

FEEDBACK TO THE IIRC SURVEY ON THE REVIEW OF THE INTERNATIONAL <IR> FRAMEWORK

The International Integrated Reporting Council (IIRC) is collecting feedback on a survey in order to inform the nature and direction of the proposed International Integrated Reporting Framework (<IR> Framework) revisions. The feedback collected will feed the <IR> Framework Consultation Draft of May 2002. Their call for feedback may be found in this [link](#).

Accountancy Europe decided to respond to all three Topic Papers.

We submitted our feedback online.

TOPIC PAPER 1: RESPONSIBILITY FOR AN INTEGRATED REPORT

Accountancy Europe responded as follows to the questions raised in [Topic Paper 1: Responsibility for an integrated report](#).

Question 1

Should the emphasis of Paragraph 1.20 shift from a statement of responsibility to process-related disclosures? Please explain.

- (1) Accountancy Europe welcomes the IIRC proposal to shift from providing a statement of responsibility from those charged with governance to providing process-related disclosures aiming to increase the uptake of paragraph 1.20 of the <IR> Framework. This shift would help overcome current conflicts with local regulations, ease the additional reporting burdens and liability concerns of preparers and describe how those charged with governance have been involved in preparing the integrated report.
- (2) In addition to increasing the uptake of the <IR> Framework, a focus to process-related disclosures such as the systems and controls that contribute in the preparation of the report may ultimately result in enhancing these processes.

Question 2

To which systems, procedures and controls should the guidance refer?

- (3) We are of the opinion that referring to specific procedures and controls may lead to a “box ticking” compliance exercise, which could ultimately have little impact on the company’s behaviour towards value creation. Therefore, we suggest that such a guidance be principle based and allow for entity-specific disclosures as much as possible.
- (4) However, in providing such a guidance, the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control – Integrated Framework may be considered.
- (5) Finally, we suggest the IIRC considers providing specific guidance for SMEs. Based on paragraph 1.4 of the <IR> Framework, the Framework can be applied by companies of any size, however, as these

guidelines may be burdensome to many SMEs, the IIRC may consider providing a simplified guidance for these companies.

Question 3

Should the guidance encourage the disclosure of key roles and responsibilities in the integrated reporting process? Please explain.

- (6) Accountancy Europe encourages guidance to provide disclosures on the key roles and responsibilities in the integrated reporting process. This would clarify the roles of those charged with governance in the process of preparing the IR and could also help in answering the questions in section 4 *Content Elements* of the <IR> Framework, especially for 4B Governance.

Question 4

Should the guidance cite a voluntary 'statement of responsibility from those charged with governance' as best practice? Please explain.

- (7) Notwithstanding our answers to Question 1 above, we agree that a voluntary 'statement of responsibility from those charged with governance' is cited as best practice.

Question 5

Is there value in clarifying the term 'those charged with governance'?

- (8) Accountancy Europe is of the opinion that the term "those charged with governance" is well understood, at least in the accountancy profession. Therefore, we suggest the IIRC builds on the current International Standard on Auditing (ISA) 260 definition of "those charged with governance"¹ to extend the objective of the entity to value creation as per the purpose of the <IR> report.

TOPIC PAPER 2: BUSINESS MODEL CONSIDERATIONS

Accountancy Europe responded as follows to the questions raised in [Topic Paper 2: Business model considerations](#).

Question 1

Should the <IR> Framework explore illustrative examples and visual techniques to elevate the significance of outcomes?

- (9) Accountancy Europe agrees with the IIRC proposal to include illustrative examples in order to better guide preparers in disclosing outcomes as well as make a distinction between outputs and outcomes.
- (10) However, we are of the opinion that the sample illustrative example in page 6, proposal A of Topic Paper 2, does not fully address the guidelines provided in paragraph 4.19 of the <IR> Framework. In order to make a better distinction with outputs as well as to provide clear guidance on how to disclose outcomes, we advise that any illustrative examples specifically address internal outcomes, external outcomes, positive outcomes and negative outcomes.

¹ ISA 260, paragraph 10, as issued by the International Audit and Assurance Standards Board (IAASB): *Those charged with governance – The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.*

- (11) On the other hand, in creating a visual break between inputs – activities – outputs and outcomes in Figure 2 “The value creation process” of the <IR> Framework, we advise caution on such presentation as it could impair the circularity of outcomes and the system (e.g. outcomes impact input decisions) or even raise assurance concerns.

Question 2

Should the <IR> Framework further explain the link between outcomes and value creation by including an illustrative example?

- (12) Accountancy Europe agrees that the <IR> Framework should further explain the link between outcomes and value creation by including illustrative examples. In this context we suggest the example also includes disclosures during different reporting periods in order to reinforce consistency as a guiding principle.

Question 3

Should Sections 4C and 4F of the <IR> Framework further reinforce:

- i. That the term ‘value creation’ also reflects cases in which value is preserved or eroded?*
- ii. The importance of providing evidence to support claims and conclusions made in the integrated report?*

- (13) Accountancy Europe agrees that the <IR> Framework reinforces that the term “value creation” also reflects cases in which value is preserved or eroded, in order to ensure that the IR meets the guiding principle of “reliability and completeness”.
- (14) We also agree with reinforcing the importance of providing evidence to support claims and conclusions made in the IR.

Question 4

Should the <IR> Framework clarify its coverage of longer-term impacts on society and nature, under its existing ‘outcomes’ definition?

- (15) Accountancy Europe agrees that the definition of “outcomes” should also include the longer-term impacts of the activities of the business. In addition to making a distinction between output and outcomes, we suggest the IIRC also clarifies disclosures of inputs and outputs (i.e. “internal outcomes” may be confused with inputs).

TOPIC PAPER 3: CREATING A PATH FORWARD

Accountancy Europe responded as follows to the questions raised in [Topic Paper 3: Creating a path forward](#).

Question 1

- a) Do you agree with the proposed change to Paragraph 1.7? Why or why not?*
 - b) Do you agree with the proposed change to Paragraph 1.8? Why or why not?*
- (16) Accountancy Europe welcomes the IIRC proposals in paragraph 1.7 and 1.8 of the <IR> Framework aiming a shift in focus from an investor lens, to a broader stakeholder lens. However, in line with the

changes in wording, we also suggest revising the respective tone set in other sections of the <IR> Framework (see footnote for some examples)².

- (17) Defining materiality for non-financial reporting purposes can be more challenging and complicated than defining materiality for financial reporting purposes. It is the responsibility of the preparer to define materiality for reporting purposes and therefore the reporting framework should provide sufficient guidance as to how to this should be performed (for financial but also non-financial purposes). Companies should better connect financial and non-financial information to improve the robustness and reliability of the reported information.
- (18) In shifting such a focus, we would suggest the IIRC to review the definition and process of determination of materiality (section 3D of the <IR> Framework) for it to be broader stakeholder focused. The IIRC may consider our considerations on materiality in our paper [Interconnected Standard Setting](#) in building this guiding principle.
- (19) Finally, we also suggest the IIRC to collect feedback from stakeholders other than investors on how they perceive the <IR> Framework and how would their needs and concerns be better addressed.

Question 2

What considerations should inform the IIRC's strategic deliberations on the role of technology in future corporate reporting?

- (20) The IIRC could build on the ideas in our paper [CORE & MORE: An opportunity for smarter corporate reporting](#) where we also explore how technology could enhance corporate reporting. This could be by improving accessibility, combining use of different media, using extensive cross-referencing, supporting automatic reporting, or even by reporting based on a “data warehouse” technology. The latter would enable user-specific customised reporting, where users would pick different matters of reporting from the “data warehouse”.

Question 3

Are there further ways in which the <IR> Framework can enhance the assurance-readiness of integrated reports?

- (21) Non-financial reporting, and assurance practice thereon, are still evolving but it is strategic for the <IR> Framework to be future proof, to ensure that such information is verifiable.
- (22) Topic Paper 3 notes that IIRC issued a paper exploring challenges of assurance over <IR>. <IR> Framework therefore could enhance assurance-readiness of integrated reports by addressing those challenges to ensure the suitability of criteria for an assurance engagement. It would be helpful to provide guidance as to how the <IR> Framework can be used in combination with other reporting Frameworks to prepare the disclosures.
- (23) The selected subject matter for the assurance engagement should be core to the company's strategy, its business model and what drives the value creation within the company. Non-financial disclosures by companies need to be better aligned with the company's strategy and values and the reporting framework should serve as a tool to deliver such disclosures.
- (24) In addition, it could be helpful if the <IR> Framework provided guidance on the internal control systems or included references to existing guidance as non-financial reporting internal control systems might

² Section “Executive summary”: *Integrated Reporting (<IR>) promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.*

Paragraph 2.5: *Providers of financial capital are interested in the value an organization creates for itself.*

Paragraph 3.20: *To be most effective, the materiality determination process is integrated into the organization's management processes and includes regular engagement with providers of financial capital [...].*

be less strong than financial reporting ones. For example, the COSO Framework may be a valuable source. Reporting standard setters should establish robust principles and guidance for companies to refer to as they implement systems to capture and process sustainability and/or non-financial information.

Question 4

Consider the following statement: Matters of assurance rest with regulators and related standard setters, and not with voluntary reporting frameworks. Do you agree or disagree? Please explain.

- (25) We agree that it is the role of regulators to decide whether independent assurance over reported information should be mandatory, and if so, what scope and at which level. Nonetheless, investors are increasingly voicing the need to enhance the reliability and credibility of disclosed information. Therefore, a reporting framework or standard should ensure that disclosures produced using that framework are verifiable. A reporting framework or standard used by a company serves as a point of reference for an assurance engagement, assurance being provided against suitable criteria. The assurance practitioner assesses whether the applied reporting standards and frameworks are suitable in the given circumstances.
- (26) [Responding to assurance needs on non-financial information, Accountancy Europe and WBCSD, May 2018](#)
- (27) [Towards reliable non-financial information across Europe, Accountancy Europe](#)

Question 5

Are there further matters that the IIRC should consider:

- a. *In the modernization of the <IR> Framework?*
 - b. *As part of its strategic agenda?*
- (28) Accountancy Europe does not have any further matters for the consideration of the IIRC in the review of the <IR> Framework.