

18 August 2020

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## By email

Dear Colleagues

### Integrated Reporting Framework Revision 2020

Deloitte Touche Tohmatsu Limited (DTTL) is pleased to respond to the IIRC's consultation on proposed revisions to the International <IR> Framework ('the <IR> Framework'). Our detailed responses to the consultation questions are set out in the Appendix to this letter.

We emphasise some points covered by the consultation. Firstly, in relation to 'Testing <IR> Framework revisions', we make two overall points.

- While we broadly agree with the proposed revisions in relation to those charged with governance and a statement of responsibility for an integrated report, we think that oversight by the highest governance body in the organisation, whichever that is, should be the main focus in the <IR> Framework.
- In our view, companies increasingly wish to enhance positive impacts and measure their impact more thoroughly. The IIRC recognises this and is seeking to incorporate impacts more fully under its coverage of outcomes. However, we do not believe that considerations of broader impacts are sufficiently captured in the proposed amendments. We therefore recommend that the <IR> Framework includes a better explanation of:
  - the connection between purpose and a desired impact/outcome (i.e. a company's desired positive impact on people, the economy and the planet);
  - a company's potential negative impacts and how they may affect the company's ability to create and sustain value (including within the supply/value chain);
  - trade-offs that are addressed through governance and strategic decisions; and
  - how capitals and resources are employed in pursuit of the purpose and how these are, in turn, impacted by the company's operations.

These considerations should be aligned to the outcomes of the value creation process and overseen by appropriate governance, controls and processes, including assurance. We also

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recommend that the wording should incorporate all elements of the triple bottom line concept – people, planet and profit (it currently only includes people).

Turning to ‘Charting a path forward’, we encourage the IIRC to prioritise two areas in particular.

We strongly welcome the communication from the Chair of the IIRC Board which sets out the priorities of the IIRC to:

- focus on ‘collaboration with framework and standard-setters to achieve a consolidated and comprehensive system of standards ... [and] to achieve connectivity between non-financial and financial reporting standards’; and
- support ‘deeper engagement between the IIRC and the Trustees of the IFRS Foundation to create a clearer path towards a single system with connected oversight of standards for all forms of corporate reporting ... while also advocating for a broadening of the Trustees’ remit.’

We believe that these should be pursued as the top priority by the IIRC. As we note in our comment on the discussion on the emphasis of paragraph 1.7 of the <IR> Framework, we need to move towards a system that supports connected corporate reporting to all stakeholders of an organisation. However, consistent with the vision set out in Accountancy Europe’s Cogito paper [‘Interconnected standards for corporate reporting’](#), directing capital to sustainable and resilient business remains a priority. We therefore continue to see that the establishment of a core set of standardised metrics, connected to financial reporting, using a value creation materiality lens, should be the urgent next step.

Secondly, we note that the subject of assurance has not been included in this consultation. As we said in our response to the Focused Engagement exercise, we believe the IIRC should play an important role in enhancing the ‘assurance readiness’ of the <IR> Framework, for example, to help ensure that appropriate criteria can be determined for the purposes of assurance. The role of assurance in corporate reporting is growing (for example, it is included in the European Commission’s Non-financial Reporting Directive (NFRD) consultation and is reflected in the IAASB’s project on extended external reporting). We therefore believe this is an important topic for the IIRC and we encourage the organisation to play its role in advancing the foundations for robust assurance in this area.

If you have any questions concerning our comments, please contact Veronica Poole on +44 (0)20 7007 0884 or Kristen Sullivan on +1 203.708.4593.

Yours sincerely



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## Appendix

### TESTING <IR> FRAMEWORK REVISIONS

1. Do the adjustments to paragraph 1.20 simplify the statement of responsibility in an effective way?  
Yes / No / Undecided

We support this proposal. In our response to the Focused Engagement exercise we noted: 'Disclosures from those charged with governance on the role they played in exercising governance and oversight over the preparation and presentation of the report that explains how integrated thinking has been applied by a company is most helpful for users, and can enhance transparency and accountability.' We also noted the value of process-related disclosures.

2. Does the framing of process disclosures meet the goals of promoting accountability and integrity while still providing flexibility?  
Yes / No / Undecided

We support this proposal. The framing in the proposal is consistent with the recommendation in our response to the Focused Engagement exercise.

3. Does the Consultation Draft strike an appropriate balance between maintaining a principles-based approach and usefully informing preparer considerations?  
Yes / No / Undecided

No additional comment.

4. Does the Glossary sufficiently clarify the potential inclusion of management personnel in the scope of those charged with governance?  
Yes / No / Undecided

We support the idea of including a definition such as the one included here. However, we recommend that the IIRC clarify that the ultimate oversight responsibility lies with the highest governing body in the organisation (see also Q5). We also suggest inclusion of the source reference.

5. Do paragraphs 1.21 and 1.22 sufficiently recognize variations in governance models?  
Yes / No / Undecided

While it is true that governance models vary around the world, we are concerned the proposal moves away from the intent of integrated reporting, which is oversight from the highest governing body in the organisation, especially those bodies that have non-executive members. By drawing attention to varying models, the proposal is detracting from this principle. We therefore recommend that only the first sentence of proposed paragraph 1.21 is retained and then merged with paragraph 1.22. We note that further guidance on varying models of governance could be provided outside the <IR> Framework, alongside other relevant guidance on considerations for management in preparing integrated reports that are in accordance with the <IR> Framework.

6. Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

Yes / No / Undecided

We think the proposal does not go far enough in defining outputs and outcomes – the definition should stand on its own without the need for an example, although an example can help to add further context. Furthermore, the current wording risks being over-simplistic, not recognising that:

- a) outputs and outcomes will vary according to an individual organisation's industry, strategy and business model;
- b) outputs and outcomes are inter-related across the capitals (for example, subject to considerations of trade-offs and impacts from one capital to another) and
- c) outcomes should be consistent with the organisation's purpose and strategy.

We recommend that wording is included to reflect these points.

The proposed example is helpful. However, we do not think the IIRC should rely on examples extensively in the <IR> Framework to explain key terms. Furthermore, there is a risk these can be seen as templates. In the example, we recommend the IIRC delete the word 'Unfortunately' – this can sound like carbon emissions are an unexpected side effect of the company's activities, when in fact they are outcomes of the strategy and business model that erode value for both the company (risk of reputation damage and carbon tax) and for others (society and the environment). 'However, on the negative side' or 'As a consequence' would be preferable.

We also recommend that the IIRC strengthens the number of examples of outputs and outcomes in the <IR> Examples Database.

7. Does Figure 2 effectively distinguish outputs from outcomes and link outcomes to value creation, preservation or erosion?

Yes / No / Undecided

We support the proposals. We think it is appropriate to retain outcomes within the parameter of the strategy and business model given that they should be connected. We also welcome the inclusion of a time horizon in connection with the outcomes, which we believe helps to distinguish them from outputs. However, we think more clarification could be given to time horizons in relation to outcomes in paragraph 2.25.

We note that you have now included the word 'purpose' in the diagram. This is not defined in the <IR> Framework and we recommend it is – in particular, its concept of defining the organisation's intent for creating value for its stakeholders and/or society and the environment, as connected to its core business model. The inclusion of purpose should be reflected in paragraph 4.5. Furthermore, we encourage you to reconsider inclusion of all three words (purpose, mission and vision). There is significant overlap between their meanings, and the word 'purpose' is an all-embracing term. You may wish to add an explanation that you consciously intend purpose to embrace the other two terms.

8. Does the final sentence in paragraph 4.19 sufficiently encourage evidence-based reporting of outcomes?

Yes / No / **Undecided**

The proposed wording is helpful in clarifying the need for qualitative and quantitative reporting of outcomes. However, we think it would be helpful to point to the need for rigour in setting targets for performance outcomes that are based on objective evidence. For example, companies are increasingly adopting science-based targets in relation to climate change. We therefore recommend that evidence-based reporting can be encouraged by emphasising rigour, governance, objective evidence and consistency with targets set by the organisation.

We also observe that the <IR> Framework on its own cannot address all concerns on balanced reporting – corporate governance codes, management assertions and assurance also play an important role.

9. Does the increased emphasis on value preservation and value erosion encourage more balanced reporting of outcomes?

Yes / No / **Undecided**

We agree that the proposal for increased coverage in the <IR> Framework is likely to encourage more balanced reporting. We welcome the emphasis on ‘value erosion’ in particular. However, there is a risk that the insertion of ‘value erosion’ at points throughout the <IR> Framework could lead to a binary approach that does not allow for a full understanding or explanation of the inter-relationships between value creation, preservation and erosion. For example, investment in green processes could enhance natural capital but may lead to employing fewer people (erosion of human capital) and/or a need to upskill (enhancement of human capital). We also recommend that the concepts of value creation, erosion and inter-dependencies or trade-offs are embedded more thoroughly in the Guiding Principles (for example, in 3A, 3B and 3D).

10. Does the closing sentence of paragraph 4.20 sufficiently address the coverage of impacts under the term ‘outcomes’?

Yes / **No** / Undecided

Although the term ‘impact’ is emerging and has several meanings, it is clear that companies increasingly wish to enhance positive impacts and measure their impact more thoroughly. In addition, users wish to understand and evaluate the impacts of the organisation’s activities in their assessment of long-term resilience. This desire is frequently linked to the SDGs. Furthermore, companies are increasingly required to report on the impacts of their activities – for example, in Europe, through the Non-financial Reporting Directive (NFRD). We therefore believe that the proposal is not sufficient to illustrate this.

We note that the IIRC has made a conscious decision to retain the use of the word ‘outcome’ and not replace it with ‘impact’. However, the word ‘impact’ is increasingly being used instead of ‘outcome’. We recommend at least that the IIRC clarify that ‘outcomes’ encompass ‘impacts’. This is especially valid in the context of the European ‘double materiality’ concept in the NFRD, which explicitly requires a company to report its impacts.

Further, we recommend that there is a new, separate paragraph containing better explanation of:

- the connection between purpose and a desired impact/outcome (i.e. a company's desired positive impact on people, the economy and the planet);
- a company's potential negative impacts and how they may affect the company's ability to create and sustain value (including within the supply/value chain);
- trade-offs that are addressed through governance and strategic decisions; and
- how capitals and resources are employed in pursuit of the purpose and how these are, in turn, impacted by the company's operations.

These considerations should be aligned to the outcomes of the value creation process and overseen by appropriate governance, controls and processes, including assurance. We recommend that the wording should incorporate all elements of the triple bottom line concept – people, planet and profit (it currently only includes people). We also suggest that further guidance could be given on how to identify and measure outcomes that relate to the value creation process to enhance evidence-based decision making and improve communication.

## CHARTING A PATH FORWARD

11. Should paragraph 1.7 extend beyond providers of financial capital alone to include providers of other forms of capital?

Yes / No / **Undecided**

We acknowledge and support the trend towards responsible business and an understanding of value creation in the context of multiple stakeholders. The US Roundtable Statement on the Purpose of the Corporation and developments in corporate governance around the world are manifestations of how the social contract between business and society is being redefined. With broader commitments to multiple stakeholders come broader reporting obligations. Therefore, reporting to stakeholders in addition to providers of financial capital is of increasing relevance and importance.

However, comprehensive reporting to providers of financial capital on broader matters that are relevant to value creation remains a priority in order to direct capital to sustainable and resilient business. The focus of integrated reporting on providers of financial capital as a primary audience has been an important driver of adoption of integrated reporting in many countries. The information provided in an integrated report can be of relevance to other stakeholders more broadly in relation to their decisions about an organisation, but as stated above we believe other forms of reporting to other stakeholder groups will emerge as a result of further formalisation of fiduciary and governance responsibilities.

This position is consistent with the vision set out in Accountancy Europe's Cogito paper '[Interconnected standards for corporate reporting](#)'. The follow-up [paper](#) to the report concludes, based on respondent feedback, that establishing global standards on core ESG topics, using a value creation materiality lens and connected to financial reporting, is an urgent priority. The paper envisages that reporting standards on wider impacts can subsequently be added to this as a further building block. We welcome the endorsement that the IIRC has given to this vision and its strategic commitment to accelerating progress to achieving it.

We therefore do not believe that paragraph 1.7 should be extended currently. However, we recommend a number of steps that the IIRC could take that would help move thinking forward towards reporting to providers of other forms of capital:

- continuing to promote integrated thinking as a cornerstone of responsible capitalism;
- promoting integrated governance to support integrated thinking and provide appropriate accountability;
- considering what effect such a move might have on the fundamental concepts of the <IR> Framework (especially 2B);
- emphasising the need for connectivity in relation to reporting to other stakeholders/providers of other forms of capital in the guiding principles; and
- undertaking research to demonstrate how far an integrated report, prepared in accordance with the <IR> Framework, might already meet the needs of providers of other forms of capital.

12. Do you support the creation of a resource outside the <IR> Framework (e.g. an online database) to showcase authoritative sources of indicators and methodologies across the capitals?  
Yes / **No** / Undecided (If yes, to which standards, frameworks or initiatives should the resource point?)

We share the market's concern for consistency and comparability of metrics used in reporting. Deloitte believes that the profusion of initiatives is arguably standing in the way of progress to global harmonisation and therefore we do not support this proposal. We recommend that the IIRC should play a leading role to achieve a system solution, leading to consistent global metrics issued through a standard setter for non-financial reporting.

We recognise however that there is a gap in metrics that cover some of the IIRC's capitals – for example, metrics on customer satisfaction, retention, and aspects of intellectual property. The IIRC could play an important role in highlighting emerging practices and innovation by companies in relation to metrics in their integrated reports (e.g. through the existing <IR> Examples Database); and in identifying gaps in the coverage of standards for metrics, working through the Corporate Reporting Dialogue to accelerate research needed for standardised solutions in these areas.

13. Should the IIRC address the concept of integrated thinking more deeply?  
Yes / No / **Undecided** (If yes, what additional guidance is needed?)

We have consistently believed that integrated reporting should be an output of integrated thinking. To be adopted effectively, the concepts need to be embedded in the governance, risk, strategy and performance management of the organisation, including in metrics and targets. However, we do not believe integrated thinking should be further developed in the sense of formal guidance. We support the work of the IIRC's integrated thinking and strategy special interest group and encourage the IIRC to continue to illustrate examples of good practice.

We also recommend the IIRC work more closely with partners such as The Prince's Accounting for Sustainability Project, the Capital Coalition and the Value Balancing Alliance on practical tools and approaches to embed integrated thinking more thoroughly in business practice. This collaboration is important in order to develop a coherent and cohesive approach to integrated thinking and avoid proliferation of initiatives (as we have seen around the reporting of metrics). In addition, co-ordination between the work on integrated thinking and on integrated governance is essential. The

IIRC should therefore work with projects convened by organisations such as OECD/G20 to further to embed integrated thinking in their Corporate Governance Principles.

14. Should the IIRC explore the role of technology in future corporate reporting as a priority?

Yes / No / Undecided (If yes, what technology considerations should be addressed?)

We repeat the comments we made in our response to the Focused Engagement exercise below, in which we made some assumptions on the role of technology that might inform the IIRC's strategic thinking. In addition, we recommend that the IIRC consider partnering with technology companies and others (e.g. data providers and ratings agencies) to develop thinking and steps forward.

*The nature of corporate reporting is likely to become more dynamic and immediate. This implies a more continuous and transparent approach by companies to providing information, in contrast to the idea of the fixed annual report. Furthermore, the range of digital channels available to and used by investors and stakeholders means that the audience for this reporting will continue to broaden, requiring a 'multi-channel' strategy by companies. For companies, this is likely to lead to the use of technology to enable more efficient and effective reporting systems, including databases and tagged data.*

*While we can assume that AI and data mining will vastly increase the ability of investors and others to analyse information on corporates with increasing sophistication, it is unlikely that the need for communication from those charged with governance on value creation will be outmoded. This may not necessarily take the format of an annual report as we know it today. Therefore the underlying principles of integrated reporting are likely to remain relevant even if the need for 'a report' is superseded.*

*The most urgent priority in the corporate reporting 'system' is the quality, completeness and comparability of metrics in ESG and non-financial information. Investors increasingly rely on these data in their analyst models and investment decisions. Getting the quality of data right is therefore essential. This means companies will need to invest over time in systems and increasingly use technology to enhance their management of non-financial information to the standard of financial management systems. Given that performance is a key element of integrated reporting, we encourage the IIRC to add its voice and influence to bring about system change to achieve core global standards for non-financial reporting metrics.*

*A recurring 'pain point' for companies is the burden of requests for information from data providers and analysts. We suspect that an increase in the quality, comparability and completeness of data for core areas of ESG/non-financial information will facilitate data flows to ESG data providers and potentially reduce the volume of requests for information.*

*We also note the potential for technology (AI, surveillance, data analysis, blockchain) to give more confidence and management of ESG issues in supply chains, which will in turn increase calls for disclosure in mainstream reports.*

*Specifically in relation to the <IR> Framework, developments in technology are likely to reinforce the benefit of maintaining and developing it as a conceptual framework for corporate reporting, rather than as a framework for a standalone report - the latter risks being subsumed at a future point by*



*technological advances, whereas the underlying concepts are likely to be enduring and could potentially be used in technological systems architecture in the future.*

15. Please provide any other comments not already addressed by your responses to Questions 1 – 14.

We have other comments in two areas: assurance and harmonisation.

We note the absence of a question in this consultation on assurance. The Focused Engagement exercise suggests that nearly half of respondents disagreed with question 4 of paper 3. While it was acknowledged that developing assurance standards is beyond the IIRC's remit, a significant number of respondents said that the IIRC can play a role.

As we said in our response to the Focused Engagement exercise, we believe the IIRC should play an important role in enhancing the 'assurance readiness' of the <IR> Framework, for example, to help ensure that appropriate criteria can be determined for the purposes of assurance. The role of assurance in corporate reporting is growing (for example, it is included in the EC's NFRD consultation and is reflected in the IAASB's project on extended external reporting). We encourage the IIRC to engage with the other parts of the system (assurance standard setters, governance and controls, preparers and practitioners, and regulators) to ensure that the elements support each other effectively.

We continue to believe assurance is an important topic for the IIRC and recommend that it is prioritised.

On harmonisation, we note that many respondents to the Focused Engagement exercise gave feedback on the need to harmonise corporate reporting frameworks. In that regard, we continue to believe that the IIRC should play a prominent role in driving a system solution towards global standards, with integrated reporting developed as a conceptual framework for connected corporate reporting.