

Eumedion response to Focused engagement for International <IR> Framework revision

19 March 2020

Via: <https://integratedreporting.org/2020revision/focusedengagement/>

Topic Paper 1: Responsibility for an integrated report ([link](#))

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

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' as best practice? Please explain.

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

Eumedion R1-5: We wonder what causes companies to remain vague about compliance with the framework. After a root cause analysis of the problem, we may be in a better position to evaluate a next step.

Topic Paper 2: Business model considerations ([link](#))

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

Eumedion R1: Eumedion believes that organisations that adopt the Framework generally turn out to be quite able to communicate their business model. In general, outcomes are more of a challenge to identify than outputs. This is in line with the conclusions of a recent report by the Dutch Authority for the Financial Markets.¹ But that is not really a shortcoming of the Framework itself. Eumedion understands that further explanations, illustrative examples and visual techniques can help organisations in identifying outputs and outcomes, as well as understanding the link with value creation.

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

Eumedion R2: We refer to our response under Q1.

Q3 Should Sections 4C and 4F of the Framework further reinforce:

- i. That the term 'value creation' also reflects cases in which value is preserved or eroded?

¹ See 'In Balance 2019 – Survey of value creation and followup to the Non-Financial Information (Disclosure) Decree' ([link](#)).

- ii. The importance of providing evidence to support claims and conclusions made in the integrated report?

Eumedion R3:

Ad i. Eumedion indeed believes that companies that apply (part of) the Framework to their annual report commonly report on positive outputs and outcomes, which is frequently linked to positive value creation. Companies less commonly report on negative outputs and outcomes, and as such also the erosion or destruction of value is possibly underrepresented or ignored. This might suggest a process of ‘cherry picking’, whereby a company uses the value creation model to primarily present positive results. Such may also be partially caused by various instances where the Framework is not applied to the whole of report, but where it is stated that a report has been ‘aligned with’ or ‘inspired by’ the Framework. However, section 4 of the Framework already reads: *‘Reliability and completeness: An integrated report should include all material matters, both positive and negative, in a balanced way and without material error’*. Eumedion fails to believe that the root cause of unbalanced reporting is any deficiency in the Framework itself. We refer to our green paper ‘Towards a global standard setter for Non-Financial Information’ that calls for an international authoritative body to step up to the plate to foster harmonisation of requirements on narrative and measurement and ultimately allows for enforceability. Eumedion calls on the IIRC to support the creation of such a global standard setter.

Ad ii. We agree. The framework could indeed focus more on requiring evidence, beyond the descriptions of policies.

Q4 Should the Framework clarify its coverage of longer-term impacts on society and nature, under its existing ‘outcomes’ definition?

Eumedion R4: Eumedion believes that, in general, companies’ reporting on value creation to a lesser extent concretely and specifically covers medium to long term time periods. This is for example the case with identified material risks and opportunities. Besides the often used categorisation of low, medium and high, there should be a time horizon linked to the identified issue. In our dialogue with companies we do urge companies to also look at longer term risks, beyond the next five years.

Topic Paper 3: Charting a path forward ([link](#))

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?

Eumedion R1a: We strongly disagree. We interpret the erasing of the word ‘financial’ as a means to broaden the ‘primary audience’ to all stakeholders of the company, including the natural environment. We do subscribe to the view that the purpose of companies is to serve all of its stakeholders. However, the reporting entity clearly has ample possibilities to communicate with its employees, customers and suppliers through other means than the annual report. This also accounts for other important, but more distant, stakeholders like NGOs, environment and local communities. The annual report is the primary source of communication with the providers of financial capital and should remain so. If anything, the

IIRC could possibly explore if it could refine the definition of providers of financial capital as those that take long term value creation for all stakeholders into account. All the reasons why the IIRC originally chose to set the existing definition remain as valid as they were.

Eumedion R1b: Do not agree. Our answer to question 1a implies that we see no need to change paragraph 1.8.

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

Eumedion R2: The management report becomes more machine readable as this allows investors to better access the contents of the report. Ultimately, a taxonomy will be needed to foster such ease of access. However, we are not convinced that this should be a current priority for the IIRC as we would attach a higher priority for the IIRC to cooperate towards the creation of a global standard setter for the management report as outlined in our green paper on this topic.

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

Eumedion R3: Other than the setting of an international standard for non-financial information reporting that would in turn allow audit standards to be more specifically developed and applied, we are not aware of any improvements *within* the Framework that could significantly enhance the assurance-readiness of integrated reports.

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.

Eumedion R4: Agree. While Eumedion stimulates companies to seek additional independent external assurance, Eumedion is of the opinion that the Framework should refrain from formulating audit standards. We believe setting audit standards is outside the scope of a standard setter on reporting.

Q5 Are there further matters that the IIRC should consider:

- a. In the modernization of the Framework?
- b. As part of its strategic agenda?

Eumedion R5: a. The Framework could be modernised in a sense that the current Framework puts undue focus on capitals as 'stores of value', i.e. almost as kinds of assets. The Framework would be more relevant if it were to focus on the flows of value. There is little merit in reporting on the value of all the intellectual/social/environmental capital per year end, and few companies actually do. The Framework could recognise this and explain that the stores of value are primarily a theoretical concept that facilitates in explaining how to report on the flow of value.

Eumedion R5: b. In line with our response to question 2, the strategic focus of the IIRC should be that its intellectual capital somehow becomes integrated in a single global authoritative standard setter. We refer to our green paper 'Towards a global standard setter for Non-Financial Information' that calls for an international authoritative body to step up to the plate to foster harmonisation of requirements on narrative and measurement and ultimately allows for enforceability. Eumedion calls on the IIRC to support the creation of such global standard setter.