

**An Analysis of the *Comment Letters*
by the Top 50 Players
on the Key Questions
of the IIRC Public Consultation**

by WICI Europe/WICI Italy

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Background

- Consultation Draft (CD) of the International <IR> Framework published on 16th April 2013
- CD available in 8 languages (English, French, Chinese, Spanish, Italian, Japanese, Portuguese and Russian)
- Questionnaire composed of fixed questions: one “key points” box + 24 pre-set question boxes
- Consultation Period: 3 months (16th April-15th July 2013)
- 361 submissions received on the Consultation Draft of the International <IR> Framework from all over the world (note that in 2012 there were 214 submissions received on the Discussion Paper of the Conceptual Framework of the Integrated Reporting Committee of South Africa)

Submissions came from every region of the world

Region	No. of Comment Letters	%
Africa	19	5,26
Central and South America	25	6,9%
North America	38	10,52%
Asia	44	12,1%
Middle East	1	0,2%
Eastern Europe	11	3,04%
Western Europe	120	33,24%
Oceania	32	8,8%
N/A	16	4,43%
Global	55	15,23%
Total	361	100

Submissions came from a variety of stakeholders

Sectors	No. of Comment Letters	%
Providers of Financial Capital	49	13,5
Analysts	16	4,5
Assurance Providers	20	5,5
NGOs	18	5
Consultants	51	14
Accountants	40	11
Academics	21	6
Policy Makers & Regulators	27	7,5
Report Preparers	98	27
Labour Representatives	2	0,55
N/A and others	20	5,5
Total	361	100

Phases of the Analysis

- 1) Synthetic Analysis by IIRC on the 361 comment letters
- 2) Focussed Analysis of the Top 50 Players/Opinion Makers
- 3) Analysis of the Italian Respondents

INTEGRATED REPORTING 

Word Cloud Analysis

**Definition
of “business
model”**



**The
“capitals”
approach**

**Definition
of
“outcomes”**



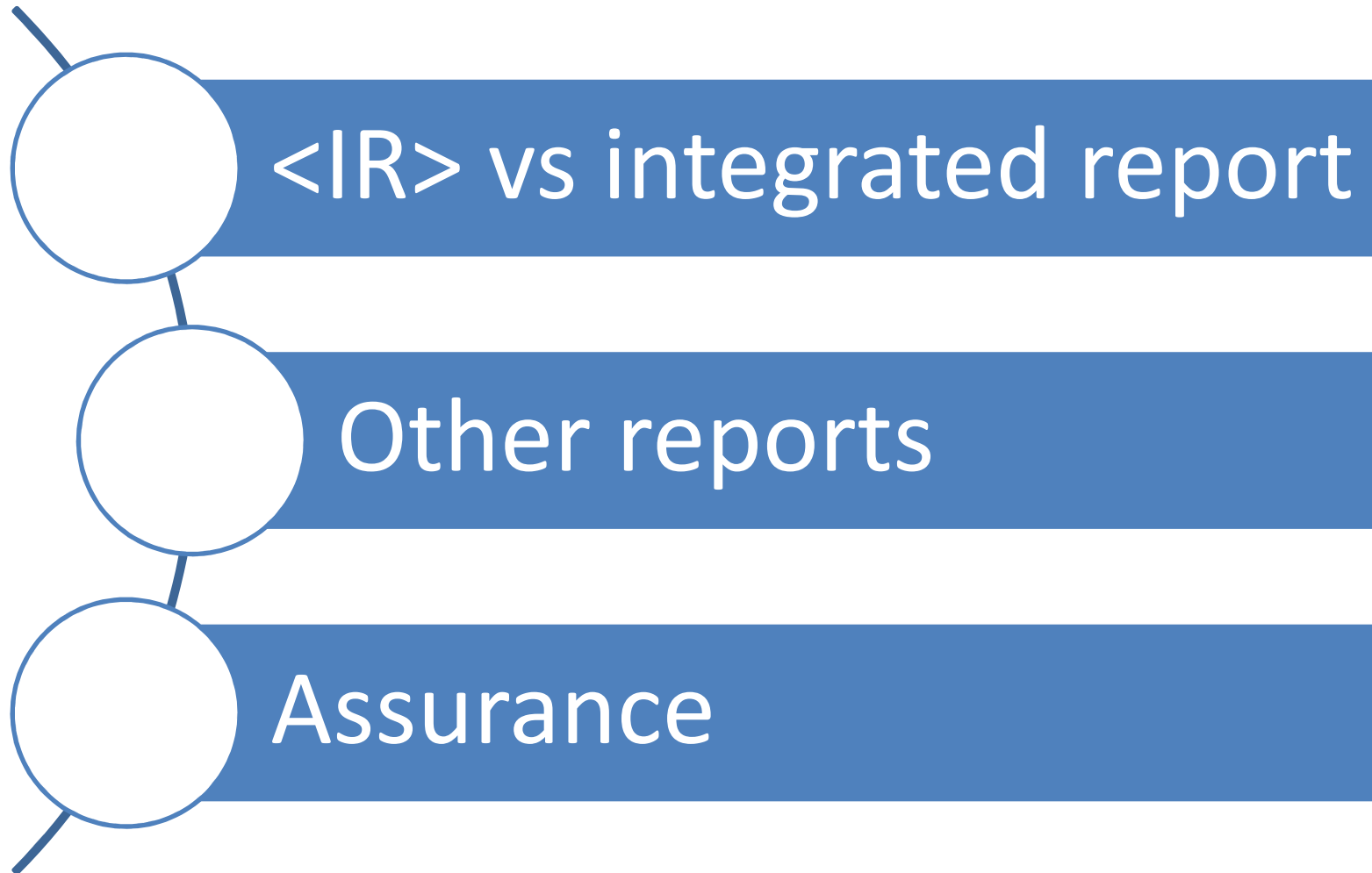
Audience

Forward
looking

Materiality

Value

Open Issues according to the IIRC



Further Open Issues according to the IIRC

Focussed Analysis of the Top 50 Players/Opinion Makers

Methodology

- We have selected the 50 top players
- We have selected 7 key-questions
 - Relationships with other reports (question no. 2)
 - Capitals (question no. 5)
 - Business Model (question no. 7)
 - Materiality (question no. 11)
 - Assurance (question no. 19)
 - Overall view of <IR> (question no. 22)
 - Development of <IR> (question no. 23)

TOP 50 PLAYERS/OPINION MAKERS

AUDIT FIRMS

ERNST & YOUNG

DELOITTE

KPMG

PWC

INVESTORS AND FINANCIAL ANALYSTS

EFFAS & DVFA JOINT RESPONSE

EUROSIF

CALVERT INVESTMENTS

APG ASSET MANAGEMENT

THREADNEEDLE INVESTMENTS

NGOs

WBCSD MEMBERS

WWF UK

STOCK EXCHANGE

JSE LIMITED

BANKS & INSURANCES

JP MORGAN

ALLIANZ SE

HSBC

RABOBANK

ASSOCIATION OF GERMAN BANKS

BNDES

THE WORLD BANK

PROFESSIONALS

IMA

IDW

AICPA

CIMA

ACCA

IFAC

FEDERATION OF EUROPEAN
ACCOUNTANTS

ICAEW

TOP 50 PLAYERS/OPINION MAKERS (cont'd)

INTERNATIONAL ORGANIZATIONS

ICGN

SASB

CDP

GLOBAL REPORTING INITIATIVE

UN GLOBAL COMPACT

WICI

COMPANIES

ROYAL PHILIPS

NORSK HYDRO

NOVARTIS

SOLVAY SA

SAP

TAKEDA PHARMACEUTICAL
COMPANY

THYSSENKRUPP

DANONE

REGULATORS & GOVERN'TS

FINANCIAL REPORTING COUNCIL

CLIMATE DISCLOSURE STANDARDS
BOARD

THE NETHERLANDS AUTHORITY FOR
THE FINANCIAL MARKETS

METI

DUTCH ACCOUNTING STANDARDS
BOARD

TRADE UNIONS, INDUSTRIALISTS AND MANAGERIAL ASSOCIATIONS

INTERNATIONAL TRADE UNION
CONFEDERATION

THE GROUP OF 100
BUSINESS EUROPE

GLOBAL INSTITUTE OF COMPANY
DIRECTORS

Question no. 2: Interaction with Other Reports and Communication

- Stakeholders have a mixed view about the general framework of the <IR>:
 - Audit Firms → largely supportive of <IR> framework, but concerned that it will “duplicate” other efforts → it must be clarified if it is a new report or a consolidation of existing reports
 - Investors and Financial Analysts → supportive but they would like that this report could become the “principal” document by co’s to inform the market
 - NGOs also shared the objectives of the framework, but had some criticisms about the “language” used → it can be modified to deal with “conflicting targets”
 - Stock Exchange (JSE) expressed concern that the <IR> might want to replace other existing reports by becoming the “primary report” → then “appreciative” to note that <IR> is not the only report as previously thought
 - Banks and Insurance → largely view the new <IR> framework as “rather vague” → it would duplicate work for companies when they are already producing most of the disclosures under the current regulatory regime, should <IR> be promoted as a separate “standalone” report rather than “streamlining corporate reporting”

Question no. 2: Interaction with Other Reports and Communication (cont'd)

- Professional bodies were of two conflicting views, which are
 - (i.) <IR> should be a stand alone document meeting compliance requirements of FASB, IASB etc. and incorporating salient points of CSR, Sustainability reports etc.
 - (ii.) the second view was that one stand alone document might not be able to fulfil the requirements of diverse stakeholders of a firm
- International Organizations also highlighted the same dilemma about the new <IR> framework as a “stand alone” document vs. an “additional” one, which might be able to “summarize” all other existing report
- The companies that sent in their views about the new <IR> framework were also in a flux as some agreed with the “grand design” of the <IR>, but some cast apprehensions if it will become something “additional”
- Trade Unions and Managerial Associations have doubts about the <IR> framework goals, and some worried that it might be “step back” on issues such as “human rights”
- Regulators and Governments have a negative view of the goals of <IR> and cast doubts if it is desirable to have a “stand alone” document when companies already provide all the information based on the requirements of IFRS and other bodies offering “guidelines” on voluntary disclosures

Question no. 5: Capitals

- On the question of categorizations on “Capitals,” surprisingly, there is a very large consensus, albeit there are some concerns as mentioned below
- All audit firms agree with the idea of six Capitals, but almost all of them agreed that these capitals should be more dynamic, so that firms can better explain their resources to its investors
- Investors and Financial Analysts also agreed with the Six Capital framework but argued that the definitions could be more dynamic and broad
- NGOs also agreed with the concept , with one NGO going as far as stating that the diagram “seems to be universally loved!”
- Stock Exchange, however, disagreed with the focus on financial stakeholder as set out in para 1.8, and therefore “disregarding the rest” which is contradictory to what the <IR> framework has set out to do, i.e. focus on all stakeholders
- Banks and Insurance companies found the Capitals framework “helpful” and “useful”; however, some completely disagreed with it, pointing out that the “emphasis” on “customer perspective” is lacking
- Professionals welcome the approach on the capital and some found the concept as “widely accepted”; however, they also demanded greater clarity on the definitions

Question no. 5: Capitals (cont'd)

- International Organizations also agree with the Capitals framework, albeit with caveats of more clarity on definitions, more freedom to companies to define their business model, etc.
- Companies on the other hand have a mixed view on the subject, as some of them clearly agree with the new framework as proposed by <IR>, and others disagreeing on the basis of its perceived “complex academic” nature of the definitions which might not be easily understood by the stakeholders of the respective companies
- Trade Unions disagreed on the issue of “Human Capital”, wherein Labor being seen as a “Capital” which is not in keeping up with the “Human Right” issues
- Other industrial and managerial organizations also have a mixed view on the subject
- Regulators were, however, more agreeable on the subject of Capitals, but also suggesting some improvements on the “definitions”

Question no. 7 - Business Model

“A business model is defined as an organization’s chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term» (Draft <IR> Framework, paragraph 2.26).

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

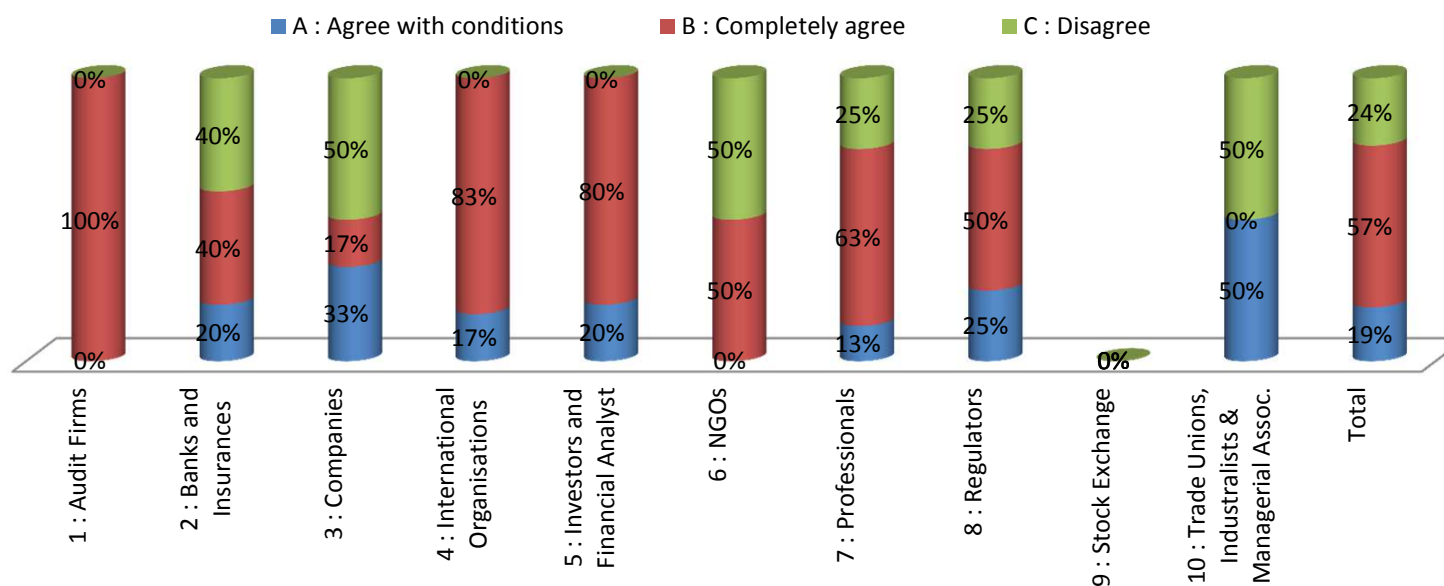
Analysis of Question no. 7 (cont'd)

- A generalised acceptance of the definition, with some different nuances
- 12 out of top 50 players/opinion leaders do not provide any answer
- 5 respondents strongly agree without any other suggestions
- A large part of respondents asked for further clarifications and/or practical examples
- Some requested for a deeper analysis of inputs, activities, outputs, capitals and their relations
- The problem of multiple business models
- A need for distinguishing between intended outcomes, on which the Business Model is based, and actual outcomes
- As for value, some requested for clarifications of the business model's meaning or for its focusing on sustainable value

Q11. Do you agree with this approach to materiality? If not, how would you change it?

- “An <IR> should provide concise information that is material to assessing the organization’s ability to create value in the short, medium and long term” (Draft <IR> Framework, para. 3.22)
- About 76% agree with the approach to materiality based on the <IR> primary users i.e. providers of financial capital.
- Some highlight the use of GRI concept of materiality to be more “clear and practical”
- The remaining who do not agree with the approach feel that it contradicts the aim of “one report” and <IR>’s approach is not sufficiently integrated.
- Banks and Companies feel that the report would be too limited to financial capital

Do you agree with this approach to materiality?



Q11. Do you agree with this approach to materiality? If not, how would you change it? (cont'd)

DEFINITION OF MATERIALITY

- Definition of 'Materiality' is unclear as it clashes with earlier definitions. Materials should be developed to focus on the commonalities and differences between materiality definition of <IR>, financial, and sustainability reporting, to aid practitioners in using the principles
- Audit firms "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"
- "IIRC definition does not consider the interaction of information – i.e., information alone may not be material, but it may be so in conjunction with other information..... It is also unclear to us whether information in the integrated report would be considered material on its own or in relation to the integrated report as a whole."

GUIDANCE IN APPLICATION

- 16 out of 50 organisations feel the need for guidance on the determination of materiality
- Guidelines on identifying relevant matters (topics to be disclosed and how much to disclose) might be included in the Framework with "guidance on completeness and reliability"
- Professionals feel that materiality assessment for <IR> may be more difficult and "challenging when they try to apply them in practice"
- "IR framework has to be flexible enough to accommodate statutory obligations regarding materiality in different jurisdictions"

Q19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

- For <IR> to become organisation's sole reporting, the credibility & capability of assurance is a requirement. "We feel strongly that assurance of both traditional financial & ESG information is needed to make an <IR> credible."
- 17 out of 50 organisations feel that assurance should be provided on the <IR> as a whole, but feel that it is not realistic at present for <IR> in the earlier phases and should keep it as its long term goal
- However, most of the organisations feel assurance over entire report is 'impractical and overly costly'. Third party verification could lead to additional investment/cost
- They feel the level and scope of assurance should depend on the company
- "If a company chooses to produce an <IR> as a stand-alone document separate from the AR, an assurance statement may be appropriate."
- International Organisations like GRI, CDP etc. have experienced that reporters are not keen to expose non-financial elements to external assurance

Q22. Overall, do you believe this is the *appropriate* Framework?

YES (38)

The majority (18) being very supportive, so far, because:

- Principles-based; Good integration financial and non-financial aspects

Some (4) are supportive only under certain conditions

(e.g. attract large investors; no mandatory; comparability)

Many (16) are generally supportive BUT with some reservations:

- Need for more detailed guidance
- Too narrowly focused on capital providers
- Relation with existing reports?

NO (9)

Some (5) were not satisfied because the framework is:

- ‘aspirational’
- ‘insufficient guidance’
- ‘redundant’
- ‘not responding to investors’
- ‘too focus on investors’

(2) were not satisfied IF the framework will evolve into a prescriptive and mandatory approach

(2) were not satisfied BUT stressed that IR has room for improvement

N/A (3)

Q23. Development of <IR>

(3 topics that should be further explained)

- **How to define and measure value creation?** (mentioned 18 times)
- **Materiality** (16 times)
- **More examples of best practice** (15 times)
- **Relation with extant frameworks & regulation** (14 times)
- **Connectivity** (7 times)
- **Target audience** (5 times)
- **Assurance** (5 times)
- **Capitals** (5 times)
- **Others** (boundaries; conciseness; comparability; business case for IR; forward-looking info.) (4 times or less)

Q22./Q23. Analysis by stakeholders

- **Auditors** are generally supportive but require more guidance on implementation and assurance.
- Many **professionals** (ACCA; IMA; ICAEW) demand for more evidence of <IR> benefits and examples of best practice.
- Some (Business Europe; Association of German Banks and others) are strongly concerned with **mandatory IR**, whilst others (several regulators; investors; banks and analysts) stress the need for a more prescriptive approach to ensure comparability.
- The definition of **value creation** processes is contended. Some (e.g. Danone; Rabobank; Allianz; GRI) affirm the IR framework is too narrowly focus on shareholders' value, whilst others (Threadneedle Investments; IMA) contended the approach is 'broad'.
- More guidance on **materiality** is widely demanded by companies, banks and insurers and investors while generally overlooked by regulators and NGOs.

Italian Respondents

Seven Italian Respondents

- WICI Italy/NIBR (on behalf of WICI Europe)
- Assirevi (Italian Audit Firms)
- Italian Pilot Programme Companies
- Enel
- Terna Rete Elettrica Nazionale
- GBS (Gruppo Bilancio Sociale – Italian Group on Social Reporting)
- Prof. Daniela Salvioni and Prof. Luisa Bosetti (University of Brescia)

Italian Respondents

At a closer look one could say that there are really four distinct and fully differentiated responses (NIBR/Pilot companies/GBS/Assirevi), because:

- Answers by Italian Pilot Programme Companies and Enel are formally identical
- With reference to some questions, the answers by Terna Rete Elettrica Nazionale are the same as the Italian Pilot Companies
- Some answers by Salvioni-Bosetti are excerpts from those provided by the GBS (Prof. Salvioni is a member of GBS since 2003)

Italian Respondents – Analysis

Key Points

- 3 out of 7 respondents (GBS, Pilot, Salvioni-Bosetti) have inserted key points with reference to the Framework. The most important of them are:
 - Lack of clarity about target groups (providers of financial capital vis-à-vis overall stakeholders)
 - Relationship between <IR> and local regulations
 - Indication of other guidelines or standards that can be used as a reference for IR reporting areas

Italian Respondents – Analysis (cont'd)

Q2. Interaction with other reports & communications

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

- Integrated Report not as an additional publication, but rather as an enhancement of an existing publication → “<IR> represented by the Annual Report”;
- Acceptance of Integrated Report as a stand-alone report BUT:
 - Reference in <IR> to other specific corporate documents or, if more documents related to <IR> are prepared, they have to be made publicly available (at the same time)
 - Concern about an increase of the costs for an organization willing to produce <IR> (it does not replace any mandatory or voluntary report)

Italian Respondents – Analysis (cont'd)

Q.5. Capitals

Do you agree with this approach to the capitals? Why/why not?

General acceptance of the definition of capitals BUT:

- Definition of IC should be consistent with the one diffused in the literature (classification in human, relational and structural)
- Description of the support that each capital provides to the value creation process
- More emphasis is required on social and natural capital

Italian Respondents – Analysis (cont'd)

Q.7. Business model

Do you agree with this definition? Why/why not?

General acceptance of the definition of Business model, even if it is perceived to be very general/generic → better specification of information and examples is required

Q.11. Materiality

Do you agree with this approach to materiality?

If not, how would you change it?

Lack of clarity in relation to the viewpoint adopted when defining materiality (providers of financial capital vis-à-vis stakeholders)

Italian Respondents – Analysis (cont'd)

Q.19. Assurance

If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

- Useful to have a full coverage of the whole <IR>
- Assurance both by internal and external auditors
- Reference standards cited are ISAE3000 and AA1000

Italian Respondents – Analysis (cont'd)

Q.22. Overall view

- Issues linked to the actual feasibility of a «real» <IR> in practice → use of the journey metaphor
- Detailed format is requested/suggested

Q.23. Development of IR

- Implementation guidelines in order to help <IR> understanding and its relation with other reports
- Reference KPIs are required to facilitate <IR>
- Connectivity
- Business Model
- Relationships amongst capitals, and of capitals with business model and value creation process

Italian Respondents – Analysis (cont'd)

General Issue: Value

- Concept of value to be further developed
- Relationship between value and short, medium, and long time span is unclear
- Value creation expressed in financial terms; otherwise, if not possible, to be expressed using diversified quantitative and qualitative KPIs