

Survey Response to <IR> Framework Revision July 2020

This survey response has been prepared by XRB staff and therefore does not necessarily represent the views of the XRB Board.

Testing <IR> Framework Revisions

Q1-10 relate to proposals made in Part II.

Q1 relates to Proposal 2

1. Do the adjustments to paragraph 1.20 simplify the statement of responsibility in an effective way?

Yes.

Please explain the rationale for your response.

We would like to add under this response that we are very supportive of the IIRC's proposal (P1) to retain the required statement of responsibility from those charged with governance.

We agree with the proposal (P2a) to remove the acknowledgement that those charged with governance have applied their collective mind to the preparation and presentation of the integrated report. In our view, the application of the collective mind is inferred in the acknowledgement of responsibility by those charged with governance.

We agree with the proposal (P2b) to remove the required commentary on plans for a future statement of responsibility and the three year timeframe in which to do so. In our view, this requirement may have deterred organisations from starting on their <IR> journey.

We agree with the proposal (P2c) to add "or the extent to which" to encourage organisations to start on the Integrated reporting journey. New Integrated reporters will not get it "right" first time and need time to evolve into the delivery of a full integrated report. This addition allows for that. This addition also provides useful information to users of the integrated report.

Q2 relates to Proposal 3

2. Does the framing of process disclosures meet the goals of promoting accountability and integrity while still providing flexibility?

Undecided.

Please explain the rationale for your response.

We are concerned that adding additional disclosures into the <IR> framework may result in an integrated report no longer being "a concise communication...". However, we note that many organisations may already be required to provide information on governance. For example, composition of boards, roles and responsibilities of board members, committees etc. on their websites or in another report. Where this information is provided elsewhere the ability to cross reference to it could alleviate this concern.

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We do not support the proposal (P3) to include process disclosures unless these are framed clearly as an encouraged disclosure and the ability to cross-reference to these process disclosures is permitted under the <IR> Framework.

We interpret the current framing of process disclosures more as a 'required' than an 'encouraged' disclosure. We recommend that the IIRC reframe paragraph 1.20 to make it clear that the process disclosures are an encouraged disclosure, this may be achieved by amending the current drafting to "Organisations are encouraged to provide supplementary disclosures....".

We note that paragraphs 1.16 and 3.38 of the <IR> framework allow links to more detailed information outside of the integrated report. We recommend that the IIRC make it clear in paragraph 1.20 that organisations can cross reference to process-related information that may be provided on an organisation's website or in another report.

Q3 relates to Proposal 4

3. Does the Consultation Draft strike an appropriate balance between maintaining a principles-based approach and usefully informing preparer considerations?

Undecided.

Please explain the rationale for your response.

We do not support the proposal (P3) to include process disclosures unless these are framed clearly as an encouraged disclosure and the ability to cross-reference to these process disclosures is permitted under the <IR> Framework.

Subject to the comment above, we agree with the proposal (P4) for the simple categorisation in paragraph 1.20.

Q4 relates to Proposal 5

4. Does the Glossary sufficiently clarify the potential inclusion of management personnel in the scope of those charged with governance?

Yes.

Please explain the rationale for your response.

We agree with the proposal (P5) to extend the definition of 'Those charged with governance' in the glossary. This amendment will allow flexibility based on circumstances. We suggest that a not-for-profit entity also be included i.e. "...governance board of a private or public sector or not-for-profit entity, or an owner-manager".

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Q5 relates to Proposal 6

5. Do paragraphs 1.21 and 1.22 sufficiently recognize variations in governance models?

Yes.

Please explain the rationale for your response.

We support the proposal (P6) to clarify governance structures, and consider that the inclusion of two-tier boards will assist with decision making around the responsibility for the integrated report within an organisation where this scenario occurs.

We support the principle-based nature of paragraph 1.22 by considering the intent of paragraph 1.20 to determine the responsibility for the integrity of the integrated report.

Q6 relates to Proposal 7a

6. Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

Yes.

Please explain the rationale for your response.

We agree with the proposal (P7a) to define outcomes and include a simple example to showcase the difference between outputs and outcomes.

For those organisations that struggle thinking in terms of the capitals, the simple example provided to illustrate positive and negative outcomes is very helpful. The example describes the outcome, links it to the capital affected, explains whether it was a positive or negative effect on that capital and illustrates that more than one capital can be affected.

We note that supplementary sector guidance/examples (outside the <IR> Framework). would be helpful, for example, reflecting outputs and outcomes in the service industry.

Q7 relates to Proposals 7b and 9

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

Undecided.

Please explain the rationale for your response.

In our view, the amendments proposed to figure 2 (P7b and P9) need to be developed further to effectively distinguish outputs from outcomes and link outcomes to value creation, preservation or erosion.

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We have noted some suggestions/comments below:

- Consider if it is possible in figure 2 to depict that the some of the outcomes are internal (value created for the organisation itself) and some are external (value created for others) to the organisation.
- Consider adding the word ‘outcomes’ after each capital on the right hand side of the diagram.
- Consider a way to depict that the outcomes can affect one capital or many of the capitals.
- Would prefer the last circle to just say “outcomes”. Could move ‘in the short, medium and long term’ to the arrow that runs along the bottom.
- The two-colour depiction of the value process is preferable to the multi-colour version which was distracting. However, suggest it might be more appropriate to colour the model from light to medium to dark blue (being the <IR> signature colour).
- It is unclear as to why the business model itself is coloured brown.
- The arrows between inputs, activities, outputs and outcomes may be better in graduating shading from blue to brown (or a darker blue – see above) which follows the value creation, preservation or erosion over time.
- Capital letters should be retained in names within the model by using sentence case.

Q8 relates to Proposal 8

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

No.

Please explain the rationale for your response.

We do not agree that the proposal (P8) sufficiently encourages evidence-based reporting of outcomes.

We support evidence-based reporting. In our view, verifiability of the claims and conclusions in the integrated report is extremely important. It also facilitates the ability to audit the integrated report.

All content included in the integrated report should be capable of being assured even if the organisation does not currently get assurance over its integrated report.

We would recommend that the IIRC consider including verifiability as a guiding principle in the <IR> Framework. If the IIRC consider this is beyond the limited scope of the revision of the <IR> Framework, we recommend that the IIRC add a discussion on the importance of evidence-based disclosures to the guiding principle of reliability.

We would also recommend that paragraph 4.19 includes a requirement that the qualitative and quantitative information provided needs to be evidence-based.

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We would recommend deleting the word “Ordinarily” at the beginning of paragraph 4.19.

We would recommend replacing the word ‘blend’ with ‘combination’ in paragraph 4.19. This is consistent with the wording used in paragraph 1.11.

Q9 relates to Proposal 11

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

Yes.

Please explain the rationale for your response.

We agree with proposal (P11) to clarify through the <IR> Framework that value can be preserved or eroded.

In our view, balanced reporting is a critical part of enhancing trust and credibility in the integrated report. We therefore support any amendments to the <IR> Framework that ensure organisations select and present information in a balanced manner.

However, we acknowledge that in conjunction with these amendments to the <IR> Framework there will also need to be a behavioural change by preparers of integrated reports.

Q10 relates to Proposal 10

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

No.

Please explain the rationale for your response.

We do not agree with the proposal (P10) to add the closing sentence to paragraph 4.20.

We do not agree with adding the term ‘impacts’ into the <IR> Framework. There is already confusion amongst the preparer and user communities around the use of the terms outcomes and impacts. For example, are outcomes and impacts synonymous? or are impacts just longer-term outcomes?

Instead of adding this sentence to paragraph 4.20, we recommend including in the definition of outcomes that the consequences for the capitals could be experienced over the short, medium and long term (we note that this concept has been added to the amended figure 2).

Charting a path forward

The following questions relate to longer-term strategic matters and, therefore, lie beyond the scope of the current <IR> Framework revision.

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

No.

Please explain the rationale for your response.

We believe that the focus of the IR report should remain on the suppliers of financial capital for three reasons:

1. The integrated report needs a narrow focus on one user-group otherwise the report will end up with a lot of “noise” and confusion, serve no particular user-group well and lack a sharp focus on financial capital providers. The entity cannot exist without the providers of financial capital, yet the broad group of stakeholders includes groups which have a less direct interest in the integrated report such as local communities and policymakers. They will require a large and user-specific range of information to satisfy their diverse user-needs. Focus on the financial capital user group should meet many of the needs of any of the other capital providers.

We highlight the *XRB Position Statement on EER*¹ to support this, which states:

In issuing its standards, the XRB focuses on users’ needs for information in general purpose financial reports (GPFR).

The primary users of GPFR of for-profit entities are existing and potential investors, lenders and other creditors.... EER information that is relevant to the primary users of GPFR may also be relevant to a wider group of stakeholders, such as NGOs, regulators, consumers and employees.

2. The multi-capitals approach of <IR> is founded on the broader notion of value creation. Financial capital is an essential capital in every integrated report. Some of the other five capitals are optional for entity-specific reasons for some entities preparing integrated reports.
3. In the world of global reporting, integrated reporting had achieved validity by building on the well-established and internationally accepted notion of the users of the report making decisions about financial capital. This aligns with the primary stakeholders of entities applying global IFRS Standards. For the <IR> Framework to distance itself from this user-group can lead to it having less credibility as “just another framework” in what is already a busy landscape of non-financial reporting in which lack of alignment between frameworks causes confusion amongst users and preparers.

¹ <https://www.xrb.govt.nz/extended-external-reporting/xrb-position-statement/>

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Consequently, we suggest that the acknowledgement of all stakeholders Para 1.8 precede the primary purpose paragraph 1.7 in the <IR> Framework.

- 1.7 *An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.*
- 1.8 *The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other.*

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.

Please explain the rationale for your response.

We believe this resource would be a useful addition.

The sheer volume of the number of standards, frameworks or initiatives available make for a very difficult landscape to navigate. Anything that can be done to assist preparers in this space will be welcome.

A good starting point would be clarification of the interaction between the <IR> Framework and the more detailed topic/industry specific frameworks and standards.

We do acknowledge current initiatives in this space such as The Reporting Exchange and the Corporate Reporting Dialogue.

If yes, to which standards, frameworks or initiatives should the resource point?

In the first instance, we suggest the IIRC focus on the standards and frameworks developed by members of the Corporate Reporting Dialogue.

We suggest some thought be given to the practical measurement of the achievement of the outcomes from the perspective of the preparer. Whilst national metrics may be available, company specific metrics may be more difficult to ascertain.

There is also the problem of externalities. Road accidents can be the result of a badly designed car, but also could be due to a poorly designed road, and an inattentive driver or one under the influence of various substances. The later causes are problems better addressed by the national transport bodies, not a private company. Auditability should also be considered in this context.

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13. Should the IIRC address the concept of integrated thinking more deeply?

Yes.

Please explain the rationale for your response.

In our view, integrated thinking underpins <IR>.

We believe that in practice the majority of organisations are using the creation of the integrated report as the impetus to get internal groups together to think through and agree on strategic priorities, business models, key resources, key outcomes/KPIs etc and so drive alignment in thinking about what to report — and then embedding integrated thinking within the organisation.

Other organisations may start with internal education and change internal policies, practices, tools, decision making processes, remuneration frameworks and reporting to drive the required change before they broaden their external reporting.

The risk with starting with the integrated reporting is that people inside the organisation are not being brought on the <IR> change journey. Internal systems, processes and behaviours are not then aligned to what is being reported externally.

The business case and implementation plan needs to cover both the reporting and the internal change agenda to achieve the full benefits of <IR>.

If yes, what additional guidance is needed?

Practical examples of how to deal with the barriers to integrated thinking, for example, embedded organisational culture, underlying systems and processes. This could be done by providing case studies of organisations that have successfully embedded integrated thinking into their organisations.

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

Yes.

Please explain the rationale for your response.

We believe that the IIRC should ensure that technology is a tool to support integrated reporting, but not drive the agenda of change to integrated reporting. With the development of technology now at people's fingertips on their smartphone and wide access to real-time information, it is time to revisit the traditional annual reporting model.

If yes, what technology considerations should be addressed?

We encourage the IIRC to take a leadership role in this conversation by considering digitisation and real-time information which allow the possibility of continuous reporting. However, we caution that the verifiability of information, and its validation are important in an age where selective use of information could distort the user's view of the entity. It is important to consider verifiability and the other qualitative characteristics of information when considering technological advances in future corporate reporting.

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We encourage the IIRC to look at Accountancy Europe’s paper “*Core and More*”² which proposes utilising technology to help allow for companies to use “the core report” as an interface/portal to the more detailed information that sits behind the core report.

The IIRC could also explore providing guidance on how entities could develop their integrated report as an interactive webpage. For example, an entity may want to consider using an infographic of its business model and value creation process (found in many integrated reports) as its navigational landing page.

Open feedback

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

No further comments.

² <https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/>