Response to the International <IR> Framework Implementation consultation by J Robert Gibson.

The context for this response:

- *I am an Accountant who worked for a large conglomerate with several listed companies for 30 years up to 2010. During the last seven of these years I was responsible for producing sustainability reports in accordance with GRI. Since 2010 I have taught part-time at universities including covering ESG reporting. I attended the A4S December 2009 meeting and have been a supporter but not provider of <IR>.*

- *This response was greatly aided by the two Focus Groups which the IIRC Technical Director facilitated in Hong Kong on the 24th April 2017. It is informed by the comments of other members of those focus groups.*

Multiple capitals

Q1a What is your experience with the multiple capitals approach in integrated reports?

- *The key difference between the economic capitals and the social/natural capitals is the ease of buying or selling economic but not social or natural capitals. This leads to the value of economic capital being much more readily quantified and hence being the focus of judgements on the value of a company.*

- *While social can natural capitals are acknowledged as being necessary for a business to continue operations, their value is rarely quantified. How then to report on them? One option is to clarify how they must be managed in order for a firm to continue to operate long-term. This is best done by companies identifying the social and natural capitals which enable them to operate and the GRI based KPIs (which GRI calls 'Topic Specific Disclosures) which provide evidence of how they are being managed.*

Q1b What, if anything, should be done and by whom to improve this aspect of implementation?

- *The IIRC should make GRI the default method for reporting on social and natural capital. It should encourage companies to only depart from it when there is significantly better reporting methodology for their industry or country. Apart from, in my opinion, the high quality of the GRI standards, the main reason for this recommendation is a company's <IR> reports are more valuable if they are prepared on a consistent basis with those of its peer group. As GRI is the most widely used ESG reporting standard following it provides the greatest chance of producing reports which are comparable to a peer group.*

- *There should be greater guidance on concisely telling the story of the social and natural capitals a firm requires for its 'license to operate' and how well it is managing them. In particular the IIRC should work with GRI to provide a 'Linkage Document' on how to link discussion of <IR> capitals to GRI Topics and Topic Specific Disclosures. In particular the IIRC and GRI should align the following: (a) The <IR> Guiding Principles and the GRI Principles for Report Content and Report Quality; and (b) The <IR> Capitals and the GRI Topics. Alignment doesn't mean an exact match but does mean they agree a document which maps them. I have sent the IIRC Technical Director an attempt to compare them which I did in August 2015.*

- *The types of capital a firm depends on usually vary little from year to year. Yet most companies producing <IR>s spell them out in detail each year. Doing so adds to the length of a report. It also appears repetitious causing firms to look for different ways of presenting the information each year. A recurrent report user, on the other hand is best served by (a) having*

a standing statement of the firm's social and natural capital position; plus (b) an annual statement advising the current 'health' of these capitals and, if applicable, any changes in the firm's circumstances which alter its dependence on them. It follows that a firm's reporting should be explicitly divided into (a) a standing statement on its website of this business model and its use of social and natural capital; and, (b) a concise annual <IR> which links to this standing statement and reports current GRI based KPIs (Topic Specific Disclosures) indicating the health of these capitals.

Connectivity and integrated thinking

Q2a What is your experience with connectivity in integrated reports as an indication of integrated thinking and/or enabler of enhanced decisions?

- *The most impressive section of good integrated reports is the infographics used to explain their company's business model.*

Q2b What, if anything, should be done and by whom to improve this aspect of implementation?

- *A continuation of the IIRC's work of identifying and publicizing best practice.*

Key stakeholders' legitimate needs and interests

Q3a What is your experience with the identification, in integrated reports, of key stakeholders' legitimate needs and interests and how those needs and interests are considered and addressed?

- *This is an area which is often poorly covered in reports.*

Q3b What, if anything, should be done and by whom to improve this aspect of implementation?

- *It is helpful when a company provides a materiality 'matrix' which shows the relative importance the company, and its outside stakeholders attach to a particular issue. This type of presentation should become a requirement for being 'in accordance with' the <IR> framework.*

Materiality and value creation

Q4a What is your experience with the Framework's definition of materiality, in particular: (a) Application of the value creation lens? (b) Use of different time periods to identify material matters?

- *While I've paid attention to <IR> since the framework was first exposed for consultation in 2012 I did not understand the application of the value creation lens to materiality until the IIRC's Technical Director explained it as part of the current consultation. I suspect many other people do not understand it well enough.*

Q4b What, if anything, should be done and by whom to improve this aspect of implementation?

- *The <IR> framework needs to be much more explicit on this point.*

Conciseness

Q5a What is your experience with the conciseness of integrated reports?

- <u>***Terrible.***</u> *Most reports listed by the IIRC as being <IR> are combined reports which are far from meeting its conciseness requirement. They make <IR> look bad.*

Q5b What, if anything, should be done and by whom to improve this aspect of implementation?

- *Per my answer to Q1a reporters should be strongly encouraged to put 'standing information' into separate web-based documents which their annual <IR> can refer to.*
- *Per my answer to Q7 the IIRC should develop a 'self-evaluation' checklist for whether a report is in accordance with the <IR> framework. Reporters should complete this and hence 'self-declare' whether their report is in accordance with the framework. Where their reports do not meet the conciseness criteria they can declare the report is in accordance with the <IR>*

framework with this exception. They should be encouraged to have this self-declaration assured and to put the completed checklist plus assurance statement on their website.

Business model – outputs and outcomes

Q6a What is your experience with the reporting of business model information, particularly outputs and outcomes?

- *As noted in my answer to Q2a, the most impressive section of good integrated reports is the infographics used to explain their company's business model. These make it much easier to understand how companies create value. I particularly like the Standard Bank's portrayal of its business model entitled 'How we make money' which starts at page 8 of its 2012 Integrated Report. Standard Bank subsequently, I guess, felt the need to make the next year's report different and moved to a less punchy presentation.*

Q6b What, if anything, should be done and by whom to improve this aspect of implementation?

- *A continuation of the IIRC's work of identifying and publicizing best practice.*
- *The IIRC encouraging the idea that a consistent, standing portrayal of a company's business model is 'good'. If the business model hasn't changed and a company has a good portrayal of it then it is better NOT to amend this.*

Involvement of those charged with governance and identification of the Framework

Q7a What is your experience with whether reports: (i) identify the involvement of those charged with governance, and (ii) indicate that they are presented in accordance with the Framework? What are the implications of excluding such information?

- *My view as a report reader: Point (i) is often insufficiently clear from a report. Point (ii) is **totally inadequately covered**.*

Q7b What, if anything, should be done and by whom to improve these aspects of implementation?

- *Regarding point Q7a (i) The <IR> framework should prescribe a statement which those charged with governance make on their role and responsibility. This might be part of an 'About this report' statement made prominently at the start of a report.*
- *Regarding point Q7a (ii) IIRC should develop a 'self-evaluation' checklist for whether a report is in accordance with the <IR> framework. Reporters should complete this and hence 'self-declare' whether their report is in accordance with the framework. Where their reports do not meet some criteria they can declare the report is in accordance with the <IR> framework with these exceptions. They should be encouraged to have this self-declaration assured and to put the completed checklist plus assurance statement on their website.*

Other Guiding Principles

Q8a What is your experience with the application of the remaining three Guiding Principles in integrated reports?

- *I note the 'other three Guiding Principles' are:*
  - *Strategic focus and future orientation*
  - *Reliability and completeness*
  - *Consistency and comparability*
- *My experience from reading published reports.*
  - Strategic focus and future orientation: *Many reports are weak in this area.*
  - *Reliability and completeness: I have no specific 'complaint' but believe many reports can be improved.*
  - *Consistency and comparability: This is difficult to judge when a report does not follow GRI or provide enough years of data.*

Q8b What, if anything, should be done and by whom to improve these aspects of implementation?

- Strategic focus and future orientation: *I believe concerns on liability make most companies very reluctant to make more than general disclosures in this area. There will be more useful disclosure if ways can be found to limit the liability of both reporters and assurers.*
- *Reliability and completeness: Many companies can improve by providing a materiality map. It is also helpful to have a supplemental document where a company compares their reporting with the SASB Materiality Map and lists, with reasons, the items on the map which it is not reporting on.*
- *Consistency and comparability: Two points:*
  - *Encourage following GRI as this makes it much easier to compare with peer group companies. (See my response to Q1b.)*
  - *As noted in Q8a it is difficult to judge some slow moving issues without a number of years of data. I would prefer reports to have supporting data tables giving, as a norm, five years data.*

Other Content Elements

Q9a What is your experience with how these remaining Content Elements are reported in integrated reports?

- *The <IR> Framework lists eight Content Elements. Of these Business Model is covered above so I guess all the 'others' are outstanding namely:*
  1. *Organizational overview & external environment*
  2. *Governance*
  3. *Risks and opportunities*
  4. *Strategy and resource allocation*
  5. *Performance*
  6. *Outlook*
  7. *Basis of preparation and presentation*

Q9b What, if anything, should be done and by whom to improve these aspects of implementation?

- *The <IR> Framework of posing a question and stating that a report which answers this question is in accordance with it is excellent. The trouble for report readers is identifying where some questions are answered in some reports. The Framework should, therefore, require companies to provide an 'Index' directing readers to where they cover each of the Content Elements.*

Other quality issues

Q10a Aside from any quality issues already raised in Q1-Q9, what is your experience with the quality of integrated reports?

- *In the past the IIRC has accepted companies calling their reports an <IR> when some criteria in its framework are not met. The argument was to get as many companies 'on board' doing <IR > as possible and then help them improve quality. The substantial downside of this approach is report readers look at the poor quality and get a poor opinion of <IR>.*

Q10b What, if anything, should be done and by whom to improve this aspect of implementation?

- *The IIRC should follow GRI's practice of providing a number of levels of being 'in accordance'. This can then become (a) a guide to the quality of an <IR>; (b) part of the 'staircase' that takes a company from compliance driven reporting to a full <IR>.*

Other enablers, incentive and barriers

Q11a What is your experience with enablers, incentives or barriers to Framework implementation not covered by other questions, including the extent to which they apply particularly to: (a) Specific jurisdictions? (b) Large or small organizations? (c) Private, public or non-profit sectors? (d) Different stages of Framework implementation?

- *Three general points:*
    1. *Most companies see the jump from their current reporting to <IR> as being too big to justify.*
    2. *An <IR> is much easier to prepare and more meaningful if it is based on GRI reporting.*
    3. *Most Fund Managers use Bloomberg terminals to get their data on company performance rather than reading company reports. They also use ESG ratings from MSCI, Sustainalytics, RobecoSAM, ISS and other firms.*

Q11b What, if anything, should be done, and by whom, to improve these aspects of implementation?

- ***Point 1: Pathways to <IR> should be identified to enable companies to move to producing a high quality <IR> in a series of steps over, if they wish, a number of years.*** *Each step needs to be cost/benefit justified so they can move ahead. Each step should build on the previous one so there is no backtracking. In the Hong Kong context the steps can be:*
    - *Complying with the Hong Kong Stock Exchange's ESG Reporting Guidelines.*
    - *Producing separate sustainability reports in accordance with GRI. These reports may initially just cover some aspects of GRI and thus be 'GRI referenced' rather than be 'in accordance with' GRI core.*
    - *Producing 'At a Glance' reports which are snail-mailed to shareholders. These should be not more than about four sides of A4 and should cover:*
        - *Key information on a company's type of business and governance.*
        - *One page of financial highlights*
        - *One page on the company's most significant environmental issues.*
        - *One page on the company's most significant social issues.*
        NB: Keeping the number of issues down requires companies to be clear as to which are their most significant ones. It also makes it practical for shareholders to read 'At a Glance' reports for many companies.
    - *Introducing some elements of <IR> into their existing reporting and adding an <IR> index which makes it clear which aspects of the <IR> framework they have followed.*

- *Point 2: As noted in the reply to Q1b, compatibility with GRI should be strengthened*
    - *GRI should be the baseline method for reporting on social and natural capital. Firms should only depart from it when there is significantly better reporting methodology for their industry or country.*
    - *<IR> and GRI should align the following: (a) The <IR> Guiding Principles and the GRI Principles for Report Content and Report Quality; and (b) The <IR> Capitals and the GRI Topics. Alignment doesn't mean an exact match but does mean they agree a document which maps them. I have sent the IIRC Technical Director an attempt to compare them which I did in August 2015.*
- *Point 3: The IIRC should embrace the reality that most Fund Managers use Bloomberg terminals to get there data on company performance rather than reading company reports. They also use ESG ratings from MSCI, Sustainalytics, RobecoSAM, ISS and other firms.*

    Given this reality the IIRC should work with these intermediaries to make it easy for them to assimilate information from <IR> reports. Steps which will help:
    - *XBRL tagging <IR> elements.*
    - *Providing a <IR> index. NB: With adequate XBRL tagging this index might be computer produced.*
    - *Working with Bloomberg and the other intermediaries to produce guidance to companies on how to pick-up and display the <IR> information.*

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