



19 March 2020

Mr Charles Tilley, OBE
Interim CEO
International Integrated Reporting Council (IIRC)

By email: info@theiirc.org

Dear Charles

International <IR> Framework revision – Focused engagement

Introduction

The External Reporting Board (XRB) is pleased to have the opportunity to respond to the *International <IR> Framework revision*. The XRB has followed with interest the development of the <IR> Framework since its inception, and the wider development of Extended External Reporting. We agree that it is a good time to check whether the first International <IR> Framework remains fit for purpose.

At this stage in the consultation process we have limited our response to the views of the XRB staff and the response therefore does not necessarily represent the views of the XRB Board.

The XRB is an independent Crown entity responsible for financial reporting strategy and developing and issuing accounting, and auditing and assurance standards in New Zealand.¹

The XRB currently has a project on Extended External Reporting (EER). EER is an umbrella term adopted by the XRB to refer to broader and more detailed types of reporting, beyond the types of information presented in an entity's statutory financial statements. The International <IR> Framework falls under the umbrella of EER. We have a separate section on our website specifically devoted to EER. This includes the XRB Position Statement on EER, and links to EER resources, which includes a link to the International <IR> Framework and associated resources².

¹ Information about the role, responsibilities and focus of the XRB is set out in [Appendix C](#).

² <https://www.xrb.govt.nz/extended-external-reporting/eer-navigational-resource/>

We note that the link from the non-financial capitals in integrated reporting to the financial capital (financial statements) is not always done well in practice in New Zealand, and we suggest that improving this linkage could be considered in the Framework Review.

We include in [Appendix B](#) the diagram from the 2020 report³ by Proxima which highlights that 16 New Zealand entities in 2019 have asserted compliance with the <IR> Framework.

Key points

We have raised four key points in our responses to the survey questions.

- We support a mandatory statement of responsibility for those asserting compliance with the <IR> Framework.
- We support greater clarity in the definition of the terms outputs and outcomes, and encourage the use of examples.
- We believe that an integrated report should cover all types of value creation for the entity, including value preservation and value erosion.
- We believe that the focus of the IR report should remain on the suppliers of financial capital.

Concluding comments

Users are increasingly demanding more non-financial reporting information and we are continually monitoring the international environment and seeking opportunities as to how this can best be facilitated within our mandate. We look forward to being involved further with the *International <IR> Framework revision*, and in the wider conversation on <IR> Integrated Reporting.

Our response to the survey questions are set out in [Appendix A](#) to this letter.

If you have any queries or require clarification on any matters in this submission, please do not hesitate to contact me (P: +64 4 550 2048; E: april.mackenzie@xrb.govt.nz).

Yours sincerely



April Mackenzie

Chief Executive

External Reporting Board

³ http://www.proxima.global/towards_transparency2020.pdf

Appendix A – Response to the survey questions

Topic Paper 1: Responsibility for an integrated report

Question 1

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

We disagree that the emphasis should shift from a statement of responsibility to process-related disclosures.

We understand that a statement of responsibility from those charged with governance is a holistic statement which provides accountability for the preparation of the integrated report and gives users confidence in the integrity of the annual report. It has a similar purpose to that of the Directors' signing the annual financial statements. We suggest that Paragraph 1.20 should be rewritten to provide a clear, sharp statement about responsibility as follows:

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.

Providing process-related disclosures is a lower level requirement, reflecting the detail behind the signing of a statement of responsibility. We do not believe these additional disclosures will add value and clarity.

While the XRB staff are not lawyers we do not believe that the requirement of a statement of responsibility would be inconsistent with or in conflict with current New Zealand regulations.

Question 2

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

We have no comments on this question as we do not support Proposal A.

Question 3

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

We have no comments on this question as we do not support Proposal A.

Question 4

Should the guidance cite a voluntary 'statement of responsibility from those charged with governance' as best practice? Please explain.

We are not in favour of a voluntary statement of responsibility as it downgrades the importance of responsibility for the integrated report. We experience, in New Zealand, a low take-up of voluntary requirements in accounting standards. We recommend that the statement of responsibility should

remain a mandatory requirement for those asserting compliance with the International <IR> Framework combined with a “comply or explain” approach.

Question 5

Is there value in clarifying the term ‘those charged with governance?’

“Those charged with governance” is a phrase with an audit heritage. We can see value in aligning the <IR> definition with that is ISA 260 *Communication with Those Charged with Governance*.

We see some merit in including “This includes overseeing the integrated reporting process.” at the end of the current definition. Therefore, we propose the definition read as follows:

Those charged with governance: The person(s) or organization(s) (e.g., the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organization and its obligations with respect to accountability and stewardship. This includes overseeing the integrated reporting process.

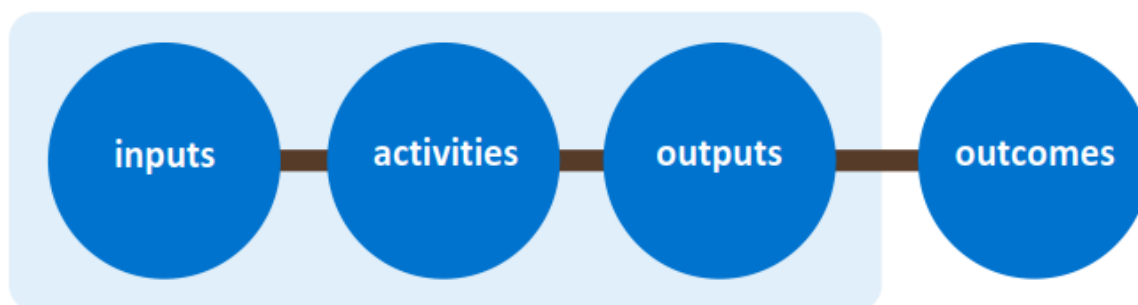
We support a principles-based definition and the inclusion of some examples of those “charged with governance” so long as it is clear that the examples do not cover all possibilities.

Topic Paper 2: Business Model Considerations

Question 1

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

We agree that the use of illustrative examples and visual techniques could assist in clarifying the importance of outcomes.



Question 2

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

We agree that the use of an illustrative example should assist in explaining the link between outcomes and value creation.

Question 3

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 firmly believe that an integrated report should cover all types of value creation for the entity, not just the “successes”. Consequently, we strongly support the inclusion of discussion on value preservation and value erosion. This is because the entity needs to tell its story of all that has happened during the reporting period to give stakeholders a realistic picture of its activities and satisfy the qualitative characteristic of faithful representation.

We also support evidence-based reporting. Verifiability of the conclusions in the integrated report is extremely important in our view. It also facilitates the ability to audit the integrated report.

Question 4

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

We agree with including longer term effects on society and nature within the existing outcomes definition as outcomes can be short, medium or long term. However, we consider the use of “impacts” can be confusing for some stakeholders and suggest that “effects” be used in the definition instead of “impacts”.

Topic Paper 3: Charting a Path Forward**Question 1**

- 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?**

We believe that the focus of the IR report should remain on the suppliers of financial capital for three reasons:

1. The integrated report needs a narrow focus on one user-group otherwise the report will end up with a lot of “noise” and confusion, serve no particular user-group well and lack a sharp focus on financial capital providers. The entity cannot exist without the providers of financial capital, yet the broad group of stakeholders includes groups which have a less direct interest in the integrated report such as local communities and policymakers. They will require a large and user-specific range of information to satisfy their diverse user-needs. Focus on the financial capital user group and this will meet many of the needs of any of the other capital providers.

We highlight the *XRB Position Statement on EER*⁴ to support this, which states:

In issuing its standards, the XRB focuses on users' needs for information in general purpose financial reports (GPFR).

The primary users of GPFR of for-profit entities are existing and potential investors, lenders and other creditors.... EER information that is relevant to the primary users of GPFR may also be relevant to a wider group of stakeholders, such as NGOs, regulators, consumers and employees.

2. The multi-capitals approach of <IR> is founded on the broader notion of value creation. Financial capital is an essential capital in every integrated report. Some of the other five capitals are optional for entity-specific reasons for some entities preparing integrated reports.
3. In the world of global reporting, integrated reporting had achieved validity by building on the well-established and internationally accepted notion of the users of the report making decisions about financial capital which has been translated into the primary stakeholders of entities applying global IFRS Standards under the leadership of the IASB. For the <IR> Framework to distance itself from this user-group can lead to it having less credibility as “just another framework” in what is already a busy landscape of non-financial reporting in which lack of alignment between frameworks causes confusion amongst users and preparers.

Consequently, we suggest that the acknowledgement of all stakeholders Para 1.8 precede the primary purpose paragraph 1.7 in the <IR> Framework.

1.7 An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

1.8 The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other.

Question 2

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

We believe that the IIRC should ensure that technology is a tool to support integrated reporting, but not drive the agenda of change to integrated reporting. With the development of technology now at people's fingertips on their smartphone and wide access to real-time information, it is time to revisit the traditional annual reporting model. We encourage the IIRC to take a leadership role in this conversation by considering digitisation and real-time information which allow the possibility of continuous reporting. However, we caution that the verifiability of information, and its validation are important in an age where selective use of information could distort the user's view of the entity. It

⁴ <https://www.xrb.govt.nz/extended-external-reporting/xrb-position-statement/>

is important to consider verifiability and the other qualitative characteristics of information when considering technological advances in future corporate reporting.

We encourage the IIRC to look at Accountancy Europe's paper "*Core and More*"⁵ which proposes utilising technology to help allow for companies to use "the core report" as an interface/portal to the more detailed information that sits behind the core report.

The IIRC could also explore providing guidance on how entities could develop their integrated report as an interactive webpage. For example, an entity may want to consider using an infographic of its business model and value creation process (found in many integrated reports) as its navigational landing page.

Question 3

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

We commend the consideration of "assurance-friendly" features as a key consideration in the enhancement of the <IR> framework and highlight that the <IR> framework already includes many helpful "assurance friendly" features.

We consider that ongoing collaboration between the "standard setter" and the assurance "standard setters" will be beneficial as the evolution of <IR> continues. This includes those areas identified in the topic paper and also includes the following:

1. Whether a precursor to assurance over the integrated report may be assurance on the process to identify material issues. This may inform decisions around what information to assure and assist in overcoming concerns around completeness and comparability
2. Ongoing emphasis and clarity around the preparers' responsibilities (both management and those charged with governance) in enhancing the credibility and assurance-readiness of integrated reports. We have heard from New Zealand stakeholders that there is generally a low level of understanding of the preconditions for assurance.
3. Use of terminology – a need to try to align terminology as much as possible or to better understand how similar words apply across the <IR> framework and the assurance framework. (for example, "materiality process" and materiality for assurance mean different things, "balance and freedom from material error" are described slightly differently by assurance practitioners).
4. Whether the integrated report is consistent with the internal thinking or operation of the organisation. We understand that a level of maturity in the "integrated thinking" is a precursor to a high quality integrated report. Unless an entity has matured in its integrated thinking, overlaying an assurance engagement is likely to highlight a lack of assurance

⁵ <https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/>

readiness. It is more than just maintaining an audit trail, rather that the audit trail also reflects the internal integrated thinking of the organisation.

5. Rationale purpose and intended users – the assurance implications for broadening the primary purpose of the integrated report from providers of “financial capital” to providers of “capital” also broadens the context in which any assurance engagement is performed. Having a rationale purpose is a precondition for assurance. The implications of broadening the primary purpose of the integrated report, raises the question as to who the assurance report would be addressed to. This raises questions about liability regime for the assurance practitioner.
6. The <IR> Framework does not provide specific recognition or measurement requirements. The interaction between the <IR> framework and more detailed topic specific frameworks or entity developed recognition and measurement criteria is a key challenge to meeting the preconditions for assurance.

Question 4

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.

We disagree. Where information is reported it is desirable that the information is credible, regardless of whether the disclosure is voluntary or mandatory. As identified by the IAASB, there are four factors that enhance credibility and trust, including a sound framework (mandatory or voluntary), strong governance, consistency with wider information and seeking assurance.

Matters of assurance rest with all participants in the reporting ecosystem. This includes regulators and both reporting and assurance standard setters. It also captures the wider reporting supply chain including those charged with governance, management and users of the reported information and assurance report and other assurance providers/processes. We support and encourage collaboration between all these participants in order to enhance credibility of the reported information.

Question 5

Are there further matters that the IIRC should consider:

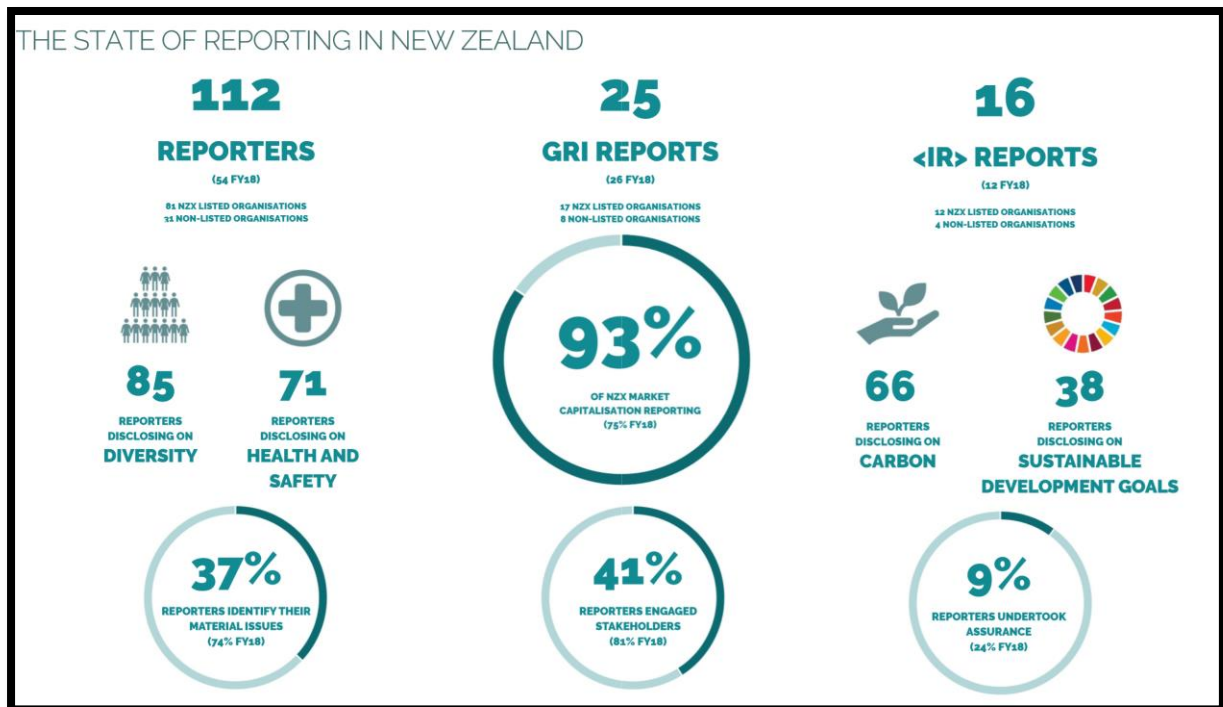
- a. In the modernization of the <IR> Framework?**
- b. As part of its strategic agenda?**

We believe that the IIRC should ensure that its revision of the Framework retains its principle-based approach. It should recognise that integrated reporting is still an evolving concept.

Appendix B

Proxima 2020 Report

The 2020 report⁶ by Proxima which covers the state of non-financial/sustainability reporting in New Zealand was released in March 2020. We draw your attention to the following diagram from this report which highlights that 16 New Zealand entities have prepared full integrated reports in 2019, an increase from 12 companies in 2018. We have confirmed with Proxima that the number below for <IR> only includes those entities that have asserted compliance with the framework. Proxima agree that other entities currently go a long way to complying with the principles of the <IR> Framework.



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⁶ http://www.proxima.global/towards_transparency2020.pdf

Appendix C

External Reporting Board's (XRB) role, responsibilities and focus

1. The XRB is an independent Crown entity responsible for financial reporting strategy and the development and issuance of accounting, and auditing and assurance standards in New Zealand. The XRB was originally established under section 22 of the Financial Reporting Act 1993, with continued existence under section 12 of the Financial Reporting Act 2013.
2. The XRB develops and issues accounting standards for the for-profit, not-for-profit and public sectors. The *Accounting Standards Framework* in New Zealand is based on a multi-sector, multi-standards approach. For-profit entities report in accordance with NZ IFRS based on IFRS® Standards issued by the International Accounting Standards Board (IASB). Public benefit entities (PBEs) apply PBE Standards based on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards (IPSASB). PBEs are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit rather than for a financial return to equity holders. We note that some for-profit entities and PBEs have embraced integrated reporting in New Zealand even though it is not a mandatory requirement.
3. New Zealand legislation establishes **who** is required to report in accordance with standards issued by the XRB (for example, Companies Act 1993, Charities Act 2005, etc.). The XRB is responsible for the XRB accounting standards themselves which state **what** and **how** entities are required to report. The XRB does not have the mandate to establish who is required to report in accordance with standards it issues.
4. In developing and issuing its standards, the XRB focuses on the information needs of the primary users of general purpose financial reports (GPFRs).

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