

## Response to IIRC Consultation<sup>1</sup>

[July 09, 2013]

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### Executive Summary

Eurosif has been a longstanding advocate of non-financial disclosure and reporting. In its response to the European Commission consultation on non-financial reporting in January 2011, Eurosif has been already supportive of the concept of integrated reporting<sup>1</sup>.

Overall, Eurosif believes that the proposed framework offers a strong basis for a “combined approach to corporate reporting as one of the levers to embed sustainability in corporate strategy & management practices” (Eurosif, 2011).

The key comments we would like to make are the following:

- <IR> should not be seen as a standalone complement to existing information or report. It should ultimately be the standard for corporate annual reports. It is vital that the framework sets the bar at that level to provide sufficient incentives for companies even if Eurosif recognises the need for interim steps;
  - The role of quantitative performance indicators should be stressed more prominently throughout the framework. While robust narratives are essential, KPIs and other quantitative indicators are of paramount importance to providers of financial capital, the primary users of these reports;
  - Finally, assurance is important but complex in that matter. It should be sought as ultimately non-financial information and financial information should be subject to the same regime but innovative assurance approaches could be promoted by IIRC.
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### Overview

#### Principles-based requirements

**To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).**

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

Eurosif believes that the list of principles suggested is comprehensive and relevant. We would however like to make the following observations:

- The principles are not the requirements, rather, they inform the reporting company about how to meet the requirements.
- We note some potential tension between the principles of stakeholder responsiveness, materiality and completeness: there is a risk that reporting companies struggle

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<sup>1</sup> <http://www.eurosif.org/policy/positions>



articulating these principles if it is not made absolutely clear to them that materiality should be defined and assessed with investors and other financial industry parties in mind (see question 11 in Chapter 3). The framework could be clearer on this.

- The principle of connectivity might be difficult to achieve in practice. More guidance might be needed for companies around this principle.
- The principle of comparability will be difficult to comply with if not more emphasis is put on the quantification of performance (KPIs).
- Timeliness is not mentioned as a principle. It might be relevant to mention this if IR is set to be a standalone report, even “prepared annually in line with the statutory financial reporting”.

### **Interaction with other reports and communications**

**The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).**

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

While we do agree with the fact that <IR> should be applied across all existing reporting, we disagree with the idea of <IR> complementing existing material and reporting.

It is critical to success to set, from the very beginning, the goal to have <IR> as an integral part of the Annual Report, even if we recognise that in practice, interim steps might be necessary. The ultimate goal should not be to produce a standalone <IR> report but to evolve current annual report contents and formats to integrated ones. This framework should clearly set this goal and provide appropriate guidance to achieve it.

The framework should also emphasize much more the need to quantify performance throughout IR. KPIs are of paramount importance to investors as recently evidenced by a joint survey Eurosif-ACCA in June 2013. In addition, they support the comparability principle which is also key to investors.

### **3. If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?**

The way the question is phrased could be interpreted differently.

If this means that IIRC is seeking to build a database referencing a selection of indicators drawn from existing “authoritative” frameworks, we believe that this would create another framework of its own, which would add complexity to an already complex landscape. We



therefore strongly advise IIRC not to launch such an initiative, at least at this stage of the market development.

However, if the question means that this is about building an online portal cross-referencing all authoritative and publicly available (international or regional) sources of indicators or measurement methods, we would be in favour of this as it could facilitate the reporting task of practitioners.

Should IIRC nevertheless wish to pursue the first option, it will be however of utmost importance to ensure a very transparent process around inclusions in the database (eg. which criteria are used and who set these) and to ensure that all relevant stakeholders are represented in the discussion, in particular investors, as, together with companies themselves, they would be key integrated report users.

In addition, in paragraph 1.19, rather than saying “the IIRC aims to complement material developed by established reporting standard setters...”, the framework should say “material developed by established international or regional reporting standard setters, complements the IR Framework by providing indicators, measurement tools and guidance that may help companies to implement integrated reporting...”.

#### **4. Please provide any other comments you have about Chapter 1.**

No comments provided.

### **Chapter 2: Fundamental concepts**

#### **The capitals (Section 2B)**

**The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).**

#### **5. Do you agree with this approach to the capitals? Why/why not?**

Eurosif is very supportive of the concept of capitals suggested by the framework.

While the proposed categorisation is a useful way to represent these capitals, it might however not be the only way. To this end, it would be useful to qualify this categorisation as “guidance” rather than “benchmark” as companies may want to use a different categorisation, especially around intellectual, human and social capitals, sometimes combined. This would provide more flexibility for companies in the way they present capitals (therefore paragraph 2.21 should be amended to reflect this).

If a company does not cover one or more capitals in its reporting, we agree that a strong explanation should be provided as stated in 4.5. However, we wish to highlight that <IR> caters for short, medium and long term perspective. It would be therefore very surprising that



any companies would not cover all suggested capitals as all capitals are indeed relevant over the long term, whatever the sector. For instance, climate change may not be material to all organisations in the short run but it becomes material as soon as one presents a medium to long term perspective, regardless of the industry. We would therefore expect the framework to highlight even more the importance of reporting against these different time scales in 4.5 and throughout the rest of the framework.

**6. Please provide any other comments you have about Section 2B?**

No comments provided.

**Business model (Section 2C)**

**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 (paragraph 2.26).**

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

No comments provided.

**Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs (paragraphs 2.35-2.36).**

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

No comments provided.

**9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?**

No comments provided.

**10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.**

No comments provided.

**Chapter 3: Guiding Principles**

**Materiality and conciseness (Section 3D)**



**Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).**

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

We insist that materiality in <IR> should be primarily assessed through the lenses of primary readers (eg. Investors) and with the input from other stakeholders (missing in 3.15). We agree with the fact that ultimately it is the senior management of the company and those charged with governance that form a view on what is material or not, but the role of primary report users (investors) needs to be more highlighted in the framework. It is not sufficient in our view to mention this in 3.27 and it should be stated in 3.25

Paragraph 3.22 could be therefore amended to read “An integrated report should provide concise information that is material to the intended audience for assessing the organization’s ability to create value.” (intended audience = primarily investors and other providers of financial capital)

We would also suggest to change paragraph 3.15 to reflect the role of other stakeholders (beyond primary report users) in the materiality determination process and to insist again on the concept of value creation according to different time scales (short, medium, long).

Reconciling the views of the senior management, of financial capital providers and other stakeholders is a good way to ensure that value creation is not understood in a narrow way and that it takes into account the difference capitals and according to different time horizons.

**12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).**

No additional comments.

**Reliability and completeness (Section 3E)**

**Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).**

**13. How should the reliability of an integrated report be demonstrated?**

Eurosif recommends that in the longer term, non-financial information (narrative information and KPIs) be subject to a similar level of assurance as financial information. This will improve the quality of this information and provide investors with confidence in relation to the completeness and reliability of information disclosed.



We note that this is consistent with the recent proposal made by the European Commission about non-financial reporting, mandating certain large European companies to report material non-financial information in their annual report<sup>2</sup>.

**14. Please provide any other comments you have about Section 3E.**

No additional comments.

**15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.**

No additional comments.

**Chapter 4: Content Elements**

**16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).**

No additional comments.

**Chapter 5: Preparation and presentation**

**Involvement of those charged with governance (Section 5D)**

**Section 5D discusses the involvement of those charged with governance, and paragraph**

**4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.**

**17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?**

Yes, to the extent that this is not duplicating existing requirements in the local legislation.

**18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).**

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<sup>2</sup> COM(2013)207



We see a lot of value, given the expertise it gathers, in IIRC providing additional guidance to companies about how senior management and those charged with governance should reconcile the duties imposed on them by national regulators with the expectations of Integrated Reporting in order to avoid unnecessary administrative burden and ensure that accountability for both financial and non-financial data is gradually enhanced.

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

Eurosif supports the idea that non-financial information should be ultimately subject to the same regime as financial information. <IR> has clearly the potential to achieve this goal. We therefore strongly insist that, in the long run, assurance should cover the whole integrated report.

It might however not always be practical for assurance to be obtained for the whole of an integrated report, at least in the short run. If this is not possible, the report should clearly indicate which information is assured and which one is not and the method and organisation used for assurance purposes.

It is therefore important that IIRC recognises that interim steps might be required and that assurance could take different forms, at least initially.

To this end, IIRC could explore for example if and how the “combined assurance” practice adopted in South Africa could be applied more broadly and the role that “special project assurance” performed by specialist firms or consultants could be encouraged.

**20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.**

No additional comments.

**21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).**

Since the comparability of information and data is of paramount importance to investors, we suggest that IIRC look at technological solutions that could help achieving such a goal. In that regard, technologies like the Extensible Business Reporting Language (XBRL) could provide an interesting platform. We therefore suggest that the IIRC considers the opportunity to support the creation of an XBRL taxonomy based on existing taxonomies (dependent on referencing other standards in the framework or to provide guidance on consolidating existing taxonomies(i.e. digital representations of standards) to create an integrated report.



**22. Recognizing 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 organizations in preparing an integrated report and for providing report users with information about an organization’s ability to create value in the short, medium and long term?**

We believe that the IIRC could play a bigger role in further promoting the disclosure of ESG matters, through some kind of <IR>, with corporate pension funds whose corporate sponsors will adopt <IR>.

This would dramatically help creating better consistency in the way firms and their pension funds are managed and in further promoting the sustainability agenda together with a better capital allocation.

For instance, the results of Eurosif’s European Corporate Pension Fund Study 2011 report found that “ 85% of participating funds give “some” or “great” significant to alignment with their plan sponsor’s CR/Sustainability policy as a factor behind the formulation and improvement of their RI policies”. In practice however, the Study shows that only 56% of participating funds have a responsible investment policy, thus indicating that there might be a missing link between the CSR policy of the sponsor company and the investments of its pension fund(s).<sup>3</sup>

**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? Other**

No response provided.

**24. Please provide any other comments not already addressed by your responses to Questions 1-23.**

No additional comments.

**END**

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**About Eurosif**

Eurosif is the leading pan-European sustainable investment membership association whose mission is to develop sustainability through European financial markets. Eurosif works as a partnership of eight European national Sustainable Investment Forums (SIFs) with the support and involvement of Member Affiliates. The national SIF members of Eurosif are based in France, Germany, Italy, the Netherlands, the UK, Belgium, Spain and Sweden. Eurosif’s Member Affiliates are drawn from leading institutional investors, asset managers, NGO’s, and research providers, together representing assets totalling over €1 trillion. The

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<sup>3</sup> <http://www.eurosif.org/research/corporate-pension-funds>





main activities of Eurosif are public policy, research and creating platforms for nurturing sustainable investing best practices. Recognised as the premier pan-European forum for sustainable investment, Eurosif speaks authoritatively and broadly on SRI (Sustainable and Responsible Investment) issues. [www.eurosif.org](http://www.eurosif.org)

***This position has been developed as part of Eurosif's aim to develop sustainability through European financial markets. It does not necessarily reflect the views of all its Members and Member Affiliates.***

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<sup>i</sup> Consultation draft of the international <IR> Framework. April 16, 2013.