



INTERNATIONAL <IR> FRAMEWORK CONSULTATION

Issued 19 August 2020

ICAEW welcomes the opportunity to comment on the International <IR> Framework Consultation published by the International Integrated Reporting Council (IIRC) in June 2020, a copy of which is available from this [link](#).

We welcome the International Integrated Reporting Council's (IIRC) review of the <IR> Framework. While we broadly support the proposed amendments, we have made a number of observations, in particular with regards to proposals to differentiate outputs from outcomes, and the discussion around whether the primary users of integrated reports should be extended beyond providers of financial capital.

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ANSWERS TO SPECIFIC QUESTIONS

Question 1

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

- ☒ Yes
☐ No
☐ Undecided

Question 2

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

- ☒ Yes
☐ No
☐ Undecided

1. We agree that providing disclosures on an organisation's reporting processes and related responsibilities for the preparation of an integrated report can provide helpful information. Indeed, understanding who is responsible for the integrated report can, in itself, provide a clear indication of its significance within the organisation. Expanding the framework to cover disclosure of processes and responsibilities might also encourage organisations to consider the appropriateness of their existing processes and responsibilities which would be a positive outcome.
2. However, this type of information will most likely need to be provided at a high-level and, as result, there is a risk of boilerplate disclosures. In our view, the key element of this disclosure is to understand which individuals within the organisation have ultimate responsibility for the integrated report. Additional information regarding processes/general responsibilities for the production of the report might then be located elsewhere, with a cross reference to this standing information within the report.

Question 3

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

- ☒ Yes
☐ No
☐ Undecided

Question 4

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

- ☐ Yes
☒ No
☐ Undecided

3. We do not believe that the changes to the Glossary helpfully clarify the scope of those charged with governance. We note that the additional text is broadly consistent with ISA 260

– *Communication with those charged with governance.* In our view, a better approach might be to leave the Glossary term for ‘Those charged with governance’ unchanged and to include a footnote referring to ISA 260 for further clarification.

4. We also believe the addition to paragraph 1.22 which states that an organisation should ‘consider the intent of paragraph 1.20, which is to promote the integrity of the integrated report through the commitment of the highest oversight or decision-making body’ provides a helpful clarification of how to determine those charged with governance, without the need for the proposed changes to the Glossary.

Question 5

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

☒ Yes

☐ No

☐ Undecided

5. While we have answered ‘yes’ to this question, we believe that the final sentence of paragraph 1.21, which states that ‘In the case of two tier boards, the statement of responsibility is ordinarily provided by the body responsible for overseeing the preparation and presentation of the integrated report’ is at odds with the principle outlined in paragraph 1.22, which states that ‘In the absence of a universal governance model, the organization should consider the intent of paragraph 1.20, which is to promote the integrity of the integrated report through the commitment of the highest oversight or decision-making body.’
6. To avoid confusion, we suggest that the final sentence of paragraph 1.21 is deleted.

Question 6

Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

☐ Yes

☒ No

☐ Undecided

7. We appreciate the IIRC’s efforts to address the current confusion (as highlighted in the recent outreach) between the concepts of outputs and outcomes. However, we do not believe that the proposed amendments to paragraph 4.19 help clarify these concepts or explain how they differ. The proposed amendments also appear to rely on examples to explain the difference whereas, in our view, a better approach would be to set out a clear definition/principle which is then supported by examples.
8. We would also suggest that more than one example is developed to cover a range of sectors and therefore demonstrate different types of ‘outputs’. These examples should not sit within the framework but within accompanying guidance.
9. More broadly, while we understand the rationale for seeking to clarify the difference between outcomes and outputs within the framework, we would have preferred a greater focus on how the terms outputs/outcomes relate to a company reporting on its impacts. From a UK perspective, use of the term ‘impacts’ is widely used, for example in the EU Non-Financial Reporting Directive. Therefore, greater clarity around how the framework can be applied by organisations seeking to report on their ‘impacts’ would be helpful.

Question 7

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

- ☐ Yes
☐ No
☒ Undecided

10. The model introduces the term 'purpose' but this is not defined or explained elsewhere in the framework. We suggest that further guidance is required around the meaning of an organisation's 'purpose' and how this is important/relevant to the creation of value.
11. Generally speaking, we believe that Figure 2 is not always well understood and would perhaps benefit from an accompanying narrative explanation. In particular, any accompanying narrative should make it clear that it is not a model that needs to be strictly followed, but rather a suggestion of the elements that an organisation might need to consider when preparing an integrated report ie, not every aspect of the diagram will be relevant to every organisation.

Question 8

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

- ☐ Yes
☐ No
☒ Undecided

12. Overall, we agree with efforts to encourage greater evidence-based reporting within integrated reports. However, we question whether the proposed amendments will help organisations determine what type of quantitative information should be used or encourage greater rigour around the selection and use of appropriate quantitative data.
13. We suggest it might be helpful if paragraph 4.19 was altered to replace the reference to 'communicates' and instead refer to how an organisation 'supports and evidences its use of and effects on the capitals through disclosure of a blend of qualitative and quantitative information'.

Question 9

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

- ☐ Yes
☐ No
☒ Undecided

14. While we agree with the greater emphasis on value preservation and value erosion with the framework, we suggest that the IIRC goes further and clarifies the concepts of value creation, preservation and erosion within the guiding principles of the framework. In particular, it would be helpful to highlight how these should be shown separately within an integrated report (ie, not a net value position) and how there may be trade-offs between these different value concepts.

Question 10

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

- ☐ Yes
☒ No
☐ Undecided

15. Please see our comments in response to question 6.

Question 11

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

- ☐ Yes
☒ No
☐ Undecided

16. While we believe that reporting to providers of financial capital is necessary for an appropriate allocation of capital in the economy, we recognise the growing demand for companies to report in a way which enables users to understand how the business creates value in the context of all its stakeholders.
17. That said, we do not believe that now this is the right moment to extend the purpose of the integrated report beyond providers of financial capital. In our view, this is a matter that requires further consideration and research, including monitoring developments in reporting practice.
18. We also note that the integrated report should reflect already the fact that companies are dependent on a broad range of stakeholders. Therefore, even when providers of financial capital are the primary intended user of integrated reports, the end result will still be of relevance to, and may meet the needs of, some of those other stakeholders.

Question 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
☒ No
☐ Undecided

Question 13

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

- ☐ Yes
☐ No
☒ Undecided

19. As a central concept underpinning the framework, we agree that it is helpful for the IIRC to continue to consider the concept of integrated thinking. We would not expect any further

deliberations to translate into further guidance in the framework, but rather to help contribute to other aspects of the IIRC's work. For example, adding examples of good integrated reporting to the database, and collaborating with their stakeholders on projects including discussions around achieving a global non-financial reporting standard.

Question 14

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

- ☐ Yes
- ☐ No
- ☒ Undecided

20. We agree that it will be helpful for the IIRC to monitor technological developments and to keep in mind how technology may be able to help organisations communicate with users over time. However, we would caution against focussing too heavily on technological developments as in our view the focus should be ensuring a robust framework and helping organisation produce high quality integrated reports.

Question 15

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

21. We strongly encourage all efforts to move towards the establishment of a single principles-based and internationally recognised global framework providing comparability and consistency for non-financial reporting. We believe this could see the IFRS Foundation restructured to create an International Non-Financial Reporting Standards Board, parallel to the IASB. The longer-term goal, however, should be the establishment of a global corporate reporting structure, encompassing both financial and non-financial reporting.
22. Current moves to consolidate existing standards, guidelines and frameworks need to be accelerated and made more open and transparent. We call on the IIRC to also strengthen engagement with other international stakeholders on this matter, in particular the IFRS Foundation. In recognition of the particular momentum in the EU, we have set out our thinking on the need for a bridged European and international approach to standard setting in a recent paper [Non-financial reporting: ensuring a sustainable global recovery](#).
23. We also take this opportunity to consider the ongoing and important debate regarding the assurance of non-financial information. In our view, one of the major challenges to providing assurance on non-financial information is the strength of an organisation's control systems and governance structures that support the process of producing the information. A common refrain heard in ICAEW's engagement with assurance providers is that they are often unable to accept assurance engagements of non-financial information when the organisation's control system is not mature enough, as it leaves them unable to rely on the system as part of the engagement.
24. In order for assurance of non-financial information to become more commonplace, it will be necessary to up-skill boards and audit committee chairs, strengthen the control systems and reporting processes. These are not quick fixes and will take a concerted effort to move forward. It may be that the IIRC can play an important role in this debate, for example, by considering whether information reported under the <IR> framework is assurance 'ready' and, if not, to examine the reasons why and how this might be addressed.

