

Testing <IR> Framework revisions

Statement of responsibility for an integrated report

CPA Australia's response to an online survey on the International <IR> Framework consultation draft is noted below. This was submitted 19 August 2020.

The International <IR> Framework was released in December 2013. The conceptual thinking and principles on which the <IR> Framework were founded still remain relevant, if not more so. Insights stemming from practical use and wider market developments, as well as the passage of time, have warranted a review for points of emphasis and clarification. The first revision of the <IR> Framework was launched in February 2020 with feedback sought on three topic papers – Responsibility for an integrated report; Business model considerations; and Charting a path forward. Public feedback on these Topic Papers, along with focused engagement, has culminated in the Consultation Draft which is the subject of this submission.

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

No

CPA Australia in its [response](#) to Topic Paper 1 (Responsibility for an integrated report) devoted a significant amount of commentary to this pivotal issue. We will not repeat the observations and recommendations made in that response, but will focus our response to this, and the subsequent Consultation Draft questions, to significant matters of drafting.

With respect to the paragraph commencing "The statement is enhance - - - .", we query whether this is an assertion leaves open the question of what it is that is being enhanced and from whose perspective - the preparer or the reader of an integrated report. The two immediately preceding dot-points are statements from those charged with governance (TCWG) that they have recognised their role and have accordingly formed an opinion. If it is assuming that what is sought is an explanation of how TCWG formed their opinion, we suggest that it might be more efficient to seek a description of the due diligence applied. If, on the other hand, the paragraph is intended to illuminate the understanding of the reader, the text would be better shown as 'grey letter' guidance rather than a blackletter requirement.

In terms of the paragraph commencing "Where legal or regulatory requirements - - - .", an alternative approach is to have the paragraph 1.20 requirement apply on an 'if not, why not' basis, either through embedding such words in the opening words of 1.20 or as a third dot-point. The paragraph in question could then be cited as an example of a 'why not'.

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

Undecided

Please refer our response to Question 1, particularly in relation to the apparent unclear objective expressed in the words of the process disclosure paragraph.

Process-related disclosures

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

Yes

Our general observation across the broad span and construct of the Consultation Draft, is that this characteristic has been maintained.

Those charged with governance

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

Yes

The inclusion in the Glossary of reference to management personnel, often in some standards preceded with the word "key", adequately addresses both the notion of delegated responsibility and the wide variety of management structures that operate both between, and within, national jurisdictions. We note that this matter is addressed in the second of the two sentences of proposed additions to para. 17 of the Glossary. Therefore, we thus query the rationale and potential impact of the preceding sentence: "This includes overseeing the integrated reporting process." As a definition, this elaboration on the existing words is arguably unnecessary, and indeed, may be at odds with the second of the two dot-points in para. 1.20 which expands on matters of oversight to include that of forming and expressing an opinion.

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

Yes

Whilst responding YES to this question our response is, to a degree, qualified. Firstly, it is not clear that para. 1.21 appears sufficiently linked to para. 1.20. Its purpose is obscure and arguably contains needless detail. Secondly, we believe that para. 1.22 contradicts, or at a minimum confuses, the purpose of the second dot-point of para. 1.20. To elaborate, para. 1.22 expresses an intent around promoting integrity of the report, whereas the referred second dot-point deals with expression of an opinion - in legalistic terms of a 'holding out' a factual situation upon which others may rely.

Business model considerations

6. Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

Yes

The additions to para. 4.19 provide worthwhile illustration of this distinction. However, we would caution against the potential risk of further proliferation of text within a principles-based framework which might be better placed in supplementary guidance.

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

Yes

We believe the changes to Fig. 2 are an improvement on that currently shown in the <IR> Framework and when cross-read with the narrative in associated paragraphs 4.18 and 4.19, provides suitable understanding of this distinction. No such diagrammatic representation can fully capture the subtleties and complexity of the evolving context. The accompanying discussion in Part 2D of the <IR> Framework is relatively self-contained through its use of underlined components (see para. 2.20). Acknowledging views that the <IR> Framework may not have reached an adequate settled position regarding the treatment and communication of impacts (see ours and other likely responses to Consultation 10), Part 2D, we suggest that further words could be included to briefly describe the limitation in scope.

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

No

The proposed sentence is expressed in passive neutral terms and is merely an observation of what an organisation would preferably do. More forthright expression would be along the lines: "An organisation should [or perhaps even ideally] communicate its use - - -." Regardless of the wording, 'evidence-based reporting' is reliant, as the proposed sentence alludes, on qualitative and quantitative information systems, some of which may indeed produce 'evidence' capable of independent assurance. We believe the intent behind inclusion of this sentence could be achieved with further explanation along the lines we describe.

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

Yes

As indicated elsewhere in our responses to Consultation Questions, the reference to 'value erosion' is a commendable addition to the <IR> Framework. However, 'preservation' and 'erosion' are not neat opposites. A perennial issue in these considerations is whose 'value' it is that is subject to augmentation and erosion. A comfortable view, very cautiously based on the legal and accounting concepts of capital maintenance and one consistent with the <IR> Framework itself, would be to say that it is those who have an investment (or stake) in the Business Model. Particularly from the stance of value erosion and the relationship with natural capital, the stakeholder perspective has for many companies and business sectors, become increasingly complex. In making this observation we fully acknowledge that there are significant dangers in pushing <IR> towards having to deal with potential indeterminacy. Though falling outside the scope of this consultation, these may be important matters dealt with in a conceptual framework developed to address non-financial reporting of which the IIRC would be cognisant.

An important observation concerning para. 1.8, (see also associated response to Question 11), is that whilst the term 'value erosion' has been introduced as a key attribute of the Consultation Draft, the wording of 1.8 remains

unchanged. More than just a matter of drafting consistency, surely the stakeholders referred to in para.1.8 are interested not only in an organisation's "ability to create value over time", but also in its capacity to erode value. We urge the IIRC consider re-wording para. 1.8 to this end.

Treatment of impacts

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

Undecided

CPA Australia recognises that it is likely that the IIRC will receive numerous responses to this Consultation Question alluding to both: (i) seminal developments, such as those undertaken by the [Impact Management Project](#), and (ii) the current lack of clarity as to whether narrative disclosures on future prospects in the short, medium and longer term ("outcomes" expressed in the fourth 'bubble' of revised Fig. 2) are currently able to deal with the distinctions involved. Given both the fluidity in these developments and the perspective noted in the proposed words on "consequences for - - - society at large" (which brings with it subjective, though nevertheless important, assessments), perhaps a less emphatic expression may be warranted. Therefore, we suggest the wording "may enable" be used rather than "enables".

Charting a path forward - Purpose of an integrated report

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

No

In answering in the negative we make a number of cautionary comments. There is, we believe, some risk associated with adoption of possibly unquestioning views that providers of financial capital are deeply engaged basing investment decisions on standalone integrated reports, and that <IR> as it stands is capable of generating cost of capital benefits. CPA Australia has invested considerable research effort examining both the [information needs of stakeholders](#) and links between [ESG disclosure practices and cost of capital gains](#). The evidence points to a multiplicity of factors driving information utility. Integrated reporting both now and well into the future requires a context, or focus, of whose information needs are being served, and this, in a market-based economy should be those with a financial stake - otherwise its development would lack clarity of direction. Nevertheless, as currently presented, paragraphs 1.7 and 1.8 present a false dichotomy in relationships by suggesting, as far as stakeholders are concerned, a passive interest in both the disclosure and the underlying conduct. When compared with the subsequent discussion in Part 2B (Value creation for the organisation and others) a more interrelated intent is evident. For example, this intent is evident in the para. 2.6 reference to 'social licence to operate', to which we would add recent developments around [inclusive capitalism](#). Therefore, either as part of a rewording of para. 1.8 or as future reshaping of the <IR> Framework towards a conceptual framework for corporate reporting, there is a need to acknowledge a more holistic constituency of interest.

External reporting standards and frameworks

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?

Yes

The only cautionary remark we make is to avoid this being seen as a higher priority than creating and maintaining a robust framework which is arguably the key component in the evolution of corporate reporting.

Integrated thinking

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

Yes

The foundation of <IR> in the notion of integrated thinking has been a key differentiator from other reporting frameworks and has contributed to the evolving understanding of the purposes of corporate reporting within economic and market systems. Reporting within these systems is transforming in response a diversity of environmental and social challenges. It is commendable that the extended phrase “preservation or erosion of value” (emphasis added) is used in both the Glossary and elsewhere throughout the Consultation Draft. However, we note that the Glossary definition correctly focuses on integrated thinking as part of improved management practices, through use of the terminology “relationships between various operating and functional units.” As such, we query whether there are limits to which a reporting framework, per se, can influence what is, in essence, management practice.

One area of additional guidance we suggest might be worth exploring is to address ‘integrated thinking’ more forthrightly in terms of governance practices dealing with evolving and systemic risk. In this respect, we suggest a possible deeper reference through an integrated thinking approach to the external environment which clearly, as is illuminated in Fig. 2, forms the surrounding context shaping and impacting the business model at the centre of the value creation process. Figure 2 does identify ‘governance’, and we suggest as a possible external reference the type of analysis undertaken by the World Economic Forum (WEF) in its [annual risk reports](#).

Technology

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

No

On what might seem a logical path of development, there is a potential significant risk of losing focus, particularly if, as seems highly appropriate, the <IR> Framework evolves more towards a conceptual framework for comprehensive reporting embracing both financial and non-financial information. The IIRC, with its <IR> Framework, is more appropriately positioned as a driver, facilitator and influencer of these developments. These developments will occur within organisations as part of data assimilation between information that is outward facing to the organisation as part of ‘real time’ reporting, and within the market for information through mediums such as data analytics.