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Dear Colleagues

**International <IR> Framework revision - focused engagement**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IIRC's 'Focused engagement' exercise on the planned revision of the International <IR> Framework ('<IR> Framework'). Our detailed responses to the questions are in the Appendix to this letter. We make some overall observations as follows.

The consultation on revisions to the <IR> Framework provides an opportunity for the IIRC to consider the role it can play in developing a conceptual framework for connected reporting. This idea is set out in the Accountancy Europe paper 'Interconnected standard setting for corporate reporting'.

Our responses to the questions in the engagement exercise therefore reflect our belief that the IIRC should evolve its thinking beyond an 'integrated report' and towards a conceptual framework for connected (or integrated) reporting. The fundamental concepts and guiding principles of integrated reporting have proved influential both in corporate reporting and in the evolution we have seen around business purpose more widely, brought about by the emphasis on integrated thinking. We think that a focus on concepts of integrated reporting that allow companies to communicate how they have applied integrated thinking in their business is likely to offer the IIRC more long-term impact and influence than focusing on the integrated report per se.

If you have any questions concerning our comments, please contact Veronica Poole at +44 (0)20 7007 0884, Charlotte Drain at +44 (0)20 7007 7666 or Neil Stevenson at +44 (0)20 7007 1602.

Yours sincerely

**Veronica Poole**
Deloitte Touche Tohmatsu Limited

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**Appendix**

**Topic Paper 1: Responsibility for an integrated report**

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

Yes. We think disclosures from those charged with governance on the role they played in exercising governance and oversight over the preparation and presentation of the report that explains how integrated thinking has been applied by a company is most helpful for users, and can enhance transparency and accountability.

Furthermore, as the paper notes, integrated reporting is mostly adopted within the context of local mandated reporting requirements. As a result, an integrated report may be adopted through, for example, a strategic report, management report or MD&A. In that context, a statement of responsibility for an integrated report (as currently set out in the <IR> Framework) could be confusing in relation to other similar obligations on directors at jurisdiction level. Emphasis on process-related disclosures will therefore be appropriate in this context.

In addition, guidance on the role of those charged with governance remains useful within the <IR> Framework for markets where there are no formal local requirements on management reporting and/or where integrated reporting might be formally adopted in whole.

Looking to the future more widely, we believe that the <IR> Framework should evolve to be a conceptual framework for connected reporting. Under this vision, the <IR> Framework should include concepts of reporting rather than requirements for an 'integrated report'. Therefore, the <IR> Framework should reinforce key concepts related to the role of those charged with governance in the authenticity of disclosure and integrity of the reporting process ('process-related disclosures').

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

We note below some suggestions on systems, procedures and controls where the role of those charged with governance can be emphasised, in relation to the quality, balance, completeness and integrity of integrated reporting. This echoes the approaches used for disclosures on financial reporting processes and controls. Reference could be made to the principles of COSO and guidance on enterprise risk management.

- Identifying and engaging with stakeholders, including how the board determines the material issues to stakeholders and reflects these when making decisions (in particular applying the 'value creation' materiality lens set out in the <IR> Framework)
- Development of the presentation of the business model and value creation process, together with related metrics and KPIs
- Process and controls around risk management processes
- Appropriate board time to oversee the preparation and presentation of the report
- Establishing an appropriate culture in the board and throughout the company to ensure transparency and balance in reporting
- Setting an appropriate control environment, for example, ensuring due diligence or assurance are performed on broader information in the report, such as on non-financial metrics or KPIs.

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

Yes. As the Topic Paper references, investors and other users wish to ensure that reporting is grounded in integrated thinking: authentic, prepared with robust processes (including the role and ownership of those charged with governance), and balanced (including free from greenwashing). Encouraging disclosure of key roles and responsibilities is one of the ways that reporters can enhance the credibility and authenticity of

reporting. The IIRC could also issue separate guidance on good practice in relation to the involvement of specific roles – such as the CEO and CFO.

*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.*

We do not see this is necessary. We believe that <IR> Framework should include (as set out in our response to Q1-3) key principles around the role of those charged with governance in the integrity and authenticity of the reporting process. It may be helpful to consider issuing further separate guidance to practitioners, with appropriate examples from reports. We note that, where integrated reporting is adopted formally within regulatory frameworks, specific, localised statements may be required by corporate law or by the relevant authorities.

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

We agree there is value in clarifying the term. However, we suggest the IIRC uses a common definition for consistency, for example as used by the IAASB (and set out in the glossary of the ISA standards), rather than seeking to establish a new definition. It would also be beneficial for all participants of the Corporate Reporting Dialogue to agree on and use the same definition.

**Topic Paper 2: Business model considerations**

*Q1 Should the <IR> Framework explore illustrative examples and visual techniques to elevate the significance of outcomes?*

We believe there is merit in exploring visual techniques for use in the <IR> Framework to help practitioners understand what is meant by 'outcomes'. However, we would caution against developing diagrams that could encourage their use as 'boiler plate' disclosures. There has been market confusion as to the difference between outputs and outcomes since the <IR> Framework was launched and clarification is needed (as evidenced by a paper produced in 2015 by the Integrated Reporting Committee of South Africa, for example).

Our recommendations are therefore as follows.

- We do not believe we should create any new categories in addition to inputs, outputs and outcomes – companies already struggle to define and report on these. We suggest the IIRC consider a visual technique to differentiate **business model process** (leading to **outputs**) and **impact** (renaming **outcomes**) – accepting that impacts and outcomes are essentially the same idea (and in countries where English is not the first language, are likely to be hard to differentiate as terms). As the paper notes, impacts/outcomes can be positive and negative and companies should give a balanced assessment across all capitals.

- While appreciating that 'outcomes' and 'impacts' are very similar by definition, there are specific contexts for impact which should be considered by the IIRC in its revisions. Impact management or investing, for example, specifically relates to decisions or investments made with the intention of contributing to measurable positive social and environmental benefits, alongside financial returns. The term 'impact' is also being increasingly used by companies that are articulating more clearly their purpose and the positive social and environmental impacts that they aim to achieve through that purpose. As a result, impact measurement and reporting have increased in importance since the <IR> Framework was issued in 2013. This context should be referenced and captured in the <IR> Framework, in our view (and we note that much of this is already reflected in paragraphs 4.19-4.20). Renaming outcomes as impacts will respond to the evolution of business purpose and will also help to clarify alignment to the market.
- While examples can be helpful, we note that outputs and outcomes/impacts might vary according to the established purpose and business model of each individual company. While it can be expected that there are outputs and outcomes/impacts that are common within a sector, we would still expect there to be differences according to the value creation story of the company, the specific nature of its business model and the desired impacts.

*Q2 Should the <IR> Framework further explain the link between outcomes and value creation by including an illustrative example?*

We agree that there is benefit in reinforcing the connections between value creation and outcomes/impacts.

This might be readily achieved through additional examples and guidance for practitioners rather than including them in the <IR> Framework, which should focus on concepts rather than application and implementation guidance. It is, in our view, important not to portray the <IR> Framework as a reporting standard.

*Q3 Should Sections 4C and 4F of the <IR> Framework further reinforce:*

> *i. That the term 'value creation' also reflects cases in which value is preserved or eroded?*
> *ii. The importance of providing evidence to support claims and conclusions made in the integrated report?*

We agree that value creation for the organisation can lead to both positive and negative outcomes/impacts, and these should be reinforced. There is good content in paragraphs 3.15-3.16 of the <IR> Framework on stewardship for the capitals – which readily links to the purpose of the organisation. These paragraphs could be connected more explicitly to value creation. Consideration could also be given to trade-offs across the capitals – how the company balances different priorities and impacts over varying time horizons. This is a concept that is being explored by initiatives such as the Value Balancing Alliance.

We agree that evidence is an important ingredient to enhance authenticity, balance and credibility of claims and conclusions made on value creation. This links to Topic Paper 1 on the role of those charged with governance in processes and preparation of corporate reporting, and to Topic Paper 3, on the role of assurance. Metrics and quantitative information also play an important role, including targets and progress towards them over time.

*Q4 Should the <IR> Framework clarify its coverage of longer-term impacts on society and nature, under its existing 'outcomes' definition?*

We agree that the <IR> Framework should clarify its coverage of longer-term impacts. However, in doing this, the IIRC should also take account of the fact that longer-term issues may require companies to take shorter-term strategic actions. One example of this is that companies and governments are now setting targets to be carbon neutral with a longer-term horizon, but this is actually leading to the need for early changes to strategy and business model in the short term. This inter-relationship should be captured in the IIRC's thinking.

We also believe that the IIRC should consider adding to its concepts the inter-relationship between dependencies and impacts in the value creation process. Reporting has traditionally been based on matters that affect financial and operational performance (corporate report) and matters that impact society and the environment (sustainability report). However, over longer time horizons, impacts can become dependencies in relation to value creation – good examples being over-fishing depleting stocks, pollution in a river affecting availability of clean water necessary to a manufacturing process, or reputation damage arising from impacts leading to loss of social license to operate or poor customer and employee retention. Because of these interactions, the IIRC should emphasise further the connection between impacts and financial performance over time.

This could be achieved by clarification of paragraphs 3.23 – 3.25 to include more consideration of how external impacts can affect value creation prospects over longer time horizons. It might also consider how longer-term issues can translate into risks to value created through other capitals – for example, a company not addressing its GHG emissions over time could lead to loss of reputation, resulting in loss of revenue or higher employee turnover, and higher costs through additional taxes and/or regulatory requirements to reduce emissions rapidly.

**Topic Paper 3: Charting a path forward**

*Q1 a. Do you agree with the proposed change to Paragraph 1.7? Why or why not? b. Do you agree with the proposed change to Paragraph 1.8? Why or why not?*

The fundamental concept of value creation at paragraphs 2.4-2.6 of the <IR> Framework makes it clear that there is an essential relationship between value created for the company itself and its providers of financial capital, and value created for others. We consider that it is essential that corporate reporting plays an overt role in directing financial capital to long-term sustainable/resilient business. Reporting to providers of financial capital on value creation over time (governance, strategy, performance and prospects) is an essential function of reporting. The <IR> Framework and the wider work of the IIRC should continue to emphasise information that will support a shift of investment to sustainable development (a point that Larry Fink, Chairman and CEO of BlackRock has made in his most recent annual letter to CEOs). We therefore continue to believe that the materiality lens of the current <IR> Framework serves well to explain to providers of financial capital how an organisation creates value over time and this focus will not only continue to be relevant, but will grow in importance. This also reflects the experience of some of the countries where integrated reporting has been successfully adopted in the mainstream of corporate reporting.

However, the proposed changes to paragraphs 1.7 and 1.8 would be appropriate in the context of the <IR> Framework as a conceptual framework for corporate reporting (ie not focused on guidance for the integrated report per se, but more on the totality of corporate reporting and related connectivity). As the topic paper notes, these changes are consistent with developments in responsible capitalism and thinking on the purpose of business – which is increasingly reflected in duties of directors and corporate governance codes in various jurisdictions. As a result, this is increasing the information needs of providers of all capitals on the wider impacts of a company on society and the environment, rather than to decrease the importance of providers of financial capital. There is a need for an underlying connectivity to information made available to stakeholders (including providers of financial capital) via different reports.

*Q2 What considerations should inform the IIRC's strategic deliberations on the role of technology in future corporate reporting?*

We note that most thinking in this area is already covered in existing literature on corporate reporting and technology in relation to both the reporting process and the reporting medium. However, we make some assumptions that might inform the IIRC's strategic thinking.

- The nature of corporate reporting is likely to become more dynamic and immediate. This implies a more continuous and transparent approach by companies to providing information, in contrast to the

idea of the fixed annual report. Furthermore, the range of digital channels available to and used by investors and stakeholders means that the audience for this reporting will continue to broaden, requiring a 'multi-channel' strategy by companies. For companies, this is likely to lead to the use of technology to enable more efficient and effective reporting systems, including databases and tagged data.

- While we can assume that AI and data mining will vastly increase the ability of investors and others to analyse information on corporates with increasing sophistication, it is unlikely that the need for communication from those charged with governance on value creation will be outmoded. This may not necessarily take the format of an annual report as we know it today. Therefore the underlying principles of integrated reporting are likely to remain relevant even if the need for 'a report' is superseded.
- The most urgent priority in the corporate reporting 'system' is the quality, completeness and comparability of metrics in ESG and non-financial information. Investors increasingly rely on these data in their analyst models and investment decisions. Getting the quality of data right is therefore essential. This means companies will need to invest over time in systems and increasingly use technology to enhance their management of non-financial information to the standard of financial management systems. Given that performance is a key element of integrated reporting, we encourage the IIRC to add its voice and influence to bring about system change to achieve core global standards for non-financial reporting metrics.
- A recurring 'pain point' for companies is the burden of requests for information from data providers and analysts. We suspect that an increase in the quality, comparability and completeness of data for core areas of ESG/non-financial information will facilitate data flows to ESG data providers and potentially reduce the volume of requests for information.
- We also note the potential for technology (AI, surveillance, data analysis, blockchain) to give more confidence and management of ESG issues in supply chains, which will in turn increase calls for disclosure in mainstream reports.

Specifically in relation to the <IR> Framework, developments in technology are likely to reinforce the benefit of maintaining and developing it as a conceptual framework for corporate reporting, rather than as a framework for a standalone report - the latter risks being subsumed at a future point by technological advances, whereas the underlying concepts are likely to be enduring and could potentially be used in technological systems architecture in the future.

*Q3 Are there further ways in which the <IR> Framework can enhance the assurance-readiness of integrated reports?*

Integrated reporting draws on the connectivity between financial and non-financial capitals and how they generate value.  A number of initiatives and discussion groups have identified the need for audit and assurance to inform stakeholders on broader areas of corporate health and responsible business and to provide more assurance over 'other information' in the corporate report. The IIRC can play a role in enhancing assurance readiness by developing guidance on the link between integrated reporting and the processes and controls that those charged with governance have in place to:

- determine materiality
- identify key risks and opportunities
- develop and monitor KPIs
- ensure appropriate connectivity for example between governance, strategy, risks and value creation, and linkage between financial and non-financial data.

Covering such considerations within the <IR> Framework will help those charged with governance to be clear and transparent about the assurance they have obtained over the value creation process. This would be an important step towards transparency and enhancing the ability of stakeholders to make informed decisions on the performance and prospects of the company.

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*Q4 Consider the following statement: Matters of assurance rest with regulators and related standard setters, and not with voluntary reporting frameworks. Do you agree or disagree? Please explain.*

Assurance is designed to give users of information confidence in the trustworthiness of that information. The need for assurance should therefore be market driven and the assurance output relevant and meaningful to stakeholders' needs. This can only be achieved by market forces if there is transparency over the assurance being obtained and a feedback mechanism for users to be able to influence the purchasing process.

Given the increasing importance investors and other stakeholders place on companies disclosing wider information and both financial and non-financial metrics on value creation, positive action can be taken now to ensure that developments in corporate reporting and related assurance have momentum and respond to user needs. There is a risk to the pace of change if the market waits for regulation before taking action.

Frameworks such as the IIRC's have a key role to play in enhancing 'assurance readiness' of their frameworks and guidance and promoting the value of assurance to enhance credibility and confidence in reporting. This is an important role to increase trust in business. However, it is for others to educate stakeholders on the role of audit and assurance and related considerations. WBCSD, for example, has published a 'buyers guide' to assurance on non-financial information, working with the ICAEW. We also note the work of the IAASB on assurance in relation to emerging forms of external reporting.

*Q5 Are there further matters that the IIRC should consider: a. In the modernization of the <IR> Framework? b. As part of its strategic agenda?*

We reiterate our view that the timing is good for the IIRC to use the plan to revise the <IR> Framework as an opportunity to evolve more as a conceptual framework. We recommend this because we believe that it is now essential to move to global standards for non-financial information and to create a core set of global metrics. But we also believe that these must be connected to financial information, to be of value to investors and other stakeholders, in the interests of directing capital to long-term, resilient business.

Therefore we see an essential need for the principles of integrated reporting to be captured and further developed in a conceptual framework for connected corporate reporting. This development is relevant both to the revision of the <IR> Framework and as a strategic consideration for the IIRC more broadly in regard to the role it should play in supporting the move towards interconnected global standards (along the lines set out in the Accountancy Europe Cogito paper).

We also note the importance of continuing to work with companies and stakeholders to 'mainstream' the ideas of integrated reporting, building on the achievements to date. Alongside the work of <IR> Networks, consideration could be given to further guidance on the fundamental concepts and benefits of integrated reporting for those charged with governance, to encourage more understanding and involvement of C-suite audiences. Further guidance on the guiding principles and content elements of integrated reporting could also be considered, for example on strategy, performance measurement, materiality and achieving balanced reporting.