REVISION OF THE INTERNATIONAL <IR> FRAMEWORK
IRC OF SOUTH AFRICA COMMENTS SUBMISSION TO THE IIRC ON THE
CONSULTATION DRAFT (MAY 2020)

FINAL AS APPROVED BY THE IRC BOARD

17 August 2020

Online submission

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

Response:

Yes

Comments:

- It is noted that the suggested amendment related to the supplementary process disclosures aligns with the 'apply and explain' approach in South Africa's *King IV Report on Corporate Governance.*

- To avoid lengthy disclosures, consider emphasising that the supplementary process disclosures are to be concise.

- Consider adding that those responsible confirm that the integrated report is an accurate and complete account of the organisation's value creation story at the date of approval by the governing body.

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

Response:

Yes

Comments:

- It is important to note that process disclosures, on their own, cannot take the place of accountability for the content, but will serve to assist with credibility.

- It is proposed that the revised paragraph 1.20 should clarify the meaning of 'extent' to which preparers are presenting their reports in accordance with the *International <IR> Framework* (<IR> Framework) and explicitly state that this relaxation is only applicable to first-time or early (say, two years) preparers.

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

Response:

Yes

Comments:

- The IIRC Technical Team and Framework Panel are commended on a well-considered process disclosures supplementation.

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

Response:

No

Comments:

- The revised wording in the Glossary (17) may be read to suggest that management and not the governing body assumes the ultimate accountability for the preparation, oversight and presentation of the integrated report.
- Although management may be responsible for the preparation of the integrated report, the oversight and accountability clearly remains that of the governing body.

Q5. Do paragraphs 1.21 and 1.22 sufficiently recognise variations in governance models?

Response:

Undecided

Comments:

- Paragraph 1.21 should be more clearly phrased to remove any suggestion that accountability may be delegated by the governing body to, or reside with, the management board.
- Even in the context of two-tiered board structures, shared accountability and responsibility for internal and external reporting remains in place without an inadvertent delegation to the management board.
- In paragraph 1.22, consider replacing the word 'promote' with 'ensure' the integrity of the integrated report.

Q6. Does paragraph 4.19 sufficiently differentiate outputs and outcomes?

Response:

Undecided

Comments:

- It is important that the material positive and negative outcomes on the six capitals are separately disclosed, while minimising reference to net impact. A transparent reflection in the integrated report of the material outcomes allows the users to make their own assessment of net impact.
- Consider including reference to foreseen outcomes as well as unforeseen outcomes (for example, those which may have arisen as a result of a global pandemic or a natural disaster).
- There should be reference to the steps taken by the organisation to mitigate or avoid negative outcomes.
- The paragraph should point out that outcomes could be linked to the organisation's purpose, which may require trade-offs between stakeholder expectations and the utilisation of capitals.
- As a general rule, consider whether examples should be removed from the <IR> Framework and, instead, be included in separate FAQs.
- Of the given examples in the Consultation Draft: the examples are vague and unclear and do not serve to provide evidence of quality reporting. It is important to note that one cannot make an adequate assessment of an organisation where the outcomes are very general.
- It is suggested that the IIRC reconsider the inclusion of 'waste and by-products' in the definition of the term 'outputs' and leave that definition as 'products and services'. This would assist in lessening confusion over outputs and outcomes.
- The inclusion of carbon emissions in the category of 'waste' minimises their significance given the current climate change crisis.

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

Response:

Yes

Comments:

- Our response is subject to updating Figure 2 to more clearly illustrate that 'inputs' and 'outcomes' straddle the internal and external environments.
- Consider further distinguishing 'inputs' and 'outcomes' by using different colours.

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

Response:

No

Comments:

- Consider removing the word 'ordinarily' as this risks ambiguity.
- Consider explanatory examples in a separate FAQ.
- Consider rewording the paragraph to read: 'An organisation communicates its use of and effects on the capitals through evidence-based reporting together with narrative disclosure'.
- The importance of narrative disclosure must not be diminished. In some cases, the organisation will not have quantitative data available, but it is nevertheless important that disclosure still happens in narrative form. Omitting such information risks an incomplete integrated report.

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

Response:

Yes

Comments:

- The clear reference to 'value preservation' and 'value erosion' throughout the <IR> Framework addresses the inherent positive bias of the term 'value creation'.
- The 'Value creation' Glossary term should ensure that 'value' is not interpreted as a sum of the parts (net), but that the extent to which value is created, preserved or eroded on each capital are to be clearly described and explained in the integrated report. This disclosure ensures transparency by the organisation and is essential to the users of the integrated report to make an informed assessment.
- The revision encourages organisations to articulate in their integrated reports how the organisation creates, sustains, defends and potentially erodes value, and forces organisations to consider and explain their integrated, long-term approach to sustainable value creation as well as how they integrate risk and opportunity management into their processes.
- The revision should, however, better distinguish between intended and unintended value creation, preservation or erosion, recognising that there are often well-considered trade-offs that are evaluated by the organisation.

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

Response:

Undecided

Comments:

- It is recognised that this is an ongoing international debate that will hopefully reach resolution. It is suggested that the points made above referring to outputs and outcomes can assist in lessening any perceived difference between the two terms.

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

Response:

Yes

Comments

- However, we qualify our answer given in the defined response box as follows:
  - We believe there is no need to specifically reference the term 'providers of capital' in paragraph 1.7 and that reference to all providers in paragraph 1.8 (with the inclusion of providers of financial capital as stated in the Consultation Draft) suffices. We say this based on three main reasons:
    - Firstly, the integrated report is the organisation's explanation of how it creates, preserves and erodes value over time. It is the story of the organisation containing all the information and matters material to its process of value creation, preservation or erosion. As such, it will be relevant to all providers of capital / stakeholders who are interested in the longer term sustainability / viability of the organisation.
    - Second, this is consistent with the rightful position of the integrated report as the 'roof', 'umbrella, 'first read', or the 'head of the octopus' in the corporate reporting suite (see the IRC of South Africa's FAQ on *The Octopus Model* www.integratedreportingsa.org)
    - Third, as directors of a company owe their duties to the company, so too should their reporting be to the company.
- Our view does not mean that the integrated report attempts at being 'all things to all stakeholders' with preparers confused as to whether the content of the report should meet

all stakeholders' information needs. The content of the integrated report will always be dictated by the Guiding Principles under the overarching perspective that the integrated report is the value creation, preservation or erosion story of the organisation.

- Nor does our view lessen the integrated report's relevance for the investment community: the materiality determination will remain unchanged as it addresses all matters material to the organisation's value creation, preservation or erosion process over the short, medium and long term.

- The above is consistent with, and is further elaborated on in, the IRC of South Africa's FAQ on *The Audience of the Integrated Report* on www.integratedreportingsa.org. It states: 'It is the view of the IRC, (after consideration of the above), that the organisation's integrated report need not state a specific target audience because the integrated report is an explanation of the organisation's value creation process over time. As such, the integrated report will appeal to all stakeholders interested in the organisation's ability to create value and is positioned as the 'first read' after which stakeholders may choose to access more detailed information (as explained in *The Octopus Model* approach to the corporate reporting suite on page 2, second bullet point).'

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?

Response:

Yes

Comments:

- A resource and the creation of a separate database would be useful for organisations; however, we agree that specific standards and frameworks should not be referenced in the <IR> Framework.
- Where a database includes certain standards and frameworks, these should be clearly provided for reference purposes only.
- The governing body of each organisation is best placed to determine which frameworks and standards are suitable for it – there is no consistent set of frameworks and standards which apply to each and every organisation across sector and geography.

Q13. Should the IIRC address the concept of integrated thinking more deeply?

Response:

Yes

Comments:

- Providing practical guidance as to how integrated thinking can be implemented organisation-wide will be useful for the governing body and management team alike.
- This high-level concept can be better explained in the opening paragraphs of the <IR> Framework, and a separate guide or FAQ issued which can include case studies and illustrative examples.
- Consider updating the definition of 'integrated thinking' in the <IR> Framework so that the integration of the capitals is referenced first followed by the integration of departmental information.

Q14. Should the IIRC explore the role of technology in future corporate reporting as a priority?

Response:

Yes

Comments:

- Consider referencing 'digital, data and technology' so that the enquiry extends beyond the format of online reporting.
- Guidance regarding the following would be valuable: continuous/ real-time reporting, the use of concepts like XBRL, value creation tools/ calculators, real-time engagement with organisations, continuous assurance, the role of technology and related innovations, machine learning and data analytics.
- Also consider how these may impact and be impacted by the Guiding Principle of Conciseness.

Q15: OPEN FEEDBACK

We include the following general comments for your consideration:

- In finalising the revision to the <IR> Framework the IIRC should position the <IR> Framework as a clear and concise set of simple guidelines. In turn, this can be supplemented by separate FAQs setting out illustrative examples and case studies.
- It is suggested that further information on the following would be valuable:
  - The gathering, consolidation and assessment of outlook information (we refer you to the IRC of South Africa's *Reporting on Outlook in the Integrated Report: An Information Paper* https://integratedreportingsa.org/reporting-on-outlook-in-the-integrated-report/)
  - Evolving governance frameworks.

- We reiterate that the 'Value Creation' Glossary term should not be interpreted as a sum of the parts (net), but that the extent to which value is created, preserved or eroded on each capital are to be clearly described and explained in the integrated report.
- The <IR> Framework should emphasise that there is no cookie-cutter or checklist approach to integrated reporting and that each organisation should decide how best to tell its unique value creation, preservation and erosion story. The IIRC could, however, provide examples on how organisations demonstrate that:
  - they have the resources to implement their strategy over the longer term, or where they will obtain the resources if they were to become resource-constrained;
  - they have adequately assessed the external environment through robust scenario planning exercises and evaluations across teams within the organisation; and
  - their business model is clear and robust, and possibly supplemented with a written explanation if need be.
- We encourage the IIRC to enhance the assurance-readiness of integrated reports and that it continue to collaborate with relevant organisations on discussing and providing guidance on assurance. Further, additional guidance and FAQs can be considered by the IIRC in related areas such as internal processes and controls.

ENDS