

Draft Framework Outline



11 July 2012

ABOUT THIS OUTLINE

In its 2011 Discussion Paper, "Towards Integrated Reporting - Communicating Value in the 21st Century",¹ the IIRC noted its intention to develop an International Integrated Reporting Framework (the Framework). Responses to the Discussion Paper² indicated strong support for this action.

The purpose of the draft outline in this document is to keep stakeholders informed of the likely structure and general content of the Framework as work on its development progresses taking into account:

- feedback received on the Discussion Paper
- engagement with the Pilot Programme participants, the Investor Network and others
- additional research and work being conducted the IIRC Secretariat.

A further outline, or prototype with more detail of the technical content, is expected to be released in late 2012, followed by a draft Framework for public consultation in early/mid 2013 and "version 1.0" of the Framework in late 2013. The IIRC is also planning to release subsidiary papers on a range of topics³ during 2012 and 2013.

It should be noted that this draft outline is a working document produced by the IIRC Secretariat after consultation with the Technical Task Force⁴ and Working Group.⁵ It is fully expected that changes will be made to the structure and general content of the Framework over the coming months as the detailed content is further developed. Any apparent positions or conclusions in this draft outline are, therefore, tentative only.

Although this draft outline is not a formal part of the due process for developing the Framework, stakeholder feedback would nonetheless be appreciated. Please forward any feedback to outline@theiirc.org.

¹ See <http://www.theiirc.org/the-integrated-reporting-discussion-paper/>

² See <http://www.theiirc.org/the-integrated-reporting-discussion-paper/discussion-paper-submissions/> and <http://www.theiirc.org/the-integrated-reporting-discussion-paper/discussion-paper-summary/>

³ As noted in Appendix B to the draft outline, these topics are likely to include: business model, capitals, connectivity, materiality, users and their information needs, and value.

⁴ See <http://www.theiirc.org/the-iirc/technical-task-force/>

⁵ See <http://www.theiirc.org/the-iirc/iirc-working-group/>

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International Integrated Reporting Framework

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⁶ The Guiding Principles identified here are those that were included in the IIRC's 2011 Discussion Paper. They have been included for illustrative purposes only.

⁷ The Content Elements identified here are those that were included in the IIRC's 2011 Discussion Paper. They have been included for illustrative purposes only.

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FOREWORD

The Foreword is expected to provide a summary of:

- The mission, vision, structure, membership and plans of the International Integrated Reporting Council (IIRC)
- The due process used to develop the Framework, including the role of, and processes with respect to:
 - the Council, the Board, the Working Group, the Pilot Programme, and the Investor Network
 - comments received on the 2011 Discussion Paper and the draft Framework (expected to be released for public consultation in 2013)
 - other transparency and engagement mechanisms such as roundtables.

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PART ONE - INTEGRATED REPORTING

1. INTRODUCTION

This chapter is expected to provide context for readers of the Framework, including an overview of Integrated Reporting covering, for example:

- A general description of what Integrated Reporting is
- The need for, and the objective and benefits of Integrated Reporting
- The intended audience of Integrated Reporting, noting that while an Integrated Report is primarily aimed at the information needs of investors it will also be of benefit to other stakeholders
- The linkage between the process of Integrated Reporting, Integrated Thinking, and the Integrated Report
- How Integrated Reporting relates to other forms of organizational reporting, such as financial reporting and sustainability reporting
- A summary of developments to date.

2. PURPOSE AND USE OF THE FRAMEWORK

This chapter is expected to set out:

- *Purpose of the Framework:* This section is expected to note that the Framework:
 - is intended to assist organizations with the process of Integrated Reporting, and that the Guiding Principles and Content Elements in Part 2 of the Framework are designed to serve as foundations for the preparation of an Integrated Report.
 - takes a principles-based approach rather than focusing on specific KPIs or rules for measurement or disclosure of individual matters. The IIRC may, however, publish subsidiary papers that suggest methods for measurement and disclosure or reference methods developed by others.⁸ A principles-based approach requires senior management and those charged with governance to apply considerable judgement to determine which matters are material and to ensure they are appropriately disclosed given the specific circumstances of the organization and, where appropriate, the application of generally accepted measurement and disclosure methods. The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations but enables a sufficient degree of comparability across organizations to meet relevant information needs.
 - does not establish benchmarks for assessing an organization's strategy, governance, performance or prospects as such assessments are the role of readers based on the information in an organization's Integrated Report.
- *Use of the Framework:* This section is expected to note that:

⁸ Subsidiary papers currently being planned are noted in Appendix A. With respect to methods developed by others, the IIRC aims to complement material developed by established reporting standard setters and does not intend to develop duplicate content.

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- the Framework is primarily for application by companies of any size but can also be applied, adapted as necessary, by public sector and not-for-profit organizations.
- the Framework can be applied regardless of local legal requirements or cultural mores and does not include any jurisdiction-specific guidance.
- any communication purporting to be an Integrated (or similar) Report that references the Framework should apply all of the Guiding Principles and address all of the Content Elements, and should do so taking account of the content of the Framework as a whole and any other guidance issued by the IIRC.

3. KEY DEFINITIONS

This chapter is expected to define the key terms necessary to understand the Framework. Ancillary definitions may be included in a Glossary. Terms expected to be defined include:

- *Business model*
- *Capitals (resources and relationships)*
- *Connectivity*
- *Integrated Report*
- *Integrated Reporting*
- *Integrated Thinking*
- *Investor*
- *Materiality*
- *Stakeholder*
- *Stewardship and accountability*
- *Value.*

4. CONCEPTUAL FOUNDATIONS

This chapter is expected to provide an explanation of the key concepts underlying Integrated Reporting, including those noted below. These concepts are the foundation upon which the Guiding Principles and Content Elements are based. They will be complemented by guidance in Part 2 on certain of the Guiding Principles and Content Elements such as connectivity, governance, strategy, risk and materiality.

- *The objectives of Integrated Reporting:* This section is expected to:
 - discuss the central role that stewardship and accountability play in Integrated Reporting
 - identify the information needs that Integrated Reporting addresses.
- *Creating and preserving value:* The ability of an organization to create and preserve value over time is a central theme of Integrated Reporting. This section is expected to discuss such topics as:
 - the meaning of the term value as used in the Framework

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- from whose perspective value should be considered for the purpose of Integrated Reporting
- the dynamic relationships among the capitals
- how the ability of an organization to create and preserve value can be communicated in an Integrated Report.
- *Business model*: An organization's business model may be thought of as the process by which it seeks to create and preserve value. This section is expected to discuss such topics as:
 - the meaning of the term business model as used in the Framework
 - the key elements that need to be factored in when reporting on an organization's business model
 - the relationship of an organization's business model to its mission, vision and strategy.
- *Capitals (resources and relationships)*: The 2011 Discussion Paper noted that "Integrated Reporting ... makes visible an organization's use of and dependence on different resources and relationships or 'capitals' (financial, manufactured, human, intellectual, natural and social), and the organization's access to and impact on them." This section is expected to explain how the capitals concept applies to Integrated Reporting, including its use as a tool to help ensure reporters take a broad view of resources and relationships and consideration of an organization's reporting responsibilities with respect to material capitals it affects and/or relies upon but does not own.
- *External factors*: This section is expected to discuss how external factors affect the organization both directly and indirectly, for example, how they affect the availability, affordability, and quality of capitals that the organization depends upon and impacts in creating and preserving value. External factors include macro and micro economic conditions, market forces, the speed and impact of technological change, societal issues, environmental challenges, and the legislative and regulatory environment in which the organization operates.
- *Reporting boundaries*: This section is expected to:
 - identify which component entities should be included in an organization's core reporting boundary
 - discuss the relationship of the core reporting boundary with the definition of the reporting entity for financial reporting purposes, and the boundaries identified for other forms of reporting, such as sustainability reporting and reporting on climate change
 - consider what information beyond the core reporting boundary should be included in an Integrated Report.

PART TWO – PREPARING AN INTEGRATED REPORT

5. INTRODUCTION

This Part of the Framework is expected to identify, and provide guidance on the application of the Guiding Principles and Content Elements.

The Guiding Principles and Content Elements identified below are those that were included in the IIRC's 2011 Discussion Paper, which have been included here for illustrative purposes only. They are being revised, and guidance on them is being developed, based on feedback received on the Discussion Paper, engagement with the Pilot Programme participants, the Investor Network and others, and additional research and work being conducted by the Secretariat.

As well as guidance on each Guiding Principle and Content Element, guidance on such topics as those noted below is expected to be included in this Part. Further, although not part of the Framework itself, the IIRC is also developing a public database of emerging reporting practices to assist organizations in identifying practices they may choose to adopt or modify to suit their own circumstances.

- *Use of technology*: how technology, e.g., the internet, XBRL, and social media, can be used to link information within an Integrated Report and to facilitate access to further detail where appropriate.
- *Frequency of reporting*: issues such as the need for a consistent and periodic cycle for issuing an Integrated Report, coordination of the Integrated Reporting cycle with the business cycle and other reporting cycles (such as the statutory reporting cycle), and access to updated information, perhaps through real-time reporting, between the publication of periodic reports.
- *Short, medium and long term*: the different time frames for considering the future dimension of Integrated Reporting.
- *Involvement of those charged with governance*: the role of effective leadership and decision-making regarding Integrated Reporting, including the inclusion in the Integrated Report of a statement identifying the governance body with oversight responsibilities for Integrated Reporting.
- *Aggregation and disaggregation*: issues relevant to determining the level at which information in an Integrated Report is disclosed, particularly with respect to segmentation of information for large, complex organizations.
- *Potential constraints on Integrated Reporting*: cost/benefit⁹ considerations including concerns about the disclosure of commercially-sensitive information, and potential legal issues regarding directors' liability and the disclosure of forward-looking information.
- *Pathways*: alternative routes that organizations may follow towards Integrated Reporting. This will be affected by factors including existing regulatory reporting requirements, the jurisdiction(s) and industry(ies) in which the organization operates, its past pattern of reporting, and its perception of the internal and external benefits of, and constraints on, reporting.

⁹ See also Chapter 1 for the expected benefits of Integrated Reporting.

- *Assurance*: alternative approaches to external assurance of an Integrated Report.

6. GUIDING PRINCIPLES

This Chapter is expected to identify, and provide guidance on the application of, the Guiding Principles that underpin the preparation of an Integrated Report. The Guiding Principles inform the content of the report and how information is presented. The Guiding Principles identified below are those that were included in the IIRC's 2011 Discussion Paper, which have been included here for illustrative purposes only.

- *Strategic focus*: An Integrated Report provides insight into the organization's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organization depends.
- *Connectivity of information*: An Integrated Report shows the connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its performance depend.
- *Future orientation*: An Integrated Report includes management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.
- *Responsiveness and stakeholder inclusiveness*: An Integrated Report provides insight into the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.
- *Conciseness, reliability and materiality*: An Integrated Report provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.

7. CONTENT ELEMENTS

This Chapter is expected to identify, and provide guidance on the application of, the Content Elements. An Integrated Report includes sufficient information on each Content Element to answer the respective question posed for each. The Content Elements are fundamentally linked to each other and are presented in the Integrated Report in a way that makes the interconnections between them apparent, rather than as isolated, standalone sections. The Content Elements identified below are those that were included in the IIRC's 2011 Discussion Paper, which have been included here for illustrative purposes only.

- *Organizational overview and business model*: What does the organization do and how does it create and sustain value in the short, medium and long term?
- *Operating context, including risks and opportunities*: What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?
- *Strategic objectives and strategies to achieve those objectives*: Where does the organization want to go and how is it going to get there?
- *Governance and remuneration*: What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate

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to the organization's approach to remuneration?

- *Performance*: How has the organization performed against its strategic objectives and related strategies?
- *Future outlook*: What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?

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GLOSSARY

The Glossary is expected to contain ancillary definitions beyond the key definitions included in Chapter 3 of the Framework.

APPENDICES

A. SUBSIDIARY PAPERS AND OTHER REFERENCES

This Appendix is expected to contain a list of key references, including any subsidiary papers published by the IIRC. Research on the following topics is being conducted that is likely to result in the publication of subsidiary papers during 2012 and 2013:

- *Business model* – the business model is likely to be included as a key concept underlying Integrated Reporting in Chapter 4 of the Framework.
- *Capitals* – the capitals are likely to be included as a key concept underlying Integrated Reporting in Chapter 4 of the Framework.
- *Connectivity* – connectivity of information is likely to be included as a Guiding Principle in Chapter 6 of the Framework.
- *Materiality* – materiality is likely to be included as a component of a Guiding Principle in Chapter 6 of the Framework.
- *Users and their information needs* – identifying users and their information needs is likely to be included as a key concept underlying Integrated Reporting in Chapter 4 of the Framework.
- *Value* – the concept of value is likely to be included as a key concept underlying Integrated Reporting in Chapter 4 of the Framework.

B. BASIS FOR CONCLUSIONS

This Appendix¹⁰ is expected to contain a summary of key matters considered by the IIRC when finalizing the Framework in light of comments received on the draft that is expected to be released for public consultation in 2013.

¹⁰ The basis for conclusions may, alternatively, be published as a separate document.