Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

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Stakeholder group:	Professional bodies – Accounting

If replying on behalf of an Organization please complete the following:

Organization name:	Hong Kong Institute of Certified Public Accountants
Industry sector:	Not applicable
Geographical region:	Asia

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

Q9: More guidance is needed on how to report per <IR> objectives without losing competitive advantage.

Q11: We strongly support the primary intended users of <IR> being providers of financial capital. This focus is essential to producing concise, readable reports. The needs of other important stakeholders should be met separately by Sustainability Reports following GRI.

Q12: If an <IR> is to be a 'concise communication of value over time' its framework must provide guidance on what is concise.

Q13: The IIRC should push for other bodies to improve on assurance standards and look at how barriers to assurance, such as civil liability of assurers, can be overcome in the public interest.

Q22: The Framework provides a good statement of what is required but will only be effective if:
a) <IR> reports follow strong standards for reporting data - this makes the link to International Financial Reporting Standards (or Local GAAP) and GRI key;
b) Stock Exchanges support <IR> as being the prime communication to shareholders.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

No. It should, however, be stated that a report will not be 'In Accordance with <IR>' if local regulations lead to it excluding significant issues. For example if the reporting organisation faces Human Rights issues but is unable to report on them.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

Yes BUT the Framework should specifically encourage reporters to use International Financial Reporting Standards and GRI's Sustainability Standard Disclosures while recognising that local GAAP overrules International Financial Reporting Standards in some countries. Reasons:
1) Following, as far as possible, a single set of reporting standards aids both comparability of reports and training/competence of staff.
2) Referencing IFRS and GRI is in line with the commitment which IIRC made in its MOUs with IFRS Foundation and GRI to recognise their standard setting role and develop <IR> to complement it.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

See answer to Q2.

Other

4. Please provide any other comments you have about Chapter 1.

See also our answer to Q12 regarding the importance of <IR>s being concise.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

Yes, BUT more guidance is required on how an organisation should report on capitals which it impacts but does not own. In particular Natural Capital, Human Capital and Social & Relationship Capital. There is a substantial risk that lack of clarity on how to report these items will lead to the whole report becoming vague and confusing. While this is a move away from 'integration' it may be best to clearly separate discussion of capitals which are not owned so to maintain rigour on those which are owned.

6. Please provide any other comments you have about Section 2B?

More explicit guidance should be included on requirement to explain where reporting boundaries are different for different capitals. (For example, financial reporting boundaries are often different to sustainability reporting boundaries)

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

Yes.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

Yes.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

One of the biggest obstacles to companies adopting <IR> is concern that they will be giving away competitive advantage. We need guidance on how to report per <IR> objectives without losing competitive advantage.

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

None.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

Yes. We see this as essential to producing concise, readable reports. The needs of other important stakeholders should be met separately by Sustainability Reports following GRI.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

The terms 'Concise' and 'Senior Management' should be defined in the Glossary in a manner which enables assurance.

A report should not qualify as being in accordance with the <IR> framework if it is not concise. To aid judgment of this point the IIRC should identify reports on its database which it considers to be concise. It should then require, as a documented internal process, that preparers of <IR>s compare their report length with those of 'concise' reports of peer group companies on this database. Should their report be significantly longer than the peer group ones they should rationalise why they still consider it to meet the <IR> concise requirement.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

The reliability of an <IR> should firstly be demonstrated by a declaration to this effect on a report's '<IR> Home Page' (see response to Q21) by the Governance body responsible it.
Secondly IIRC should provide a 'practice-aid' checklist to assist this declaration. See attachment for a draft checklist based on the items in bold in the consultation draft. It is not necessary to publish the checklist but it might become 'best practice' to make it a separate document on the reporter's website and link from the '<IR> Home' page to it.
Finally external assurance is key to reliable reports. We feel that some areas, such as anti-corruption are still not assurable. The IIRC should push for other bodies to improve on assurance standards and look at how barriers to assurance, such as civil liability, can be overcome in the public interest.

14. Please provide any other comments you have about Section 3E.

None.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

None.

Chapter 4: Content Elements

16. *Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).*

We welcome the approach of providing questions which need to be satisfied to confirm a report meets the <IR> requirement.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

Yes. It is most important that those charged with governance should be responsible for determining the matters which are material to the financial capital providers of the company and ensuring that these are appropriately reported in the Integrated Report. Delegating this authority to a lower level of management is not appropriate. Acknowledging this responsibility publicly will result in companies developing internal processes and approvals which should improve the quality of reporting. The wording of the Framework should therefore be changed to make the statements in the bullet points for 5.18 mandatory rather than optional. That said, we also recognise that this issue could become a barrier to the adoption of <IR>, particularly while custom and practice over civil liability for judgmental and forward looking statements is established. We would therefore understand if the initial requirement was less onerous.

18. *Please provide any other comments you have about involvement of those charged with governance (Section 5D).*

None.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

Taking this question in two parts:

(1) Whether the report is 'In Accordance With the <IR> Framework'? Response:
• The Framework should cover what the Governance body responsible for the report must do in order for it to make a statement that: 'The report is In Accordance With the <IR> Framework'.
• The External Assurance report, if there is one, should focus on assuring this statement by the Governance body. This assurance should be done within the limits per (2) below. It will require the development of a separate standard on how to provide such assurance. To provide credibility this standard should be the work of a separate organisation rather than being part of the <IR> Framework. – See our answer to Q23.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

The reporting framework needs to be more explicit if <IR>s are to be assurable.

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

1) For a report to be in accordance with the <IR> framework it should have an '<IR> Home Page' which enables readers to (a) quickly determine whether a report follows the <IR> framework; (b) locate the reports coverage of each <IR> Content Element and (c) find out the extent of assurance and the firm providing the assurance. This '<IR> Home page' should include the declaration from the governance body per 5.18. The obligation to provide such a 'Home page' will reduce the risk of companies incorrectly declaring a report to be in accordance with <IR>.

2) To help reporters with the sequence of work, the <IR> Framework should provide a Flow Diagram showing the steps and decision making in producing an <IR>.

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

The Framework provides a good statement of what is required but will only be effective if:
a) <IR> reports follow strong standards for reporting data - this makes the link to International Financial Reporting Standards (or Local GAAP) and GRI key;
b) Stock Exchanges support <IR> as being the prime communication to shareholders.

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

1) Materiality and conciseness. The current guidance paper provides inadequate guidance on conciseness.
2) How an <IR> should use International Financial Reporting Standards and the GRI G4 framework.
3) An MOU with each stock exchange recognising an <IR> as the preferred prime communication to financial investors. These MOUs should specify how an <IR> can refer to other documents covering related regulatory reporting rather than including such elements.
4) A Standard on how an <IR> should be assured should be developed by an organisation which is independent of IIRC.

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

The <IR> Framework document should open with a short, compelling case for using <IR> . This will be helpful for people considering <IR> for the first time.

The <IR> Framework must provide guidance and and a clear roadmap on how a first-time reporter can proceed. Further it should have an annex providing guidance on how to develop a sound basis for <IR> reporting for companies which consider they are not yet ready to produce an <IR> . Many companies in Hong Kong are likely to be in this position.

The Framework should provide guidance on how companies which produce annual <IR>s should handle half yearly and quarterly reporting.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013