

IFRS in Focus

IIRC consults on its International Integrated Reporting Framework

Contents

Introduction and objective of Integrated Reporting <IR>

The draft Framework

The building blocks: Guiding Principles and Content Elements

Preparation and presentation

Comment period and next steps

The Bottom Line

- The Consultation Draft of the International Integrated Reporting (<IR>) Framework ('the draft Framework') was published by the International Integrated Reporting Council ('the IIRC') on 16 April 2013. It considers comments received on the IIRC's September 2011 Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century ('the Discussion Paper')* and input from its Pilot Programmes for businesses and investors.
- The draft Framework sets out the objectives, fundamental concepts and Guiding Principles of <IR>, as well as the Content Elements of an integrated report and guidance on its preparation and presentation.
- The draft Framework defines an integrated report as "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term".
- An integrated report is prepared "primarily for providers of financial capital in order to support their financial capital allocation assessments" and should be prepared in accordance with the bold, italic paragraphs of the Framework.
- Comments on the draft Framework are due by 15 July 2013.

Introduction and objective of Integrated Reporting <IR>

On 16 April 2013, the International Integrated Reporting Council ('the IIRC') published its *Consultation Draft of the International <IR> Framework* ('the draft Framework' or 'Consultation Draft'). The IIRC, a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs, is developing the International <IR> Framework in response to its view that corporate reporting must evolve to communicate the full range of factors that affect an organisation's ability to create value over the short, medium and long term. How an organisation makes money in today's world is not just about financial and manufactured capital; its profitability and continued existence relies on a far broader set of resources and relationships (e.g., intellectual, human, social and natural capitals) and its ability to adapt to changing conditions, and respond to issues that are crucial to its sustained economic wellbeing. Integrating Reporting <IR> is necessary to properly inform the investor community and for efficient for financial capital allocation.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

The draft Framework

The Consultation Draft proposes a principle-based Framework organised into five chapters: (i) an overview, including a definition and objectives of <IR>, (ii) the fundamental concepts of <IR>, (iii) Guiding Principles to inform content and presentation, (iv) Content Elements, including specific disclosure requirements, and (v) specific guidance on preparation and presentation of an integrated report.

The draft Framework proposes three fundamental concepts underpinning <IR>:

- **The Capitals** or resources (financial, manufactured, intellectual, human, social and relationship, and natural) that an organisation uses and affects. It notes that some of the capitals belong to the organisation while others belong to stakeholders or society more broadly and that the categories are a benchmark to ensure an organisation does not overlook a capital it uses or affects. The draft Framework is explicit that it does not require organisations to attempt to quantify all uses of and effects on the capitals and that many are best (and in some cases only can be) reporting on in the form of narrative, i.e. in the form of a qualitative assessment.
- **The Business Model** of the organisation through which it creates value, being its chosen system of inputs (resources), business activities, outputs (products and services) and outcomes (internal and external consequences both positive and negative for the capitals) that aims to create value over the short, medium and long-term. The Element of 'Business Model' focuses on the resilience of the organisation's business model to changing circumstances.
- **Value creation.** Value is created for an organisation and its stakeholders as a result of the increase, decrease or transformation of the capitals caused by its activities and outputs. The purpose of an integrated report is not to measure all of the capitals an organisation affects or to value an organisation as evidenced by the change in its capital usage, but to provide information that enables report users to assess the ability of the organisation to create value over time and, in particular, in the long term. Specifically, the draft Framework requires the nature and magnitude of material trade-offs between the capitals influencing value creation over time to be disclosed.

The building blocks: Guiding Principles and Content Elements

Ultimately the content of an integrated report will depend on the individual circumstances of the organisation and the exercise of judgment by senior management and those charged with governance applying the Framework's Guiding Principles and Content Elements to determine what is reported. An organisation is not required to structure its report using the order of the elements in the Framework but is required to present the content in a way that makes clear the interconnections between them.

Guiding principles	Content elements
Six guiding principles underpin the preparation of an integrated report:	The six guiding principles should be applied in preparing an integrated report, which is to include seven key elements:
A Strategic focus and future orientation	A Organisational overview and external environment
B Connectivity of information	B Governance
C Stakeholder responsiveness	C Opportunities and risks
D Materiality and conciseness	D Strategy and resource allocation
E Reliability and completeness	E Business model
F Consistency and comparability	F Performance
	G Future outlook

The draft Framework does not allow for a trade-off between the two principles of 'materiality and conciseness' and 'reliability and completeness' in terms of what is included in an integrated report. Where reliable data to disclose material information is unavailable, or legal prohibitions or competitive harm result in an inability to disclose material information, an integrated report is required to indicate the omitted information, the reasons why and the steps being taken and timeframe to obtain the data. In addition, Chapter 4 of the draft Framework on Content Elements requires disclosure of how an organisation determines materiality.

Observation

In February 2013 European Securities and Markets Authority ('ESMA') issued a Feedback Statement on its November 2011 consultation paper on 'Considerations of materiality in financial reporting' noting that while the concept of materiality was "generally well understood," there was "diversity in application." This diversity was attributed to "the exercise of management judgement, the various perspectives of different stakeholder groups as well as challenges to the proper application of the concept of materiality." The application of the concept of materiality to the wider non-financial information set anticipated by <IR> with clear guidance on its application in the preparation of an integrated report is critical to the success of <IR>.

Preparation and presentation

The draft Framework anticipates that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle and that organisations may provide additional reports and communications (e.g. financial statements and sustainability reports) for compliance purposes or to satisfy the particular information needs of a range of stakeholders.

Observation

Ideally an integrated report would be integrated into the statutory reporting cycle. For example, it could become an organisation's primary reporting vehicle for investors. To this aim, therefore, and to avoid duplication of reporting effort, how a local country or regulator would interpret or regulate the Content Elements of the Framework, given that it is high-level, could be critical to an organisation's decision to transition to an integrated report.

Comment period and next steps

The IIRC invites comments on its proposed Framework by 15 July 2013.

Observation

The Consultation Draft does not include a background or basis for conclusions section to provide insights into areas of significant discussion during the development of the draft Framework. However, separate background papers on 'Capitals', 'Business model' and 'Materiality', prepared by Technical Collaboration Groups formed by the IIRC, have been published in the run up to its release. Background papers on 'Value' and 'Connectivity' are planned for release prior to the end of the consultation period. Such papers are available at www.iirc.org

Key contacts

IFRS global office

Global IFRS Leader – Clients and Markets

Joel Osness

ifrglobalofficeuk@deloitte.co.uk

Global IFRS Leader – Technical

Veronica Poole

ifrglobalofficeuk@deloitte.co.uk

Global IFRS Communications Co-Directors

Mario Abela and Neil Laverty

ifrglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas

Canada

Karen Higgins

iasplus@deloitte.ca

LATCO

Fermin del Valle

iasplus-LATCO@deloitte.com

United States

Robert Uhl

iasplusamericas@deloitte.com

Asia-Pacific

Australia

Anna Crawford

iasplus@deloitte.com.au

China

Stephen Taylor

iasplus@deloitte.com.hk

Japan

Shinya Iwasaki

iasplus-tokyo@tohmatu.co.jp

Singapore

Shariq Barmaky

iasplus-sg@deloitte.com

Europe-Africa

Belgium

Thomas Carlier

BEIFRSBelgium@deloitte.com

Denmark

Jan Peter Larsen

dk_iasplus@deloitte.dk

France

Laurence Rivat

iasplus@deloitte.fr

Germany

Andreas Barckow

iasplus@deloitte.de

Italy

Franco Riccomagno

fricomagno@deloitte.it

Luxembourg

Eddy Termaten

luiasplus@deloitte.lu

Netherlands

Ralph ter Hoeven

iasplus@deloitte.nl

Russia

Michael Raikhman

iasplus@deloitte.ru

South Africa

Graeme Berry

iasplus@deloitte.co.za

Spain

Cleber Custodio

iasplus@deloitte.es

United Kingdom

Elizabeth Chrispin

iasplus@deloitte.co.uk

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2013. For information, contact Deloitte Touche Tohmatsu Limited.

Designed and produced by The Creative Studio at Deloitte, London. 26185A