

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 communication about businesses' value creation 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 creation
- Its structure and membership, and the membership of groups who have contributed to this Prototype of the International <IR> Framework (Prototype Framework)
- Its mission, vision and objectives
- The IIRC's due process.

ABOUT THIS DOCUMENT

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

This Prototype Framework is a working document that is being released to keep stakeholders informed of progress on the development of the Framework following release of a draft outline in July 2012.³ Drafting to date has been done through the parallel efforts of a number of topic-specific collaboration groups, the IIRC's Technical Task Force and the IIRC Secretariat, taking into consideration feedback received on the 2011 Discussion Paper. The IIRC's Working Group and Pilot Programme participants were consulted on an earlier draft of this Prototype. As a working document, the Prototype Framework contains some repetition and inconsistencies in terminology, concepts and writing styles, and some sections contain an indication of likely content rather than draft text where substantive work is still being undertaken.

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 topics⁴ during early 2013.

It is fully expected that changes will be made to the Prototype Framework's structure and content as the Consultation Draft 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 <http://www.theiirc.org/resources-2/framework-development/discussion-paper/>

² <http://www.theiirc.org/resources-2/framework-development/discussion-paper/discussion-paper-submissions/> and <http://www.theiirc.org/resources-2/framework-development/discussion-paper/discussion-paper-summary/>

³ <http://www.theiirc.org/resources-2/framework-development/draft-framework-outline/>

⁴ As noted in Appendix A, these topics are likely to include: connectivity, the business model, the capitals, the concepts of value, and materiality.

PROTOTYPE OF The International <IR> Framework

CONTENTS

1. OVERVIEW
 2. FUNDAMENTAL CONCEPTS
 - A. Introduction
 - B. The capitals
 - C. The business model
 - D. Creating value
 3. GUIDING PRINCIPLES
 - A. Strategic focus and future orientation
 - B. Connectivity of information
 - C. Stakeholder responsiveness
 - D. Materiality and conciseness
 - E. Reliability
 - F. Comparability and consistency
 4. CONTENT ELEMENTS
 - A. Organizational overview and operating context
 - B. Governance
 - C. Opportunities and risks
 - D. Strategy and resource allocation plans
 - E. Business model
 - F. Performance and outcomes
 - G. Future outlook
 5. PREPARATION AND PRESENTATION
 - A. Disclosure of material matters and the materiality determination process
 - B. Frequency of reporting
 - C. Time frames for short, medium and long term
 - D. Reporting boundary
 - E. Aggregation and disaggregation
 - F. Involvement of those charged with governance
 - G. Use of technology
 - H. Assurance
 - I. Other considerations
- GLOSSARY
- APPENDICES
- A. Other IIRC publications and resources
 - B. Basis for conclusions

1. OVERVIEW

NOTE: IT IS FULLY EXPECTED THAT CHANGES WILL BE MADE TO THE PROTOTYPE FRAMEWORK'S STRUCTURE AND CONTENT AS THE CONSULTATION DRAFT IS DEVELOPED OVER THE COMING MONTHS. ANY APPARENT POSITIONS OR CONCLUSIONS IN THIS PROTOTYPE FRAMEWORK ARE, THEREFORE, TENTATIVE ONLY.

NOTE: THE FORMAT AND DESIGN OF THE CONSULTATION DRAFT IS LIKELY TO VARY FROM THIS PROTOTYPE FRAMEWORK, E.G., IT MAY INCLUDE TEXT BOXES WITH A SUMMARY OF THE BENEFITS OF INTEGRATED REPORTING <IR>, ADDITIONAL EXAMPLES, ETC.

NOTE: CONSIDERATION IS BEING GIVEN TO PREPARING A SEPARATE EXECUTIVE SUMMARY, AND TO REFORMATTING OR RESTRUCTURING THE TEXT TO SEPARATELY IDENTIFY, E.G., "REQUIREMENTS", GUIDANCE AND EXPLANATIONS.

NOTE: REPETITION, AND INCONSISTENCIES IN TERMINOLOGY, CONCEPTS AND WRITING STYLES ARE TO BE ADDRESSED, AND SOME SECTIONS ARE YET TO BE COMPLETED.

- 1.1 This chapter provides an overview of Integrated Reporting (<IR>) and of the International <IR> Framework (the Framework). Further background, including Frequently Asked Questions, are available on the IIRC website at www.theiirc.org.

Integrated Reporting <IR>

- 1.2 <IR> is a process that results in communication, most visibly a periodic "integrated report", about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. An integrated report should be prepared in accordance with this Framework.

Objectives of <IR>

- 1.3 <IR> aims to:
- Catalyse a more cohesive and efficient approach to corporate reporting that draws together other reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
 - Inform resource allocation by providers of financial capital that supports long term, as well as short and medium term, value creation
 - Enhance accountability and stewardship with respect to the broad base of capitals (financial, manufactured, human, intellectual, natural, and social and relationship) and promote understanding of the interdependencies between them
 - Promote integrated thinking, decision-making and actions that focus on the creation of value in the long term, as well as short and medium term.

Audience for <IR>

- 1.4 While the communications that result from <IR> will be of benefit to a range of stakeholders, they are principally aimed at providers of financial capital in order to support their financial capital allocation decisions. Providers of financial capital are therefore the intended users of integrated reports. Those providers of financial capital who take a long term view of an organization's performance and

outcomes are particularly likely to benefit from <IR>. The interests of such providers are likely to be aligned with the public interest in that both are focused on the creation of value in the long term, as well as the short and medium term. Activities and strategies that are overly focused on optimizing short term financial performance on the other hand, can impede the ability of organizations and providers of financial capital to make long term investments. These include investments in research aimed at long term innovation and in the infrastructure needed to address mounting global challenges, such as resource shortages as planetary limits are approached, economic instability, climate change, and changing demographics and societal expectations.

Objective of the Framework

- 1.5 The purpose of the Framework is to assist organizations with the process of <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 in a meaningful and transparent way. The Framework does not, however, set benchmarks for such things as the quality of an organization's strategy or the level of its performance and outcomes. Assessing these things is the role of the intended users based on the information in the organization's integrated report.

About the Framework

- 1.6 The Framework sets out:
- Fundamental concepts that underpin <IR>
 - Guiding Principles that inform the content of an integrated report and how information is presented
 - 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 <IR> revolve around the various capitals that the organization uses and affects, the organization's business model, and the creation of value over time.
- 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 value. That value is embodied in the capitals that it uses and affects. The assessment of an organization's ability to create value in the short, medium and long term 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 Framework.

Guiding Principles

- 1.9 The Guiding Principles, which are explained in Chapter 3, are:
- Strategic focus and future orientation
 - Connectivity of information
 - Stakeholder responsiveness
 - Materiality and conciseness

- Reliability
- Comparability and consistency.

Content Elements

1.10 The Content Elements are explained in Chapter 4. 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 unique value creation story and makes their interconnections apparent, rather than appearing as isolated, standalone sections:

- Organizational overview and operating context
- Governance
- Opportunities and risks
- Strategy and resource allocation
- Business model
- Performance and outcomes
- Future outlook.

Preparation and presentation

1.11 The guidance on preparation and presentation of an integrated report in 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 and does not focus on rules for measurement or disclosure of individual matters or identification of specific key performance indicators (KPIs) or key risk indicators (KRIs). This requires senior management and those charged with governance collectively to exercise judgement to determine which matters are material, and to ensure they are appropriately disclosed given the specific circumstances of the organization, including the application of generally accepted measurement and disclosure methods as appropriate (see paragraph 1.18). 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 intended 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 paragraphs) or reporting practices, and does not include any jurisdiction-specific guidance.

1.14 Any communication purporting to be prepared in accordance with the Framework should apply all of the Guiding Principles and include all of the Content Elements (taking account of the content of the Framework as a whole and any other guidance issued by the IIRC) unless and to the extent the unavailability of reliable data or specific legal prohibitions result in an inability to disclose information that is material.

1.15 Where the unavailability of reliable data or specific legal prohibitions result in an

inability to disclose information that is material, 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.

<IR> in practice

Integrated thinking

1.16 <IR> is guided by the Framework and by integrated thinking.

1.17 Integrated thinking is the ability of an organization to understand the relationships between its various operating and functional units and the capitals the organization uses and affects. Integrated thinking leads to integrated decision-making and actions that focus on the creation of long term, as well as short and medium term, value. 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 value over time, including (but not limited to):

- The capitals the organization uses and affects, including the critical interdependencies of financial, manufactured, human, intellectual, natural, and social and relationship capitals
- The external context in which the organization operates
- The opportunities and risks faced by the organization and how it tailors its strategy to manage them
- Activities, results, performance and outcomes – past, present and future
- Financial and other information.

Interaction with other forms of reporting⁵

1.18 <IR> builds on developments in financial and other reporting to catalyse an evolution in corporate reporting. An integrated report communicates the factors most important to the creation 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 providers of financial capital. These other disclosures may be linked to or referenced in the organization’s integrated report.

1.19 The Framework does not prescribe specific metrics or measurement methods to be used in an integrated report. Rather, the IIRC aims to complement material developed by established reporting standard setters and others, such as industry bodies, and does not intend to develop duplicate content. Nonetheless, in order to promote consistency and rigor, the Framework and any other guidance issued by the IIRC may reference examples of metrics and measurement methods developed by others (see for example, references cited in the footnotes to paragraph 4.28).

⁵ NOTE: The IIRC is considering separate guidance on this topic.

Emerging <IR> database

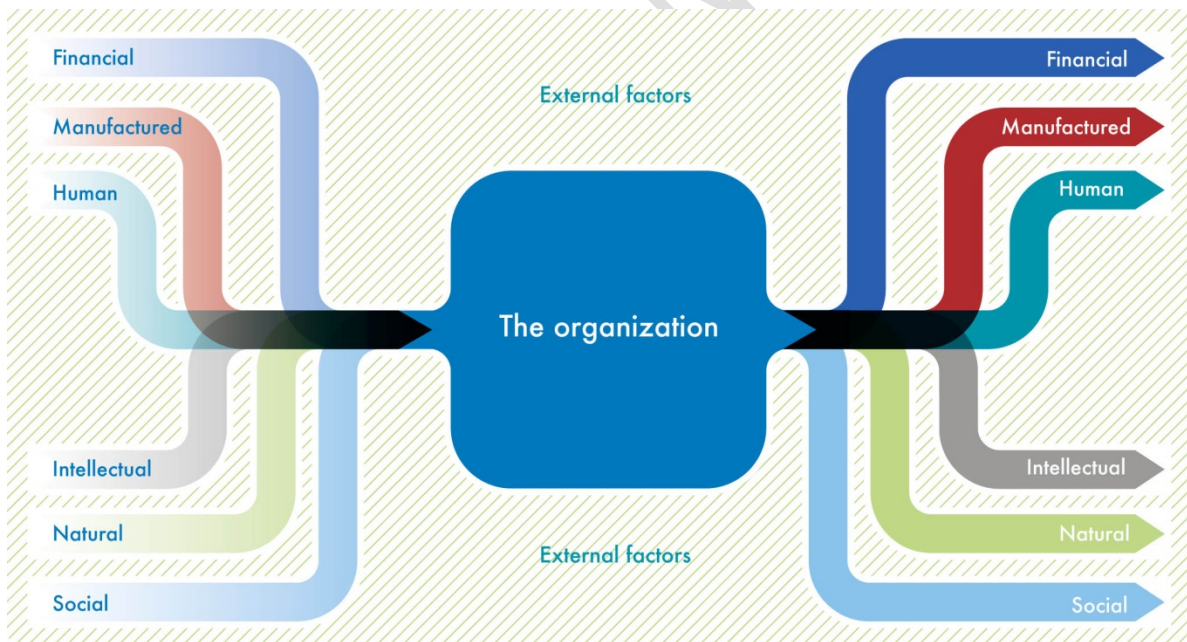
- 1.20 The IIRC acknowledges that <IR> is currently in a formative stage and plans to revise the Framework as further practical experience is gained with the application of this version. An important reference point for that experience will be the database of emerging practice at examples.theiirc.org. 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.

PROTOTYPE - NOT FINAL

2. FUNDAMENTAL CONCEPTS

A Introduction

- 2.1 <IR> recognizes that value is not created by or within any one organization alone, but is:
- Influenced by external factors (such as economic conditions, technological change, societal issues and environmental challenges), which create the context within which the organization operates
 - Co-created through relationships with others (including employees, partners, networks, suppliers and customers)
 - Dependent on the availability, affordability, quality and management of various resources.
- 2.2 <IR> therefore aims to provide insights about the following (as depicted in the diagram below):
- The external factors that affect an organization
 - The resources and relationships used and affected by the organization, which are referred to in this Framework as “capitals”, comprising: financial, manufactured, human, intellectual, natural, and social and relationship capitals (see Section 2B)
 - How the organization interacts with external factors and the capitals to create value over the short, medium and long term.



- 2.3 By describing, and measuring where it is practicable, the material components of value creation and, importantly, the relationships between them, <IR> results in a broader explanation of performance and outcomes than traditional reporting. In particular, it makes visible all the relevant capitals on which value creation (past, present and future) depends, how the organization uses those capitals, and its effects on them.

The organization

- 2.4 For the purpose of this Framework, the components of an organization can be depicted as follows. These components are aligned with the Content Elements of an integrated report (see Chapter 4).



- 2.5 Encompassing the whole organization is its mission and vision, which sets out in clear and concise terms the organization's *raison d'être*.
- 2.6 Those charged with governance are responsible for creating appropriate oversight structures and establishing the culture of the organization. This includes leading through the "tone at the top", setting the organization's attitude to risk, instituting remuneration and incentive policies and practices, and monitoring the organization's activities and the external factors that affect it, as well as determining strategy and stewardship of the capitals.
- 2.7 Within this overall structure, organizational components are in dynamic flux, each interacting with the others at regular intervals. Continuous monitoring and careful analysis of external factors in the context of the organization's mission and vision identifies the key opportunities and risks relevant to the organization. The organization's strategy identifies how it intends to maximise opportunities and mitigate or manage risks. It sets out long term strategic objectives and strategies to achieve them. Shorter term resource allocation plans drive implementation of the strategy.
- 2.8 At the heart of the organization is its business model, i.e., the system of inputs, value-adding activities and outputs that aims to create value over the short, medium and long term (see Section 2C). The organization needs information about the performance of its value-adding activities, and the resultant outcomes in terms of the organization's effects on the capitals. This involves measurement and monitoring systems, including the use of KPIs and KRIs, to provide information for decision-making.
- 2.9 The system is not static; regular review of each component and its interactions with the other components in the context of the organization's future outlook leads to revision and refinement to improve all components.

B The capitals

The stock and flow of capitals

- 2.10 All organizations depend on a variety of different forms of “capital”⁶ for their success. In this Framework, the capitals comprise: financial, manufactured, human, intellectual, natural, and social and relationship capitals, although as discussed below, this categorization is not required to be adopted by all organizations preparing an integrated report. These capitals are, in one form or another, the inputs to the organization’s business model. They are also increased, decreased or transformed through the value-adding activities of the organization, in that they are enhanced, consumed, used up, modified or otherwise affected by those 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.
- 2.11 The total stock of capitals is not fixed over time. There is a constant flow between and within the capitals as they are increased, decreased or 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 immediate decrease in its financial capital). Although this example is relatively simple and has been described only from the organization’s point of view,⁷ it demonstrates that the capitals are interrelated and constantly in a state of flow and transformation.
- 2.12 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 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).⁸ The perspective on value that is relevant to <IR> is discussed in Section 2D.

Availability, quality and affordability of capitals

- 2.13 The extent to which organizations, collectively or 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

⁶ The capitals are sometimes also referred to as “resources and relationships”.

⁷ 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.

⁸ In this Framework, unless otherwise stated, the term value creation includes instances when the overall stock of capitals is decreased, i.e., when value is effectively destroyed or depleted.

create value over time.

Categorization and description of capitals

2.14 For the purpose of <IR>, the various capitals are categorized and described as follows:⁹

- (a) Financial capital – The pool of funds that is:
 - o available to the organization for use in the production of goods or the provision of services
 - o 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:
 - o buildings
 - o equipment
 - o infrastructure (such as roads, ports, bridges and waste and water treatment plants).
- (c) Human capital – People’s skills and experience, and their capacity and motivations to innovate, including their:
 - o alignment with and support of the organization’s governance framework and ethical values such as its recognition of human rights
 - o ability to understand and implement an organization’s strategy
 - o 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:
 - o intellectual property, such as patents, copyrights, software and organizational systems, procedures and protocols
 - o 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:
 - o water, land, minerals and forests
 - o 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 and relationship capital includes:

⁹ NOTE: Apart from the addition of relationships to the title “social and relationship capital”, this categorization and the descriptions are almost 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.

- 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.

2.15 Not all of these capitals are equally relevant or applicable to all organizations. While it is likely that virtually all organizations have some interactions with all forms of capital, these interactions may be relatively minor or indirect in many cases and therefore not material for inclusion in an integrated report.

The role of the capitals model in the Framework

2.16 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 in Section 2D
- As a tool for ensuring that organizations, in preparing their integrated reports, consider all the forms of capital that they use and affect.

2.17 It would be impracticable, and indeed unnecessary, for the Framework at this stage 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 unique 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. For example, relationships with stakeholders, which are of growing significance to the ability of organizations to create value over time, are included in the description of social and relationship capital in paragraph 2.14. Some organizations could, however, think of relationships as a separate capital, as part of human or intellectual capital, or as inherent in, and therefore cutting across and linking, a number of the individual capitals. Similarly, the capacity to innovate (part of human capital in paragraph 2.14) or the intangibles associated with brand and reputation (part of intellectual capital in paragraph 2.14), could be thought of by some organizations as separate capitals, part of other capitals or cutting across a number of the individual capitals.

2.18 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 the full, broad range of capitals and have not omitted to report on any material capital that they use or affect.

Ownership of the capitals

- 2.19 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 2D.

Metrics

- 2.20 Metrics, such as KPIs (see discussion in Section 4F) and in some cases monetization, 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 are best (and in some cases can only be) reported on in the form of narrative rather than through metrics.

Complexity and trade-offs

- 2.21 The Framework does not require, and it would not be practicable to expect, that <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 world's stock of all the capitals. It is important, however, that the material factors that influence value creation over time are either quantified or reported on in narrative form, or both.
- 2.22 Organizations should report on material "trade-offs":
- (a) Between capitals or between components of a capital (e.g., creating employment, which increases social and relationship capital, through an activity that negatively affects the environment, which decreases natural capital)
 - (b) Over time (e.g., choosing a course of action when it is likely that a different course would result in a greater capital increment but not until a later period)
 - (c) Between capitals owned by the organization and those owned by others or not owned at all.

C The business model

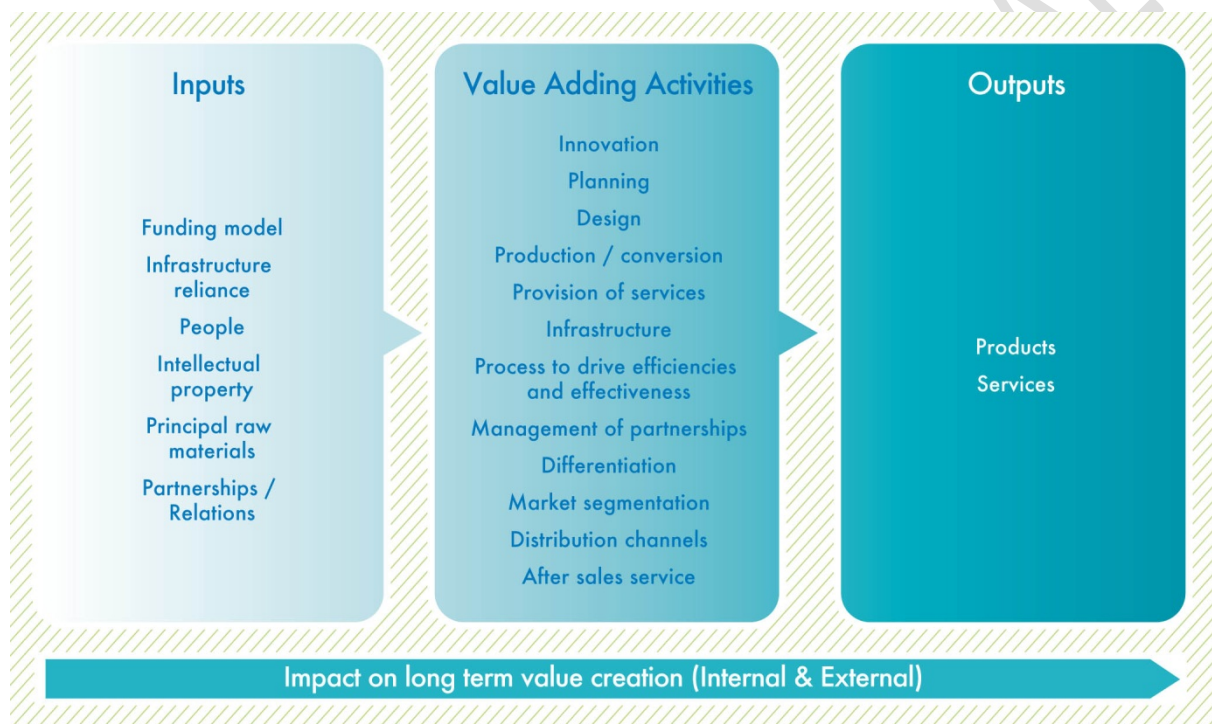
Definition

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

Reporting

2.24 As demonstrated in the diagram at paragraph 2.4, the business model exists at the hub of an organization and represents the fundamentals of the entity's activities, operating within an overarching organizational architecture.

2.25 Business model reporting can be effectively organized as follows:



Inputs

2.26 The integrated report should identify the key capitals on which the organization depends or that provide a source of differentiation for the organization, to the extent that they are material to understanding the robustness and resilience of the business model. 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 should provide an overview of its funding model.
- In terms of manufactured capital, the organization should explain how facilities, equipment and other infrastructural components lend operational efficiency and effectiveness – in terms of productivity, cost containment, enhanced safety and environmental stewardship.
- The importance of human capital to an organization should 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 value to the organization is explained.
 - A discussion of natural capital should 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, particularly in light of planetary limits that can render an organization vulnerable to changes, some sudden and many irreversible, that can affect its entire value creation model. Where the supply of key raw materials is uncertain in the long term, the organization should explain what is being done to source suitable alternatives materials or processes. Also, where significant environmental remediation efforts are likely to be involved, this should be explained.
 - Social and relationship capital considerations include the network of partnerships and relationships that the organization relies upon as well as programs designed to develop and enhance these interactions.
- 2.27 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 the ability of the organization to create value in the short, medium and long term.

Value-adding activities

- 2.28 What an organization does to transform inputs into valuable outputs is at the heart of the business model. These value-adding activities include the planning, design and production of products that satisfy market needs or services that provide solutions to customer problems. Some business models rely on making suitable infrastructure available for use by other service providers. In all these cases, the business model requires meeting certain current service level agreements as well as maintaining any technological advantage over competitors.
- 2.29 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 of a good business model description as is the effective management of partnerships and relationships.
- 2.30 A description of value-adding activities should also include how the organization differentiates itself in the market place, including product differentiation, market segmentation, the channels used to communicate with potential customers and deliver market offerings, and the extent to which the business model relies on revenue generation after the initial point of sale (e.g., extended warranty arrangements or network usage charges).
- 2.31 Businesses that stand still tend to fall behind in the race to succeed. Encouraging a culture of innovation is a key value-adding activity in terms of, e.g., generating new products and services that anticipate customer demands, introducing efficiencies such as better use of technology, and input substitution to minimize adverse social or environmental impacts. Further, the capacity of the business model to adapt to changes (e.g., in the availability, quality and affordability of inputs in response to trends such as resource scarcity) is an important aspect of the ability to add value. The business model description should therefore include

an explanation of how the organization approaches the need to innovate and how the business model has been designed to adapt to change.

Outputs

- 2.32 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 with the aim of creating value.
- 2.33 Outputs should not be confused with outcomes. The organization produces outputs that can have a range of outcomes both internally to the organization (e.g., revenue and cash flow) and externally (e.g., customer satisfaction, tax payments, brand loyalty, social and environmental impacts). This Framework positions the discussion of outcomes within the *Performance and outcomes* Content Element (Section 4F).

PROTOTYPE - NOT FINAL

D Creating value

2.34 <IR> explains how an organization creates¹⁰ value over time. Value creation therefore lies at the heart of <IR>. In summary:

- Organizations can create and maximize value by serving the interests of and working with all major stakeholders, including employees, customers, suppliers, creditors, communities and the environment. Value created in this way manifests itself in financial returns to providers of financial capital and also in positive or negative effects on the economy, the environment and society.
- Value is stored in the capitals. Value is created or destroyed for the organization and its stakeholders as a result of the use of, impact on, and interplay between the capitals caused by the organization's activities.
- Value for <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 assessment of the ability of an organization to create value over time is communicated through a description of the way in which the organization has used and intends to use the different capitals to operate its business model and the effects on and trade-offs between those capitals over different time periods; and the organization's value drivers and the opportunities and risks that affect them. These factors are encapsulated in the Content Elements in Chapter 4.

Value for providers of financial capital

2.35 Communications that result from <IR> are aimed principally at providers of financial capital in order to support their financial capital allocation decisions. Those providers of financial capital that take a long term view of an organization's performance and outcomes are particularly likely to benefit from <IR>. Providers of financial capital are focused on value in the form of financial returns. Those returns are, however, dependent upon inter-relationships between various types of capital in which other stakeholders such as customers, suppliers, employees, legislators and regulators have an interest. Therefore, other stakeholders are also likely to benefit from the information in an integrated report, but their particular information needs will also continue to be served through other forms of communication, including financial statements and sustainability reports.

Why focus on providers of financial capital, particularly those taking a long term view?

2.36 The public interest and the interests of providers of financial capital that take a long term view of an organization's performance and outcomes are likely to be aligned in that both are focused on long term, as well as short and medium term value creation. <IR> communicates information that enables providers of financial capital to assess the organization's ability to create value over time. In doing so it supports their decision-making, engagement and voting practices, and the public interest by encouraging the allocation of financial resource to reward and support long term value creation within planetary limits and societal expectations.

¹⁰ Although organizations aim to create value overall, this may involve the destruction or depletion of value stored in some capitals. Whenever value creation is mentioned, this also includes value destruction or depletion.

- 2.37 All providers of financial capital may play a part in supporting value creation and the public interest. However, activities and strategies that are overly focused on optimizing short term financial performance can impede the ability of organizations and providers of financial capital to make long term investments. These include investments in research aimed at long term innovation and in the infrastructure needed to address mounting global challenges, such as resource shortages as planetary limits are approached, economic instability, climate change, and changing demographics and societal expectations.
- 2.38 The provision of financial capital, particularly when taking a long term view of an organization's performance and outcomes, is, of course, accompanied by uncertainties that, in turn, demand sophisticated approaches to opportunity and risk assessment based on a wide range of information about financial, operational, reputational, legal, social, environmental and political risk. Hence <IR> requires a wider range of information than has ordinarily been provided through traditional organizational reporting.

The meaning of value

- 2.39 Traditionally, the meaning of value for providers of financial capital has been associated with the present value of expected future cash flows and value creation has been understood as the change in that measure of value due to an organization's performance. Although providers of financial capital take other factors into consideration, information about risk and reward, and particularly how it affects future cash flows, is crucial to their understanding of how and the extent to which an organization creates value.
- 2.40 <IR> is based on the understanding that future cash flows and other conceptions of value are dependent on a wider range of capitals, interactions, activities, causes and effects, and relationships than those directly associated with financial revenue or financial capital accretion. Those broader factors have not ordinarily been adequately reflected in traditional organizational reports and therefore have not been adequately reflected in valuation methodologies such as those based on the discounted cash flow model.
- 2.41 Value for <IR> purposes, therefore, encompasses other forms of value that the organization creates or depletes through the use of, impact on or interplay between the capitals, each of which represents a store of value that may ultimately affect the extent to which providers of financial capital may expect financial returns. <IR>, therefore, needs to consider the broader context of the value created or destroyed in all the capitals, including the creation of externalities through the activities of the organization.

The relationship between the capitals and value

- 2.42 Value is created or depleted over different time horizons and for different stakeholders through different capitals. Overall, value for providers of financial capital is unlikely to be created through the maximization of one capital while disregarding 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.
- 2.43 <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

value to providers of financial capital in the long term, and without appropriate disclosure of their effects, those providers will not have the information they require to make decisions about long term value and be able to allocate resources accordingly.

Organizational value drivers

- 2.44 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 include:
- Financial drivers such as growth in sales or market share, pricing strategy, operational efficiency, brand equity and cost of capital
 - Other drivers such as customer relations, societal expectations, environmental concerns, innovation and corporate governance
 - Values such as integrity, trust and teamwork that support value creation.
- 2.45 Value drivers alone and in combination affect an organization's ability to create value over time. The type and combination of relevant value drivers are unique to each organization and should be disclosed for <IR> purposes.

Communications that inform the assessment of value creation

- 2.46 <IR> should explain that the organization's ability to create value in the short, medium and long term 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 strategy 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; and
 - The results of engagement with the various parties that have an interest in the capitals affected by the organization's activities.

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

- 2.47 Information that supports the communication of value creation 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; this is an area of innovation and development.

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 Stakeholder responsiveness
 - 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 strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals.

- 3.3 Applying this Guiding Principle is not limited to describing the organization's strategy and future outlook in accordance with Content Elements 4 and 7. 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 create value over time
 - An explanation of those charged with governance's view of:
 - the resilience of the organization's business model
 - the relationship between past and future performance and outcomes, 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 value.
- 3.5 Particular care is needed with respect to the future-oriented information to avoid creating "boilerplate" disclosures. Information should only be included in the integrated report when it is of practical use to intended users in considering the organization's strategy, governance, performance and prospects.
- 3.6 Future-oriented 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 intended users can properly assess that information. (See paragraphs 5.42-5.43 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 value over time.

3.8 Connectivity is central to ensuring that an integrated report:

- Focuses on the total picture of the organization's unique value creation story (i.e. how its strategy, governance, performance and prospects create value over time)
- Supports intended users' understanding of the different factors that affect the future of the organization (including its possible performance and outcomes) and how they interact
- Helps to break down established silos in accessing, measuring, managing and disclosing information, and the traditional focus of reporting primarily on financial matters and historical matters
- Facilitates intended users' ability to drill down and interlink information in other communications depending on their needs.

3.9 The more that integrated thinking underlies the organization's unique value creation story by being embedded into the activities of the organization, the more naturally will the connectivity of information flow into management analysis and decision making, and subsequently into reporting. Accordingly, introducing ways to improve integrated thinking and capabilities within an organization can help drive the <IR> process. Moreover, because of the mutually reinforcing nature of integrated thinking and <IR>, the more experience an organization gains with the <IR> process the more integrated thinking becomes embedded into its activities.

3.10 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 operating context, governance, opportunities and risks, strategy and resource allocation, business model, performance and outcomes, and future outlook. It is only by connecting the Content Elements that the organization is able to tell its unique value creation story. The story integrates the Content Elements into a total picture of value creation and reflects the dynamism of the organization's activities as a whole. Examples include:
 - an analysis of existing resource allocation, and how the organization will combine resources or make further investment to achieve targeted performance through the business model
 - information about how the organization's strategy is tailored for changes in conditions and events (e.g., when new opportunities and risks are identified or past performance and outcomes are not as expected)
 - how the organization's strategy links 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 intended 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 be fundamental to analysis by

intended users of the quality of management when considering whether or not the organization will achieve the future performance and outcomes described in the integrated report.

- *The capitals*, including the trade-off, aggregation, conversion over time, and enhancement and depletion of the capitals. (See discussion of the capitals in Section 2B.)
 - *Financial information and other information*, such as:
 - research and development policy, technology/know-how, capital investment, and investment in human resources, and their implications for expected revenue growth or targeted market share
 - 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.
 - *Management information, board information and information reported externally*. For example, as noted in paragraph 4.33, quantitative indicators that are appropriate to include in an integrated report should be consistent with indicators used by those charged with governance.
- 3.11 It is also important to consider that connectivity from the intended users' point of view involves the connectivity between:
- *Information in the integrated report, information in the organization's other communications, and information available to intended users from other sources*, recognizing that intended 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, XBRL and social media) can be used to improve intended users' capability to search, access, combine, connect or analyse information. (See discussion of technology in Section 5G.)
- 3.12 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 section summaries, clearly delineated (but linked) sections, and cross-references.

C Stakeholder responsiveness

- 3.13 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.
- 3.14 <IR> emphasizes the importance of ongoing, positive relationships with the organization’s stakeholders because, as noted in paragraph 2.1, value is not created by or within any one organization alone, but is co-created through relationships with others.
- 3.15 Stakeholders provide useful insights about matters that are important to them that also affect the organization, including economic, environmental and social issues. These insights assist the organization to:
- Understand how stakeholders perceive value
 - Identify future trends that may not yet have come to general attention, but which are rising in significance and impact
 - Identify material matters, including opportunities and risks
 - Develop and evaluate strategy
 - Manage risks
 - Implement activities, including strategic and accountable responses to material matters.
- 3.16 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.
- 3.17 Responsiveness is demonstrated through decisions, actions, performance and outcomes, as well as ongoing communication with stakeholders. Making internal processes more transparent is valuable to most stakeholders.
- 3.18 Identification of and engagement with stakeholders¹¹ 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.
- 3.19 The Guiding Principle of stakeholder responsiveness 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

¹¹ 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>.

information needs. Much of this more detailed information is likely to be placed online.

- 3.20 As noted above, an integrated report enhances transparency and accountability. Accountability is closely associated with the concept of stewardship which, in the context of <IR>, means the responsibility of an organization to care for or use responsibly 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.
- 3.21 Some capitals that the organization uses or affects are not owned by it. As discussed in paragraph 2.19, they may be owned by others, or may not be owned at all in a legal sense. 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 stakeholders' legitimate needs, interests and expectations in this way is consistent with the concept of value as explained in Section 2D.

D Materiality and conciseness

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

Materiality

Definition of materiality

- 3.23 A matter¹² is material if it is of such *relevance* and *significance*¹³ that it could substantively¹⁴ influence the assessments and decisions of the organization's highest governing body, or change the assessments and decisions of intended users with regard to the organization's ability to create 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 strategy, its business model, or one or more of the capitals it uses or affects.
- 3.24 The materiality definition for <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, or in the case of <IR> change, the assessments and decisions of the intended user. Where the various materiality definitions differ the most is in terms of the matters that are considered to be relevant. Another unique feature is that the definition also takes into consideration matters that have the ability to substantively influence the assessments and decisions of the organization's highest governing

¹² A matter or information includes, but is not limited to, an event, issue, opportunity, amount, or statement by the organization.

¹³ Significance refers to both nature and magnitude.

¹⁴ The dictionary definition of the word "substantive" means having a firm basis in reality and being therefore important, meaningful, or considerable. A matter that has the ability to substantively influence assessments and decisions is considered to have substantive or considerable influence.

body, not only the intended users, as with most other materiality definitions.

The materiality determination process

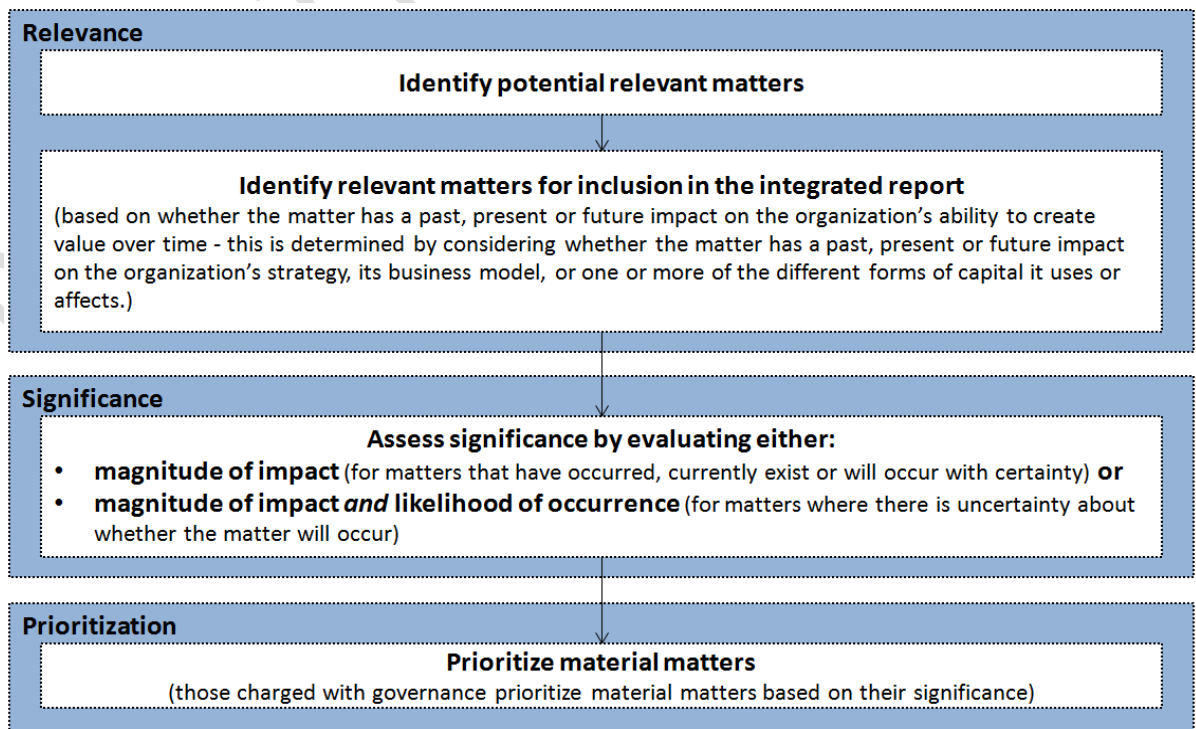
3.25 Determining materiality involves:

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

3.26 This materiality determination process is illustrated in the following diagram and should be read in conjunction with the text that follows, which describes the concepts depicted in the diagram. The materiality process applies to both positive and negative matters (e.g., opportunities and risks, favourable and unfavourable results or prospects for the future), and to financial and other information. Such matters may have direct implications for the organization itself or relate to the organization's effects on the capitals available to others. Materiality assessments should be performed annually; however, for the materiality determination process to be applied in the most effective manner, the process should ultimately be integrated into the everyday management of the organization, and form part of a continuous process of review and assessment of matters by senior management and those charged with governance.

Relevance

3.27 Relevant matters are past, present or future matters that impact or may impact the organization's strategy, its business model or one or more of the capitals and thus ultimately affect the organization's ability to create value over time. Identifying relevant matters for inclusion in the integrated report includes identifying the population of potentially relevant matters, and narrowing these 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 intended users' decisions.



Identification of potentially relevant matters

- 3.28 The population of potentially relevant matters can be identified through an assessment of the organization's value drivers (see paragraphs 2.45-2.46) and the matters that impact (or have impacted) those value drivers. The process will require judgement, and will include consideration of factors internal and external to the organization, including matters identified by the organization's risk management process; internal and external stakeholders' legitimate needs, interests and expectations; and the organization's use of and effects on the capitals.
- 3.29 As part of the process of identifying potentially relevant matters, it is important that long term matters not be overlooked. Matters that might be relatively easy to address in the short term but which if left unchecked could be increasingly damaging and progressively more difficult to address over time need to be included in the population of potentially relevant matters. Matters should not be excluded on the basis that an organization does not wish to address them or does not know how to deal with them.

Identification of relevant matters for inclusion in the integrated report

- 3.30 From the population of potentially relevant matters identified, the matters that are relevant for inclusion in the integrated report are those that have (or have the potential to have) an impact on the organization's ability to create value in the short, medium or long term.

Significance

- 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.
- 3.32 If the matter is determined to be of such significance that it has the potential to substantively influence/change¹⁵ decision making, the matter is considered material for disclosure purposes.

Assessing the magnitude of the impact

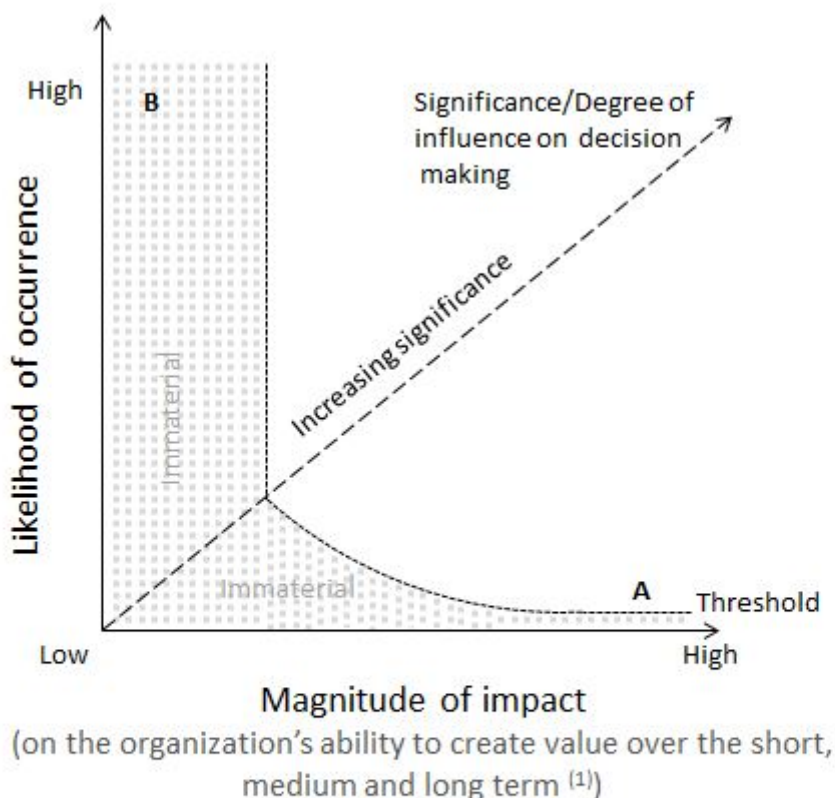
- 3.33 For matters with no uncertainty of occurrence [i.e., matters that have already occurred, matters that currently exist (e.g., the organization's culture, management style, internal systems) and those matters that will definitely occur in the future (e.g., an enacted law that will become effective at a future date)] only the magnitude of impact needs to be assessed to determine the significance of the matter.
- 3.34 Magnitude of impact refers to the matter's magnitude of impact on the organization's ability to create value in the short, medium or long term. An understanding of the perspectives of the broader stakeholder group is critical to this assessment, since stakeholder actions have the potential to impact an organization's ability to create value.

¹⁵ Reference to "substantively influence/change" is made in order to fully capture the materiality definition which indicates that a matter is material if it is of such relevance and significance that it could *substantively influence* the assessments and decisions of the organization's highest governing body or *change* the assessments and decisions of intended users with regard to the organization's ability to create value over time.

- 3.35 The magnitude of impact on an organization's ability to create value is assessed by considering the matter's magnitude of impact on the organization's strategy, business model and the capitals in the short, medium or long term in order to determine whether the matter is of such significance that it has the potential to substantively influence/change decision making.
- 3.36 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.
- 3.37 In assessing the potential magnitude of the impact on the organization's ability to create value over the short, medium and long term, the organization should, at a minimum, consider:
- Quantitative and qualitative factors
 - Financial, operational, strategic, reputational and regulatory perspectives of the 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

- 3.38 Where it is uncertain whether a matter will occur (e.g., a matter that may occur in the future or have potential future impacts), both the magnitude of the impact (as described above) and the likelihood of occurrence are considered to assess significance. The following diagram illustrates how the significance of such matters can be assessed and should be read in conjunction with the text that follows, which describes the concepts depicted in the diagram. The diagram applies to the analysis of both positive and negative impacts of future-orientated matters.



⁽¹⁾ The magnitude of impact on the organization's ability to create value is determined by assessing the magnitude of impact of the matter on the organization's strategy, its business model and the different forms of capital, in the short, medium or long term.

- 3.39 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. As illustrated in the above diagram, the significance of a matter with a high magnitude of impact and a low likelihood of occurrence (point A) is greater than a matter with a high likelihood of occurrence and a low magnitude of impact (point B), since the former matters, should they occur, could severely impact the organization's ability to create value over time.

Prioritization of material matters

- 3.40 Once the population of material matters is identified, the matters should be prioritized, based on their significance, by those charged with governance. Those matters with the greatest impact or potential impact on the organization's ability to create value over time are considered the most significant.
- 3.41 Prioritization assists with focusing on those matters to which the most importance is to be attached in the manner in which they are reported. 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.

Disclosure

- 3.42 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 application of all the Guiding Principles, particularly 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).

Conciseness

- 3.43 Disclosures about material matters should include concise information that provides sufficient context to make the disclosures understandable and should avoid information that is redundant in nature. In achieving conciseness, key information should not be excluded; however, additional detailed information can be provided separately on the organization's website or in other forms of communication, with links provided to such information. In preparing an integrated report, the organization seeks a balance between complete, concise and comparable information.

E. Reliability

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

- 3.45 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, which can help establish the completeness and neutrality of information in particular, and independent, external assurance.
- 3.46 Senior management and those charged with governance exercise judgement in deciding whether information is sufficiently reliable to be included in the integrated report. It may be appropriate in some cases (e.g., with respect to future oriented information) for the integrated report to describe the mechanisms employed to ensure the reliability of information. (See paragraph 1.15 for relevant disclosures when material information is omitted because of the unavailability of reliable data.)

Completeness

- 3.47 A complete integrated report includes all material information (both positive and negative). To help ensure that the organization has identified and disclosed all material matters, consideration should be given to what organizations in the same industry are reporting on. Certain matters within a particular industry are likely to be material to other organizations within the same industry.

Neutrality

- 3.48 A neutral integrated report is balanced and fair; it 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 value in the short, medium and long term.
- 3.49 Information is not to be slanted, weighted, emphasized, de-emphasized, or otherwise manipulated to change the probability that it will be received either favourably or unfavourably by intended users. Similarly, information about material matters is not to be combined or offset to present a more favourable situation than actually exists.
- 3.50 Important methods to ensure neutrality include:

- Selection of presentation formats that are not likely to unduly or inappropriately influence a decision or judgement by the intended user
- Giving equal weighting to both increments and decrements to the capitals, both strengths and weaknesses of the organization, both positive and negative performance and outcomes, etc.
- Reporting against previously reported targets, forecasts, projections and expectations.

Freedom from error

- 3.51 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.
- 3.52 To ensure that the integrated report is free from error, an 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

- 3.53 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

- 3.54 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 standardized definitions are stipulated by an independent organization (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.
 - Presenting normalized information/ratios (e.g., research expenditure as a percentage of sales, or carbon intensity measures such as emissions per unit of output).

Consistency

- 3.55 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 matters 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.

- 3.56 When information in the integrated report is similar to or based on other information published by the organization, it should be prepared on the same basis as, or be 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.

PROTOTYPE - NOT FINAL

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 operating context
 - B Governance
 - C Opportunities and risks
 - D Strategy and resource allocation
 - E Business model
 - F Performance and outcomes
 - G Future outlook
- 4.2 These Content Elements are fundamentally linked to each other and are not mutually exclusive. The sequence in which they appear in this chapter follows the logic explained in paragraphs 2.4-2.9. This is not the only logical way they could be sequenced, and it should be kept in mind that the Content Elements are not intended to serve as a standard structure for an integrated report with information about them appearing as isolated, standalone sections. Rather, information in the integrated report should be presented in a way that makes the interconnections between the Content Elements apparent.
- 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 judgement 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 such as an unchanged listing of subsidiaries should appear on the organization's website with the integrated report including only summarized information or important changes along with a reference to where further information can be found).
- 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 operating context

- | | |
|-----|--|
| 4.5 | Content Element 1 – An integrated report should answer the question: what does the organization do and what are the circumstances under which it operates? |
|-----|--|
- 4.6 The integrated report provides essential context by identifying:
- The organization's mission and vision, its culture and ethical values, its ownership and operating structures, and its principal activities, markets, products and services
 - Significant aspects of the legal, commercial, social, environmental and political context within which the organization operates, including the significant laws and regulations, technological developments, and stakeholder needs, interests and expectations that affect the organization's ability to create value in the short, medium and long term.
- 4.7 The integrated report identifies its reporting boundary and explains how it has been determined. (See also Section 5D "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.

External factors

- 4.9 The circumstances under which an organization operates include the external factors that present opportunities and risks 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 value.
- 4.10 External factors reflect the context in which the organization operates: the context of the particular organization, the context of the industry or the region in which it operates, and the wider social or planetary context. They 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 and changing societal expectations, such as population and demographic changes, human rights, health and poverty, collective values and educational systems
 - Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached
 - 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 strategy.

B Governance

4.11 Content Element 2 – An integrated report should answer the question: what is the organization’s governance structure, and how does it support the organization’s ability to create value in the short, medium and long term?

- 4.12 An integrated report provides insight about the organization’s oversight and the role of those charged with governance in establishing the culture of the organization, including “tone at the top”, attitude to risk,¹⁶ remuneration and incentives, and the monitoring role of those charged with governance. This 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
 - How the organization’s culture and ethical values are reflected in its use of and effects on the capitals, including its relationships with key

¹⁶ 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>.

stakeholders¹⁷

- Whether, and if so how, the organization is implementing emerging best governance practices that go beyond legal requirements
 - What actions those charged with governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management
 - The role of those charged with governance in promoting and enabling innovation
 - How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals.
- 4.13 With respect to remuneration and incentives, the integrated report focuses on significant compensation policies and plans (including cash, deferred compensation, post-retirement benefits and stock arrangements). This may involve both quantitative and qualitative information about oversight arrangements for remuneration of senior executives; and how the links between the organization's strategy and its 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.
- 4.14 KPIs may be used to report information such as multiples of average pay, with more detailed or relatively static information included elsewhere (e.g., a statutory report) with an appropriate reference to where to find it.

C Opportunities and risks

NOTE: The IIRC is considering additional guidance on this topic

4.15 Content Element 3 – An integrated report should answer the question: what are the key opportunities and risks that the organization faces?

4.16 An integrated report identifies the organization's key opportunities and risks,¹⁸ including those that relate to external factors and to the organization's effects on, and the continued availability, quality and affordability of, relevant capitals.

D Strategy and resource allocation plans

4.17 Content Element 4 – An integrated report should answer the question: where does the organization want to go and how does it intend getting there?

4.18 An integrated report describes:

- The organization's short, medium and long term strategic objectives
- The strategies it has in place, or intends to implement, to achieve these strategic objectives
- The resource allocation plans it has in place to implement its strategy.

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

¹⁷ For further guidance see, for example: "Practice Guide: Evaluating Ethics-related Programs and Activities" (2012), Institute of Internal Auditors, at <http://tinyurl.com/c4bw8e8>.

¹⁸ 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>.

- 4.19 In describing where the organization wants to go and how it is 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.
- 4.20 The integrated report identifies:
- The linkage between the organization's strategy and resource allocation plans, and the information covered by other Content Elements, including how its strategy and resource allocation plans:
 - relate to the organization's current business model and what changes to that business model may be necessary to implement chosen strategies
 - are influenced by/respond to the operating context and identified opportunities and risks
 - affect key capitals, and risk management arrangements related to those capitals
 - What differentiates the organization, giving it competitive advantage and making it 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 the organization's strategy to give it a competitive advantage.
 - Stakeholder consultations that were used in formulating its strategy and resource allocation plans.

E Business model

4.21 Content Element 5 – An integrated report should answer the question: what are the organization's key inputs, value-adding activities and outputs by which it aims to create value over the short, medium and long term?
--

- 4.22 The integrated report describes the organization's business model, as discussed in Section 2C. Features that can enhance the effectiveness and readability of the description of the business model include:
- Explicit identification of the key elements of the business model
 - A simple diagram highlighting key elements, supported by a clear explanation of the relevance of those elements to the organization
 - Narrative flow that is logical given the particular circumstances of the organization
 - Identification of critical stakeholder dependencies, key value drivers and 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.

Organizations with multiple business models

- 4.23 Some organizations employ more than one business model, e.g., when operating in different market segments.
- 4.24 Unbundling the organization to its material constituent operations and associated business models is an important first step to an effective understanding and explanation of how the organization operates. This requires a distinct consideration of each material business model as well as commentary on the extent of connectivity between the business models, such as the existence of synergistic benefits.
- 4.25 Some organizations consist of multiple, diverse business divisions or segments managed by a central corporate division acting in an investment management capacity. The decisions faced by providers of financial capital in these cases are likely to focus to a greater extent on the investment management business model rather than the business models of the individual segments. In such cases the integrated report should similarly focus on the business model of the corporate centre.
- 4.26 Those preparing integrated reports for organizations with multiple businesses often need to balance disclosure with the need to reduce complexity in reporting. The concept of materiality is very relevant here and is discussed further in Section 3D. A practical suggestion to help those preparing integrated reports in this context would be to align their external reporting with their internal management reporting. Considering the top slice of information that is regularly reported to those charged with governance can provide an effective construct for external reporting in even the most complex of organizations.

F Performance and outcomes

4.27 Content Element 6 – An integrated report should answer the question: how has the organization performed against its strategy and what are the key outcomes resulting from its activities?

- 4.28 An integrated report contains qualitative and quantitative information about performance and outcomes, including:
- KPIs¹⁹ and KRIs²⁰ regarding the organization's performance and outcomes with respect to its strategy, targets, value drivers and opportunities and risks, explaining the significance and implications of those indicators and key methods and assumptions used in compiling them
 - The organization's outcomes in terms of its effects (both positive and negative) on the capitals
 - The state of key stakeholder relationships and how the organization has

¹⁹ 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>.

²⁰ For further guidance see, for example: "Operational Risk Sound Practice Guidance: Key Risk Indicators" (2010) Institute of Operational Risk, at <http://tinyurl.com/cx2axrm>.

- responded to stakeholders' legitimate needs, interests and expectations
- The linkages between past and current performance and outcomes, and between current performance and outcomes and future outlook.
- 4.29 It is important to demonstrate the connectivity of financial performance with performance and outcomes regarding the other capitals. This may include, e.g., using KPIs that combine components expressed in financial terms with other components (e.g., the ratio of greenhouse gas emissions to sales), explaining by way of narrative the financial implications of the organization's significant effects on other capitals, or monetization of the organization's performance and outcomes with respect to externalities, such as carbon emissions and water use.
- 4.30 Information about outcomes includes a description of the organization's view of its material economic, environmental and social impacts up and down the value chain, along with quantitative information to the extent relevant and 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 5D.)
- 4.31 While other reports and communications (such as financial statements, a sustainability report or detailed website disclosures) may be referenced or linked for those stakeholders who want additional detail on various aspects of performance and outcomes, the discussion in an integrated report should stand alone notwithstanding that it is considerably more concise.
- 4.32 If regulations have a material impact on performance and outcomes (e.g., a constraint on revenues as a result of regulatory rate setting) or if the organization's non-compliance with laws or regulations may materially affect the organization's operations, that is included in the discussion of performance and outcomes.
- 4.33 Quantitative indicators, including KPIs and KRIs, can help increase comparability and are particularly helpful in expressing, and reporting against, goals and targets. Common characteristics of suitable quantitative indicators include that they are:
- Relevant to the individual circumstances of the organization
 - Consistent with indicators used by those charged with governance
 - Connected, e.g., they display connectivity between financial and other information
 - Focused on the matters identified by the organization's materiality determination process
 - Presented for a number of periods to give intended users an appreciation of trends
 - Consistent with industry or regional benchmarks to give intended users a basis for comparison
 - Reported consistently over successive periods, regardless of whether the resulting trends and comparisons are favourable or unfavourable
 - Presented with qualitative information to provide context and improve meaningfulness. Relevant qualitative information includes an explanation of:
 - measurement techniques and underlying assumptions used in their compilation

- o the reasons for significant variations from targets, trends or benchmarks, and whether they are expected to reoccur.

G Future outlook

- | | |
|------|--|
| 4.34 | Content Element 7 – An integrated report should answer the question: what opportunities, risks, challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and its future performance and outcomes? |
|------|--|
- 4.35 Future outlook highlights anticipated changes over time. It provides information, built on sound and transparent analysis, about such matters as:
 - The expectations of senior management and those charged with governance about the operating context the organization is likely to face in the short, medium and long term future
 - How that will affect the organization
 - How the organization is currently equipped to respond to the critical opportunities, risks, challenges and uncertainties that may arise.
 - 4.36 The integrated report should identify the organization's approach to any real risks that are fundamental to the ongoing ability of the organization to create value and could have extreme consequences, even though the probability of their occurrence might be considered quite small.
 - 4.37 The integrated report should include a discussion of the potential implications, including implications for future performance and outcomes, of:
 - External factors, opportunities and risks, 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 value over time.
 - 4.38 The discussion provides intended 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 other KPIs and KRIs for the future, and sensitivity analyses.

5. PREPARATION AND PRESENTATION

- 5.1 This chapter provides guidance on the following topics:
- A Disclosure of material matters and the materiality determination process
 - B Frequency of reporting
 - C Time frames for short, medium and long term
 - D Reporting boundary
 - E Aggregation and disaggregation
 - F Involvement of those charged with governance
 - G Use of technology
 - H Assurance
 - I Other considerations
- 5.2 This guidance is intended to help organizations implement the Guiding Principles and Content Elements identified in Chapters 3–4. As noted in paragraph 1.19, a database of emerging practice is available at examples.theiirc.org. 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.

A Disclosure of material matters and the materiality determination process

- 5.3 Judgement is applied in determining the appropriate disclosure of material matters in the integrated report. Taking the nature of a matter into consideration, the organization considers providing:
- Key information about the matter, such as the following:
 - an explanation of the matter
 - an explanation of how the matter affects/affected the organization's strategy, its business model or the capitals
 - an explanation of any interaction, inter-relatedness or dependencies associated with the matter (providing an understanding of causes and effect based on the identification of relationships and behaviours 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 or how the matter is currently being managed by the organization (including descriptions of mitigating actions in response to the organization's risk assessment)
 - metrics or an indication of how effective the organization has been at capitalizing on opportunities or managing its risks
 - explanation or indication of the extent of the organization's control over 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, disclosure of that fact and the reason for it.

5.4 Depending on the nature of a matter, it may be appropriate to present it in conjunction with the different Content Elements to provide the right level of connectivity and context in the report. For example, if a material regulatory change has occurred during the year, the organization might include the following information with respect to each of the Content Elements:

- Organizational overview and operating context– a description of the facts surrounding the change and identification of the organization’s principal activities, markets or products and services.
- Governance – a description of:
 - what actions those charged with governance took to influence the strategic direction of the organization and its approach to risk management as a result of the change
 - any impacts on executive remuneration resulting from over/under performance against targets resulting from the change
 - any adjustments to future remuneration policies resulting from the change.
- Opportunities and risks – a description of the full nature of the underlying opportunities and risks associated with the change.
- Strategy and resource allocation – a description of how the organization has responded to the change and any changes to risk management arrangements related to the key affected capitals.
- Business model – a description of changes made to the business model as a result of the change.
- Performance and outcomes – a description of how performance against identified strategies and targets was affected by the change and the key outcomes of the change in terms of how it has changed the effects of the organization’s activities on the capitals.
- Future outlook – a description of the future outlook for the organization as a result of the change, including the anticipated regulatory environment that the organization is likely to face in the future and how it is currently equipped to respond.

Disclosure of the materiality determination process

5.5 The integrated report should include a reference to where a summary of the materiality decision-making process employed by the organization is disclosed or include 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.

5.6 The objective of the summary of the materiality determination process is to

enable intended users to understand the process employed by the organization (including how decisions were made to include or exclude various matters) and thereby enable intended users 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 key personnel involved in (a) identification and (b) prioritization of material matters
- Identify the governance body with oversight responsibilities for <IR>.

B Frequency of reporting

- 5.7 It is anticipated that an integrated report would be prepared annually in line with the statutory financial reporting cycle; however, many of the <IR> concepts can be applied continuously.
- 5.8 Preparation of an integrated report annually does not mean that the organization does not communicate changes to its strategy, governance, performance and prospects until the preparation of the integrated report. Rather the organization considers the application of <IR> concepts to statutory and other reports and communications, such as real-time reporting between the publication of annual integrated reports (see Section 5G on the use of technology).

C Time frames for short, medium and long term

- 5.9 Given the nature of the matters that <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.
- 5.10 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 <IR> purposes.
- 5.11 The length of each reporting time frame and the reason for such length are disclosed in the integrated report.

D Reporting boundary²¹

- 5.12 As noted in paragraph 4.7, the integrated report identifies its reporting boundary and explains how it has been determined. Determining an organization's <IR> boundary has two aspects, which are considered in conjunction with the Guiding Principle, "Materiality and conciseness":
- The boundary used for financial reporting purposes (the financial reporting entity)
 - Opportunities, risks and impacts attributable to or associated with other entities beyond the financial reporting entity that have a material effect on

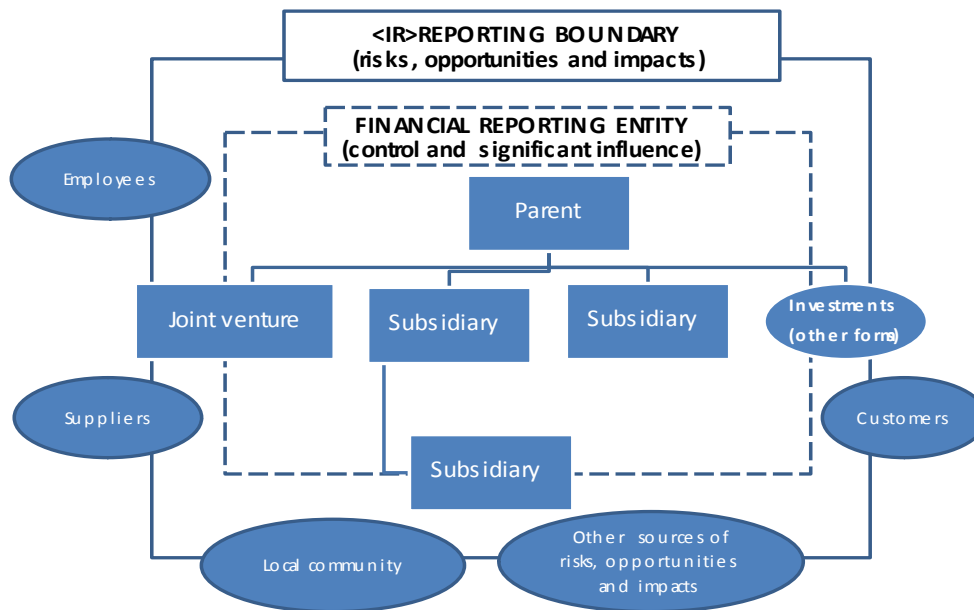
²¹ NOTE Further consideration is being given to how this guidance relates to other forms of reporting, in particular sustainability reporting.

the ability of the financial reporting entity to create value over time.

5.13 Central to the reporting boundary for <IR> purposes is the financial reporting entity. This is because:

- It is the financial reporting entity that providers of financial capital, 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.

5.14 The following diagram depicts the mapping of the entities and relationships that are considered in determining the organization's reporting boundary for <IR> purposes.



PROTIC

Financial reporting entity – control and significant influence

- 5.15 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 Standards²² (or other applicable financial reporting standards or regulations) and revolves around the concepts of control or significant influence. Considering this central aspect of the reporting boundary:
- (a) Material opportunities, risks 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) Information is prepared on the same basis as, or reconciled to, any corresponding information in the organization's financial statements in terms of (i) the entities covered and (ii) the measurement methods and the time frames used.

<IR> reporting boundary – opportunities, risks and impacts

- 5.16 The second aspect of the <IR> boundary is to identify those opportunities, risks 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 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 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 <IR> reporting boundary, but to identify the opportunities, risks and impacts that materially affect the ability of the financial reporting entity to create value. The entities within this portion of the <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 opportunities, risks and impacts.

For example, if the labour practices in the organization's industry are material to the ability of the organization to create 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 practices of entities along the value chain.
 - (d) Practical issues, such as:
 - o the availability of reliable data with respect to entities the financial reporting entity does not control

- o the inherent inability to identify all opportunities, risks and impacts that will materially affect the ability of the financial reporting entity to create 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.

E Aggregation and disaggregation²³

- 5.17 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.
- 5.18 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 manage the organization and its operations; this may commonly result in presenting information based on the business or geographical segments used for financial reporting purposes.²⁴
- 5.19 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 5G).

F Involvement of those charged with governance

- 5.20 Those charged with governance have ultimate responsibility for how the organization’s strategy, governance, performance and prospects lead to long term value creation. They are responsible for ensuring that there is effective leadership and decision-making regarding <IR>, including the identification and oversight of employees actively involved in the <IR> process and the internal processes to identify material matters and collect, accumulate and report material information.
- 5.21 The integrated report should identify the governance body with oversight responsibilities for <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 <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

²³ See also paragraphs 4.23–4.26 regarding organizations with multiple business models.

²⁴ For further guidance see, for example: *International Financial Reporting Standard 8 “Operating Segments”* (2009), International Accounting Standards Board, at <http://tinyurl.com/8pbjsga>.

- Its opinion or conclusion as to whether the information in the report presents a reasonable and balanced view in accordance with the Framework.

G Use of technology

- 5.22 Advances in technology enable innovative approaches to reporting that are particularly relevant to the application of the Guiding Principle, “Connectivity of information”. Organizations are encouraged to use technology platforms to increase connectivity within the integrated report and to information outside of the report, and to facilitate comparisons between reports.
- 5.23 Technology, such as the Internet, eXtensible Business Reporting Language (XBRL), and social media can play an important role in <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

- 5.24 An integrated report may be hyperlinked (or referenced, if the integrated report is paper based) to information on the organization’s website or on other websites. 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; or critical assumptions about future economic conditions may be linked to an authoritative source such as a government website.
- 5.25 If information is linked to information outside of the integrated report, care should be taken to ensure that such information will continue to be accessible and reliable, and that any relevant legal implications are considered if the integrated report is being used to satisfy regulatory requirements.

XBRL

- 5.26 One of the standardized technology platforms that may be used for <IR> 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 of, and
 - Explicit relationships between components of an integrated report.
- 5.27 XBRL may be used to capture the integrated report in machine-readable format for intended 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 <IR>.

Social media

- 5.28 Social media, i.e., interactive platforms that enable sharing of user-generated content, is rapidly increasing in popularity as a primary source of information. Its capacity to connect information from different sources is also rapidly increasing (e.g., there is an observable trend towards using social media monitoring tools that allow users to search, track and analyse information about organizations or topics of interest).

- 5.29 Social media may be part of a suite of information and communication technologies an organization uses to disseminate information generated by the <IR> process. It may also be used as a tool to generate information relevant to <IR> (e.g. it may be used as means of engaging with stakeholders).

H Assurance

- 5.30 Organizations use a variety of mechanisms to provide comfort internally to those charged with governance that complete and reliable information is included in an integrated report. Organizations have internal controls systems, 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 and outcomes, such as performance certifications or compliance assessments.
- 5.31 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 mechanisms, 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 <IR> as it applies to the organization, which includes a comprehensive knowledge of:
 - this Framework and any other guidance issued by the IIRC
 - the organization's business, including any specialist strategic, operational or industry/sector issues relevant to the organization
 - 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 intended users of the integrated report and covers whether the information in the report presents a reasonable and balanced view in accordance with the Framework.
- 5.32 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.

I Other considerations

- 5.33 An organization balances the potential concerns regarding costs, competitive advantage and forward-looking information with the benefits of being able to describe, in its own terms, its unique value creation story. 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

- 5.34 It is appropriate for an organization to evaluate the cost of reporting versus the benefits (to both the organization and to intended users of the integrated report)

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.

- 5.35 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.
- 5.36 If material information is not included in the integrated report, intended users may incur costs in obtaining information through other sources or may make sub-optimal decisions as a result of not having that information. This is to be weighed against the costs to the organization of reporting such information.
- 5.37 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 and aggregate 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 <IR> purposes.

Competitive advantage

- 5.38 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.
- 5.39 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.
- 5.40 For example, it is often the case that information about strategies is already known to the market, and therefore available to competitors, and that the true competitive advantage in such cases 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.
- 5.41 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 balances this against the legitimate information needs of intended users.

Forward-looking information

- 5.42 Key to intended 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.

5.43 Legal or regulatory requirements regarding forward-looking information vary from jurisdiction to jurisdiction, and may cover, for example:

- The types of disclosures that may be made
- Whether cautionary statements may be required or permitted to highlight uncertainty regarding achievability
- An obligation to publicly update such information.

PROTOTYPE - NOT FINAL

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 value over the short, medium and long term.
3. *Capitals*: Stores of value on which all organizations depend for their success as inputs, in one form or another, to their business model, through which they are increased, decreased or transformed. The capitals identified in this Framework are: financial, manufactured, human, intellectual, natural, and social and relationship.
4. *Connectivity*: The combination, inter-relatedness and dependencies between the components that are material to the organization's ability to create value in the short, medium and long term.
5. *Integrated report*: A concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value in the short, medium and long term. An integrated report is the most visible and tangible manifestation of <IR>. It should be prepared following the International <IR> Framework and the process referred to in this document as "Integrated Reporting <IR>".
6. *Integrated Reporting <IR>*: A process that results in communication, most visibly through a periodic "integrated report", about value creation over time.
7. *Integrated thinking*: The ability of an organization to understand the relationship between its various operating and functional units and the capitals the organization uses and affects. Integrated thinking leads to integrated decision-making and actions that focus on the creation of long term, as well as short and medium term, value.
9. *Intended users*: Providers of financial capital, particularly those who take a long term view of an organization's performance and outcomes. Communications that result from <IR> will also be of benefit to a range of other stakeholders.
10. *Material/materiality*: A matter²⁵ is material if it is of such *relevance* and *significance*²⁶ that it could substantively²⁷ influence the assessments and decisions of the organization's highest governing body, or change the assessments and decisions of intended users with regard to the organization's ability to create 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 strategy, its business model, or one or more of the capitals it uses or affects.
11. *Monetize*: Measuring something in currency, whether or not it will ultimately be converted to cash. For example:

²⁵ A matter or information includes, but is not limited to, an event, issue, opportunity, amount, or statement by the organization.

²⁶ Significance refers to both nature and magnitude.

²⁷ The dictionary definition of the word "substantive" means having a firm basis in reality and being therefore important, meaningful, or considerable. A matter that has the ability to substantively influence assessments and decisions is considered to have substantive or considerable influence.

- (a) Monetizing mineral reserves currently “in the ground” could be done by 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 impute a monetized value.
12. *Providers of financial capital:* 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.
13. *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) Opportunities, risks 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 value over time.
14. *Stakeholder:* Those groups or individuals that can reasonably be expected to be significantly affected by the organization’s activities, products 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 providers of financial capital, employees, customers, suppliers, local communities, NGOs, regulators and policy-makers.
15. *Stewardship:* The responsibility of an organization to care for or use responsibly the capitals that its actions affect.
16. *Strategy:* Strategic objectives together with the strategies to achieve them.
17. *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 Other IIRC publications and resources

"Pilot Programme 2012 Yearbook: Capturing the Experiences of Global Businesses and Investors" September 2012²⁸

Emerging Integrated Reporting <IR> Database²⁹

Frequently Asked Questions³⁰

Research on the following topics is being conducted and is likely to result in the publication of subsidiary papers during early 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.*
- Value – *the concept of value is included as a fundamental concept in Chapter 2.*

B Basis for conclusions

When version 1.0 of the Framework is issued, this Appendix (or a separate document) is expected to contain a summary of the IIRC's consideration of key matters raised by respondents to the Consultation Draft expected to be released in April 2013.

²⁸ <http://www.theiirc.org/resources-2/other-publications/2012-yearbook/>

²⁹ examples.theiirc.org

³⁰ www.theiirc.org/resources-2/faqs/