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Professor Mervyn King and Mr Paul Druckman
Chairman and Chief Executive Officer
International Integrated Reporting Council

Sent by email and uploaded to: http://www.theiirc.org/consultationdraft2013/feedback/

Dear Professor King and Mr Druckman

Consultation Draft of the International Integrated Reporting <IR> Framework

We refer to the draft International <IR> Framework released for consultation by the International Integrated Reporting Council (IIRC) on 16 April 2013.

The Financial Reporting Council (FRC) is pleased to provide the following comments on the Framework. As you know, the FRC is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia. The FRC recognises that <IR> is likely to be a matter of importance to the financial reporting community and has established an Integrated Reporting Taskforce[1] to monitor developments in this area.

Introductory comments

The FRC is very supportive of the goal that the IIRC has set for itself:

> "… to create *the* globally accepted International <IR> Framework that elicits from organizations material information about their strategy, governance, performance and prospects in a clear, concise and comparable format. … Our vision is for <IR> to be accepted globally as the corporate reporting norm, benefiting organizations, their investors and other stakeholders by enabling informed decision-making that leads to efficient capital allocation and the creation and preservation of value." [IIRC website: http://www.theiirc.org/the-iirc/]

[1] The members of the FRC's Integrated Reporting Taskforce are Roger Burrows (G100) Chair, Andrew Fleming (FSC), Judith Fox (CSA), Noelle Kelleher (ASFA); Merran Kelsall (AUASB), Kevin Lewis (ASX), Kevin Simpkins (XRB NZ), Kevin Stevenson (AASB), Jan West (ICAA) and John Stanhope. Ms Fox and Mr Stanhope are not members of the FRC (although Mr Stanhope was previously a member).

As stated in our 15 December 2011 letter responding to the IIRC's *Towards Integrated Reporting – Communicating Value in the 21st Century* Discussion Paper, the FRC believed that the development of a conceptual framework for Integrated Reporting should be a matter of high priority for the IIRC. We therefore congratulate the IIRC in reaching the important milestone of publishing a first draft of the Framework for consultation and feedback.

The FRC, however, has a number of concerns as to whether the first draft of the Framework will achieve the goal and vision stated above and we would like to bring those concerns to the attention of the IIRC for its consideration as it continues to develop and refine the Framework.

Concerns

1. The critical importance of <IR> not adding, or being seen to add, unnecessarily to reporting burdens if it is to receive "market-led adoption"

The FRC notes the comments made by Mr Druckman during his recent visit to Australia (quoted on the IIRC website at http://www.theiirc.org/2013/05/31/the-sustainability-report-iirc-ceo-favours-market-led-adoption-of-integrated-reporting/) that:

> "… we're looking for a market-led adoption [of Integrated Reporting] in Australia, not more regulation. What we need from regulators is the ability for companies to do integrated reporting, not the mandating of integrated reporting. ... We're not about more reporting, we're about better reporting. It's terribly important that we don't get captured by compliance."

For <IR> to achieve the IIRC's ambition of market-led adoption, the FRC believes that it is critically important that the market accepts either:

- that <IR> will in fact deliver on the promise to produce better, rather than more, reporting; or
- if it is perceived that <IR> is likely to require additional reporting, that the business case for the additional reporting is cogent and compelling and that the benefits are seen clearly to outweigh the burdens.

Otherwise, the FRC believes that reporters are unlikely to embrace <IR>, in the absence of a legal compulsion to do so.

The FRC is concerned that there are aspects of the current draft Framework that, if not amended or clarified, may be perceived by many reporters as adding to, rather than reducing, their reporting load and that they may not necessarily believe the business case that the benefits to them of this added reporting will outweigh the burdens. This in turn could pose significant challenges to achieving a market-led adoption of <IR> in Australia, and possibly elsewhere. The aspects of the Framework that give rise to this concern include the issues identified in sections 2, 3 and 4 below.

2. The relationship between <IR> and sustainability reporting needs to be more clearly explained

The FRC notes the comments made by Mr Druckman in the online interview published at the time of the release of the draft Framework "*What problem is the integrated reporting framework trying to fix?*" (available online at http://www.youtube.com/watch?v=n2Qv5L2f-So&feature=player_embedded):

> "There are 2 key issues. One is the big picture and the other is the more micro picture. *In the big picture it's around financial stability and sustainability.*" [Emphasis added]

The FRC is also aware that Professor King has in numerous presentations over recent years highlighted the issue of global sustainability, as grounding the need for better reporting and as a key driver for the move to <IR>.[2]

The FRC acknowledges that the issue of economic, environmental and social sustainability is a vitally important one that touches the interests of all human beings. It also acknowledges that many providers of capital are increasingly concerned about, and calling for improved reporting on, sustainability issues.[3]

In light of the above, the FRC finds it surprising that the draft Framework includes only 3 very minor and tangential references to sustainability reporting (in paragraphs 1.18, 3.19 and 3.50). To the FRC, the very expression "integrated report" connotes a report that is an integration of material information drawn from other reports. Based on the statements and presentations mentioned above, the FRC had assumed that those reports would likely include (at the very least) a financial report and a sustainability report.

Having said this, given the comment in paragraph 1.19 of the draft Framework that:

> "The Framework does not prescribe specific indicators or measurement methods to be used in an integrated report. The IIRC aims to complement material developed by established reporting standard setters and others, such as industry bodies, and does not intend to develop duplicate content",

as well as the commentary in the draft Framework on environmental, social and human capital and the suggested content (including KPIs) that should be reported in relation to those matters, the FRC believes that some readers are likely to infer that there is an underlying, although not articulated, assumption in the Framework that a reporter will have prepared a sustainability report that meets the requirements of an "established reporting standard setter". This inference is heightened by the reality that without some version of a sustainability report, many reporters presently would be unlikely to have the KPIs and other information on environmental, social and human matters that the draft Framework suggests should be included in their integrated report.

In this context, the FRC notes that very few reporters in Australia prepare formal sustainability reports. It understands that one of the reasons for this may be that the current international standards on sustainability reporting, such as those published by the Global Reporting Initiative (GRI),[4] are perceived by many reporters as quite onerous, particularly for smaller organizations.

This leads the FRC to be concerned that if the reporting community perceives that the "price" to be paid for the ability to produce a concise integrated report is the obligation to prepare a detailed (and what some perceive as onerous) sustainability report, this will be viewed as materially adding to their reporting burden and jeopardise the chances of a market-led adoption of <IR>.

The FRC believes that the Framework needs to give clearer guidance to reporters on the IIRC's expectations about the scope and content of reporting on sustainability issues, given the emphasis that has been placed on those issues to date. Does the IIRC envisage that reporters will prepare a separate sustainability report and include the material information from their report in their integrated report? Or is it sufficient for reporters simply to address material sustainability issues in their integrated report, without preparing a separate sustainability report? If the latter, is it up to the reporter to use its own judgement to determine the material sustainability issues it should address in its integrated report or are there some core sustainability issues that the IIRC would expect to see addressed in every integrated report?

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[2] The FRC would also note the explanation of integrated reporting in the King III Report (also known as King Code of Governance for South Africa 2009): "*A key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance and sustainability have become inseparable; hence the phrase 'integrated reporting' which is used throughout this Report*."

[3] Although often their concerns are seen more through the lens of financial sustainability (that is whether a reporter's business is resilient and sustainable over the longer term) and investment risk, rather than a social or humanitarian lens.

[4] Although the FRC would acknowledge that the GRI has sought to respond to some of these concerns in its latest "G4" standard.

Whatever the approach, the FRC believes that it would be helpful to its cause for the IIRC to explain the business case for the desired level of sustainability reporting in a way that hopefully demonstrates to the majority of reporters that the benefits of what to many will be an additional reporting obligation will clearly outweigh the burdens.

Further, if and to the extent that the IIRC intends to rely on other standard setters, such as GRI, to provide a framework for reporting on sustainability issues in an integrated report, it would be helpful for the IIRC to engage with those standard setters and encourage them to embrace the IIRC's call for clear and concise reporting that is relevant, proportionate and underpinned by an appropriate standard of materiality.

3. Reporting for the "long term" concerns some stakeholders

The draft Framework contains numerous references to the need to report information relevant to the creation of value over the "long term". The guidance it gives on the meaning of this term in paragraphs 5.22 and 5.23 – ie that each organization needs to determine for itself what is short, medium and long term having regard to its business and investment cycles, its strategies and its stakeholders' legitimate needs, interests and expectations – is not particularly helpful. Further, the sole example on point given in the Framework – that "long term" for the automotive industry would generally be two model-cycles, typically spanning 8 to 10 years – is particularly problematical for the reasons mentioned below.

This time frame goes well beyond the detailed planning cycles of most organizations and in many cases will extend past the typical length of career that the directors and senior executives signing off on the integrated report will expect to have with the organization.

The FRC can see the case for asking an organization to identify in an integrated report (to the extent that it is not commercially sensitive) its corporate strategy for growing the business over the longer term and any material issues or risks that it currently foresees that have more than a remote probability of emerging and that could materially impact its ability to deliver on that strategy or on its profitability now or in the future. That plainly is information which the providers of capital will find material and which will have a bearing on their capital allocation decisions.

However, with the uncertainty inherent in a world of rapid social, technological and regulatory change, the FRC questions how much store can reasonably be placed on other forward looking information that attempts to predict the future out as far as 8 to 10 years.

In Australia, the corporate reporting community is particularly concerned about the personal liability they may attract under our corporate and trade practices laws for forward looking statements. The longer the period for which forward looking statements are required, the greater those concerns. Unless there are changes to these laws, the corporate reporting community believes that the chances of a market-led adoption in Australia of an <IR> Framework that calls for forward looking statements of the type mentioned in the draft Framework over periods as long as 8-10 years are diminished. The FRC would therefore encourage the IIRC to reconsider the expectations in the Framework about long term reporting.[5]

[5] By way of comparison, the FRC would refer the IIRC to the manner in which this issue has been addressed in Australian Securities and Investments Commission (ASIC) Regulatory Guide 247 *Effective disclosure in an operating and financial review (RG247.54)*, which is referred to under the heading "An alternative and simpler suggestion" below and a copy of which is attached.

4. *The "6 capitals" will add to the volume and complexity of reporting*

While the FRC understands both the theory and the motivation behind their introduction,[6] it believes that the IIRC should also reconsider the "6 capitals".

While the draft Framework states that an organization is only expected to report against those capitals that are material to its particular business (paragraph 2.18), the reality is that every organization is likely to use all 6 of the capitals in material respects and a loss of access to any of the 6 capitals would likely be highly detrimental to its business. Most organizations will therefore feel compelled to report against all 6 capitals, even where the risk of losing access to a particular capital is remote.

The dilemma for many organizations will be what to report. The draft Framework says that an organization's integrated report should answer the question "what are its outcomes in terms of effects on the capitals?" (paragraph 4.27) and contain "qualitative and quantitative information about … the organization's effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain" (paragraph 4.28). It includes a long and detailed list of common characteristics of suitable quantitative indicators (paragraph 4.31), but the only concrete examples it gives of such indicators are the ratio of greenhouse gas emissions to sales, the expected revenue growth resulting from efforts to enhance human capital and monetized reporting of carbon emissions and water use (paragraph 4.29).

The lack of specificity in the Framework around what needs to be reported in relation to the 6 capitals is likely to lead to some organizations over-reporting, which will run counter to the ambition of the IIRC of producing more concise and more relevant reports for providers of capital. It is also likely to generate a perception amongst some organizations that <IR> will materially add to their reporting burden in these areas, which again will jeopardise the chances of a market-led adoption of <IR>.

There are particular issues in this regard with reporting the impact on natural, human and social/relationship capital. These, of course, are areas where integrated reporting intersects with sustainability reporting, which serves to heighten the concerns expressed above in section 2 of our letter.

For example, it is hard to conceive of any organization saying anything other than human capital is a key component of its business. According to the draft Framework, the organization should therefore be reporting its positive and negative effects on human capital. To meet this obligation, the organization presumably could include in its integrated report a description of its efforts to attract, retain, develop and motivate staff, the results of staff satisfaction surveys and statistics on absenteeism, turnover and lost time due to injuries. However, in many cases, this information would descend into a level of detail that most providers of capital would not find particularly relevant to their capital allocation decisions.

Similar concerns arise in relation to the disclosures called for in paragraphs 3.13 and 4.28 about the quality of an organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their legitimate needs, interests and expectations. It is hard to conceive of any organization saying publicly that its employees, customers, suppliers, business partners and the local communities in which it operates are not key stakeholders. Yet, larger organizations will have thousands of such relationships, potentially across multiple businesses, multiple product lines and in multiple geographies. To produce a concise statement about the quality of those relationships is likely lead to a level of generality that the providers of capital will not find particularly useful. Alternatively, it will lead to the disclosure of much more detail than the providers of capital need for the purposes of their capital allocation decisions and run counter to the IIRC's desire for conciseness and relevance.

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[6] There appears to be an underlying assumption in the Framework, which the FRC questions, that the impact on capitals is not currently being captured in the financial report and therefore must be reported in the integrated report. However, in some cases, these impacts could already be embodied in the price paid for the capital (for example, if employees think their human capital is being diminished, they may seek higher remuneration). In other cases, government may have sought to ensure that these impacts are borne by the relevant organisation (for example via direct regulation, taxation or other means).

All this serves to highlight for the FRC a major gap between the theory of the 6 capitals and the practicality of reporting positive and negative impacts upon them.

5. The Framework is too theoretical rather than practical

The draft Framework describes the content elements of an integrated report in a fairly academic and non-specific manner. The FRC acknowledges that this is largely unavoidable, given that the Framework is intended to apply to a broad range of reporters and the contents of each integrated report will necessarily differ from organization to organization. However, the draft Framework also gives very few practical examples of the types of disclosures that are called for under the various content elements. Together these features of the draft Framework make it difficult to look beyond the "theory" in the draft Framework and envisage what an integrated report for a particular organization might look like in practice. This is especially the case when it comes to envisaging what any given organisation might have to report in terms of its impact on the 6 capitals.

The FRC would encourage the IIRC to consider giving more, and more practical, examples in the Framework to help readers to understand the type and extent of reporting expected under the Framework, particularly when it comes to the 6 capitals (if they are retained).[7]

Without more examples, there is a risk that different readers will interpret the "theory" more broadly than the IIRC perhaps intends and jump to a conclusion that <IR> is likely to add materially to their reporting burdens. As noted previously, this will jeopardise the chances of <IR> achieving the IIRC's ambition of market-led adoption.

The FRC also considers that it would be extremely helpful if the IIRC were to publish some prototype or "dummy" integrated reports for a variety of organizations to demonstrate what a high quality integrated report that meets the requirements of the Framework might look like for different types of organizations.[8] Not only will this assist reporters in better understanding the Framework, it may also assist in demonstrating to reporters and users of reports that <IR> may in fact deliver better and more concise reports and help advance the case for market-led adoption of <IR>.

One further suggestion that the FRC would like to put to the IIRC is to consider splitting the draft Framework into two documents – one which explains the theory of "integrated thinking" (which could usefully include the discussion of business models, capitals, and the impact of those things and the external environment on value creation) and one which specifically addresses the reporting requirements for an "integrated report" at a practical, rather than a theoretical, level.

6. The target audience for <IR> could be clearer

The FRC considers that it is important that organizations preparing an integrated report understand the target audience for the report, as it is the information needs of that target audience that should drive the contents of the report.

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[7] The FRC would commend to the IIRC the use of examples in ASIC Regulatory Guide 247 *Effective disclosure in an operating and financial review* (referred to in footnote 5).

[8] The FRC notes that IIRC does publish the reports of some of the participants in the <IR> Pilot Programme on its website. However, as acknowledged in the IIRC's Pilot Programme 2012 Yearbook:

> "Businesses in the Pilot Programme are at different stages of working towards <IR>. Some are creating non-public reports to test the application of <IR> concepts internally and strengthen information management systems. Many are performing gap analysis to help identify information required to develop Integrated Reports, initially focussing on certain components of <IR>. … Businesses in the Pilot Programme are working on a variety of approaches to start developing <IR> and working towards producing Integrated Reports …"

The FRC therefore understands that the Pilot Programme reports on the IIRC website are from reporters at the beginning of their "<IR> journey" and are not necessarily exemplars of the end destination.

To this end, the FRC welcomes the clear statement in paragraph 1.6 of the Framework that "an integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments", rather than for other potential stakeholders. It also welcomes the clear linkage in paragraph 3.23 of the Framework between the concept of "materiality" and whether or not the information to be reported will "substantively influence the assessments of the primary intended report users [that is, the providers of capital] with regard to the organization's ability to create value".

The FRC agrees with the IIRC's assessment (paragraph 1.7) that this will deliver valuable information to other stakeholders which they can use for their own particular purposes, without them needing to be regarded as one of the primary target audiences for the integrated report.[9]

The FRC believes that framing the target audience for <IR> in this manner will assist an integrated report to dovetail better with a conventional financial report, which the FRC considers is also primarily prepared for the benefit of the providers of financial capital and their professional advisers.

The FRC firmly believes that integrated reporting and financial reporting must go hand in hand. Audited financial statements prepared in accordance with robust accounting standards are a critical part of the governance and accountability framework for reporting organizations and an important component of the information mix that the providers of financial capital and their professional advisers need.

Aligning the target audiences for integrated reports and financial reports will also help provide an efficient mechanism for delivering an integrated report, namely, via the annual management report that would ordinarily accompany a financial report. Indeed, in Australia's case, once the Framework has been modified to address the issues mentioned in this letter, we can see the type of information called for in an integrated report fitting neatly into the "operating and financial review" (OFR) required under Australian law to be included in listed company annual reports.[10] Investors in Australian entities would therefore receive an annual report comprising (amongst other things) an integrated report, in the form of an enhanced OFR, and a general purpose financial report.

The phrase "providers of capital" does, however, encompass a broad class of potential users, stretching from sophisticated institutional and professional investors/financiers at one end of the spectrum to retail investors (shareholders and bondholders) at the other. The different ends of the spectrum have different information needs and differing capacities to absorb, analyse and understand the value ramifications of information. In the case of retail investors, many of them will be reliant on professional advisers to help them interpret the information in an integrated report (just as they typically are in the case of a financial report) and to advise them on how it should impact their allocation of capital.

The FRC considers that greater clarity is needed in the Framework as to which part of the spectrum of financial capital providers <IR> is targeted.

For organizations whose securities are traded on public exchanges, the FRC believes that <IR> should be primarily targeted at:

- sophisticated institutional and professional providers of financial capital, since it is they who, from a global perspective, make the majority of the decisions about the allocation of capital and it is their allocation decisions that usually drive the market price of a reporter's securities; and
- the professional advisers to other types of providers of financial capital.

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[9] For example, information that investors need to assess the investment risk involved in investing in an organization with a significant carbon footprint (ie the size of its footprint, the financial exposures that creates and its strategy for managing those exposures) is also likely to be of relevance to those interested more generally in the environmental impact of the organization. Addressing these issues more fully and openly in an integrated report may also help to reduce the pressures for further legislative initiatives concerning reporting.

[10] See our further comments on the OFR under the heading "An alternative and simpler suggestion".

If the IIRC agrees with this view, then the FRC would encourage the IIRC to review the guiding principles in section 3, and the content elements in section 4, of the draft Framework, since it appears to the FRC that they go beyond what this target audience would generally require from a reporter to make an informed decision to allocate capital.

In this regard, the draft Framework suggests the disclosure of information that appears to the FRC to be more directed to retail investors or other stakeholders than to sophisticated/professional providers of financial capital. This includes:

- general information that would be well known or readily available to sophisticated/professional providers of financial capital – eg information about macro and micro economic conditions, societal issues, and the legislative, regulatory and political environment an organization faces (paragraph 4.9); and

- information that would be obvious to sophisticated/professional providers of financial capital – eg the fact there is a trade-off involved in creating employment through an activity that negatively affects the environment (paragraph 2.25) and the contributions that an organization makes to a local economy through employment and taxes (paragraph 2.35).

Indeed, the FRC suggests that the next draft of the Framework should be looked at carefully through the lens of materiality as there are a number of points in the current draft where the discussion descends to matters that would be unlikely to be material (as defined in the draft Framework) for many reporters.[11] While the FRC appreciates that the framework expressly states that information need only be included in an integrated report if it meets the test of materiality (paragraph 3.22), referring to matters that are unlikely to be material for many reporters sends a contradictory message and may add to the perception that <IR> will result in more, rather than better, reporting.

7. The materiality test does not necessarily address these concerns

While it may be argued that some of the issues above could be addressed by clearer guidance in the draft Framework around the application of the materiality threshold, the FRC does not believe that this is a complete answer.

In Australia, we have approximately 2,200 listed entities, the vast majority of which are in the small and mid-cap sectors. The concept of materiality is tied to what is relevant and important to the providers of capital to the individual entity (paragraph 3.23). Therefore issues that might be considered immaterial for larger entities or from a global or societal perspective will often be material for smaller entities because of their smaller scale.

This group, in particular, will be significantly affected, both financially and organizationally, by any requirement to adopt a whole new reporting framework around the 6 capitals or to produce a detailed sustainability report. The FRC can therefore foresee some resistance to the draft Framework from small and mid-cap companies on this score.

The FRC believes that the concept of proportionality could usefully be introduced into the draft Framework. This could be done by setting a size threshold before <IR> becomes applicable or by simply recognising in the Framework that the amount and type of information that smaller organizations are expected to provide under <IR> is likely to be different to that provided by larger organizations with greater resources and with a likely greater impact on economic, environmental and social sustainability globally.

[11] Another example is the reference to the expected revenue growth resulting from efforts to enhance human capital in paragraph 4.29 and the suggestion on paragraph 4.30 that there should be a discussion of regulations where non-compliance may materially affect an organization's operations.

8. Some other points of detail

The FRC believes that it would be beneficial if the Framework exemplified the clarity, consistency and conciseness that it calls for in an integrated report. With that in mind, it would encourage the IIRC to review:

- if and to the extent they are retained, the degree of overlap and duplication in the core content requirements in paragraphs 4.6, 4.10, 4.13, 4.18, 4.21, 4.27 and 4.33 of the draft Framework – for example:
  - the questions "what does the organization do?" (paragraph 4.6) and "what is the organization's business model?" (paragraph 4.21) could easily be combined into one question; and
  - the question about the opportunities and risks that affect an organization's ability to create value over the short, medium and long term (paragraph 4.13), at least in theory should elicit any required disclosures about the resilience of its business model (paragraph 4.21) and the challenges and uncertainties the organization is likely to encounter in pursuing its strategy (paragraph 4.33), making those aspects of the questions in the latter two paragraphs redundant;
- the drafting style used in the Framework, which in places lapses into "management-speak" (two examples are the reference in paragraph 1.17 to "the capacity of the organization's governance structure to assess resilience against short term disruptions" and the reference in paragraph 4.29 to "monetization with respect to externalities"); and
- the diagrams in figures 2, 3, 4 and 6 of the draft Framework, which are not particularly informative or helpful in understanding the Framework.

It may also be helpful if the final Framework were to recognise that different reporters will be subject to different regulatory obligations and that any conflicting regulatory obligation has to take precedence over the Framework.

An alternative and simpler suggestion

You would be aware that the Australian Securities and Investments Commission recently released a new Regulatory Guide 247 *Effective disclosure in an operating and financial review* (RG 247). We have attached a copy for your information. RG 247 addresses a number of the same issues that <IR> also seeks to address, particularly in terms of better disclosure around an organization's business model, business strategy and financial prospects for future years (including the risks that could affect the achievement of those prospects).

The FRC would encourage the IIRC to review RG 247 and to consider whether it might provide a basis for developing a simpler, more concise and more practical framework for <IR> that:

- uses the management report (in Australia's case, the OFR) usually included in a reporter's annual report as the vehicle for the "integrated report";
- incorporates the guiding principles in section 3 of the draft Framework, which the FRC sees as largely unobjectionable (subject to deleting the words "and to its use of and effects on the capitals" in paragraph 3.2 and modifying paragraphs 3.2 and 3.32 to address the concerns about long term reporting and stakeholder disclosures mentioned in sections 3 and 4 of our letter above), and applies them to the management report;
- is framed in a similar manner to the way in which the core content elements have been framed in paragraphs 4.6, 4.10, 4.13, 4.18, 4.21, 4.27 and 4.33 of the draft Framework (ie "an integrated report

should answer the question …"), which the FRC considers is a very user-friendly and practical way of describing the content requirements for an integrated report, and again applies them to the management report;

- includes questions in the core content requirements to address those issues where traditional management reporting is seen to have fallen down in terms of providing the information that the providers of financial capital legitimately require to make informed capital allocation decisions and, in particular, to elicit concise disclosures about an organization's business model, business strategy and financial prospects for future years (including the material risks that could affect the achievement of those prospects); and

- in the context of prospects and risks, specifically includes questions in the core content requirements that are designed to elicit the material disclosures that the IIRC would expect to see in an integrated report on the issue of economic, environmental and social sustainability (see section 2 of our letter above).

Identifying the management report usually included in a reporter's annual report as the vehicle for the "integrated report" and structuring the Framework in this manner will have a number of advantages. It builds upon an existing reporting framework with which most reporters are familiar and comfortable. It will avoid the perception that the integrated report is a new/separate report with a whole new reporting regime attached (the 6 capitals). This in turn may help reduce the perception that <IR> will add materially to the reporting burdens of most organizations and therefore improve its prospects of market-led adoption.

Instead, <IR> can then be positioned simply as an enhancement to the established reporting framework which, through its core content requirements, seeks to improve disclosure by management in certain key areas (ie business model, business strategy, financial prospects and material risks, including sustainability risks) and, through its guiding principles, seeks to have the information presented in a more honest and balanced manner than may currently be the case.

The FRC would also commend to the IIRC the way in which RG 247 addresses the issue of disclosure about business strategy and future prospects.[12] In this regard, RG 247 makes it clear that it only requires a narrative discussion, without financial projections, of matters that may have a significant impact on the future financial performance and position of the entity. This is more likely to be acceptable to reporters in Australia (and possibly elsewhere) than the rather vague and open-ended way in which the draft Framework currently deals with reporting in respect of the long term.

Conclusion

The FRC believes that integrated reporting can be achieved through a much simpler framework than the IIRC's current draft, along the lines outlined above. It also believes that such a framework is more likely to achieve the IIRC's ambitions of market-led adoption.

[12] See paragraphs 247.51 to 247.64.

The FRC would be happy to meet with you or other representatives of the IIRC to expand upon these comments, if you would find that helpful.

Yours sincerely

Lynn Wood
Chairman, Financial Reporting Council