International Federation of Accountants®

529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ifac.org

IFAC RESPONSE TO THE CONSULTATION DRAFT OF THE INTERNATIONAL <IR> FRAMEWORK 2020

Testing <IR> Framework revisions

Statement of responsibility for an integrated report

Q1: Do the adjustments to paragraph 1.20 simplify the statement of responsibility in an effective way?

Yes/ No / Undecided

We support the removal of the application of a collective mind and the removal of required commentary on plans for a future statement of responsibility. We also support the proposed additional text to paragraph 1.20 (but with some clarifications as per our response to questions 2 and 3).

We believe the statement of responsibility is crucial to demonstrate clear accountability of those charged with governance for the oversight of the preparation and presentation of an integrated report. This includes ensuring the establishment of strong governance and robust processes, systems and controls over wider information collection systems for non-financial data. It also requires those charged with governance to oversee a broad set of business and reporting risks and assess the connectivity and consistency between information in the integrated report and other reports and disclosures, including the financial statements.

Q2: Does the framing of process disclosures meet the goals of promoting accountability and integrity while still providing flexibility?

Yes/ No / Undecided

The approach taken in paragraph 1.20 is slightly confusing in that the whole paragraph is in bold italics (and therefore also in the appendix - summary of requirements), and as per paragraph 1.17, "*Any communication claiming to be an integrated report and referencing the <IR> Framework should apply all the requirements in bold italic type"* unless one of the exceptions outlined in paragraph 1.17 applies. But the wording that the statement "*is enhanced by supplementary disclosures*" and that these disclosures "*can include, for example*" does not suggest that this is a requirement (nor does it appear to be the intent if the goal is to provide flexibility).

This part of paragraph 1.20 looks out of place in the *appendix – summary of requirements:*

This statement is enhanced by supplementary disclosures on the process followed to prepare and present the integrated report. These disclosures can include, for example:

- **Related systems, procedures and controls, including key responsibilities and activities**
- **The role of those charged with governance, including relevant committees, in the process of preparing and presenting the integrated report.**

All other requirements in the appendix provide clarity as to what report preparers “should” include, not examples of what they “can” include.

We suggest that the IIRC makes clearer the distinction between what is a requirement within paragraph 1.20 and what is guidance.

For example, we would support making the following a requirement:

An integrated report should include a statement from those charged with governance that includes:

- **An acknowledgement of their responsibility to ensure the integrity of the integrated report**
- **Their opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the <IR> Framework.**
- **Supplementary disclosures on the process followed to prepare and present the integrated report.**

Where legal or regulatory requirements preclude a statement of responsibility from those charged with governance, this should be clearly stated. In such cases, process-related information should explain measures taken to ensure the integrity of the integrated report.

Then making this the guidance (and therefore not in bold italics and not included in the summary of requirements):

These disclosures can include, for example:

- Related systems, procedures and controls, including key responsibilities and activities
- The role of those charged with governance, including relevant committees, in the process of preparing and presenting the integrated report.

Or at a minimum, we would suggest not making this part bold italics and removing from the summary of requirements

This statement is enhanced by supplementary disclosures on the process followed to prepare and present the integrated report. These disclosures can include, for example:

- **Related systems, procedures and controls, including key responsibilities and activities**
- **The role of those charged with governance, including relevant committees, in the process of preparing and presenting the integrated report.**

Q3: Does the Consultation Draft strike an appropriate balance between maintaining a principles-based approach and usefully informing preparer considerations?

Yes/ No / Undecided

We understand and support the intent to strike an appropriate balance between maintaining a principles-based approach and usefully informing preparer considerations. We also have no objections to the proposed text around the inclusion of process-related information, including the role of those charged with governance in the process of preparing and presenting the integrated report.

However, as per our response to question 2, we suggest that the IIRC make clearer the distinction between what in paragraph 1.20 is a requirement and what is guidance.

Those charged with governance

Q4: Does the Glossary sufficiently clarify the potential inclusion of management personnel in the scope of those charged with governance?

Yes/ No / Undecided

We support the proposed text, which is in line with the International Audit and Assurance Standards Board's definition of those charged with governance.

Q5: Do paragraphs 1.21 and 1.22 sufficiently recognize variations in governance models?

Yes/ No / Undecided

Yes, we support the proposed text.

Business model considerations

Q6: Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

Yes/ No / Undecided

We support the proposed revisions. Further guidance (outside of the <IR> Framework) with industry-specific examples would also be helpful to report preparers to further understand the distinction between outputs and outcomes, and how outcomes relate to impacts

Q7: Does Figure 2 effectively distinguish outputs from outcomes and link outcomes to value creation, preservation or erosion?

Yes/ No / Undecided

To further enhance figure 2, it might be helpful to add the word 'impacts' to the 4th bubble, so it reads 'outcomes and impacts'.

See also response to question 10.

Q8: Does the final sentence in paragraph 4.19 sufficiently encourage evidence-based reporting of outcomes?

Yes/ No / Undecided

We support the addition of the final sentence.

However, it may not be sufficient to encourage evidence-based reporting of outcomes, nor does it address the common challenge that for many outcomes (and impacts), particularly those that are longer term, it is not always possible to attribute and quantify the organization's specific effects on the capitals. There are often many factors that are beyond the control of an individual company. Further guidance on evidence-based reporting of outcomes may be needed. See also our response to question 10 on impacts.

Q9: Does the increased emphasis on value preservation and value erosion encourage more balanced reporting of outcomes?

Yes/ No / Undecided

We welcome the additional references and increased emphasis on value preservation and value erosion.

Treatment of impacts

Q10: Does the closing sentence of paragraph 4.20 sufficiently address the coverage of impacts under the term 'outcomes'?

Yes/ No / Undecided

It does not fully address confusion between outcomes and impacts, or how to incorporate disclosures on impacts in an integrated report to reflect the positive or negative impacts of business activity on stakeholders and society.

We believe impact accounting and measurement are important but recognize that this is still a maturing field, and impact reporting may benefit from separate guidance. This includes how to define impacts, and measure and report impacts.

Therefore, at this stage we are supportive of the approach taken by the IIRC to keep reference to impacts simple in the revision to para 4.20. In terms of figure 2, it would be helpful to add the word 'impacts' to the 4th bubble, so it reads 'short, medium and long term outcomes and impacts', or a 5th bubble that contains 'impacts' if the consensus view is that outcomes and impacts are not synonymous.

Reference to impacts should be broad to allow the <IR> Framework to be relevant over time to a full range of impacts, including beyond the 2030 SDG agenda given that impacts may not be completely covered by the 17 goals.

As thinking and practices around impact reporting progress, consideration of further changes needed within the <IR> Framework should be revisited in future. See also our response to question 15.

Charting a path forward

Purpose of an integrated report

Q11: Should paragraph 1.7 extend beyond providers of financial capital alone to include providers of other forms of capital?

Yes/ No / Undecided

IFAC is strongly opposed to extending paragraph 1.7 (purpose of an integrated report) beyond providers of financial capital to include providers of other capital. IFAC believes that the primary user of an integrated report must remain providers of financial capital to achieve focus. We do not believe it is possible to effectively meet the communication needs of all stakeholders in a single, concise report. Widening the intended audience will likely dilute information in the report and impact its usefulness and conciseness. It may also have unintended implications for any assurance engagement.

Consideration of a broader range of stakeholders is a key part of integrated reporting and understanding value creation, but our view is that the integrated report itself should not necessarily be a means to report directly to all stakeholder groups (although other stakeholders may be interested in its content and the organization's ability to create value, as already highlighted by para. 1.8). The integrated report may not be the most appropriate communications channel for all stakeholders, for example human capital is arguably one of the most important for any organization, but the integrated report should not be the primary form of communication to the providers of human capital (i.e. employees).

External reporting standards and frameworks

Q12: 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? If yes, to which standards, frameworks or initiatives should the resource point?

Yes/ No / Undecided

We support efforts to draw upon existing frameworks, standards and high-quality metrics and disclosures already developed.

If such a database was to be developed, we believe it is important to:

- Differentiate it from existing examples, such as the comprehensive WBCSD Reporting Exchange for ESG reporting. Structuring the database around the six capitals may help achieve this.
- Decide carefully what is included in the planned database (and equally importantly what is not). Including too many links to other initiatives may not help companies decide which metrics to use. To achieve relevant, reliable and comparable corporate reporting, coalescence around a set of high-quality standards, or best practices, that specify what metrics and disclosures are reported is required
- Consider how such a database could be used as a means of facilitating convergence and comparability of reporting, by including those significant initiatives that are the building blocks to converging and aligning metrics and disclosures related to non-financial reporting
- Consider whether it should be developed in collaboration with the metrics/standards creators included (so as to ensure acceptance of the database).

Integrated thinking

Q13: Should the IIRC address the concept of integrated thinking more deeply? If yes, what additional guidance is needed?

Yes/ No / Undecided

We believe integrated thinking is a critical part of integrated reporting (and a key differentiator from other reporting forms) as it should lead to business embedding a long-term value creation mindset through greater interconnectedness of thinking and decisions within organizations of all sizes.

Integrated thinking will hopefully lead to better outcomes from corporate reporting that addresses systemic risks to capital and financial market systems and sustainable development challenges.[1]

To position the Framework more clearly as being about both integrated thinking and reporting, we suggest considering whether the Framework could be re-branded, for example as a 'Framework for Understanding and Reporting on Value Creation', or a 'Framework for Reporting on Value Creation'

The definition of integrated thinking in the <IR> Framework and the subsequent explanation in the IIRC's FAQs, would benefit from further clarification and practical application guidance. The way integrated thinking is defined and discussed varies. The work of the IIRC's Strategy and Integrated Thinking Group

[1] IFAC's Point of View on Enhancing Corporate Reporting: https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/enhancing-corporate-reporting

does not directly use the definition in the <IR> Framework. Building on the work of the Strategy and Integrated Thinking Group, additional work to address the definition and description of integrated thinking is important.

Technology

Q14: Should the IIRC explore the role of technology in future corporate reporting as a priority? If yes, what technology considerations should be addressed?

Yes/ No / Undecided

Technology will clearly impact the way organizations report in future. This goes beyond digital presentation of a report to the increased demand for real time reporting and a shift towards machine driven data analysis and algorithms driving investor decisions.

However, IFAC does not believe that this should be a priority focus for the IIRC at this stage. We believe the IIRC should first focus its efforts and resources on how the <IR> Framework needs to further evolve to be considered an all-encompassing connected conceptual framework for reporting. See also our response to question 15.

Open feedback

Q15: Please provide any other comments not already addressed by your responses to Questions 1 – 14.

IFAC welcomes the IIRC's revision of the <IR> Framework, which should be an important step in its continued development. IFAC is broadly supportive of strengthening the statement of responsibility for an integrated report, emphasizing the importance of the role of those charged with governance, clarifying terms within the business model, and addressing the need for more balanced reporting of positive *and* negative outcomes.

IFAC believes non-financial and financial information needs to be connected through a framework that captures relevant aspects of value creation and sustainable development. The <IR> Framework is the starting point for such a conceptual framework given it is the only comprehensive reporting framework.

However, neither the proposed revisions nor the questions posed in the section of the Consultation Draft on *Charting a Path Forward* address the fundamental issue of how the <IR> Framework needs to further evolve to be considered an all-encompassing connected conceptual framework for reporting.

IFAC believes this should be the priority focus for the IIRC and its strategic partners.

For the <IR> Framework to be more widely recognized as a connected umbrella conceptual framework for reporting, it must:

- Provide the foundation for understanding and reporting on multi-faceted value drivers based on financial and non-financial information – and demonstrating the connections between them.
- Provide the principles and key concepts around *"how to report"* with respect to scope, content and presentation. This is the foundation for *"what to report"* provided by other standards.

- Support the convergence and comparability of reporting through incorporation of significant initiatives and standards that are the building blocks to converging and aligning metrics, including those related to sustainability/ESG.
- Enable assurance, which is critical to confidence in all corporate reporting and most effective when applied against metrics and narrative disclosures that are supported by clear best practices or reporting standards.

Achieving this will require a pragmatic approach. With that in mind, IFAC believes:

- **In order to promote long-term relevance of the <IR> Framework and continued expansion of its use, it is vital that integrated reporting be positioned as an immediate solution to current market demands for consistent, reliable information that enables rigorous measurement and reporting of factors material to value creation and sustainable development.**
  There is a level of political and social momentum around ESG—and particularly, climate—reporting that are fundamental elements of long-term value creation. The IIRC may need to consider how the <IR> Framework itself addresses ESG and climate reporting and whether it needs to be more explicitly referenced in section 2B. Otherwise, there is the risk that <IR> will be lost in the push towards incorporating non-financial reporting into the sustainability agenda. The Framework consultation is also an opportunity to ensure integrated reporting and the TCFD recommendations are aligned in terms of concepts and principles.

- **The primary users of an integrated report must remain the providers of financial capital, which will help ensure (a) concise and focused reporting on value creation, (b) the alignment of the <IR> Framework with the IASB's Management Commentary Practice Statement, and (c) the assurance of integrated reporting.**

  Corporate reporting should concisely capture all relevant information about organizations required by investors and capital markets to make decisions on allocating their capital. Importantly, the <IR> Framework needs to be seen to incorporate all aspects of value creation representing factors that materially affect future cash flows and therefore market and intrinsic value[2]. Relevant aspects of wider financial reporting that relate to value creation are also captured through the management commentary project - a part of the IASB's work program. In conjunction with revisions to the <IR> Framework, these efforts might be escalated to enhance how this information is reported in management reports such as the Management Discussion and Analysis. The connection between the financial statements and the management report is important and there should be greater focus on integrating accounting and financial information with more forward-looking information in management reporting. The management commentary should provide another important input into the development of a connected conceptual framework.

- **The <IR> Framework must incorporate corporate impacts on society and the environment.**

  - IFAC is supportive at this stage of the approach taken by the IIRC to keep reference to impacts simple in the proposed revisions. However, it will be important in any future revision that the <IR> Framework more clearly incorporates positive and negative impacts on society and the environment that are not

[2] A forward-looking measure of the worth of a business based on a company's strategies and its ability to execute them. As outlined in *The CFO and Finance Function Role in Value Creation*.

expected to impact financial performance in the short term but are relevant to a broader corporate purpose, reputation and license to operate, with a view that these broader impacts can ultimately have material financial impacts. Confusion between outcomes and impacts will need to be addressed. The proposed revisions to the <IR> Framework imply that outcomes and impacts are one and the same, however there is not currently a consensus view that outcomes and impacts are synonymous. Bridging value creation and impacts can be an important step for companies in their efforts to optimize value creation and manage trade-offs between the interests of various stakeholders and the short and long-term consequences of any decision. Value creation and ESG metrics typically track the entity's gains and losses at the expense of broader organizational impacts. Clear reference to impacts also allows the <IR> Framework to be relevant over time in relation to, and beyond, the 2030 agenda for sustainable development.

- **The <IR> Framework may need to be re-branded as a Framework for Understanding and Reporting on Value Creation**. This would position it more clearly as being about integrated thinking and reporting and may also help to deal with the challenge that in many countries, the adoption of integrated reporting is through existing regulatory requirements for management reporting.