Response to the IIRC Consultation Draft of the International <IR> Framework – Integrated Reporting

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CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.org.uk +44 (0)131 347 0100 icas.org.uk

Direct: +44 (0)131 347 0259 Email: abuttery@icas.org.uk

INTRODUCTION

ICAS welcomes the opportunity to comment on the IIRC Consultation Draft of the International <IR> Framework – Integrated Reporting.

We are a professional body of over 19,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's largest companies.

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Corporate Reporting Task Force, Accounting Standards Committee, Audit and Assurance Committee, Business Policy Committee, Public Sector Committee and Sustainability Committee have considered the Consultation Draft and I am pleased to forward their comments.

Any enquiries should be addressed to Ann Buttery, Assistant Director, Technical Policy and Secretary to the Corporate Reporting Task Force and Accounting Standards Committee.

RESPONSE TO THE CONSULTATION DRAFT

General comment

We believe in the benefits of developing a good, international corporate reporting framework and we strongly support Integrated Reporting as an attempt to improve corporate reporting and the communication of how companies create value, and sustain value creation. As such, the comments we make in this response are intended to be constructive and thereby help the IIRC to meet its objectives.

We agree with the principles based approach adopted in the consultation draft and believe that it could be used as a source of best practice guidance, and increase consistency in reporting between entities; however we also feel that the consultation draft is lengthy, sometimes difficult to follow, and reads as a very generic, conceptual report. Entities will need compelling examples, giving a clear illustration of what it will mean in practice, before deciding it is the route they wish to take. We believe that until some convincing examples of integrated reports become widely available, and market forces ultimately encourage entities to produce the reports, it may be difficult to persuade companies to adopt Integrated Reporting voluntarily.

Integrated Reporting – what is new?

We agree that corporate reporting practices do need to be addressed; however, we also acknowledge that efforts are already being made to improve annual reports. We therefore recommend that the purpose of Integrated Reporting should be explicitly addressed in the framework including a discussion on exactly what distinguishes Integrated Reporting from the corporate reporting guidance already available to entities

The Integrated Report

We believe that improvements need to be made to corporate reporting to reduce the volume of information included within annual reports so that only relevant and useful information is reported. However, the consultation draft implies that the integrated report would be an additional report. We are concerned about the cost-effectiveness of this approach and its practical application. We believe that an integrated report should not be an extra report, but instead a concise, connected means of improving existing reports. We suggest that the focus should be on improving the "front end" of annual reports, with a view to embedding integrated reporting principles and concepts into an entity's

current reporting process, the result being that annual reports will ultimately become "integrated" reports. Greater clarity and guidance is needed to enable preparers to have a clear vision of what an integrated report will look like and how it will fit with the current reporting regime.

Assurance

We believe that, for Integrated Reporting to be credible, some form of external assurance will be required; however, we also acknowledge that forward looking information is difficult to give assurance on. The ICAS discussion paper "Balanced and Reasonable – A discussion paper on the provision of positive assurance on management commentary", offers some principles and proposals which could assist this assurance debate – available at http://icas.org.uk/Auditing/Publications/

We also believe that ultimately a single integrated assurance opinion over the whole annual report would be desirable, which may involve input from multiple assurance providers on individual aspects of the report before reporting into a single provider who would give an overall opinion.

We also believe there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report and asserting their view that the information is "balanced and reasonable" or "fair, balanced and understandable".

One size does not fit all

The consultation draft states that the primary audience for the integrated report are the "providers of financial capital", with the framework being intended "primarily for application by private sector, for-profit companies of any size, but it can also be applied, adapted as necessary, by public sector and not-for-profit organisations". The assertion that the "providers of financial capital" are the primary stakeholders needs to be justified and explained more clearly. We note that singling out the primary audience as being "providers of financial capital" may be a pragmatic solution to assist preparers in determining what information is material to the users and therefore what content should be included. Further, as providers of financial capital will not be the primary audience for all organisations, we suggest that additional guidance will need to be provided for smaller private and public sector organisations, in terms of how one addresses the needs of different stakeholders.

Competitive harm

We are concerned that entities will take advantage of the ability to use "competitive harm" as a reason for not disclosing certain material information. As such, consideration should be given to refining the definition of competitive harm to ensure that only disclosures which would lead to very significant competitive harm can be excluded from the report.

Clarity of definitions and prescriptive language

We note that the document raises some definitional issues which ought to be considered.

We would also encourage the IIRC to refrain from using language that is too prescriptive, particularly in relation to the capitals and the business model. In order to encourage discussion, we would prefer flexibility in the definition to allow entities to enrich their communication and "tell their story" as they wish.

RESPONSE TO THE CONSULTATION DRAFT QUESTIONS

Chapter 1: Overview

Principles-based requirements

Question 1 – Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.

As discussed in the ICAS publication "Principles not Rules – A Question of Judgement", available at http://icas.org.uk/principlesnotrules/, we favour a principles based approach and therefore agree with the approach adopted in the consultation draft.

However, we believe the definition of disclosure materiality could be enhanced in order to ensure that disclosures are focused on the key information about material matters. Simply because a matter might be considered material, it does not necessarily follow that all the available information about that item is also material. Judgement will need to be applied in order to avoid unnecessary disclosures.

We also note that the IASB is currently undergoing a review of its Conceptual Framework and, for example, as part of this review, "reliability" is one of the fundamental qualitative characteristics that is being debated. We would therefore suggest that the IIRC monitor the definitions within the "Guiding Principles" to ensure they are consistent with the outcome of those deliberations.

We would also offer a cautionary note that some may consider that there are contradictions within the principles themselves, for example, the "Connectivity of Information" principle refers to the Integrated Report as a "comprehensive value creation story"; however, this is then followed by the "Materiality and Conciseness" principle - "comprehensive" and "concise" possibly being viewed by some as contradictory. In an attempt to be comprehensive, corporate reports have become increasingly lengthy, making them difficult to understand. We would not wish to lengthen existing reports – the need for corporate reports to be complete, but concise, is very important.

Interaction with other reports and communications

Question 2 - Do you agree with how paragraphs 1.18-1.20 characterise the interaction with other reports and communications?

Paragraph 1.18 states that "a stand-alone integrated report will be prepared annually in-line with the statutory financial reporting cycle", thereby implying that an integrated report would be a new report, additional to the regular reports that entities already currently produce. We believe that entities will view a stand-alone integrated report as being costly, in terms of both time and money, whilst reaping limited additional benefit, and, as a result, this will discourage adoption.

Instead, we believe it would be better to build upon the growing recognition that corporate reports do need to become more concise and relevant, and focus on moving the "front end" of annual reports towards becoming an integrated report.

We are also concerned that entities will take advantage of the "competitive harm" clause suggested in paragraph 1.12, where "competitive harm" can be used as a reason for not disclosing material information. We believe that if the "competitive harm" clause is abused the integrated report will resemble nothing more than the annual reports we currently have and, as such, if Integrated Reporting is to prosper, this issue must be addressed. As such, consideration should be given to refining the definition of competitive harm to ensure that only disclosures which would lead to very significant competitive harm can be excluded from the report.

Question 3 – If the IIRC were to create an on-line database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

There are a number of authoritative sources available from the financial reporting perspective including FEE, the Global Reporting Initiative, the Sustainability Accounting Standard Board, and also the agreement with the IIRC and International Accounting Standards Board; however, the difficulty will be in obtaining authoritative sources in other reporting areas.

Other

Question 4 – Please provide any other comments you have about Chapter 1.

One might question if Integrated Reporting is simply just using a different lens for looking at the same thing. We believe that the consultation draft should therefore explain the rationale for Integrated Reporting, what is new, and why it is happening now. The "value creation" message has been given in previous presentations by the IIRC, however does not come across in the consultation draft - we therefore believe it also needs to be explicitly discussed in the Framework document.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

Questions 5 & 6– Do you agree with this approach to the capitals? Why/why not? Please provide any other comments you have about Section 2B?

We agree that it is important to make an overall assessment of whether the entity is using the six capitals to generate value (or destroy value) for the different stakeholders. However we would caution that, in practice, it will be difficult to aggregate different forms of capital, as seems to be implied by paragraph 2.35 of the consultation draft. We submit that there should be no reference made to net increases or net decreases in the capitals (or any equivalent form of the words).

We note that the definition of the capitals may be a potential area for confusion within the academic community because accepted academic literature defines intellectual capital as having three components – human capital, relationship capital and organisation capital. This would seem to contradict the approach taken in the draft Framework.

We note that the last bullet in Paragraph 4.5 which states that "an integrated report should disclose… the reason why the organisation considers any of the capitals identified in this Framework to be immaterial given its particular circumstance, if that is the case" may be interpreted as contradicting Paragraph 2.19 which states that "The Framework does not require that the categories identified above be adopted by all organisations. Rather, the primary reasons for including the capitals model in the Framework are for it to serve: as a benchmark for ensuring that organisations consider all the forms of capital they use or affect". We would support the "comply or explain" approach which seems to be being used in relation to the six capitals.

Business Model (Section 2C)

Questions 7, 8, 9 & 10 – Do you agree with this definition? Why/why not? Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Contents Elements Chapter of the Framework (Section 4E). Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

We believe that if a business model is written well it will be useful, but boiler plate language would not be helpful; as such, we believe that the IIRC should refrain from prescriptive guidance in relation to the business model. Business models are in constant evolution, and if an organisation wishes to write about its business model it should be able to do so on its own terms.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Questions 11 & 12– Do you agree with this approach to materiality? If not, how would you change it? Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B)

We agree that the need to be concise is very important. We believe this will be a fundamental challenge for Integrated Reporting because the consultation draft seems to be trying to be "all things to all men" and the challenge will be the prioritisation of the key messages and balancing the needs of different stakeholders within a concise document.

The consultation draft also states that the primary audience for the integrated report are the "providers of financial capital" with the framework being intended "primarily for application by private sector, for-profit companies of any size, but it can also be applied, adapted as necessary, by public sector and not-for-profit organisations". The assertion that the "providers of financial capital" are the primary stakeholders should be explained more clearly. We note that singling out the primary audience as being "providers of financial capital" may be a pragmatic solution to assist preparers in determining what information is material to the users and therefore what content should be included. Further, as providers of financial capital will not be the primary audience for all organisations - we suggest that additional guidance will need to be provided for smaller private and public sector organisations, in terms of how one addresses the needs of different stakeholders.

Reliability and completeness (Section 3E)

Questions 13, 14, 15 & 16 – How should the reliability of an integrated report be demonstrated? Please provide any other comments you have about Section 3E. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above.

We believe that external assurance will be required to prove the reliability of an integrated report, but acknowledge that forward looking information is difficult to give assurance on and, as such, it is likely to be necessary for a lower level of assurance to be provided than that provided by a financial statement audit. The ICAS "Balanced and Reasonable" discussion paper, which discusses the provision of positive assurance on management commentary, offers some suggestions on what should be considered when deliberating whether assurance can be provided on the narrative areas of the annual report.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Questions 17 & 18 –Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not? Please provide any other comments you have about involvement of those charged with governance (Section 5D).

Yes, we believe there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report and asserting that the information is "balanced and reasonable" or "fair, balanced and understandable".

Credibility (Section 5E) and Other

Questions 19, 20 & 21– If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why? Please provide any other comments you have about Credibility (Section 5E). Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above.

Currently, assurance over corporate governance reports is limited to a few things that are verifiable; however, we believe that ultimately a single integrated assurance opinion over the whole integrated report would be desirable, this may involve input from multiple assurance providers on individual aspects of the report before reporting into a single provider who would give an overall opinion.

Overall view

Question 22 – Recognising that <IR> 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 organisations ability to create value in the short, medium and long term?

If this Framework can represent the vision for the new annual report of the future, it could be very effective; however, if integrated reports are regarded as simply an additional reporting burden, then they are likely to be slow to be adopted.

We believe that improvements need to be made to corporate reporting to reduce the volume of information included within annual reports so that only relevant and useful information is reported. However, the consultation draft implies that the integrated report would be an additional report. We are concerned about the cost-effectiveness of this approach and its practical application. We believe that an integrated report should not be an extra report, but instead a concise, connected means of bringing together existing reports. We suggest that the focus should be on improving the "front end" of annual reports, with a view to embedding integrated reporting principles and concepts into an entity's current reporting process, the result being that annual reports will ultimately become "integrated" reports. Greater clarity and guidance is needed to enable preparers to have a clear vision of what an integrated report will look like and how it will fit with the current reporting regime.

We believe that the consultation draft reads as a very generic, conceptual report, and entities will need compelling examples in practice before deciding it is the route they wish to take.

Development of <IR>

Question 23 – If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

We believe that additional explanatory material may need to be developed in the following areas:

- Assurance.
- What Integrated Reporting is trying to achieve, and how it surpasses what we already have.
- The connectivity of information and forward looking information.
- How to apply Integrated Reporting not just to public companies, but also smaller private companies and public sector organisations.
- The cost impact of Integrated Reporting.