting; accordingly, it would be helpful for the Framework to acknowledge this explicitly. We believe that the Framework should require that changes in the assessment of the threshold or the policy for its determination should be explained.

## Questions 13 and 14

### 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?*

Reliability was a qualitative characteristic of useful financial information in the pre-2010 version of the IASB's conceptual framework for financial reporting. That characteristic was changed to "faithful representation" from September 2010. "To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error." [IASB Conceptual Framework for Reporting.QC12]

The features of 'completeness', 'freedom from error' and 'neutrality' are all covered in Section 3E of the draft Framework. We, therefore, recommend that the IIRC consider using the IASB's notion of faithful representation and the relevant paragraphs explaining that notion (QC13-16). Some of the terms and sentences used by the IIRC are very similar to the IASB's concepts. This raises a question of whether reliability for Integrated Reporting purposes is the same as faithful representation for financial reporting purposes under IFRSs.

In respect of the specific question on how the reliability of an integrated report be demonstrated, we think that the use of existing internationally and nationally accepted frameworks (e.g., IFRSs, GRI G4 Guidelines) would further enhance the reliability of the information presented. We think reliability of information could be enhanced by disclosure of key assumptions applied and disclosure of how the information could change if the assumptions do not occur as described. For example, such disclosures apply to some financial information sets today (measurement of fair value in the absence of observable market prices). Similar disclosure may be appropriate for non-financial data and could enhance transparency and facilitate performance evaluation.

As a last point, we do not think that combining reliability and completeness in one Guiding Principle is appropriate. It implies that, if information is not complete, it would not be reliable and hence not decision-useful. This is not always true. For example, after an industrial accident, a reporting entity may have incomplete information on the impact of the accident but it is critical that what reliable information there is should be provided to the primary user group. We note that the IASB has determined that completeness and reliability are distinct attributes in the context of financial reporting (Conceptual Framework: QC12-16) and both feed into the overarching notion of a 'faithful representation'.

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

None.

## Question 15 - Other

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

Paragraph 3.20 refers to the stewardship responsibility of management and those charged with governance “via their legal responsibilities to the organisation”. We commend the IIRC for introducing the concept of stewardship (see our comments above).

Additionally, we recommend the IIRC develops explanatory material on the nature and extent of disclosures required about stakeholder relationships (paragraph 3.13).

## Question 16

### 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).*

We support the proposed Content Elements and find the question format to the Content Elements to be very useful from a practical perspective. We note that they are in large part similar to the disclosure requirements for management’s commentary or discussion and analysis for many listed companies around the world. Where new content may be required in an integrated report is around the outcomes for the six capitals of the organisation’s performance and a greater degree of information on the future outlook for the organisation. Regarding future outlook, it would be useful for the Framework to explicitly state that the requirement here is not for the provision of financial budgets or cash flow forecasts but rather future-orientated information about its ability to create value in the short, medium and long term.

Although the draft Framework’s Content Elements are at a very high level, we anticipate that companies might seek additional guidance on how to meet the Content Element requirements (we recognise that there is already a background paper on business model to assist with that particular Content Element).

We also note that the extent of the disclosures to be provided under the requirements in paragraph 4.5 (the materiality determination process, the Integrated Reporting boundary and how it has been determined, the nature and magnitude of the material trade-offs that influence value creation over time) should be open to experimentation at this stage, as largely these will be new for many organisations.

## Questions 17 and 18

### 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 organisations to disclose the governance body with oversight responsibility for Integrated Reporting.*

*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?*

We agree that those charged with corporate governance should acknowledge responsibility for the preparation and content of the integrated report. We believe that senior management should also make this acknowledgement. For an integrated report to have credibility, and to become the primary report, it is critical that senior management and those charged with governance acknowledge their responsibility for it as for the financial statements, directors' reports and other management commentary today.

The proposed requirement for senior management and those charged with governance to include a statement acknowledging their responsibility for the integrated report may require a change in local jurisdictional regulation; accordingly, the Framework should acknowledge that the actions and decisions of senior management and those charged with governance may be constrained or dictated by governance provisions in national law or regulations.

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

The Framework should encourage senior management and those charged with governance to embed Integrated Reporting in their corporate reporting culture and operations. This would encourage the integration of corporate behaviours and corporate reporting. To this aim, a management statement on its Integrated Reporting as a process (as opposed to acknowledgement of responsibility for the integrated report as an outcome of Integrated Reporting) could be considered.

## **Questions 19 and 20**

### **Credibility (Section 5E)**

*The Framework provides reporting criteria against which organisations 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?*

We agree that the ability to obtain independent third party assurance on the information presented will be important to the integrity and credibility of an integrated report. For an integrated report to become an organisation's primary reporting vehicle, its information set will need to be credible and capable of assurance.

We have noted elsewhere that an evolutionary approach to Integrated Reporting is necessary and that existing frameworks be used to the utmost; the same is true of existing assurance protocols. Certain information included in an integrated report will already be subject to a certain level of third party assurance or verification. However, as noted elsewhere, the Integrated Reporting information set will be driven by management's view of the business and will include judgements in respect of future-oriented information in addition to historical information. As such, the ability to provide assurance on the wider information set required by Integrated Reporting and the type and level of assurance possible requires investigation and research by the relevant global bodies.

It is not possible to answer the question of whether assurance should be obtained over the integrated report as a whole or on certain data only without considering many factors. Factors to consider include (this is not an exhaustive list):

- The intended integrated report users and their assurance needs, i.e. the demand from users for assurance and whether they desire it on the integrated report as a whole or only on specific aspects.
- The type and level of assurance possible.
- The cost of an assurance engagement versus the benefits; for example, the costs associated with assuring an integrated report as a whole might outweigh the benefits.
- The nature of the entity and the level of public interest in the entity may also have a part to play in the quantum of assurance necessary.
- The maturity of a company's Integrated Reporting systems and processes may also affect the ability to obtain assurance - immature Integrated Reporting systems and processes may not withstand the scrutiny of independent assurance.
- Whether there are relevant international assurance standards for assurance of integrated reports.

Ultimately, a period of experimentation, and indeed experience, in using the Framework to prepare integrated reports is needed to establish whether or how assurance on an integrated report can really be achieved and to identify any inherent limitations in assurance provision. In developing an assurance model it may be necessary to target first those elements that can reasonably be assured and for which there is an assurance demand.

To the extent that regulators seek assurance on integrated reports, coordination across jurisdictions by regulators would be beneficial.

*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.*

While the value of an integrated report may be affected by the ability to obtain assurance over it and the type or level of assurance obtained, there are two present limitations to assurance which should be acknowledged by the Framework:

- An assurance provider cannot draw an assurance conclusion under any current assurance model as to whether an organisation's strategy or business model ultimately creates value or not; this assessment will be performed by users based on the information set provided in the integrated report.
- The assurance model will need to deal with the fact that across different capitals the characteristics of reported information will demonstrate different levels of relevance, completeness, reliability, neutrality, and level of understanding. Accordingly, some aspects of an integrated report will be inherently easier to assure than others; it will be important for any assurance standard linked to the Framework to consider the cost / benefit of assurance on each aspect of the integrated report.

## Question 21 - 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).

We believe that an organisation should be required to provide a statement of the policies that underlie the preparation of its integrated report (e.g., how it categorises the capitals and why).

## Question 22 - Overall view

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

We support a principles-based approach as this provides flexibility to the reporting organisation and enables it to set its Integrated Reporting strategy and measures in accordance with its individual business model. However, the Framework will need to be supplemented by guidance on how to facilitate Integrated Reporting in an organisation on a practical or operational level.

## Question 23 - Development of Integrated Reporting

23. If the IIRC were to develop explanatory material on Integrated Reporting in addition to the Framework, which three topics would you recommend be given priority? Why?

- (1) Consistency and mapping of Integrated Reporting definitions with other frameworks and especially financial reporting frameworks. For example, some of the Content Elements appear to be the same as, or similar to, those required in management commentary/MD&A. As highlighted elsewhere in our response, how materiality for an integrated report is distinct from its definition in other frameworks needs attention.
- (2) Boundary setting, that is, providing clarity on how the organisation determines the reporting boundary for Integrated Reporting. Figure 7 is vague; we assume from the diagram that the Integrated Reporting boundary is a consolidated or group boundary but this is implied rather than stated in the draft Framework.
- (3) Outcomes, that is, how to achieve a balance in internal vs. external outcomes and how the selection of the outcomes for the inclusion in an integrated report connects with the capitals and reporting boundary of an organisation.

## Question 24 – Other

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

## Ethics

The ability of a company to sustain value over the long term is predicated on its ability to maintain core values and ethics. The Framework does not address this. An organisation's business model is typically underpinned by ethics and values (or can be destroyed by the lack thereof); accordingly, appropriate coverage of these concepts should be provided in the Framework. Specifically an integrated report

should address how those charged with governance provide leadership based on ethical foundation and how ethics are managed.

## **Glossary**

Seventeen terms are defined in the Glossary. We encourage the IIRC to expand this list to include more terms that are central to Integrated Reporting in order to promote consistency of word usage and to provide a comprehensive list easily accessible by constituents. For example, value is a central concept to Integrated Reporting but is not included here. In addition, definitions of certain terms may warrant additional explanation, for example, the definition of “materiality”.