

NOTE:

IT IS FULLY EXPECTED THAT CHANGES WILL BE MADE TO THE STRUCTURE AND CONTENT OF THIS WORKING DRAFT OVER THE COMING MONTHS AS IT IS FURTHER DEVELOPED. ANY APPARENT POSITIONS OR CONCLUSIONS IN THIS WORKING DRAFT ARE, THEREFORE, TENTATIVE ONLY.

(Inside front cover)

ABOUT THE IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that the communication of value should be the next step in the evolution of corporate reporting.

Further information about the IIRC can be found on its website www.theiirc.org, including:

- The background to the IIRC's creation¹
- Its structure and membership, and the membership of groups who have contributed to this Prototype of the International <IR> Framework (Prototype Framework)²
- Its mission, vision and objectives³
- The due process for developing the Prototype Framework.⁴

ABOUT THIS DOCUMENT

In its 2011 Discussion Paper, "Towards Integrated Reporting – Communicating Value in the 21st Century",⁵ the IIRC noted its intention to develop an International <IR> Framework (the Framework). Responses to the Discussion Paper⁶ indicated strong support for this action.

This purpose of this Prototype Framework is to keep stakeholders informed of progress on the development of the Framework following release of a draft outline⁷ in July 2012.

A Consultation Draft of the Framework is expected to be released in April 2013 followed by a final "version 1.0" in December 2013. The IIRC is also planning to release subsidiary papers on a range of topics⁸ during late 2012 and 2013.

It should be noted that this Prototype Framework is a working document produced by the IIRC Secretariat, in consultation with the IIRC's Technical Task Force⁹ and the IIRC's Working Group,¹⁰ after consideration of feedback received on the 2011 Discussion Paper and from participants in the IIRC's Pilot Programme. It is fully expected that changes will be made to its structure and content as the Consultation Draft of the Framework is developed over the coming months. Any apparent positions or conclusions in this Prototype Framework are, therefore, tentative only.

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

¹ URL

² <http://www.theiirc.org/the-iirc/structure-of-the-iirc/>

³ URL

⁴ URL

⁵ <http://www.theiirc.org/the-integrated-reporting-discussion-paper/>

⁶ <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/>

⁷ <http://www.theiirc.org/resources-2/draft-framework-outline/>

⁸ As noted in Appendix A, these topics are likely to include: connectivity, the business model, the capitals, the concepts of value, and materiality.

⁹ <http://www.theiirc.org/the-iirc/technical-task-force/>

¹⁰ <http://www.theiirc.org/the-iirc/iirc-working-group/>

(WORKING DRAFT) **PROTOTYPE OF the International <IR> Framework**

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1. OVERVIEW

- 1.1 This chapter provides an overview of Integrated Reporting <IR> and of the International <IR> Framework (the Framework). Further background and general information about Integrated Reporting <IR> is available at the Frequently Asked Questions section of the IIRC website at URL.

Integrated Reporting <IR>

- 1.2 Integrated Reporting <IR> is a set of processes and activities that result in communication, most visibly a concise, periodic “integrated report”, about the way in which the organization’s strategy, governance, performance and prospects lead to the creation and preservation of value over the short, medium and long term.

Objective of Integrated Reporting <IR>

- 1.3 Integrated Reporting <IR> aims to:
- Promote changes in corporate behavior, decision-making and thinking that focus on long term, as well as short and medium term, value creation and preservation
 - Inform resource allocation by investors that supports long term, as well as short and medium term, value creation and preservation
 - Catalyze a more cohesive and comprehensive approach to corporate reporting that communicates the full range of factors that materially affect the ability of an organization to create and preserve value over time
 - Enhance accountability and stewardship with respect to a broader base of capitals than just financial capital (including manufactured, human, intellectual, natural, and social [and relationship] capitals) and promote understanding of the interdependencies between them.

Audience for Integrated Reporting <IR>

- 1.4 Communications that result from Integrated Reporting <IR> are aimed principally at long term investors in order to support their financial capital allocation decisions. The IIRC adopts the view that the interests of long term investors are aligned with the public interest in that both are focused on long term, as well as short and medium term, value creation and preservation. Activities and strategies that are overly focused on optimizing short term financial performance can impede the ability of organizations and investors to make long term investments, such as investments in research aimed at long term innovation and in the infrastructure needed to address mounting global challenges, including resource shortages, economic instability and changing demographics.

Objective of the International <IR> Framework

- 1.5 The purpose of the the Framework is to assist organizations with the process of Integrated Reporting <IR>. In particular, the Framework establishes Guiding Principles and Content Elements that govern the overall content of an integrated report, helping organizations determine how best to disclose their unique value creation story. The Framework does not, however, set benchmarks for assessing such things as the quality of an organization's strategy or the level of its performance. Assessments of this kind are the role of report users based on the information in the organization's integrated report.

About the Framework

- 1.6 The Framework sets out:
- The fundamental concepts that underpin Integrated Reporting <IR>
 - Reporting requirements and guidance on:
 - The Guiding Principles that inform the content of an integrated report and how information is presented
 - The Content Elements to be included in an integrated report
 - Additional considerations in the preparation and presentation of an integrated report.

Fundamental concepts

- 1.7 The fundamental concepts underpinning Integrated Reporting <IR> revolve around the various capitals that the organization uses and affects, the organization's business model, and the creation and preservation of value.
- 1.8 These concepts, which are discussed in Chapter 2, and the reporting requirements and guidance in Chapters 3–5 are mutually reinforcing. An organization's business model is the vehicle through which it creates and preserves value. That value is embodied in the capitals that it uses and affects. The assessment of an organization's ability to create and preserve value depends on an understanding of the connectivity between its business model and a wide range of internal and external factors. Those factors are disclosed in an integrated report prepared in accordance with the reporting requirements and guidance of the Framework.

Guiding Principles

- 1.9 The Guiding Principles, which are explained in Chapter 4, are:
- Strategic focus and future orientation
 - Connectivity of information
 - Responsiveness and stakeholder inclusiveness
 - Materiality and conciseness
 - Reliability
 - Comparability and consistency.

Content Elements

- 1.10 The Content Elements are explained in Chapter 5. They are expressed in the form of questions that should be answered in the integrated report in a way that best expresses the organization's value creation story and makes their interconnections apparent, rather than appearing as isolated, standalone

sections:

- Organizational overview and business model
- Operating context, including risks and opportunities
- Strategic objectives and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook.

Preparation and presentation

- 1.11 The guidance on preparation and presentation of an integrated report at Chapter 5 includes such topics as: frequency of reporting; reporting boundary; involvement of those charged with governance; use of technology; and assurance.

A Principles-based approach

- 1.12 The Framework takes a principles-based approach rather than focusing on rules for measurement or disclosure of individual matters or specific key performance indicators (KPIs). A principles-based approach requires senior management and those charged with governance collectively to exercise judgement in determining which matters are material, and ensuring they are appropriately disclosed given the specific circumstances of the organization and the application of generally accepted measurement and disclosure methods as appropriate. 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.

Application of the Framework

- 1.13 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. It can be applied regardless of local legal requirements (see the following paragraph) or cultural mores, and does not include any jurisdiction-specific guidance.
- 1.14 Any communication purporting to be an integrated report (or similar) in accordance with the Framework should apply all of the Guiding Principles and include 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. Where the unavailability of reliable data or specific legal prohibitions result in an inability to disclose material information, the integrated report should:
- Indicate what information has been omitted
 - Explain the reason why the information has been omitted
 - In the case of the unavailability of data, identify the steps being taken to obtain the data and the expected time frame for doing so.

Integrated Reporting <IR> in practice

Integrated thinking

- 1.15 Integrated Reporting <IR> is guided by the Framework and by integrated thinking.
- 1.16 Integrated thinking enables an organization to understand better the relationships between its various operating and functional units and the capitals the organization uses and affects. Integrated thinking can be contrasted with what is sometimes known as “silo thinking”, in that it takes into account the connectivity and interdependencies between the full range of factors that have a material effect on an organization’s ability to create and preserve value in the short, medium and long term, including (but not limited to):
- The capitals the organization uses and affects, including the critical interdependencies of financial, manufactured, human, intellectual, natural and social capitals
 - The external context in which the organization operates
 - The opportunities and risks faced by the organization and how it tailors its strategies to manage them
 - Activities, results and performance – past, present and future
 - Financial and non-financial information.

Metrics

- 1.17 The IIRC aims to complement material developed by established reporting standard setters and does not intend to develop duplicate content. The Framework does not, therefore, prescribe metrics to be used in an integrated report. However, in order to avoid duplication and to promote consistency and rigor, the Framework and subsidiary guidance may reference methods for measurement and disclosure developed by others.

Examples database

- 1.18 The IIRC acknowledges that Integrated Reporting <IR> is currently in a formative stage and plans to revise the Framework as further practical experience is gained with the application of this version. An important reference point for that experience will be the database of emerging practice at <http://tinyurl.com/ckbfy2c>. While the database does not provide definitive guidance, organizations that are developing, or planning to develop, an integrated report are encouraged to consider the range of practices in the database, which they may choose to adopt or modify to suit their individual circumstances.

Interaction with other forms of reporting

- 1.19 Integrated Reporting <IR> builds on developments in financial and non-financial reporting to catalyze an evolution in corporate reporting. An integrated report communicates the factors most important to the creation and preservation of value in the short, medium and long term. Organizations will provide additional detailed disclosures, such as financial statements and sustainability reports for compliance purposes and to satisfy particular information needs, including those of stakeholders other than long term investors.

2. FUNDAMENTAL CONCEPTS

A – The capitals

The stock and flow of capitals

- 2.1 All organizations depend on a variety of different forms of “capital” for their success. In this Framework, the capitals comprise: financial; manufactured; human; intellectual; natural, and social [and relationship]¹¹ capitals. These capitals are the inputs to the organization’s business model. They are also outputs in that they are transformed, consumed, enhanced, used up, modified or otherwise affected through the activities of the organization’s value-adding activities. For example, an organization’s financial capital is increased when it makes a profit, and its human capital is increased when employees become better trained.
- 2.2 The total stock of capitals is not fixed over time. There is a constant flow between and within the capitals as they are increased and decreased, and are transformed. To demonstrate using the example above, where human capital is increased when employees become better trained: the training is likely to have come at some expense to the employer organization. In this case, therefore, the immediate effect is to both increase the organization’s human capital and decrease its financial capital. In effect, from the organization’s point of view, financial capital has been transformed into human capital. Such increases, decreases and transformations are happening constantly. Ordinarily, organizations expect that the net result will be added value accruing to the organization (in this case, through increased efficiency/effectiveness of the trained employees) that is sufficient to at least offset the decrease in its financial capital. Although this example is relatively simple and has been described only from the organization’s point of view,¹² it demonstrates that the capitals are interrelated and constantly in a state of flow and transformation.
- 2.3 Many activities cause flows and transformations that are far more complex than the above example, and involve a broader mix of capitals (and very often a mix of components within a capital). Some activities can cause a net increase to the overall stock of capitals, and some can cause a net decrease. In many cases, it

¹¹ NOTE TO WORKING GROUP AND PILOT PROGRAMME PARTICIPANTS The status of relationships within the capitals model is actively being considered. The 2011 Discussion Paper used the terms “capitals” and “resources and relationships” almost interchangeably. On the basis of responses to the Discussion Paper and further research and consideration, it is likely that the Framework will use the term capitals rather than resources and relationships. In doing so, it is important that it clearly identify how relationships, which are of growing significance to the ability of organizations to create and preserve value, relate to the capitals. As an interim position, this draft is using the term “social [and relationship] capital” to signify that all relationships may be included within the definition of social capital (the current description of which includes a reference to relationships). Other options being considered include identifying relationships as a separate capital, including relationships as part of human or intellectual capital, and identifying relationships as inherent in, and linking, all of the individual capitals.

¹² Other relevant points of view include the increase to the trainer’s financial capital due to the payment received from the employer, and the increase to social capital that may occur if employees use newly acquired skills in community organizations.

depends on whose perspective is taken whether an activity has caused an increase or a decrease, as different parties will value the same effect on a capital differently (such as in the example above, the employer and the employees' perception of the value of training is likely to differ). The perspective on value that is relevant to Integrated Reporting <IR> is discussed in Section 2C.

Availability, quality and affordability of capitals

- 2.4 The extent to which organizations collectively, and in some cases individually, are building up or running down the various capitals can have an important effect on the availability, quality and affordability of those capitals, particularly with respect to capitals that are in limited supply and non-renewable. This can affect the long term viability of an organization's business model and, therefore, its ability to create and preserve value over time.

Categorization and description of capitals

- 2.5 For the purpose of Integrated Reporting <IR>, the various capitals are categorized and described as follows:¹³
- (a) Financial capital: The pool of funds that is:
 - available to the organization for use in the production of goods or the provision of services
 - obtained through financing, such as debt, equity or grants, or generated through operations or investments.
 - (b) Manufactured capital: Manufactured physical objects (as distinct from natural physical objects) that are available to the organization for use in the production of goods or the provision of services, including:
 - buildings
 - equipment
 - infrastructure (such as roads, ports, bridges and waste and water treatment plants).
 - (c) Human capital: People's skills and experience, and their motivations to innovate, including their:
 - alignment with and support of the organization's governance framework and ethical values such as its recognition of human rights, ability to understand and implement an organization's strategies
 - loyalties and motivations for improving processes, goods and services, including their ability to lead and to collaborate.
 - (d) Intellectual capital: Intangibles that provide competitive advantage, including:

¹³ NOTE TO WORKING GROUP AND PILOT PROGRAMME PARTICIPANTS: Apart from the addition of relationships as part of "social [and relationship] capital", as discussed in the previous footnote, this categorization and the descriptions are identical to those in the 2011 Discussion Paper. The many comments received on this matter in responses to the Discussion Paper and further research continue to be considered. While it is likely the categorization will remain unchanged, it is also likely that the descriptions will be refined.

- intellectual property, such as patents, copyrights, software and organizational systems, procedures and protocols
 - the intangibles that are associated with the brand and reputation that an organization has developed.
- (e) Natural capital: Natural capital is an input to the production of goods or the provision of services. An organization's activities also affect, positively or negatively, on natural capital. It includes:
- water, land, minerals and forests
 - biodiversity and eco-system health.
- (f) Social *[and relationship]* capital: The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. Social capital includes:
- common values and behaviours
 - key relationships, and the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers and business partners
 - an organization's social licence to operate.
- 2.6 Of course, not all of these capitals are equally relevant or applicable to all organizations. While it is likely that virtually all organizations do have some interaction with all forms of capital, that interaction may be relatively minor or indirect in many cases.

Ownership of the capitals

- 2.7 Not all capitals an organization uses or that it affects are owned by the organization. They may be owned by others, or may not be owned at all in a legal sense (e.g., access to unpolluted air). This point is relevant to the concept of value and is discussed further in Section 2C.

The role of the capitals model in the Framework

- 2.8 The Framework does not require that the categorization adopted here also be adopted by all organizations preparing an integrated report. While it is likely that organizations will often find adopting the capitals terminology used here to be an appropriate way to structure or articulate disclosures in their integrated report, the inclusion of the capitals model in the Framework is not intended to serve as a strict model to be reported against. Rather, the primary reasons for including the capitals model in the Framework are for it to serve:
- As part of the theoretical underpinning for the concept of value, as discussed at Section 2C
 - As a tool for ensuring that organizations, in preparing their integrated reports, consider all the forms of capital that they use and affect.
- 2.9 It would be impracticable, and indeed unnecessary, for the Framework to define every possible stock of value exclusively and exhaustively, and in a way that attempts to cover all organizational strategies and business models. The role of an integrated report is to tell the organization's individual value creation story; this requires flexibility and should not be unduly bound by definitions of capitals that may not cater appropriately for the organization's particular approach to value creation.

- 2.10 For example, while the intangibles associated with the reputation an organization has developed are included in the description of intellectual capital, some organizations consider reputation to be a separate capital because of its importance to their particular business.
- 2.11 Regardless of how individual organizations categorize or define the capitals for their own purposes, the point is that all should consider the categories identified above as a tool to ensure that they are considering a full, broad range of capitals and have not omitted to report on any material capital that they use or affect.

Metrics

- 2.12 Metrics, such as KPIs (see discussion at Section 4E) and in some cases monetization (see discussion at Section 2C), are very important in explaining an organization's uses of and effects on various capitals. Nonetheless, the Framework does not require, and it would not be practicable to expect, organizations to attempt to quantify all movements in all capitals. Many uses of and effects on the capitals can best be reported on in the form of narrative rather than through metrics.

Complexity and trade-offs

- 2.13 The Framework does not require, and it would not be practicable to expect, that Integrated Reporting <IR> will be able to explain all the complex relationships between all the various capitals that would be necessary to reflect a complete, aggregated picture of an organization's overall effect on the total stock of all the capitals.
- 2.14 It is important, however, that the significant effects that influence value creation and preservation over time are either quantified or reported on in narrative form, or both. Also, organizations should report on significant, known "trade-offs": (a) between capitals or between components of a capital (e.g., creating employment, which increases social capital, through an activity that negatively affect the environment, which decreases natural capital); and (b) over time (e.g., choosing a course of action when it is known that a different course would result in a greater capital increment but not until a later period).

B – The business model

Definition

- 2.15 For the purpose of Integrated Reporting <IR>, the term business model is defined as 'a system of inputs, value-adding activities and outputs that aims to create and preserve value over the short, medium and long term.'

Business model relative to other business elements

- 2.16 Before exploring what should be included in a good business model discussion it is important to consider where this description sits within the overall narrative explanation of how an organization creates long term sustainable value.
- 2.17 The business model is at the core of an organization, it both influences and is affected by the other business elements to be reported on. However, for the purposes of developing guidance for the reporting on the business model, a clear boundary is needed between it and the other business elements. This approach should not be interpreted as a suggestion that business model reporting should exist in isolation from the wider narrative discussion in an integrated report but as a practical measure to define the scope of the discussion.

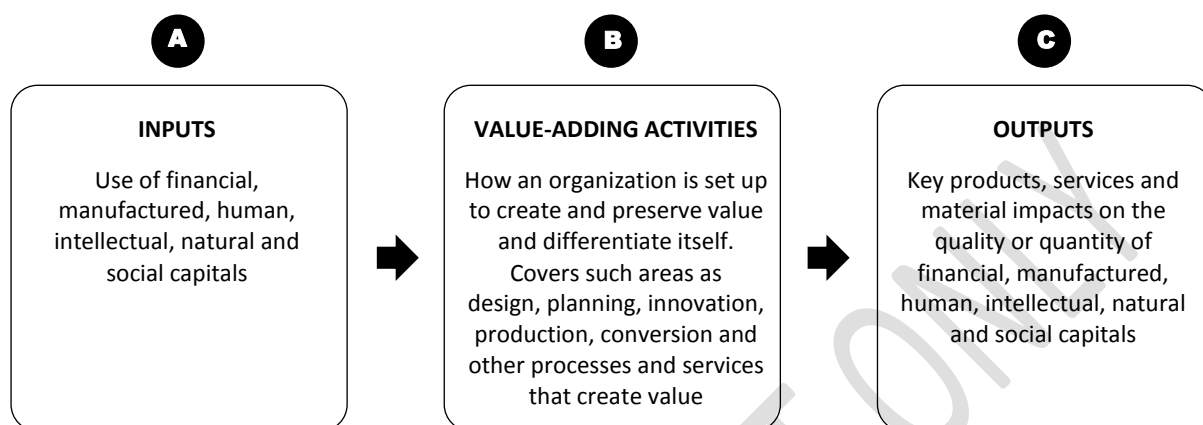
POSITIONING OF BUSINESS MODEL



- 2.18 This figure sets out where the business model description fits into the wider narrative discussion. Encompassing all activities is the organization's *mission and vision* which sets out in clear and concise terms the *raison d'être* of the organization. Those charged with governance create appropriate *governance* structures, set the organization's *risk appetite*, establish processes to *monitor the external environment* and are responsible for establishing the culture of the organization through its "*Tone from the Top*". Within this overall structure, the key organizational elements are in dynamic flux, each interacting with the other elements at regular intervals.
- 2.19 *Strategy* sets out the long term strategic objectives of the organization and how it intends to achieve these targets. Careful analysis of these strategic plans and the chosen business model will identify a number of *opportunities and risks* that may modify the plans or necessitate mitigating action. The longer term strategic objectives need to be broken down into short and medium term *plans*, appropriate *incentives* need to be developed that drive performance to achieve both short, medium and long term plans and objectives. A *performance measurement* system needs to be developed that identifies key performance indicators, monitors degrees of success or failure and provides effective information for decision-making. The system is not static; regular *review* of each element and the way they interact with each other will lead to *development* and taking into account external factors and a *future outlook*; a review of strategy

and business model may be required which resets the cycle of activity.

- 2.20 The process is not, however, a simple linear progression; each element interacts with the other elements. Positioned at the core is the current *business model* and any planned changes designed to support strategy and mitigate risk.
- 2.21 The business model discussion itself can be effectively organized in the following manner:



Inputs

- 2.22 To the extent that they are material to understanding the robustness and resilience of the business model, the organization should identify the key capitals on which it depends or that provide a source of differentiation. The discussion provides a concise, yet meaningful, account of how these key inputs link to risk, strategy or financial performance (e.g., cost base).
- To enhance report users' understanding of its use of financial capital, the organization might provide an overview of its funding model.
 - In terms of manufactured capital, the organization might explain how facilities, equipment and other infrastructural components lend operational efficiency – in terms of productivity, cost containment, enhanced safety and environmental stewardship.
 - The importance of human capital to an organization might be reflected in a discussion of the key skills and experience of staff and the ways in which the required levels are maintained, such as training and development programmes.
 - Intellectual capital such as brands, patents, copyrights and proprietary knowledge are often vital components of a robust business model. These intangible assets are often not fully reflected on the balance sheet of an organization and it is important that their capacity to create and preserve value to the organization is explained.
 - A discussion of natural capital might include a description of the key natural resources needed to allow the business model to function. Many organizations have a significant reliance on certain raw materials to ensure continuity of production. It is important to understand how secure the availability, quality and affordability of these materials is both now and looking into the future. Where key material supplies are uncertain in the long term, the organization should explain what is being done to source suitable alternatives materials or processes.
 - Social capital considerations might include the network of partnerships and

relationships that the organization relies upon as well as programs designed to develop and enhance these interactions.

- 2.23 Organizations should not attempt to provide an exhaustive list of all capitals used. Rather, the focus should be on those capitals that have a material bearing on strategy, risk, performance or impacts.

Value-adding activities

- 2.24 What an organization does to transform inputs into valuable outputs is at the heart of the business model. These value-adding activities include the design and production of products that satisfy market needs or services that provide solutions to customer problems. Some business models are based on making suitable infrastructure available for use by other service providers. In this case, the business model requires meeting certain current service level agreements as well as maintaining any technological advantage over competitors.
- 2.25 Establishing and maintaining a cost advantage over competitors is an important factor influencing the long term success of an organization. An understanding of the processes in place to drive improvements in the efficiency and effectiveness of business activities is another significant constituent part to a good business model description.
- 2.26 Businesses that stand still tend to fall behind in the race to succeed. Innovation is key to sustainable success both in terms of new products and services and also alternative uses for existing outputs. The business model description should include an explanation of how the organization approaches the need to innovate.

Outputs

- 2.27 The aim of this element of the business model description is to allow the organization to explain the key products and services that it places in the market as well as other factors such as:
- Key partnerships and relationships with intermediaries;
 - How the organization approaches market segmentation, who are the target customers and to what extent are different market offerings aimed at different potential customers
 - The business model assumptions, such as those regarding volume/margin considerations
 - The channels used to communicate with potential customers and deliver market offerings
 - The extent to which the business model relies on after point of sales revenue generation, whether that is through extended warranty arrangements or network usage charges.

Features of good reporting practice

- 2.28 To enhance the effectiveness and readability of the discussion, the organization might incorporate one or more of the following features into its business model reporting:
- A simple diagram highlighting key elements of the business model, supported by a clear explanation of the relevance of those elements to the organization
 - Narrative flow that addresses all material issues and is logical given the particular circumstances of the organization

- Explicit identification of the key elements of the business model within the discussion
- Identification of important external factors, including factors over which it has control
- Positioning of the organization within the entire value chain
- Connection to other aspects of reporting, including strategy, risk, KPIs, and financial considerations like cost containment and revenues.

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C – Creating and preserving value

2.29 Integrated Reporting <IR> explains how an organization creates and preserves value. Value creation therefore lies at the heart of Integrated Reporting <IR>. In summary:

- Integrated Reporting <IR> is based on the premise that the public interest is served by investment in long term, as well as short and medium term, value creation and preservation.
- Value for Integrated Reporting <IR> purposes is, therefore, value created for investors, with particular emphasis on long term investors.
- Value is stored in the capitals. Value is created or destroyed as a result of the interplay between the capitals caused by the organization's activities.
- Organizations can create and maximize value by serving the interests of all major stakeholders including employees, customers, suppliers, creditors, communities and the environment. Value created in this way manifests itself in returns to investors through future cash flows and also in returns to the economy, the environment and society.
- Value for Integrated Reporting <IR> purposes is determined by reference to a wide range of interactions, activities, relationships, and causes and effects in addition to those directly associated with financial revenue or financial capital accretion.
- Information that enables investors to assess value is communicated through a description of the way in which the organization has used the capitals to operate its business model, and the effect on and trade-offs between those capitals over different time periods, the organization's value drivers and the risks and opportunities that affect them. These factors are embedded in the Content Elements in Chapter 4.

Value for long term investors

- 2.30 The primary target audience for the communication of value in an integrated report is the organization's long term investors. A broader group of stakeholders (e.g., customers, suppliers, employees, legislators and regulators) is also likely to benefit from the information in an integrated report, but their particular information needs will also continue to be served by other forms of communication including compliance and sustainability reports. Integrated Reporting <IR> emphasizes information relevant to an assessment of value from the perspective of long term investors for the purposes of supporting their decision-making and encouraging the allocation of financial resource to reward and support long term value creation within planetary limits and societal expectations. This is consistent with the IIRC's view that the interests of long term investors are aligned with the public interest in that both are focused on long term, as well as short and medium term, value creation and preservation.
- 2.31 The definition of long term investing adopted in this Framework is that developed by the World Economic Foundation: "investing with the expectation of holding an asset for an indefinite period of time by an investor with the capability to do so"¹⁴, such as insurance companies, pension funds and sovereign wealth funds.

¹⁴ "Long-term investing can be usefully defined as investing with the expectation of holding an asset for an indefinite period of time by an investor with the capability to do so. Investors engaged in long-term investing are less concerned about interim changes in asset prices, and instead are focused on long-term income growth and/or long-term capital appreciation both in their initial evaluation and continued interaction with their

- 2.32 Activities and strategies that are overly focused on optimizing short term financial performance can impede the ability of organizations and investors to make long term investments, such as investments in research aimed at long term innovation and in new types of infrastructure that are needed to address mounting global challenges including resource shortage, economic instability, and changing demographics.
- 2.33 As noted in the World Economic Forum's *The Future of Long-term Investing*: "when executed correctly by the right investor, (long-term investing) can benefit three key constituencies:
- Investors who potentially enjoy better returns through accessing risk premia (e.g. for assuming liquidity risk) and avoiding the costs sometimes associated with short term strategies (e.g. transaction costs, forced sales, short term behavioural investor biases)
 - Companies who can more easily pursue strategic initiatives with long term potential and large up-front costs
 - Society which can gain from the stabilization of financial markets by countercyclical investors and the direction of capital towards projects where returns are generated over longer time horizons."
- 2.34 Long term investment is, of course, accompanied by uncertainties that, in turn, demand sophisticated approaches to risk assessment based on a wide range of information about financial, operational, reputational, legal, social, environmental and political risk. Hence Integrated Reporting <IR> demands a wider range of information than has ordinarily been provided through traditional corporate reporting.

The meaning of value

- 2.35 Traditionally, the meaning of value has been associated with the present value of future expected cash flows and value creation has been understood as the change in that measure of value due to an organization's performance.¹⁵ Although long term investors take other factors into consideration, information about risk and reward, and particularly how it affects future cash flows, is crucial to a long term investor's understanding of how and the extent to which an organization creates value.
- 2.36 Integrated Reporting <IR> is based on the understanding that future cash flows and other conceptions of value are dependent on a wider range of interactions, activities, causes and effects, relationships, etc. than those directly associated with financial revenue or financial capital accretion. Those broader factors have not traditionally been adequately reflected in organizational reporting or in valuation methodologies such as the discounted cash flow model.
- 2.37 Value for Integrated Reporting <IR> purposes is, therefore, more than just financial value. Each capital represents a store of value that is created or destroyed through the use of, and resultant effects on, all the capitals since accretion in one of the capitals through the organization's activities will ordinarily affect the value stored in one or more of the other capitals.
- 2.38 Integrated Reporting <IR>, therefore, needs to consider the broader context, i.e., the value created or destroyed in all the capitals, including the creation of

investments. Long-term investing is not appropriate for all investors." *The Future of Long-term Investing* (2011), World Economic Foundation, at <http://tinyurl.com/3ckys64>.

¹⁵ From the Four Cornerstones of Value, McKinsey & Company (reference to be completed)

externalities through the activities of the organization.

The relationship between the capitals and value

- 2.39 Value is created or depleted over different time horizons and for different stakeholders through different capitals. Overall, value for investors is unlikely to be created through the maximization of one capital at the complete expense of the others. For example, the maximization of financial capital (e.g., profit) at the expense of the human capital embodied in an organization's employees (e.g., through inappropriate human resource policies and practices) will likely not maximize value in the long term.
- 2.40 Integrated Reporting <IR> should take account of the extent to which costs or other effects on various capitals have been externalized, i.e., the costs or other effects have impacted capitals that are not owned by the organization, such as the environment, employees, the local community and future generations. Externalities may be positive or negative, i.e., they may result in a net increase or decrease to the value embodied in capitals. Externalities may ultimately increase or decrease investor value in the longer term, and without appropriate disclosure of their effects, long term investors will not have the information they require to make decisions about long term value and be able to allocate resources accordingly.

Organizational value drivers

- 2.41 Value drivers are capabilities or variables that give an organization competitive advantage and over which it has some degree of control so as to create value. They may consist of, e.g.:
- Financial drivers such as revenue growth, operational efficiency, brand equity and cost of capital
 - Non-financial drivers such as customer relations, societal expectations, environment, innovation and corporate governance
 - Values such as integrity, trust and teamwork that support value creation.
- 2.42 Value drivers alone and in combination affect organizational value. The type and combination of particular value drivers that affect an organization's ability to create value are peculiar to each organization and should be disclosed for Integrated Reporting <IR> purposes.

Communications that inform the assessment of value-creation

- 2.43 Integrated Reporting <IR> should explain how the organization's ability to create and preserve value is affected by a number of factors, for example:
- The various capitals the organization uses and affects including the interdependencies and trade-offs that are made between them;
 - The external context in which the organization operates, the opportunities and risks faced by the organization and how it tailors its strategies to manage risks, opportunities, and changes to the external context;
 - Organizational value drivers
 - The stability of the organization's governance structure, to help assess its resilience against short term disruptions so as to secure long term returns
 - The results of engagement with the various parties that have an interest in the capitals affected by the organization's activities.

These factors are embedded in the Content Elements in Chapter 4.

- 2.44 Information about these factors can be conveyed in quantitative or qualitative terms or a combination of both. Where it is not practicable quantitatively to measure movements in the capitals, qualitative disclosures should be made to explain changes in the availability, quality, or affordability of capitals as business inputs and how their use by the organization enhances or depletes them. In some cases monetization of these factors may be appropriate. While there are benefits (including comparability) to monetizing aspects of value creation, the complexity of identifying, measuring and attaching a currency value to various effects on the capitals means that this may often not be appropriate, or even possible at this stage.

3. GUIDING PRINCIPLES

- 3.1 The following Guiding Principles should underpin the preparation of an integrated report, informing the content of the report and how information is presented:
- A Strategic focus and future orientation
 - B Connectivity of information
 - C Responsiveness and stakeholder inclusiveness
 - D Materiality and conciseness
 - E Reliability
 - F Comparability and consistency.

A Strategic focus and future orientation

- 3.2 Guiding Principle 1 – An integrated report should provide insight into the organization’s strategic objectives and the strategies to achieve them, and how those objectives and strategies relate to its ability to create and preserve value in the short, medium and long term and to the organization’s use of and effects on the capitals.
- 3.3 Applying this Guiding Principle is not limited to describing the organization’s strategic objectives, strategies and future outlook in accordance with Content Elements 3 and 6. It also pervades the selection and presentation of other content, and may include, for example:
- Highlighting significant opportunities, risks and dependencies flowing from the organization’s market position and business model that affect the organization’s ability to achieve sustainable value creation
 - Those charged with governance’s strategic analysis of :
 - The resilience of the organization’s business model
 - The relationship between past and future performance, and the factors that may change that relationship
 - How the organization balances short, medium and long term interests.
- 3.4 Adopting a strategic focus and future orientation in an integrated report also involves clearly articulating, how the continued availability, quality and affordability of significant capitals contribute to the organization’s ability to achieve its strategic objectives in the future and thereby create and preserve value.
- 3.5 Particular care is needed with respect to the future-orientated information to avoid creating “boiler-plate” disclosures. Information should only be included in the integrated report when it is of practical use to report users in considering the organization’s strategy, governance, performance and prospects.
- 3.6 Future-orientated information is, by its nature, more uncertain and, therefore, less precise than historical information. Uncertainty is not, however, a reason in itself to exclude such information, but it does mean that key estimates and significant assumptions used by management, together with possible risks, should be included so report users can properly assess that information. The legal or regulatory requirements regarding future orientated information vary from jurisdiction to jurisdiction, and may cover, for example:

- Types of disclosures that may be made
- Whether cautionary statements are required or permitted to highlight the uncertainty regarding achievability
- Any obligation to publicly update such information.

(See Section 5H for further guidance.)

B Connectivity of information

3.7 Guiding Principle 2 – An integrated report should show, as a comprehensive value creation story, the combination, inter-relatedness and dependencies between the components that are material to the organization's ability to create and preserve value over time.

- 3.8 Connectivity is central to ensuring that an integrated report:
- Focuses on the total picture of the organization's value creation story
 - Supports report users' understanding of the different factors that affect the future of the organization (including its possible performance) and how they interact
 - Helps to break down established silos in measuring, managing and disclosing information, and the traditional focus of reporting primarily on financial matters and historical matters
 - Facilitates report users' ability to drill down and interlink information in other communications depending on their needs.
- 3.9 The key components that are relevant to the connectivity of information are the connectivity between:
- *The Content Elements*, i.e., the connectivity between the organization's business model, its operating context, its strategic objectives and strategies, its governance, its performance, and its future outlook. It is only by connecting the Content Element that the organization is able to tell its value creation "story". The story will integrate each Content Element into a total picture of value creation and reflect the dynamism of the organization's activities as a whole. Examples include:
 - An analysis of existing resources, and how the organization will combine them or make further investment to achieve targeted performance through the business model
 - Information about how the organization's strategies are tailored for changes in conditions and events(e.g., when new opportunities and risks are identified or past performance is not as expected)
 - How strategies link to KPIs and KRIs.
 - *The past, present, and future.* An analysis by the organization of its activities in the past-to-present dimension can provide report users with significant clues to assess the plausibility of what has been reported compared to what may transpire in the present-to-future dimension. The explanation of the past-to-present may also become the fundamentals of analysis by report users on the quality of management in considering whether or not the organization will achieve the future performance described in the integrated report.
- 3.10 It is also important to consider that connectivity from the report users' point of view involves the connectivity between:

- *Information in the integrated report, information in the organization's other communications, and information available to report users from other sources*, recognizing that report users make decisions by modifying and customizing the information that organizations provide, and combining it with other information they have accumulated. In this context, information and communication technology (e.g., the internet and XBRL) can be used to improve report users' capability to search, further access, combine, connect or analyze information. (See discussion of technology in Section 5F).
- 3.11 Other relevant components of the connectivity of information include the connectivity between:
- *The capitals*, including the trade-off, aggregation, conversion over time, and enhancement and depletion of the capitals (See discussion of the capitals in Section 2A).
 - *Non-financial information and financial information*, especially as it relates to future cash flows, such as:
 - R&D policy, technology/know-how, capital investment, and investment in human resources, and their implications for expected revenue growth or targeted market share in the future
 - Environmental policies, energy efficiency, cooperation with local communities, or technologies to tackle social issues, and their implications for cost reduction or enlarged business opportunity
 - Long term customer relationship, customer satisfaction and reputation and their implications for revenue or profit growth.
 - *Quantitative and qualitative information*. Both qualitative and quantitative information are necessary if an integrated report is to properly represent the organization's value creation story, with each providing context to the other.
- 3.12 Integrated Reporting <IR> permits a holistic assessment of the ability of an organization to create and preserve value in the short, medium and long term. By reinforcing the connectivity of information, Integrated Reporting <IR> can help organizations to take more sustainable decisions and enable report users to obtain a more accurate and complete view of the organization.
- 3.13 The more that integrated thinking underlies the value creation story by being embedded into the activities of the organization, the more naturally will the connectivity of information flow into reporting through the alignment of management information, board information and information reported externally. Accordingly, introducing ways to improve integrated thinking within an organization should help drive the Integrated Reporting <IR> process.
- 3.14 The connectivity of information, and indeed the overall usefulness of the integrated report, is enhanced when it is logically structured and well presented, written in straight-forward language, and includes effective navigation devices such as a table of contents, section summaries, clearly delineated (but linked) sections, and cross-references.

C Responsiveness and stakeholder inclusiveness

- | | |
|------|--|
| 3.15 | Guiding Principle 3 – An integrated report should provide insight into the quality of the 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. |
|------|--|
- 3.16 Integrated Reporting <IR> emphasizes the importance to the creation and preservation of value of ongoing, positive relationships with the organization’s stakeholders.
- 3.17 Stakeholders provide useful insights about matters that are important to them that also affect the organization, including economic, environmental and social issues. This assists the organization to:
- Understand how stakeholders perceive value
 - Identify material issues, including risks and opportunities
 - Develop and evaluate strategies
 - Manage risks
 - Implement activities, including strategic and accountable responses to material issues.
- 3.18 An integrated report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing:
- The nature and quality of the organization’s relationships with key stakeholders, such as customers, suppliers, employees and local communities
 - How their issues are understood, taken into account and responded to.
- 3.19 Responsiveness is demonstrated through decisions, actions and performance, as well as ongoing communication with stakeholders. Making internal processes more transparent is valuable to most stakeholders.
- 3.20 Engagement with stakeholders¹⁶ occurs regularly in the ordinary course of business, e.g., day-to-day liaison with customers and suppliers or broader ongoing engagement as part of strategic planning. It may also be undertaken for a particular purpose, e.g., engagement with a local community when planning a factory extension. The more integrated thinking is embedded in the business, the more likely it is that a fuller consideration of stakeholder needs is being incorporated as an ordinary part of conducting business.
- 3.21 The Guiding Principle of responsiveness and stakeholder inclusiveness does not mean that an integrated report should attempt to satisfy all the information needs of all stakeholders. Rather, by focusing on matters that are most material to long term success, an integrated report will often provide relevant information in itself, as well as a clear reference point for other communications, including compliance information, investor presentations, detailed financial information, sustainability reports, and communications directed to specific stakeholders who have particular information needs. Much of this more detailed information is likely to be placed online.
- 3.22 As noted above, an integrated report enhances transparency and accountability.

¹⁶ For further guidance, see for example: “AA1000 Stakeholder Engagement Standard” (2011), Accountability, at <http://tinyurl.com/cnm9oa5>; and “Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets” (2007), International Finance Corporation, at <http://tinyurl.com/2ao9636>.

Accountability is closely associated with the concept of stewardship which, in the context of Integrated Reporting <IR>, means the responsibility of an organization to care for the capitals that its actions affect. Where those capitals are owned by the organization, a stewardship responsibility is imposed on management and those charged with governance via their legal responsibilities to the organization.

- 3.23 Some capitals the organization uses or effects are not owned by it. They may be owned by others, or may not be owned at all in a legal sense, e.g., access to unpolluted air. In either case, the organization may have stewardship responsibilities imposed upon it through law or regulation, e.g., through a contract with the owners or through labour laws or environmental protection regulations. Where a stewardship responsibility is not imposed by law or regulation, the organization may nonetheless accept stewardship responsibilities in accordance with growing stakeholder expectations to do so, and to do so transparently. Responding to stakeholder expectations in this way is consistent with the concept of value as explained in Section 2C.

D Materiality and Conciseness

- 3.24 Guiding Principle 4 – An integrated report should provide concise information that is material to assessing the organization’s ability to create and preserve value in the short, medium and long term.

Definition of materiality

- 3.25 A matter¹⁷ is material if it is of such *relevance* and *significance*¹⁸ that it could substantively influence the assessments and decisions of the organization’s highest governing body or change the assessments and decisions of the report user with regard to the organization’s ability to create and preserve value over time. In determining whether or not a matter is material, senior management and those charged with governance consider whether the matter substantively impacts, or has the potential to substantively impact, the organization’s strategic objectives and strategies, its business model, or one or more of the capitals it uses or affects.
- 3.26 The materiality definition for Integrated Reporting <IR> purposes considers the commonality of materiality definitions from various financial and sustainability reporting frameworks and, in particular, the notion that material matters are those that are of such relevance and significance that they could substantively influence the assessments and decisions of the report user. Where the various materiality definitions differ is in terms of the matters that are considered to be relevant. For financial reporting purposes, the nature or extent of an omission or misstatement in the organization’s financial statements determines relevance. In the context of sustainability reporting, an organization’s economic, environmental and social impacts are considered in determining what is relevant. Matters that are considered material for financial reporting purposes or for sustainability reporting may also be material for Integrated Reporting <IR> purposes if they are of such relevance and significance that they could substantively influence the assessments or decisions of the report user with regard to the organization’s ability to create and preserve value.

The Materiality Determination Process

- 3.27 Determining materiality involves:

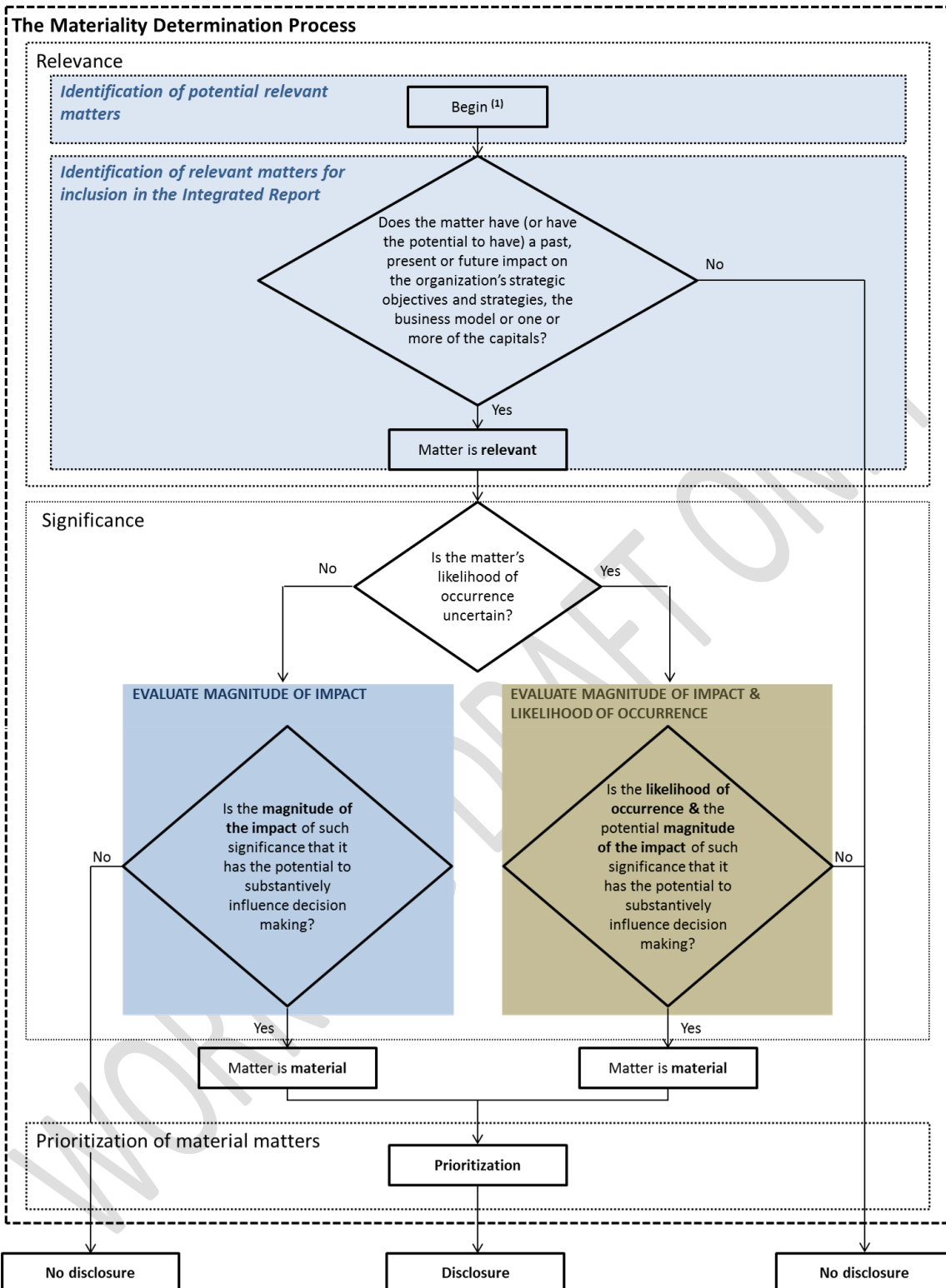
¹⁷ A matter or information includes, but is not limited to, an event, issue, opportunity, amount, or statement by the organization.

¹⁸ Significance refers to both nature and magnitude.

- Identifying relevant matters
- Evaluating the significance of those matters in order to determine their ability to influence decision making
- Prioritizing the matters identified.

This materiality determination process is illustrated in the following diagram.

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Notes:

1. Begin the process with the population of relevant matters. These matters will be narrowed down to matters considered relevant to the Integrated Report in the following step.

Relevance

- 3.28 Relevant matters are past, present or future matters that impact or may impact the organization's strategic objectives and strategies, its business model or one or more of the capitals and thus ultimately affect the organization's ability to create and preserve value over time. Identifying relevant matters for inclusion in the integrated report includes identifying the population of potentially relevant matters, and narrowing those down to matters that are relevant for inclusion in the integrated report. Information about relevant matters will have either, or both, predictive value or confirmatory value with respect to report users' decisions.

Identification of potentially relevant matters

- 3.29 The population of potentially relevant matters can be identified through an assessment of the organization's value drivers and the matters that impact (or have impacted) those value drivers. The process will require judgement, and will include considering factors internal and external to the organization, internal and external stakeholders' legitimate needs, interests and expectations, and the organization's use of and effects on the capitals.

Identification of relevant matters for inclusion in the integrated report

- 3.30 From the population of potentially relevant matters identified in the prior step, the matters that are relevant for inclusion in the integrated report are those that have (or have the potential to have) a past, present or future impact on the organization's strategic objectives and strategies, its business model or the capitals.
- 3.31 Not all relevant matters will be considered material. In order for relevant information to be included in the integrated report, the information also needs to be sufficiently significant in terms of its known or potential impact on value. It is thus necessary to determine the significance of the matters identified as relevant in order to identify those matters that are material and thus warrant inclusion in the integrated report.

Significance

- 3.32 In general, the significance of a matter is determined by assessing the matter's magnitude of impact. However, if it is uncertain whether the matter will occur, the matter's significance is determined by reference to both its estimated magnitude of impact and its likelihood of occurrence. If the matter is determined to be of such significance that it has the potential to substantively influence decision making, the matter is considered material for disclosure purposes.

Assessing the magnitude of the impact

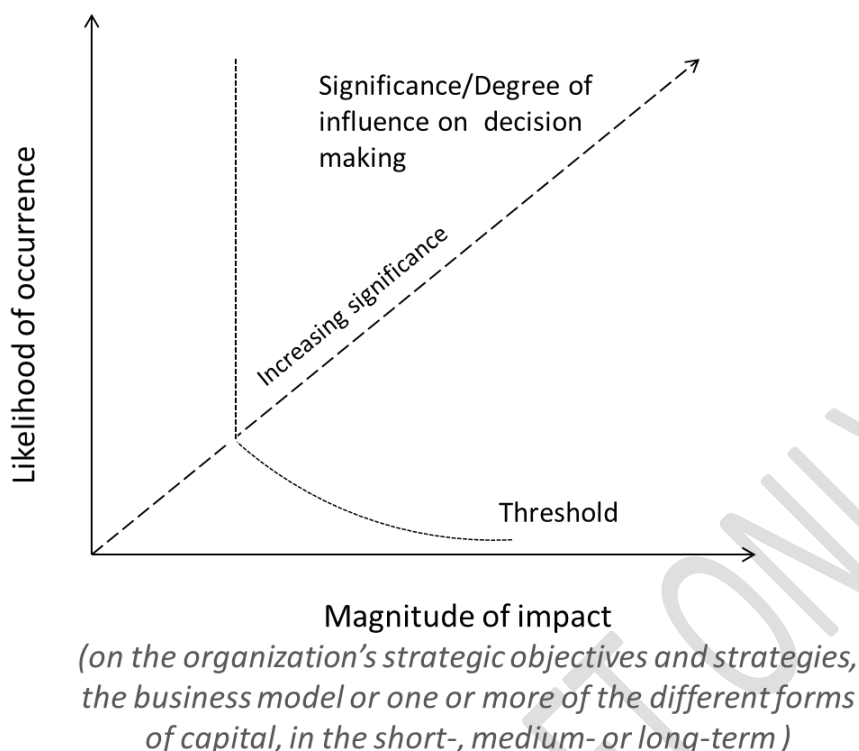
- 3.33 A matter's magnitude of impact on the organization's strategic objectives and strategies, business model or the capitals in the short, medium or long term is assessed to determine whether the matter is of such significance that it has the potential to substantively influence decision making.
- 3.34 The manner in which a matter's magnitude of impact is assessed requires judgement and will depend on the nature of the matter in question. Assessing a matter's magnitude of impact does not imply that the impact needs to be quantified. Depending on the nature of the matter, a qualitative assessment may be more appropriate. For example, it may not be possible to quantify the impact of a matter on the organization's strategic objectives and strategies.
- 3.35 In assessing the potential magnitude of the impact, the organization should, at a

minimum, consider:

- Quantitative and qualitative factors
 - Quantitative factors may be measured by financial impact but could often extend to non-financial measures (e.g., % of production or sales volume, % of total capacity or resources, % yield or efficiency factors) and may often be sector specific
 - Qualitative factors may include matters that would impact the organization's social and legal licence to operate or matters that affect the availability, quality and affordability of the capitals the organization uses or affects (e.g., matters affecting reputation and credibility such as regulatory infringements, major fraud/corruption; sensitive factors like fatalities, pollution, unemployment, or negative economic impacts).
- Financial, operational, strategic, reputational and regulatory perspectives of the impact
 - Financial perspectives may be measured in monetary terms but could extend to financial ratios (e.g., gross margin, gearing, liquidity ratios, credit risk)
 - Operational perspectives typically pertain to operational aspects of the organization (e.g., consumer goods – market share, telecoms – customer churn rate, mining – yields and production volume)
 - Strategic perspectives relate to the high-level aspirations of the organization (e.g., its ability to achieve and sustain safety performance levels, sustained and growing market share leadership, margin growth or retention, R&D pipeline and product pipeline development)
 - Reputational perspectives refer to impact assessments of incidents or events that may affect the reputation of the organization (e.g., late recall of a defective product posing significant consumer health risk, cancellation of airline flights due to grounding, or failure to pay suppliers) and, in extreme cases, may ultimately affect the organization's social license to operate
 - Regulatory perspectives refer to the organization's legal license to operate (e.g., infringement of civil or criminal regulations and resultant penalties or reputational impact).
- Area of the impact (internal and external to the organization) and
- Time frame short, medium or long term) of the impact.

Assessing the magnitude of the impact and the likelihood of occurrence

- 3.36 In situations where it is uncertain whether the matter will occur, both the magnitude of the impact (as described above) and the likelihood of occurrence are considered to assess the significance of such matters. The following diagram illustrates how the significance of such matters can be assessed.



- 3.37 Matters with a high likelihood of occurrence and a large magnitude of impact would have a greater degree of influence on decision making than matters with a lower likelihood of occurrence or lower magnitude of impact. Careful consideration is given to matters with a high magnitude of impact (e.g., matters that are crucial to the business) even when the likelihood of occurrence is small, since such matters, should they occur, could severely impact the organization's ability to create and preserve value over time.

Prioritization of material matters

- 3.38 Once the population of material matters is identified, the matters are prioritized. Prioritization assists with focusing on those matters to which the most importance is to be attached in the manner in which they are reported. For example, an integrated report may include a more prominent or detailed discussion of matters with a higher prioritization or discuss certain matters collectively considering the principle of connectivity for those with a lower priority. If the population of material matters is quite large, prioritization assists in revisiting the materiality threshold and the process of assessing significance to narrow the population further. If too many material matters have been identified and included in the report, the principle of conciseness may not be achieved. In prioritizing the population, the organization challenges itself as to which of the matters senior management and those charged with governance devote their attention.

Disclosure

- 3.39 Material matters require disclosure. The nature and extent of disclosure in the integrated report depends, to a large extent, on the nature of the matter and will also be influenced by the concepts of conciseness and reliability. In addition to the disclosure of material matters in the integrated report, the process employed by the organization to identify material matters should also be disclosed (either in the integrated report or elsewhere).

Disclosure of material matters in the integrated report¹⁹

3.40 Judgment is applied in determining the appropriate disclosures of material matters in the integrated report. Taking the nature of the matter into consideration, the organization considers providing:

- Key information about the matter, such as the following:
 - an explanation of the facts or opportunity
 - an explanation of how the matter affects/affected the organization's strategic objectives and strategies, its business model or the capitals
 - an explanation of any interaction, inter-relatedness and dependencies associated with the matter (providing an understanding of cause and effect based on the identification of relationships and behaviors within a model, context or scenario)
 - the organization's view on the matter, including potential outcomes or impacts
 - description of the planned response to the matter
 - comparative data for prior periods
 - applicable KPIs
 - targets and expectations
 - quantitative and qualitative disclosures.
- If there is uncertainty surrounding a matter, disclosures about the uncertainty, such as the following:
 - an explanation of the uncertainty
 - the range of possible outcomes and associated assumptions and probabilities
 - the certainty range or confidence interval associated with the information provided.
- If key information about the matter is considered indeterminable, that fact and the reason the information is considered indeterminable is also provided.

3.41 Depending on the nature of the material matter, it may often be appropriate to present the matter in conjunction with the other Content Elements of the integrated report to provide the right level of linkage and context of the material issues in relation to the other Content Elements of the report. For example:

- Stakeholders – the stakeholders that were engaged to determine the extent of material impact underlying the matters being considered
- Material issues – understanding the full nature of the underlying risks and opportunities
- Strategic response – demonstrating how the organization has responded to the material issues in its chosen strategic objectives and strategies
- Performance and future outlook – performance against identified strategies, targets and outlook being sought
- Remuneration – extent of performance against strategic objectives and

¹⁹ **NOTE TO WORKING GROUP AND PILOT PROGRAMME PARTICIPANTS:** Paragraphs 3.40-3.41 are to be integrated with the Content Elements in Chapter 4]

strategies (and ultimately material matters) being linked to remuneration.

- 3.42 The nature and extent of disclosure of material matters in the integrated report will also be influenced by the concepts of conciseness and reliability.

Conciseness

- 3.43 Disclosures about material matters should include concise information that provides sufficient contextual information to make the disclosures understandable. In this context, conciseness is meant for the integrated report to include as few words as possible to give the necessary information. In achieving conciseness, this does not mean that key information about the material matter be excluded; some matters may not lend themselves to as brief a discussion as others. Accordingly, in preparing an integrated report, the organization seeks a balance between complete, concise and comparable information.
- 3.44 Senior management and those charged with governance exercise judgement in distinguishing between information about the material matter that is important to achieving the objective of the integrated report and is therefore to be included in the integrated report, and other information that is not key to that objective. Conciseness is enhanced when the latter is included separately on the organization's website or in other forms of communication, with links provided to such information.
- 3.45 Accordingly, the objective of an integrated report is best served if the report provides insightful information that adds to the knowledge of the report user and excludes boilerplate language, statements of the obvious, information reported elsewhere (unless it has added meaning by providing connectivity to other information), information that hasn't changed in a number of years and other information that may be redundant in nature.

Disclosure of the materiality determination process²⁰

- 3.46 The integrated report should include a reference to where a summary of the materiality decision-making process employed by the organization is disclosed or a high-level summary in the integrated report itself. If such description of the process is rather static, conciseness of the integrated report is enhanced when the description is included elsewhere.
- 3.47 The objective of the summary of the materiality determination process is to enable the report user to understand the process employed by the organization, including how decisions were made to include or exclude various matters, and thereby enable the report user to make an informed assessment of the methodology used. At a minimum, the summary should:
- Describe the process used to identify relevant matters
 - Describe the process used to narrow down the relevant matters to material matters
 - Identify the governance body with oversight responsibilities for Integrated Reporting <IR>.

E. Reliability

3.48 Guiding Principle 5 – The information in an integrated report should be reliable.

²⁰ **NOTE TO WORKING GROUP AND PILOT PROGRAMME PARTICIPANTS:** Paragraphs 3.46-3.47 are to be integrated with the Content Elements in Chapter 4]

- 3.49 The reliability of information is affected by its completeness, neutrality and freedom from error. It is recognized that it is not always possible for all information in an integrated report to be complete, neutral and free from error in every respect, so the objective is to maximize these qualities to the extent practicable (e.g., by ensuring that any negative matters are as faithfully reported as positive ones). Reliability is enhanced by mechanisms such as robust stakeholder engagement and independent, external assurance.
- 3.50 Senior management and those charged with governance exercise judgement in deciding whether information is sufficiently reliable to be included in the integrated report, considering its completeness, neutrality, and freedom from error. (See paragraph 1.14 for relevant disclosures when material information is omitted because of the unavailability of reliable data).

Completeness

- 3.51 A complete integrated report includes all material information (both positive and negative) that could change the assessments or decisions of the report user with regard to the organization's ability to create and preserve value over time.
- 3.52 To help ensure that the organization has identified and disclosed all material matters, consideration is given as to what organizations in the same industry are reporting on. Certain matters within a particular industry are most likely material to other organizations within the same industry.

Neutrality

- 3.53 A neutral integrated report is balanced and fair; and has no bias in the selection or presentation of information. The overall presentation of the content of the integrated report should provide an unbiased view of the organization's ability to create and preserve value in the short, medium and long term.
- 3.54 Information is not slanted, weighted, emphasized, de-emphasised, or otherwise manipulated to change the probability that it will be received either favourably or unfavorably by report users. Similarly, information about matters is not to be combined or offset to present a more favorable situation than actually exists.
- 3.55 Important methods to ensure neutrality include:
- Selection of presentation formats that are not likely to unduly or inappropriately influence a decision or judgment by the report user
 - Giving equal weighting to both increments and decrements to the capitals, both strengths and weaknesses, both positive and negative performance and impacts, etc.
 - Reporting performance against previously reported targets, forecasts, projections and expectations.

Freedom from error

- 3.56 Freedom from error implies that there are no errors or omissions in the information presented and that the process used to produce the reported information has been selected and applied without error. This does not imply that the information is perfectly accurate in all respects. It does imply that where amounts are estimates, this is clearly communicated, the nature and limitations of the estimation process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.
- 3.57 To ensure that the integrated report is free from error, the organization uses processes and controls to reduce to an acceptably low level the risk that reported information contains a material error and does not knowingly permit errors to be

included.

F Comparability and consistency

3.58 Guiding Principle 6 – The information in an integrated report should be presented in a way that enables comparison with other organizations to the extent it is material to the reporter’s own value creation story, and on a basis that is consistent over time.

Comparability

3.59 The specific information in an integrated report will, necessarily, vary from one organization to another because it is important for each organization to tell its own unique value creation story. Nonetheless, addressing the questions relating to the Content Elements, which apply to all organizations, helps ensure a suitable level of comparability between organizations. Other powerful tools for enhancing comparability (both in the integrated report itself and in more detailed information referenced from the integrated report) can include reporting the following to the extent they are material:

- Benchmark data, such as industry or regional benchmarks
- KPIs commonly used by other organizations with similar activities, particularly when standardised definitions are stipulated by, e.g., an industry body. This should not, however, be at the expense of ensuring reported KPIs are relevant to the individual circumstances of the organization. KPIs relevant to the individual circumstances of the organization will ordinarily align with KPIs used by those charged with governance for making strategic decisions, enabling performance against strategic objectives and targets, and for holding senior management accountable
- Presenting normalized information/ratios, e.g., R&D expenditure as a percentage of sales, or carbon intensity measures.

Consistency

3.60 Reporting policies should be followed consistently from one period to the next unless a change is needed to improve the quality of information reported. This includes using the same KPIs to report on the same issues if they continue to be material across reporting periods. When a significant change has been made, the organization explains the reason for the change, describing (and quantifying, if practicable and material) its impact.

3.61 When information in the integrated report is similar to or based on other information published by the organization, it is prepared on the same basis as, or is easily reconcilable with, that other information. For example, where a KPI or discussion of performance covers a similar topic to information published in the organization’s financial statements or sustainability report, its consistency is enhanced when it is prepared on the same basis, and for the same period, as that other information.

4. CONTENT ELEMENTS

- 4.1 An integrated report should include all the following Content Elements, answering the respective question posed for each one:
- A Organizational overview and business model
 - B Operating context, including risks and opportunities
 - C Strategic objectives and strategies
 - D Governance and remuneration
 - E Performance
 - F Future outlook
- 4.2 These Content Elements are not mutually exclusive and are fundamentally linked to each other. The information in the integrated report with respect to these Content Elements should be presented in a way that makes their interconnections apparent, rather than appearing as isolated, standalone sections.
- 4.3 Each Content Element is stated in the form of a question rather than a listing of content. Accordingly, senior management and those charged with governance will need to exercise considerable judgment in applying the Guiding Principles to determine what matters are reported, as well as how they are reported (e.g., whether detailed and relatively static information should ordinarily appear on the organization's website with only a reference to where it can be found included in the integrated report).
- 4.4 What is actually reported in any organization's integrated report will depend on the individual circumstances of that organization; the points noted below each Content Elements should, therefore, not be treated as a checklist.

A Organizational overview and business model

- 4.5 Content Element 1 – An integrated report should answer the question: what does the organization do, what are the key capitals that it uses and affects, and how does it create and preserve value in the short, medium and long term?
- 4.6 The integrated report provides essential context by identifying, for example:
- The organization's mission and vision, its ethics, values and culture, its ownership and operating structures, and its principal activities, markets, products and services
 - Its business model (including an overview of the key capitals used as inputs and the organization's short, medium and longer term impact on them as outputs), critical stakeholder dependencies, and key value drivers (see also Section 2B)
 - Its attitude to risk.²¹
- 4.7 The integrated report identifies its reporting boundary and explains how it has been determined. (See also Section 5C "Reporting Boundary".)
- 4.8 A summary of key quantitative information (e.g., the number of employees, turnover, and number of countries in which the organization operates) may be included in the integrated report, highlighting in particular significant changes from prior periods. More detailed and relatively static information, such as an

²¹ For further guidance see, for example, "Enterprise Risk Management - Understanding and Communicating Risk Appetite" (2012), Committee of Sponsoring Organizations of the Treadway Commission, at <http://tinyurl.com/7w7xtmj>.

unchanged listing of subsidiaries, would normally be communicated more effectively via a website or other form of communication and not included in the integrated report.

B Operating context, including risks and opportunities

4.9 Content Element 2 – An integrated report should answer the question: what are the circumstances under which the organization operates, including the key risks and opportunities that it faces?

4.10 To provide context, an integrated report identifies:

- The legal, commercial, social, environmental and political context within which the organization operates, including the significant laws and regulations and stakeholders needs, interests and expectations that affect the organization's ability to create and preserve value in the short, medium and long term
- The organization's key risks and opportunities,²² including those that relate to external factors and to its affects on, and the continued availability, quality and affordability of relevant capitals.

4.11 This Content Element covers a description of material issues, and includes:

- a description of material issues
- the organization's materiality determination process (see Section 3D); and
- How the material issues affect the organization's ability to create and preserve value over time (e.g., how the organization integrates key emerging or escalating risks and opportunities into its strategies).

4.12 The circumstances under which an organization operates include the external factors that present risks and opportunities to the organization. External factors affect the organization both directly and indirectly, and influence the availability, quality, and affordability of the capitals that the organization both depends upon and affects in creating and preserving value.

4.13 External factors may include, for example:

- Macro and micro economic conditions, such as economic stability, globalization, and industry trends
- Market forces, such as the relative strengths and weaknesses of competitors and customer demand
- The speed and impact of technological change
- Societal issues, such as population and demographic changes, human rights, health and poverty, collective values and educational systems
- Environmental challenges, such as climate change and the loss of ecosystems
- The legislative and regulatory environment in which the organization operates
- The political environment in countries in which the organization operates and in other countries that may impact the ability of the organization to implement its strategies.

²² For further guidance see, for example, "Enterprise Risk Management — Integrated Framework" (2004) and related "ERM Thought Papers" (various), Committee of Sponsoring Organizations of the Treadway Commission, at <http://tinyurl.com/bmmdp75>.

C Strategic objectives and strategies

4.14 Content Element 3 – An integrated report should answer the question: where does the organization want to go and how does it intend getting there?

4.1 An integrated report describes:

- The organization's short, medium and long term strategic objectives
- The strategies it has in place, or plans to implement, to achieve them.

It also sets out how the organization will measure achievements and target outcomes for the short, medium and long term.

4.15 In describing where the organization wants to go and how is it going to get there, care is taken to ensure the stated aspirations and intentions of the organization are grounded in reality. They therefore need to be commensurate with the ability of the organization to deliver on the opportunities it sees as being available to it, including the availability, quality and affordability of appropriate capitals, and a realistic appraisal of relevant risks.

4.16 This discussion identifies:

- The linkage between the organization's strategic objectives and strategies, and the information covered by other Content Elements, including how the strategic objectives and strategies:
 - Relate to the organization's current business model and what changes to that business model may be necessary to implement the chosen strategies
 - Are influenced by/respond to the operating context, including identified risks and opportunities
 - Affect key capitals, and risk management arrangements related to those capitals
- What makes the organization unique and able to realize value in the future, such as:
 - The role of innovation
 - How the organization develops and exploits intellectual capital
 - The extent to which environmental and social considerations have been embedded into its strategies to give it a competitive advantage.
- Stakeholder consultations that were used in formulating strategies.

D Governance

4.17 Content Element 4 – An integrated report should answer the question: what is the organization's governance structure, and how does it support the organization's strategic objectives, risk management, and approach to remuneration?

4.18 An integrated report provides insight about the organization's oversight and tone at the top. It includes an explanation of:

- The organization's leadership structure and strategic decision-making processes, including the diversity and skill set of those charged with governance
- What actions those charged with governance have taken to influence and

monitor the strategic direction of the organization and its approach to risk management

- How the organization's culture and ethical values are reflected in its use of and effect on the capitals, including its relationships with key stakeholders²³
- The role of those charged with governance in promoting and enabling innovation
- How the remuneration is linked to value creation in the short, medium and long term, including how it is linked to the organization's use of and effect on the capitals.

- 4.19 With respect to remuneration, the integrated report focuses on significant compensation policies and plans (including cash, deferred compensation, pension and stock arrangements). This may involve both quantitative and qualitative information about oversight arrangements for remuneration of senior executives; and how the links between strategies and the organization's use of and effects on financial and other capitals are used to arrive at performance-based compensation, including future remuneration and fixed versus variable remuneration.
- 4.20 KPIs may be used to report information such as multiples of average pay, with more detailed or relatively static information included elsewhere, for example, a statutory report, with an appropriate reference to where to find it.
- 4.21 Oversight over the Integrated Reporting <IR> process is also important. (See also Section 5E.)

E Performance

4.1	Content Element 5 – An integrated report should answer the question: how has the organization performed against its strategic objectives and related strategies?
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- 4.22 An integrated report contains qualitative and quantitative information about performance, including:
- KPIs²⁴ and KRIs²⁵ regarding the organization's performance with respect to strategic objectives and related strategies, targets, value drivers and identified risks, explaining the significance and implications of those indicators and key methods and assumptions used in compiling them
 - The organization's effects (both positive and negative) on the capitals

²³ For further guidance, see for example "Practice Guide: Evaluating Ethics-related Programs and Activities" (2012), Institute of Internal Auditors, at <http://tinyurl.com/c4bw8e8>.

²⁴ For further guidance see, for example: "Reporting Intangibles" (2005), Athena Alliance, at <http://tinyurl.com/97a7y25>; "KPIs for ESG: A Guideline for the Incorporation of ESG into Financial Analysis and Corporate Valuation" (2010), Society of Investment Professionals in Germany in conjunction with European Federation of Financial Analysts Societies, at <http://tinyurl.com/d63y9sd>; "The Sustainability Reporting Framework" (various), Global Reporting Initiative, at <http://tinyurl.com/czg6l89>; "ESG Reporting Guide for Australian Companies: Building The Foundation For Meaningful Reporting" (2011), Financial Services Council and the Australian Council of Superannuation Investors, at <http://tinyurl.com/c24grwc>; and "Concept Paper on WICI KPI in Business Reporting ver.1" (2010), World Intellectual Capital Initiative at <http://www.wici-global.com/kpis>.

²⁵ For further guidance see, for example: "Operational Risk Sound Practice Guidance: Key Risk Indicators" (2010) Institute of Operational Risk, at <http://tinyurl.com/cx2axrm>.

- The state of key stakeholder relationships and how the organization has responded to stakeholders' legitimate needs, interests and expectations
 - The significant external factors impacting performance
 - The linkages between past and current performance and between current performance and future outlook, including how the organization fared against its targets.
- 4.23 It is important to demonstrate the connectivity of information about financial performance with information about performance regarding the other capitals. This may include using KPIs that combine financial and non-financial components, explaining by way of narrative the financial implications of the organization's significant effects on other capitals and, in some cases, monetization of the organization's performance with respect to externalities, such as carbon emissions and water use.
- 4.24 Performance information includes a description of the organization's view of its major external economic, environmental and social impacts up and down the value chain, along with material quantitative information to the extent practicable. This may include information about such things as macroeconomic implications, carbon emissions, or labour practices of entities with which the organization has important relationships, such as key suppliers. (See also Section 5C.)
- 4.24 While other reports and communications (such as financial statements, a sustainability report or detailed website disclosures) may be referenced or linked for those report users who want additional detail on various aspects of performance, the performance discussion in an integrated report is considerably more concise and connected.
- 4.26 If regulations have a material impact on performance (e.g., a constraint on revenues as a result of regulatory rate setting) or if the organization's non-compliance with certain laws or regulations has affected the organization's operations, that is included in the discussion of performance.
- 4.27 KPIs and KRIs can help increase comparability, but ordinarily need to be presented in the context of qualitative information to provide context and improve meaningfulness. Quantitative indicators are also particularly helpful in expressing, and reporting against, goals and targets. It is ordinarily appropriate to present KPIs and KRIs for a number of periods to give report users an appreciation of trends, and to explain significant variations, noting their causes and whether they are expected to recur. As noted at paragraph 3.59, it may also be relevant to include a comparison of the organization's performance against industry or regional benchmarks. When this is done, it is important that benchmarked information is reported consistently over successive periods, regardless of whether the comparison in any particular period is favorable or unfavorable.

F Future outlook

- | | |
|------|--|
| 4.28 | Content Element 6 – An integrated report should answer the question: what opportunities, risks challenges and uncertainties is the organization likely to encounter in pursuing its strategic objectives, and what are the potential implications for its strategies and future performance? |
|------|--|
- 4.29 Future outlook highlights anticipated changes over time. It provides information, built on sound and transparent analysis, about such matters as:
 - Management’s expectations about the short, medium and long term future and how that will affect the organization
 - The operating context the organization is likely to face in the future and how is it currently equipped to respond to the critical enablers, challenges and barriers that may entail
 - The associated uncertainties.
 - 4.30 The integrated report should identify any real risks that could have extreme consequences, even though the probability of their occurrence might be considered quite small.
 - 4.31 The integrated report includes a discussion of the potential implications, including implications for future performance and targets, of:
 - External factors, risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives
 - The availability, quality and affordability of capitals the organization uses (e.g. the continued availability of skilled labour or natural resources), including how key relationships are managed, and why they are, or may be, important to the organization’s ability to create and preserve value over time.
 - 4.32 The discussion provides report users with an understanding of the organization’s key assumptions and possible risks. It may also include lead indicators, targets, forecasts and projections, relevant information from recognised external sources, estimates of financial and non-financial KPIs and KRIs for the future, and sensitivity analyses.

5. PREPARATION AND PRESENTATION

5.1 This Chapter provides guidance on the following topics relating to the preparation and presentation of an integrated report, which is intended to provide clarity around application of some of the concepts discussed to help organizations implement the Guiding Principles and Content Elements identified in Chapters 3-4:²⁶

- A Frequency of reporting
- B Time frames for short, medium and long term
- C Reporting boundary
- D Aggregation and disaggregation
- E Involvement of those charged with governance
- F Use of technology
- G Assurance
- H Other considerations

A Frequency of reporting

5.2 At this point in time, it is anticipated that an integrated report would be prepared annually in line with the statutory financial reporting cycle; however, many of the Integrated Reporting <IR> concepts can be applied continuously.

5.3 Preparation of an integrated report annually does not mean that the organization does not communicate changes to its business model, strategies, governance, performance and prospects until the preparation of the integrated report. Rather the organization considers its statutory reporting cycles and ways in which it can provide updated information, such as through real-time reporting between the publication of annual integrated reports (see Section 5F on the use of technology).

B Time frames for short, medium and long term

5.4 Given the nature of the issues that Integrated Reporting <IR> seeks to address, the future time dimension that an organization is to consider for purposes of preparing an integrated report will typically be longer than it is today. The length of each time frame for short, medium and long term is to be decided by the reporting organization with reference to the organization's business and investment cycles, strategies and stakeholder expectations. Accordingly, there is no set answer for establishing the length for each term.

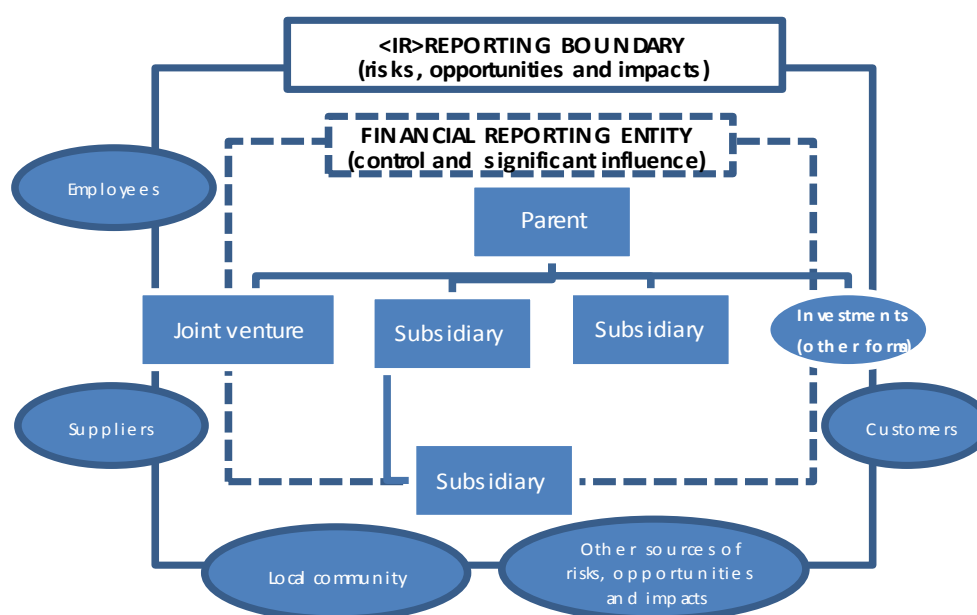
5.5 Time frames differ by industry or sector; for example, strategic plans in the automobile industry typically cover two model-cycle terms, spanning between eight and ten years, whereas within the technology industry, time frames may be significantly shorter. Certain matters, like sustainability issues can be very long term in nature and also are to be considered for Integrated Reporting <IR> purposes.

5.6 The length of each reporting time frame and the reason for such length are to be disclosed in the integrated report.

C Reporting boundary

²⁶ **NOTE TO WORKING GROUP AND PILOT PROGRAMME PARTICIPANTS:** Consideration is being given to adding a section on the relationship of Integrated Reporting <IR> with other forms of reporting.

- 5.7 As noted in paragraph 4.7, the integrated report identifies its reporting boundary and explains how it has been determined. Determining an organization's reporting boundary for Integrated Reporting <IR> purposes has two components, both of which are to be considered in conjunction with the Guiding Principle, "Materiality and conciseness," and related guidance:
- The boundary used for financial reporting purposes (the financial reporting entity)
 - Risks, opportunities and impacts attributable to or associated with other entities beyond the financial reporting entity that have a material effect on the ability of the financial reporting entity to create and preserve value over time
- 5.8 Central to the reporting boundary for Integrated Reporting <IR> purposes is the financial reporting entity. This is because:
- It is the financial reporting entity that investors, the primary audience for an integrated report, invest in and therefore need information about
 - Using the financial reporting entity enables the information in the financial statements to serve as an anchor or point of reference to which the other information in the integrated report can be related as appropriate.
- 5.9 The following diagram depicts the mapping of the entities and relationships that are considered in determining the organization's reporting boundary for Integrated Reporting <IR> purposes.



Financial reporting entity – control and significant influence

- 5.10 Broadly speaking, the financial reporting entity identifies which subsidiaries, joint ventures and associates' transactions and related events are included in the organization's financial report. The financial reporting entity is determined according to International Financial Reporting Standards²⁷ (or other applicable financial reporting standards or regulations) and revolves around the concepts of

²⁷ URL

control or significant influence. Considering this central aspect of the reporting boundary:

- (a) Material risks, opportunities and impacts attributable to or associated with entities that are included in the financial reporting entity are reported on in the organization's integrated report.
- (b) Financial information and, to the extent it is relevant, non-financial information also, that is included in an integrated report with respect to entities included in the financial reporting entity is prepared on the same basis as, or reconciled to, any corresponding information in the organization's financial statements in terms of the entities covered and the measurement methods and the time frame used.

Integrated Reporting <IR> reporting boundary – risks, opportunities and impacts

5.11 The second aspect of the reporting boundary for Integrated Reporting <IR> purposes is to identify those risks, opportunities and impacts attributable to or associated with other entities (i.e., entities beyond the financial reporting entity) that have a material effect on the ability of the financial reporting entity to create and preserve value over time. Accordingly, the following are considered in identifying relevant material matters:

- (a) Risks, opportunities and impacts attributable to or associated with other entities are reported on in an organization's integrated report to the extent they materially affect the ability of the financial reporting entity to create and preserve value in the short, medium or long term.
- (b) These other entities may be "related parties" for the purpose of financial reporting, but will ordinarily extend further to include such other parties as suppliers, customers, employees and other stakeholders (e.g., local communities).
- (c) The purpose is not so much to identify entities to be included in the Integrated Reporting <IR> reporting boundary, but to identify the risks, opportunities and impacts that materially affect the ability of the reporting entity to create and preserve value, regardless of the entity they are attributable to or associated with. The entities within this portion of the Integrated Reporting <IR> reporting boundary are not related to the financial reporting entity by virtue of control or significant influence, but rather by the nature and proximity of the risks, opportunities and impacts.

For example, if the labour practices in the organization's industry are material to the ability of the organization to create and preserve value, then the labour practices of entities upstream in the value chain are likely to be material. The nature and extent of information about those labour practices to be included in the organization's integrated report will be affected by such matters as the capacity of the organization to affect the labour policies of entities along the value chain.

- (d) Practical issues, such as the availability of reliable data with respect to entities the financial reporting entity does not control, and an inherent inability to identify all risks, opportunities and impacts that will materially affect the ability of the financial reporting entity to create and preserve value, particularly in the long term, may limit the nature and extent of information that can be presented in the integrated report. It may be appropriate to disclose such limitations, and actions being taken to overcome them, in the integrated report.

D Aggregation and disaggregation²⁸

- 5.12 Each organization determines the level of aggregation (e.g., by country, subsidiary, division, or site) at which to present information that is appropriate to its particular circumstances. This includes balancing the effort required to disaggregate (or aggregate) information against any added meaningfulness of information reported on a disaggregated (or aggregated) basis.
- 5.13 In some circumstances, aggregation of information can result in the loss of a significant amount of meaning, and can also fail to highlight particularly strong or poor performance in specific areas. On the other hand, unnecessary disaggregation can result in clutter that adversely affects the ease of understanding the information. The organization disaggregates (or aggregates) information to an appropriate level considering, in particular, the way in which those charged with governance and senior management manages the organization and its operations.
- 5.14 The Guiding Principle, "Materiality and conciseness", may be served by including a link in an integrated report to disaggregated information that appears elsewhere, such as on the organization's website (see Section 5F).

E Involvement of those charged with governance

- 5.15 Those charged with governance have ultimate responsibility for how the organization's strategic objectives and strategies, governance, performance and prospects lead to long term value creation. They are responsible for ensuring that there is effective leadership and decision-making regarding Integrated Reporting <IR>, including the identification and oversight of senior executives actively involved in the Integrated Reporting <IR> process and the internal processes to identify material matters and collect, accumulate and report material information.
- 5.16 The integrated report should identify the governance body with oversight responsibilities for Integrated Reporting <IR>. Such body may include a statement in the integrated report regarding the following matters:
- The name of the governance body that has oversight responsibilities for Integrated Reporting <IR>
 - An acknowledgement of its responsibility to ensure the integrity of the integrated report
 - That it has applied its collective mind to the preparation of the integrated report and the information it contains
 - Its opinion or conclusion as to whether the information in the report presents a reasonable and balanced view in accordance with the Framework.

F Use of technology

- 5.17 Advances in technology enable innovative approaches to reporting that are considered in Integrated Reporting <IR> and the application of the Guiding Principle, "Connectivity of information." Accordingly, organizations are encouraged to use technology platforms to increase connectivity within integrated reports, to information outside of the reports, and to enable comparisons between reports.

²⁸ **NOTE TO WORKING GROUP AND PILOT PROGRAMME PARTICIPANTS:** Consideration is being given to adding further material regarding conglomerates and segments.

- 5.18 Technology, such as the Internet, eXtensible Business Reporting Language (XBRL), and social media can play an important role in Integrated Reporting <IR> if used properly. The following paragraphs illustrate a few ways in which technology may be used in an integrated report; however, it is recognized that this will evolve over time to keep in step with the current state of, and trends in, technology and likely future advances.

Links to websites

- 5.19 Technology may be used to link information within the integrated report to the organization's website where further details or detailed reports are included; however, consideration is to be given as to whether there are any prohibitions or legal restraints against including such information outside of the report if the integrated report is being used to satisfy particular regulatory requirements.
- 5.20 For example, detailed information that does not change frequently, such as a listing of subsidiaries, may best be included on a linked section of the organization's website, rather than in its integrated report.
- 5.21 If information is linked to more detailed information outside of the integrated report (e.g., by hyperlinks to the organization's website), care is to be taken to ensure that such information will continue to be accessible.

XBRL

- 5.22 One of the standardized technology platforms that may be used in application of the Guiding Principle, "Connectivity of information," is XBRL. XBRL improves the way information is created, processed, distributed and analyzed by providing standardized definitions, labels, calculations, references and contexts applicable to individual numbers and narrative text. Two beneficial characteristics of XBRL that improve connectivity are:
- Consistent semantic definitions for integrated disclosures
 - Explicit relationships between material relevant disclosure components of the integrated report.
- 5.23 XBRL may be used to capture the integrated report in machine-readable format for report users to more easily compare integrated reports of various organizations. While taxonomies exist for financial statements and sustainability reports, no such taxonomy currently exists that covers all aspects of Integrated Reporting <IR>.

G Assurance

- 5.24 Organizations use a variety of means to provide comfort to those charged with governance that complete and reliable information is reported in an integrated report. Organizations have systems of internal controls, which may include an internal audit (or similar) function, as part of the processes for managing, reviewing and reporting information. These internal systems are important to the overall integrity and credibility of an integrated report. Organizations may also have activities that report externally on the quality or level of performance, such as performance certifications or compliance assessments.
- 5.25 In addition, organizations may seek independent, external assurance to enhance the credibility of their reports. Independent, external assurance may also provide comfort, in addition to internal measures, to those charged with governance. Independent, external assurance has the following characteristics, it:
- Is conducted by groups or individuals external to, and independent of, the organization who are demonstrably competent in both assurance practices

in accordance with professional assurance standards, and Integrated Reporting <IR> as it applies to the organization, which includes a comprehensive knowledge of:

- This Framework and related guidance
 - The organization's business, including strategic and operational issues relevant to the industry(ies)/sector(s) in which the organization operates
 - The organization's processes for preparing the integrated report.
- Is implemented in a manner that is systematic, documented, evidence-based, characterized by defined procedures and governed by professional standards or protocols covering engagement performance, independence and quality control (both at the engagement and organizational level of the assurance provider)
 - Results in a written conclusion(s), which ideally is addressed to the report users of the integrated report and covers whether the information in the report presents a reasonable and balanced view in accordance with the Framework.
- 5.26 The Framework provides the criteria to which organizations and assurance providers assess a reporting organization's adherence; it is not intended to provide the protocols for performing assurance engagements.

H Other considerations

- 5.27 It is better for the organization to define itself than for others to do so. Accordingly, the organization balances the potential concerns regarding costs, competitive advantage and forward-looking information with the benefits of better defining itself to report users. While the following are sometimes cited as reasons for excluding material information, in each case, there are considerations that still allow an organization to provide relevant information to achieve the objective of an integrated report.

Cost/benefit

- 5.28 It is appropriate for an organization to evaluate the cost of reporting versus the benefits (to both the organization and to report users of the integrated report)²⁹ associated with reporting in determining the extent, level of specificity, and preciseness of information to include in an integrated report, but not to refrain entirely from making disclosures on the basis of cost.
- 5.29 Costs to an organization (both time and expense) may arise from the need to establish or strengthen information systems and controls for capturing and aggregating information or making estimates. Until such systems are implemented, it may be impracticable for certain information to be included – or included to the optimum extent, level of specificity, or preciseness. As systems are implemented, the extent, level of specificity, or preciseness may increase. Often, information may be available, but just in a different form, which may help to manage additional costs.
- 5.30 If material information is not included in the integrated report, report users may incur costs in obtaining information through other sources or may make sub-optimal decisions as a result of not having that information. Accordingly, that aspect is to be weighed against the costs of the organization to report such

²⁹ See boxed text in Chapter 1 for the benefits of Integrated Reporting.

information.

- 5.31 Information included in an integrated report is, by nature, central to running the business. Accordingly, if management is making decisions on information that is less than reliable because of the lack of systems to capture the information, the greater cost may be from the inability to make sound decisions. As a result, analyzing the sufficiency of existing systems in conjunction with preparing an integrated report may shed more light on areas in which better systems are needed for purposes of managing the business, and not just for Integrated Reporting <IR> purposes.

Competitive advantage

- 5.32 One perceived constraint is the potential for loss of competitive advantage through the disclosure of commercially-sensitive information. It is not expected that an organization discloses information in an integrated report that would significantly harm its competitive advantage, and the banner of commercial sensitivity is not to be used inappropriately to avoid disclosure. If material information is not disclosed because of perceived competitive harm, this fact and the reasons for it are to be noted in the integrated report.
- 5.33 Many corporations already hold analyst calls in which they discuss strategic objectives and strategies. Similar to those calls, the organization considers how to describe the essence of the strategies that are critical to the organization without identifying specific information that might cause a loss in competitive advantage.
- 5.34 For example, it is often the case that information about strategies are already known to the market, and therefore available to competitors, and that the true competitive advantage lies in how those strategies are executed (e.g., the efficiency and effectiveness of the processes and practices used) rather than in the strategies themselves.
- 5.35 Accordingly, the organization considers what actions a competitor could actually take with information in an integrated report and how it would impact the organization in considering whether such information would truly harm competitive advantage, and balance this against the legitimate information needs of report users.

Forward-looking information

- 5.36 Key to report users' understanding of forward-looking information included in an integrated report is a description of the key assumptions applied by the organization in arriving at such forward-looking information, the volatility of those assumptions, and how such information could change if the assumptions do not occur as described.
- 5.37 As forward-looking information is regulated in many jurisdictions, the organization is to become familiar with any such requirements and to consider seeking legal advice regarding:
- Types of disclosures that may be made
 - Whether cautionary statements may be required or permitted to highlight uncertainty regarding achievability
 - Whether there are any legal or regulatory obligations to publicly update such disclosures of forward-looking information as circumstances change and, if so, the manner in which such updates are to be made.

GLOSSARY

For the purpose of the Framework and any other guidance issued by the IIRC, unless stated otherwise, the following terms have the meanings attributed below:

1. *Accountability*: The duty of an organization to account for its actions to those affected by those actions.
2. *Business model*: A system of inputs, value-adding activities and outputs that aims to create and preserve value over the short, medium and long term.
3. *Capitals*: Stores of value on which all organizations depend for their success as inputs to their business model, through which they are transformed, consumed, enhanced, used up, modified or otherwise affected. In this Framework, the capitals comprise: financial; manufactured; human; intellectual; natural, and social [and relationship] capitals.
4. *Connectivity*: The combination, inter-relatedness and dependencies between the components that are material to the organization's ability to create and preserve value in the short, medium and long term.
5. *Integrated report*: A concise communication of the way in which an organization creates and preserves value in the short, medium and long term. An integrated report is the most visible and tangible manifestation of Integrated Reporting <IR>. It should be prepared following the International <IR> Framework and the set of processes and activities referred to in this document as "Integrated Reporting <IR>".
6. *Integrated Reporting <IR>*: A set of processes and activities, one result of which is communication, most visibly through a concise, periodic "integrated report", about the way in which an organization's strategy, governance, performance and prospects lead to the creation and preservation of value.
7. *Integrated thinking*: The ability of an organization to understand the relationship between the interacting, interrelated and interdependent operating and functional units that make up the organization. Integrated thinking helps to break down an organization's internal barriers to working, monitoring and managing information and to communicating its value-creation process.
8. *Investors*: Equity and debt holders, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers:
9. *Material/materiality*: A matter³⁰ is material if it is of such *relevance* and *significance*³¹ that it could substantively influence the assessments and decisions of the organization's highest governing body or change the assessments and decisions of the report user with regard to the organization's ability to create and preserve value over time. In determining whether or not a matter is material, senior management and those charged with governance consider whether the matter substantively impacts, or has the potential to substantively impact, the organization's strategic objectives and strategies, its business model, or one or more of the capitals it uses or affects.
10. *Monetize*: Measuring something in currency, whether or not it will ultimately be converted to cash. For example:
 - (a) Monetizing mineral reserves currently "in the ground" could be done by

³⁰ A matter or information includes, but is not limited to, an event, issue, opportunity, amount, or statement by the organization.

³¹ Significance refers to both nature and magnitude.

estimating their extent and using the expected market price at the time of extraction to calculate a monetized value. In this case, there is an expectation that the mineral reserves will actually be turned into cash at some future time.

- (b) Monetizing externalities can be done even where there is no expectation that those externalities will be required to be paid for, at least for the foreseeable future. For example, an organization in a jurisdiction with no GHG trading scheme or regulatory levy can measure/estimate its emissions and use a market price from a jurisdiction that does have a trading scheme or regulatory levy to calculate a monetized value.
11. *Reporting boundary*: The boundary within which matters are considered relevant for inclusion in an organization's integrated report. It encompasses:
 - (a) The financial reporting entity
 - (b) Risks, opportunities and impacts attributable to or associated with other entities where those risks, opportunities or impacts have a significant effect on the ability of the financial reporting entity to create and preserve value over time.
 12. *Stakeholder*: Those groups or individuals that can reasonably be expected to be significantly affected by the organization's activities, products, and/or services; or whose actions can reasonably be expected to significantly affect the ability of the organization to successfully implement its strategies and achieve its objectives. Stakeholders may include investors, employees, customers, suppliers, local communities, NGOs, and regulators/policy-makers.
 13. *Stewardship*: The responsibility of an organization to care for the capitals that its actions affect.
 14. *Strategy*: Strategic objectives together with the strategies to achieve them.
 15. *Those charged with governance*: The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the organization and obligations related to the accountability of the organization.

APPENDICES

A Subsidiary papers and other references

Subsidiary papers published by the IIRC

Research on the following topics is being conducted and is likely to result in the publication of subsidiary papers during 2012 and 2013:

- *Business model* – the business model is included as a fundamental concept in Chapter 2.
- *Capitals* – the capitals are included as a fundamental concept in Chapter 2.
- *Connectivity* – connectivity of information is included as a Guiding Principle in Chapter 3.
- *Materiality* – materiality is included as a component of the Guiding Principle of Materiality and conciseness in Chapter 3.
- *Users and their information needs*–Chapter 1 of the Framework identifies long term investors as the primary audience for integrated reports. Research is being conducted on the commonalities and differences in the information needs of different potential report users and how any change in the primary audience would affect the Framework.
- *Value* – the concept of value is included as a fundamental concept in Chapter 2.

A2. Other references

- [This section to be completed]

B Basis for conclusions

This Appendix³² is expected to contain a summary of the IIRC's consideration of key matters raised by respondents to the draft Framework expected to be released for public consultation in 2013.

³² The basis for conclusions may, alternatively, be published as a separate document.