

International <IR> Framework revision

Focused engagement

Submission deadline: 20 March 2020

Topic Paper 1

Responsibility for an integrated report

Help shape the future of integrated reporting

About the IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.

About the International <IR> Framework

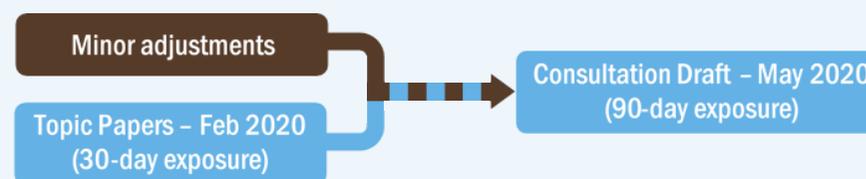
Released in December 2013, the <IR> Framework explains the Fundamental Concepts underpinning integrated reporting and includes Guiding Principles and Content Elements that govern the preparation of an integrated report. The <IR> Framework is written primarily in the context of private sector, for-profit companies of any size, but it can also be applied to public sector and not-for-profit organizations. An integrated report is used to assess the organization's ability to create value over time.

Context for a revision

In 2017, the IIRC invited market feedback on the <IR> Framework's overall effectiveness and ease of implementation. Through regional roundtables and an online survey, one point became very clear: the core principles of integrated reporting continue to stand the test of time. The IIRC Council echoed this view in November 2019 when it endorsed a modest 2020 update to the <IR> Framework. Such a revision would mark the IIRC's ten-year anniversary and ensure the <IR> Framework's continued relevance in an evolving business and policy environment.

With this in mind, minor adjustments – including simple corrections and clarifications – are now underway. Concurrently, the IIRC seeks input on

select themes raised by users and preparers of integrated reports. These include: (1) responsibility for an integrated report, (2) business model considerations and (3) charting a path forward. Each theme is explored in a dedicated Topic Paper, which invites feedback during a 30-day window. Responses to Topic Papers will inform the direction of <IR> Framework proposals. Per the IIRC's [Procedures Handbook](#), all proposals will receive 90-day public exposure via a Consultation Draft.



How to respond to Topic Paper 1

All feedback, no matter how brief, is welcome and should be submitted via our online form at www.integratedreporting.org/2020revision/topic-paper-1. Your time is valuable, so we've limited the number of survey questions to just five, as shown on page 5 of this Topic Paper. Input is most helpful when it includes supporting rationale and specific recommendations.

Deadline for submissions: Friday 20 March, 2020 (23:59 GMT)

All comments received will be considered a matter of public record and will be posted on the IIRC's website after the closing date. A summary of feedback received will also be posted at a later date.

Responsibility for an integrated report

Section 1G of the International <IR> Framework calls for a statement of responsibility for the integrated report from those charged with governance. In particular, Paragraph 1.20 states:

An integrated report should include a statement from those charged with governance that includes:

- An acknowledgement of their responsibility to ensure the integrity of the integrated report
- An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report
- Their opinion or conclusion about whether the integrated report is presented in accordance with this Framework

or, if it does not include such a statement, it should explain:

- What role those charged with governance played in its preparation and presentation
- What steps are being taken to include such a statement in future report
- The time frame for doing so, which should be no later than the organization's third integrated report that references this Framework.

Matters under consideration

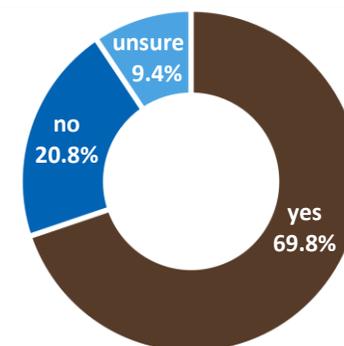
In most jurisdictions, Paragraph 1.20 of the <IR> Framework has seen limited uptake. This may reflect one or more of the following factors:

- Conflict with local regulations
- Director liability concerns
- Inconsistency with the prevailing reporting approach
- Sign-off fatigue; additional reporting burden
- Scepticism about the benefits provided by the statement
- Contradiction with a principles-based approach
- Limited understanding of the term 'collective mind'.

Analysis

During the development of the <IR> Framework, the IIRC invited input on Paragraph 1.20 in an April 2013 [Consultation Draft](#).

Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report?



Some 70% of respondents supported – fully or with minor qualification – a required statement from those charged with governance. The following responses point to accountability and report integrity as core rationale.

- There should (be a required statement, as) those charged with governance have ultimate responsibility for how the organization creates value.
- (This measure) would enhance the credibility of the report. As a Board member, I would expect to have the opportunity to review an integrated report. A reader of an integrated report might in any case assume that the content has been approved by the Board given the centrality of strategy and risk identification to an integrated report.
- ... those charged with governance should be responsible for determining (material) matters ... and ensuring that these are appropriately reported... Delegating this authority to a lower level of management is not appropriate. Acknowledging this responsibility publicly will result in companies developing internal processes and approvals, which should improve the quality of reporting.

Council deliberation. When approving the <IR> Framework, the IIRC Council weighed the pros and cons of the required statement (ref: [minutes](#) of Dec 2013 Council meeting). On the one hand, investors favour this measure as a safeguard against inferior documents and inappropriate use of integrated reports as a marketing device. On the other, Boards are generally risk-averse and, unless compelled by legislation or regulation, may not sign off on integrated reports. Paragraph 1.20 might hinder adoption, especially in litigious jurisdictions. This latter view was pervasive among respondents opposing the requirement.

- Responsibility... is implicit in the publication of the report, (therefore, this measure) would add a further boilerplate statement, will not change behaviours, and would not be actionable to any meaningful degree.
- ... most companies choose to provide oversight or strategic direction through the report's introduction or letter from the Board or CEO. It is not felt necessary to change this accepted practice to a reporting requirement that may introduce an unnecessary barrier for new reporters or those with different governance structures.
- ... some of the measurement criteria, and indeed the framework itself, are evolving. Directors may feel that there is not yet a sufficiently clear methodology against which they would be able to state they are satisfied that they have discharged their responsibilities.

Based on these concerns, Council recommended that the situation be monitored closely to assess the impact on uptake of the <IR> Framework.

Monitoring activities. A 2016 internal review of <IR> Framework application by the IIRC showed limited adherence to Paragraph 1.20. Of 50 randomly-selected integrated reports, 18 (36%) expressed some form of accountability for the report's preparation, presentation or integrity. Five of those reports (10% of the full sample) fully conformed to Paragraph 1.20. A further 13 reports included a statement of responsibility, but fell short of noting the application of a 'collective mind' (however phrased) to the report's preparation or commenting on the extent of alignment with the <IR> Framework. With the exception of South Africa, where the statement of responsibility is commonly included, little has shifted since 2016. This suggests a gap between what report **users** seek and what report **preparers** are willing to provide.

To understand the discrepancy, IIRC staff revisited public input into the 2013 <IR> Framework consultation. The following themes proved pervasive among those opposed to a required statement from those charged with governance.

Principles-based approach. The IIRC recognizes wide variation in organizational circumstances; it also understands the need for sufficient comparability across reports to meet users' information needs. With its principles-based approach, the <IR> Framework seeks an appropriate balance between flexibility and prescriptiveness. Notably, a segment of respondents to the 2013 consultation cited Paragraph 1.20 as counter to the IIRC's market-led, principles-based philosophy. One respondent endorsed a voluntary approach, on the basis that 'businesses should determine their own degree of commitment in relation to the information provided'. Others asserted that the IIRC lacks the authority to impose requirements on governance matters in what is a voluntary disclosure mechanism. Such views set the stage for the following section on legal and jurisdictional considerations.

Legal considerations. Chief among the arguments against Paragraph 1.20 was its encroachment on, or possible inconsistency with regulations.

- ... many jurisdictions... have a similar requirement for financial reporting and such statements are typically made in the context of defined legal responsibilities. There is a danger that including such a requirement in the framework may be interpreted as extending these legal responsibilities.
- Any requirement for those charged with governance to provide a statement should be consistent with, and should limit the imposition of further burdens in addition to, those already prescribed by national codes and laws. For example, in the UK such a statement would be acceptable only as an addition to existing compatible provisions...
- This aspect has to be left to local rules. In Italy, the law clearly indicates who is responsible for corporate communication of listed and non-listed companies.
- Under Canadian regulations, the Board of Directors is charged with governance over a company's leadership, strategy and performance. Boards are not involved in the management of annual reports, nor would they be involved with an integrated report. Further, the CEO and CFO of a company (not the Board) are responsible for certifying disclosure in the annual report – a requirement that would apply to an integrated report...

Scope and terminology. Notwithstanding the definition of 'those charged with governance' in the <IR> Framework's glossary, confusion persisted around the document's related terminology and intended scope.

- (1) People in charge of reporting, (2) process, (3) perimeter and (4) methodology (should be) the basis of reporting requirements... Requirements should invite financial, audit, internal control, law, and (sustainable development) departments to work together.

- You need to clarify exactly what you mean by those charged with governance. Would it have to be the Board? Or all executives? Or a subsidiary committee?
- ... there are cases where (multiple boards) share responsibility (for) building and monitoring governance... we are afraid that 'those charged with governance' is not an appropriate term ... We believe that the 'highest decision-making body' within an organization should take the ultimate reporting responsibility... and this term should be used in the Framework.

Process-related disclosures. In lieu of, or in addition to, a statement of responsibility, several encouraged an emphasis on the ongoing processes, systems and controls that underpin high-quality disclosures.

- We believe that such a statement, accompanied by a description of the basis on which (those charged with governance) have satisfied themselves, would provide a level of comfort to report users regarding the procedural rigour underpinning the integrated report...
- Consider a requirement to include an acknowledgement that the processes employed in preparing the integrated report are reasonable, rather than focus only on the outcomes. In addition, since an internal audit may enhance/be perceived to enhance the integrated report reliability, this process should also be disclosed.
- ... we do not think it is necessary for companies to record that a group of individuals or a committee have 'applied their collective mind' to producing an integrated report, any more than Finance departments would certify that they had applied their collective mind to producing a set of financial statements. We do think companies should be encouraged to describe the internal process by which their integrated report is attested.

Proposals and consultation questions

Your opinion counts! Please share your views via our online form at www.integratedreporting.org/2020revision/Topic1. The deadline for submissions is **Thursday 19 March 2020 (11:59 pm GMT)**. All feedback will be considered a matter of public record and will be posted to our website after the closing date. For more on our process, see page 1.

The IIRC invites feedback on a proposed plan for Section 1G of the <IR> Framework. Proposals A, B and C detail the plan's three core elements.

Proposal A

Shift the focus from a statement of responsibility for the integrated report to an explanation of the processes underpinning its preparation.

Implications for the <IR> Framework

Retain Paragraph 1.20 as an <IR> Framework requirement, but change its focus from a statement of responsibility to process-related disclosures.

Process-related disclosures would focus on:

- Measures to ensure the integrity of the integrated report
- Measures to ensure that a collective mind is applied to the preparation and presentation of the integrated report
- The extent to which the integrated report adheres to the 19 requirements of the <IR> Framework.

Q1 Should the emphasis of Paragraph 1.20 shift from a statement of responsibility to process-related disclosures? Please explain.

Proposal B

Support the disclosure of process-related information (per Proposal A) through supplementary guidance.

Implications for the <IR> Framework

Assuming Proposal A is pursued, provide supplementary guidance to Paragraph 1.20 that:

- Provides process-related considerations
- Recommend the disclosure of key roles/responsibilities involved in the preparation and presentation of the integrated report
- Clarify the term 'collective mind'
- Cite a **voluntary** 'statement of responsibility from those charged with governance' as best practice.

Q2 To which systems, procedures and controls should the guidance refer?

Q3 Should the guidance encourage the disclosure of key roles and responsibilities in the integrated reporting process? Please explain.

Q4 Should the guidance cite a voluntary 'statement of responsibility from those charged with governance' (provided local regulations and legislation permit) as best practice? Please explain.

Proposal C

Explain the meaning and scope of the term 'those charged with governance'.

Implications for the <IR> Framework

To the extent that the term 'those charged with governance' is retained, clarify its scope through examples.

Q5 Is there value in clarifying the term 'those charged with governance'?

Integrated reporting enhances the way organizations think, plan and report.

The IIRC does not accept responsibility for loss caused to any person who acts, or refrains from acting, in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

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