

# International <IR> Framework Implementation Feedback: Invitation to Comment

Deadline for feedback: Friday 31 March 2017

# HELP SHAPE THE FUTURE OF <IR>

## About the IIRC [This may need to be updated]

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

## Purpose of this paper

The purpose of this Invitation for Comment is to inform the technical program of the <IR> Framework Panel and ensure it is responsive to market needs for implementation guidance and other interventions, e.g., further research. It will also feed in to all other areas of the IIRC's work to which it is relevant, in particular, strategy, policy, <IR> Network activities, communications and governance.

## Audience

The IIRC encourages feedback from all stakeholders with a knowledge of how the International <IR> Framework is being implemented, including preparers of integrated reports, providers of financial capital and other users of integrated reports, policy makers, regulators, standard setters, assurance providers and academics.

## How to comment

[To be completed. Mention:

- form is on website
- all submissions, no matter how short, are welcome
- don't have to comment on all questions
- all comments will be made public
- use content of paras 4.5-4.7 below also ...]

[This may need to be updated] The IIRC does not accept responsibility for loss caused to any person who acts, or refrains from acting, in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

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# 1. EXECUTIVE SUMMARY

## About <IR> [This may need to be updated]

- 1.1 The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by <IR> as the corporate reporting norm.
- 1.2 <IR> is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world.
- 1.3 <IR> aims to:
  - Improve the quality of information available to providers of financial capital
  - Promote a more cohesive and efficient approach to corporate reporting
  - Enhance accountability and stewardship for the broad base of capitals
  - Support the creation of value over the short, medium and long term.
- 1.4 The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

## About the Framework

- 1.5 The Framework was released in December 2013.
- 1.6 The purpose of the Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.
- 1.6 Its development followed an extensive and rigorous due process.

## Implementation feedback

- 1.7 Now that stakeholders have over three years' experience with implementation of the Framework, the IIRC has decided to invite feedback on that experience to inform the technical program of the <IR> Framework Panel and ensure it is responsive to market needs for implementation guidance and other interventions, e.g., further research.
- 1.8 Comments received will also feed in to all other areas of the IIRC's work to which it is relevant, in particular, strategy, policy, <IR> Network activities, communications and governance.
- 1.9 All comments received will be made public on the IIRC's website after the closing date of this Invitation to Comment.
- 1.10 Your feedback is invited in response to the questions asked on pages X-Y about:
  - Statement by those charged with governance
  - Multiple capitals
  - Connectivity and integrated thinking
  - Key stakeholders' legitimate needs and interests
  - Materiality and value creation
  - Conciseness
  - Business model – outputs and outcomes
  - Other Guiding Principles
  - Other Content Elements
  - Other quality issues
  - Other incentives and barriers.

## 2. ABOUT <IR> [This may need to be updated]

### Vision

2.1 The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

### Aims

2.2 <IR> aims to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

### Corporate reporting norm

2.3 <IR> is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world. It is intended that the International <IR> Framework (the Framework), which provides principles-based guidance for companies and other organizations wishing to prepare an integrated report, will accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting globally to unlock the benefits of <IR>, including the increased efficiency of the reporting process itself.

2.4 It is anticipated that, over time, <IR> will become the corporate reporting norm. No longer will an organization produce numerous, disconnected and static communications. This will be delivered by the process of integrated thinking, and the application of principles such as connectivity of information.

2.5 <IR> is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organization to create value in the short, medium and long term, and in so doing it:

- Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies
- Emphasizes the importance of integrated thinking within the organization.

### Integrated thinking

2.6 Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

2.7 Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

2.8 The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.

# 3. ABOUT THE FRAMEWORK

3.1 The Framework was released in December 2013.

## Purpose

3.2 The purpose of the Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. The Framework:

- Identifies information to be included in an integrated report for use in assessing the organization's ability to create value; it does not set benchmarks for such things as the quality of an organization's strategy or the level of its performance
- Is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

## Development

3.2 Its development followed an extensive and rigorous due process and involved:

- Release of an IIRC Discussion Paper<sup>1</sup> in September 2011.
- Analysis of feedback on the Discussion Paper
- Discussions at IIRC Pilot Program conferences, webinars, and regional meetings, involving participants from both its Business Network and Investor Network
- Research on business models, the capitals, connectivity, materiality, and value creation, conducted by IIRC Technical Collaboration Groups and published as a series of Background Papers<sup>2</sup>
- Publication of an Outline<sup>3</sup> and then a Prototype Framework<sup>4</sup>
- Discussion at IIRC Working Group<sup>5</sup> meetings, and out-of-session comments from Working Group members
- Line-by-line review of numerous iterations and

refinements by the IIRC Technical Task Force<sup>6</sup>

- Extensive outreach activities around the world, including roundtables, seminars, presentations, and workshops.
- Release of a Consultation Draft in April 2013
- Analysis of 359 submissions<sup>7</sup>. Many of the submissions were from groups – when individuals and organizations named in group submissions are included, the total exceeds 600.

**NEED TO CHECK (OR DELETE) ALL FOOTNOTES**

<sup>1</sup> *Towards Integrated Reporting – Communicating Value in the 21st Century*

[www.theiirc.org/discussion-paper](http://www.theiirc.org/discussion-paper)

<sup>2</sup> <http://www.theiirc.org/resources-2/framework-development/background-papers>

<sup>3</sup> <http://www.theiirc.org/2012/07/11/draft-framework-outline>

<sup>4</sup> <http://www.theiirc.org/prototype-of-the-international-ir-framework>

<sup>5</sup> <http://www.theiirc.org/the-iirc/structure-of-the-iirc/iirc-working-group>

<sup>6</sup> <http://www.theiirc.org/the-iirc/structure-of-the-iirc/technical-task-force>

<sup>7</sup> <http://www.theiirc.org/consultationdraft2013>

## 4. IMPLEMENTATION FEEDBACK

- 4.1 Now that stakeholders have over three years' experience with implementation of the Framework, the IIRC has decided to invite feedback on that experience to inform the technical program of the <IR> Framework Panel and ensure it is responsive to market needs for implementation guidance and other interventions, e.g., further research.
- 4.2 Comments received will also feed in to all other areas of the IIRC's work to which it is relevant, in particular, strategy, policy, <IR> Network activities, communications and governance.
- 4.3 All comments received will be considered a matter of public record and will be posted on the IIRC's website after the closing date of this Invitation to Comment.
- 4.4 The IIRC encourages feedback from all stakeholders with a knowledge of how the International <IR> Framework is being implemented, including preparers of integrated reports, providers of financial capital and other users of integrated reports, policy makers, regulators, standard setters, assurance providers and academics.
- 4.5 Feedback should be submitted on the form on the IIRC's website at [www.integrtaedreporting.org/XXX](http://www.integrtaedreporting.org/XXX). That form includes each of the questions below as well as a section for any preliminary or introductory comments that respondents would like to make (e.g. if the response is the result of a focus group, who attended the focus group).
- 4.6 The IIRC welcomes comments on all matters related to the implementation of the Framework. The questions below have been formulated to address key issues identified through preliminary research conducted or reviewed by the IIRC (Qs 1-7). Four "catch-all" questions have also been included to accommodate other feedback that respondents might like to provide (Qs 8-11)..
- 4.7 Comments are most helpful when they refer to specific paragraphs in the Framework (where relevant), include the reasons for the comments, and make specific suggestions to address issues identified.

### Statement by those charged with governance

- 4.7 The Framework requires an integrated report to include a statement from those charged with governance that: acknowledges their responsibility for ensuring the integrity of the report and that they that they have applied their collective mind to its preparation and presentation; and provides their conclusion about its compliance with the Framework. A transitional time of two reporting cycles is

allowed for inclusion of such a statement, during which a report is required to explain what role those charged with governance played in its preparation and presentation and what steps are being taken to include such a statement in future.

- 4.8 #There appear to be numerous instances of integrated reports that are presented substantially in accordance with the Framework except that such a statement is missing or does not include all the elements required by para. 1.20.

*Q1a. What are your observations regarding the inclusion in integrated reports of a statement by those charged with governance?*

*Q2b. What, if anything, should be done and by whom to improve this aspect of implementation?*

### Multiple capitals

- 4.9 The Framework states that "All organizations depend on various forms of capital for their success" (para.2.10) and notes that one of the aims of <IR> is to "Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies" (page 2).
- 4.10 There are many references to the capitals throughout the Framework, including:
- requirements to provide insight into how the organization's strategy relates its use of and effects on the capitals (para. 3.3) and to report on performance in terms of effects on the capitals (para. 4.30)
  - guidance that disclosures about the capitals are determined by their effects on the organization's ability to create value over time (rather than whether or not they are owned by the organization) and include the factors that affect their availability, quality and affordability (para. 4.54).
- 4.11 #Some aspects of the capitals appear to be better reported on than others such as the relationship aspects of social and relationship capital (para. 2.15) and trade-offs between capitals owned by the organization and those owned by others or not at all (para. 4.56).

*Q2a. What are your observations regarding reporting on the multiple capitals approach in integrated reports?*

*Q2b. What, if anything, should be done and by*

# 4. IMPLEMENTATION FEEDBACK

*whom to improve this aspect of implementation?*

## Connectivity and integrated thinking

- 4.12 The Framework notes that one of the aims of <IR> is to “Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term” (page 2). Integrated thinking is “The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects” (page 33).
- 4.13 While the extent and quality of an organization’s integrated thinking can be difficult to judge, the connectivity of information in its integrated report can provide some insight; as the Framework notes: “The more that integrated thinking is embedded into an organization’s activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report” (para. 3.7).
- 4.14 The guidance to the requirement about connectivity of information notes that key forms include the connectivity between:
- the Content Elements
  - the past, present and future
  - the capitals
  - financial information and other information
  - quantitative and qualitative information
  - management information, board information and information reported externally.

*Q3a. What are your observations regarding connectivity in integrated reports and the implementation of integrated thinking in organizations adopting <IR>?*

*Q3b. What, if anything, should be done and by whom to improve this aspect of implementation?*

## Key stakeholders’ legitimate needs and interests

- 4.15 The Framework requires an integrated report to “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” (para. 3.10).
- 4.16 #While many integrated reports identify key

stakeholders and describe aspects of the nature and quality of the organization’s relationships with them, it appears to be less common for reports to clearly articulate how and to what extent the organization understands, takes into account and responds to key stakeholders legitimate needs and interests.

*Q4a. What are your observations regarding the identification in integrated reports of the legitimate needs and interests of key stakeholders and how they are being taken into account and responded to?*

*Q4b. What, if anything, should be done and by whom to improve this aspect of implementation?*

## Materiality and value creation

- 4.17 The Framework requires an integrated report to answer the question “ How does the organization determine what matters to include in the integrated report ... ?” (para. 4.40), which involves disclosures about the organization’s materiality determination process (para 4.42).
- 4.18 There is considerable guidance in the Framework about materiality (paras. 3.18-3.35 and 4.50-4.52), all of which is premised on the definition of material/materiality: “A matter is material if it could substantively affect the organization’s ability to create value in the short, medium or long term” (page 33).
- 4.19 A key feature of this definition is that it requires the organization to view materiality through a value creation lens, where value is interpreted as having two interrelated aspects – value created for:
- the organization itself
  - others.

This focus on value creation is an essential element of <IR> (see [Statement of Common Principles of Materiality of the Corporate Reporting Dialogue](#) and [Materiality in <IR>: Guidance for the preparation of integrated reports](#)).

- 4.20 #A number of reports identified as integrated reports appear to apply a different lens when making materiality decisions, including:
- Influence on stakeholders
  - Importance to investors
  - Importance to others
  - Influence on external decisions
  - Social and environmental focus.



## 4. IMPLEMENTATION FEEDBACK

*Q5a. What are your observations regarding application of the value creation lens to materiality decisions?*

*Q5b. What, if anything, should be done and by whom to improve this aspect of implementation?*

### Conciseness

- 4.21 The Framework requires an integrated report to be concise (paragraph 3.36). Few, if any, other reporting frameworks/standards include an explicit requirement about conciseness.
- 4.22 The Framework does not define “conciseness”, or offer a benchmark with respect to report length. Rather, the guidance to the conciseness requirement states that a report “includes sufficient context to understand the organization’s strategy, governance, performance and prospects without being burdened with less relevant information”, refers to the need for balance “between conciseness and the other Guiding Principles, in particular completeness and comparability” and provides a number of pointers that can help achieve conciseness (paragraphs 3.3 and 3.38).
- 4.23 #Although not universally true, it appears that integrated reports become more concise as organizations gain more experience with applying the Framework.

*Q6a. What are your observations regarding the conciseness of integrated reports?*

*Q6b. What, if anything, should be done and by whom to improve this aspect of implementation?*

### Business model – outputs and outcomes

- 4.24 The Framework requires an integrated report to answer the question “What is the organization’s business model?” (para. 4.10). An organization’s business model is “its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization’s strategic purposes and create value over the short, medium and long term” (para. 4.10).
- 4.25 The Framework’s Glossary defines outputs as “an organization’s products and services, and any by-products and waste” and .outcomes as “the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs” (page 33).
- 4.26 #While many integrated reports include a discussion

of the organization’s business model, reporting on outcomes and distinguishing them from outputs appears to be challenging for some.

*Q7a. What are your observations regarding the reporting on an organization’s business model, in particular with respect to outputs and outcomes?*

*Q7b. What, if anything, should be done and by whom to improve this aspect of implementation?*

### Other Guiding Principles

- 4.27 The Framework identifies seven Guiding Principle. Four of these are the subject of questions above (Connectivity of information, Stakeholder relationships, Materiality and Conciseness – please include comments about them in your answers to questions 3, 4, 5 and 6 respectively, rather than here). The remaining three are:
- Strategic focus and future orientation
  - Reliability and completeness
  - Consistency and comparability.

*Q8a. What are your observations regarding application of these three Guiding Principles in integrated reports?*

*Q8b. What, if anything, should be done and by whom to improve this aspect of implementation?*

### Other Content Elements

- 4.28 The Framework identifies seven Content Elements. Four of these are mentioned above (please include comments about Business Model in your answers to question 7, rather than here). The remaining six are:
- Organizational overview and external environment
  - Governance
  - Risks and opportunities
  - Strategy and resource allocation
  - Performance
  - Outlook

*Q9a. What are your observations regarding how the six Content Element are reported in integrated reports?*

*Q9b. What, if anything, should be done and by whom to improve this aspect of implementation?*

## 4. IMPLEMENTATION FEEDBACK

### Other quality issues

*Q10a. What are your observations regarding the quality of integrated reports not covered by other questions?*

*Q10b. What, if anything, should be done and by whom to improve this aspect of implementation?*

### Other incentives and barriers

*Q11a. What are your observations regarding incentives and barriers to the implementation of the Framework not covered by other questions, including the extent to which they:*

- *are jurisdiction-specific*
- *particularly apply to either large or small organizations*
- *particularly apply in the private, public or not-for-profit sectors*
- *particularly apply to organizations at different stages of the <IR> “journey”?*

*Q11b. What, if anything, should be done and by whom to improve this aspect of implementation?*

INTEGRATED REPORTING <IR>

[www.theiirc.org/invitationtocomment2017](http://www.theiirc.org/invitationtocomment2017)