

ACCOUNTANCY EUROPE RESPONSE TO THE IIRC'S CONSULTATION ON THE INTERNATIONAL <IR> FRAMEWORK REVIEW

The International Integrated Reporting Council (IIRC) [calls](#) for comments to the Consultation Draft of the International Integrated Reporting Framework (<IR> Framework) revision.

The Consultation Draft also follows the responses received from stakeholders in surveys on three topic papers published in February 2020. Accountancy Europe's response to the surveys may be found in this [link](#).

We submitted our feedback online.

TESTING THE <IR> FRAMEWORK REVISIONS

STATEMENT OF RESPONSIBILITY FOR AN INTEGRATED REPORT

Question 1 (relating to Proposal 2)

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

Please explain the rationale for your response.

- (1) Yes
- No
- Undecided
- (2) Accountancy Europe supports keeping the requirement for a statement from those charged with governance in the integrated report as it ensures top-level accountability and report credibility, which in turn unlock assurance. In addition, we welcome the IIRC's efforts to address any conflicts with local regulations by providing an exception to the rule for such cases and require process-related disclosures.
- (3) We also support the IIRC's proposals to remove required commentary on the application of a 'collective mind' and on plans for a future statement of responsibility. This could potentially alleviate the reporting burden for some preparers.
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Question 2 (relating to Proposal 3)

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

Please explain the rationale for your response.

- (4) Yes

- No
- Undecided
- (5) Accountancy Europe supports process-related disclosures as they provide relevant information, enhance accountability and integrity whilst providing flexibility.
- (6) Despite the IIRC's intention to allow for such disclosures on a voluntary basis (Basis for Conclusion, proposal 3, bullet point 3), the current wording may be interpreted as an additional requirement to the statement of responsibility from those charged with governance.
- (7) Therefore, we suggest the IIRC to revise the wording provided in the second paragraph in 1.20 of the <IR> Framework and clarify whether such disclosures are voluntary.

PROCESS RELATED DISCLOSURES

Question 3 (relating to Proposal 4)

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

Please explain the rationale for your response.

- (8) Yes
- No
- Undecided
- (9) Accountancy Europe supports providing additional disclosures on the two key areas identified: (1) related systems, procedures and controls, including key responsibilities and reporting activities and (2) the role of those charged with governance in the reporting process. Such disclosures would provide useful information on preparers' considerations in preparing the integrated report.

THOSE CHARGED WITH GOVERNANCE

Question 4 (relating to Proposal 5)

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

Please explain the rationale for your response.

- (10) Yes
- No
- Undecided
- (11) Accountancy Europe welcomes the proposals in the Glossary in "those charged with governance" and supports that it is aligned with the definition as per International Standard on Auditing (ISA) 260¹.

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.*

Question 5 (relating to Proposal 6)

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

Please explain the rationale for your response.

- (12) Yes
 No
 Undecided
- (13) Accountancy Europe agrees that the clarifications on variations of governance models are comprehensive; including having one-tier or two-tier boards, or even the absence of a governance model will help identify “those charged with governance” for the purposes of issuing the statement of compliance with the <IR> Framework.

BUSINESS MODEL CONSIDERATIONS

Question 6 (relating to Proposal 7a)

Does paragraph 4.19 sufficiently differentiate output from outcomes?

Please explain the rationale for your response.

- (14) Yes
 No
 Undecided
- (15) Accountancy Europe supports the clarifications of outcomes as per paragraph 4.19 of the <IR> Framework and the example provided. Together, they provide a clear distinction between outputs and outcomes.
- (16) In addition, we also welcome the second example (transportation company) illustrating positive and negative outcomes as it clarifies how value is created, preserved or eroded from the outcomes of the business activities and outputs.

Question 7 (relating to Proposals 7b and 9)

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

Please explain the rationale for your response.

- (17) Yes
 No
 Undecided
- (18) Accountancy Europe agrees that the proposals in Figure 2 effectively distinguish between output and outcomes and link with how the business creates, preserves or erodes value over time.

Question 8 (relating to Proposal 8)

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

Please explain the rationale for your response.

- (19) Yes
 No
 Undecided
- (20) We suggest the IIRC includes stronger language to reference that outcomes should be evidence-based in order to correctly address concerns such as overamplifying positive outcomes and using promotional language.
- (21) Considering that evidence-based disclosures allow for the verification of these disclosures, such a clarification would also support paragraph 3.42 of the <IR> Framework.

Question 9 (relating to Proposal 11)

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

Please explain the rationale for your response.

- (22) Yes
 No
 Undecided
- (23) Even though we support the enhancements of paragraphs 4.19 and 4.20 of the <IR> Framework, we suggest emphasizing that claims and conclusions on outcomes must be evidence based. The entity should ensure that the claims in the integrated report have the respective supporting evidence in order to potentially allow for assurance.
- (24) In addition, we suggest re-emphasizing that disclosures about outcomes should adhere to the 'reliability and completeness' guiding principle and include a balanced picture.
- (25) Moreover, the principle of value preservation and value erosion could be given more prominence by including it in the guiding principles that underpin the integrated reporting. For example, it may be included in guiding principle 'strategic focus and future orientation'.
- (26) Finally, we suggest the IIRC reviews in detail the wording in other parts of the <IR> Framework to include value preservation and erosion to the current terminology of 'value creation'. For example, paragraph 1.7 and paragraph 5.6 should also include value preservation and erosion in their narratives.

TREATMENT OF IMPACTS

Question 10 (relating to Proposal 10)

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

Please explain the rationale for your response.

(27) Yes

No

Undecided

(28) Accountancy Europe supports the proposals in paragraph 4.20 of the <IR> Framework to link outcomes to wider impacts. However, we suggest that wider impacts be further referenced in the <IR> Framework. For example, the concept may be included in the purpose of the integrated report (page 4) as well as section 1C *Purpose and users of the integrated report*, and paragraph 2.25 (to link with outcomes).

CHARTING A PATH FORWARD

PURPOSE OF THE INTEGRATED REPORT

Question 11

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

Please explain the rationale for your response.

(29) Yes

No

Undecided

(30) Accountancy Europe supports amending paragraph 1.7 of the <IR> Framework aiming a shift in focus from an investor lens, to a broader stakeholder lens. Considering the broad support (79%) from the surveys on Topic 3, we hoped the IIRC would have addressed this important issue in this Consultation Draft. Therefore, we build on our previous comments as submitted in our response to the survey on Topic 3.

(31) We note that only rewording this paragraph may not be enough to serve the purpose intended: the purpose of the integrated reporting and the materiality lens should also be considered. We provide some considerations on these items below:

- **Extending on the purpose of the integrated reporting:** we suggest aligning paragraph 1.7 with the proposals in paragraph 4.20 to include the organisations' wider impacts as a purpose of the integrated report. The paragraph could be re-worded to read: *'The primary purpose of an integrated report is to explain to providers of **financial** capital how an organisation creates, preserves and erodes value. The integrated report enables users to evaluate the organisations' wider impacts, therefore it contains relevant information, both financial and other'*.
- **Revising the materiality lens:** we 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.

- (32) 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. To this end, we refer to our [Core & More](#) work which aims to present corporate reporting in a smarter way and has gained wide support among our stakeholders.

EXTERNAL REPORTING STANDARDS AND FRAMEWORKS

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

Please explain the rationale for your response.

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

- (33) Yes
- No
- Undecided
- (34) Accountancy Europe welcomes the creation such a database where other NFI standards/frameworks could be mapped to the elements of the <IR> Framework.
- (35) CDP, CDSB, GRI and SASB gave an important statement about their collaboration towards a globally harmonised system in our [Follow-up paper: Interconnected Standard Setting for Corporate Reporting](#), also [supported](#) by the IIRC In addition, there is ongoing momentum in Europe following the Non-financial Reporting Directive review and the initiation at the EFRAG of the work to set EU non-financial reporting standards. Therefore, we suggest the IIRC to collaborate with these standard setters and the EU to work towards a global corporate reporting system.

INTEGRATED THINKING

Question 13

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

Please explain the rationale for your response.

If yes, what additional guidance is needed?

- (36) Yes
- No
- Undecided
- (37) We believe that the term is sufficiently defined and referenced in the <IR> Framework for the purposes of the framework itself and to serve the integrated report.
- (38) The term and its applications consist of changes in corporate reporting behaviour to consider in decision-making how the outcomes of the business activities create, preserve or erode value and what

the wider impacts of the business are. Therefore, instead of further including it in the <IR> Framework, the IIRC could set up a hub or lab to allow companies to share their practices on the topic and publish best practices.

TECHNOLOGY

Question 14

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

Please explain the rationale for your response.

If yes, what technology consideration should be addressed?

- (39) Yes
- No
- Undecided
- (40) 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”.

OPEN FEEDBACK

Question 15

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

- (41) We suggest the IIRC considers providing simplified guidance for SMEs. Based on paragraph 1.4 of the <IR> Framework, the Framework can be applied by companies of any size, however, these guidelines may be burdensome to many SMEs.
- (42) In a general note, we welcome the IIRC’s [support](#) towards a unified global system. We consider the <IR> Framework (in addition to the International Accounting Standards Board’s Management Commentary) as an integral part towards the *conceptual framework for connected reporting* as advocated for in our paper [Interconnected Standard Setting](#). The *conceptual framework for connected reporting* would connect the conceptual framework for financial reporting with the conceptual framework for non-financial reporting and would serve as the backbone for connecting the global financial standards and global non-financial standards. Therefore, we suggest the IIRC to clearly position itself as part of the *corporate reporting foundation* by providing a basis for the *conceptual framework for connected reporting*.
- (43) Finally, Accountancy Europe [supports](#) the International Auditing and Assurance Standards Board’s (IAASB) proposed guidance on Extended External Reporting (EER) Assurance. Therefore, we suggest the IIRC to consider the potential for assurance in revising the <IR> Framework.