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May 5, 2017

To: The International Integrated Reporting Council (IIRC)

Subject: Invitation to Comment: International <IR> Feedback Implementation (Invitation to Comment)

Chartered Professional Accountant (CPA) is the designation of Canada's accounting profession. The profession's national body, CPA Canada, is one of the largest accounting bodies in the world with more than 200,000 members, both at home and abroad. The Canadian CPA designation was created through the unification of three legacy accounting designations (CA, CGA and CMA). CPA Canada conducts research into current and emerging business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. CPA Canada also issues guidance and thought leadership on a variety of technical matters, publishes professional literature and develops educational and professional certification programs.

CPA Canada is supportive of a more holistic and integrated approach to external corporate reporting. We believe that organizations need to revisit their thinking and reporting to investors about value creation and performance. Therefore, we welcome the opportunity to respond to the IIRC's Invitation to Comment seeking feedback on the implementation of the International Integrated Reporting Framework (IR Framework).

As part of our response, CPA Canada is pleased to present to the IIRC a summary report of findings based on a multi-stakeholder focus group convened in Toronto on April 21, 2017. The purpose of the focus group was to solicit feedback on implementation of the IR Framework in order to better understand both enablers and barriers to its implementation in the Canadian market. The summary report can be found in Appendix A to this letter.

Based on the comments by focus group participants and the low level of implementation of integrated reporting[1] in Canada, some of the main barriers include:

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[1] In the context of this letter, "integrated reporting" refers to reporting which is largely aligned with the concepts, principles and disclosure recommendations in the IR Framework or is substantially influenced by the IR Framework.

- lack of awareness and understanding of what integrated reporting is and of the IR Framework itself
- the perception that integrated reporting is an additional layer to existing corporate reporting with uncertain benefits, especially when confronted with other reporting expectations and frameworks such as those of the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI)
- the existing mindsets of many boards and management about long-term value, value creation and the IR Framework's fundamental concepts and guiding principles, as well as integrated thinking.

Outreach and Education about Flexible Approaches to Implementation

To overcome the barriers noted above, we encourage the IIRC to place greater emphasis on outreach and education with key stakeholders about flexible approaches to implementing integrated reporting.

While the IR Framework serves as the basis for core regulatory reporting in certain jurisdictions, this same approach is more challenging in other jurisdictions with mature and effective regulatory reporting practices. This is evidenced by the low uptake of integrated reporting in Canada.

For those companies working in mature and effective regulatory environments such as Canada's, existing reporting principles and requirements may already demand many of the elements included within the IR Framework. For example, in Canada, mandatory reporting already includes financial statements and narrative reporting elements such as Management's Discussion & Analysis (MD&A), the Annual Information Form and the Information Circular.

Specific suggestions for overcoming existing barriers in Canada include:

- demonstrating how existing regulatory reporting could be adjusted and/or implemented to better communicate integrated thinking about value creation
- continuing to engage in meaningful dialogue with capital market participants including directors, preparers, investors and securities regulators about how required regulatory reporting could be communicated in a more effective and efficient manner using the principles of the IR Framework; this needs to be seen as distinct from *complying with* the IR Framework
- seeking regulatory and industry association endorsements of integrated reporting
- identifying for directors and management the gaps between what integrated reporting information investors require for their decision-making and what companies are actually providing in existing disclosures
- providing more outreach and education about the concepts and terminology of the capitals
- promoting the internal business benefits of "integrated thinking" in C-suites, as well as it being a necessary prerequisite and foundation for progress towards integrated reporting

- continuing to communicate that the move toward a more “integrated report” requires a multi-year, staged and deliberate approach.

CPA Canada, as an active member of the IIRC, is committed to working with the IIRC and its network to advance integrated thinking and accelerate the adoption of the fundamental concepts of an integrated reporting approach through Canadian and international-based initiatives. In addition to hosting the focus group on the implementation of the IR Framework, we are also incorporating aspects of the IR Framework in resources and guidance being developed. For example, we will be introducing content to address integrated reporting in our 2017 update of the CPA Canada MD&A Guidance[2], highlighting how existing MD&A content compares to an integrated report and offering suggestions to bridge identified gaps. This expands on material contained in CPA Canada’s 2015 publication *An Evolving Corporate Reporting Landscape – A Briefing on Sustainability Reporting, Integrated Reporting and Environmental, Social and Governance Reporting.*[3]

We would be happy to meet to discuss our comments further. Please do not hesitate to contact Rosemary McGuire, Director, Research, Guidance and Support (rmcguire@cpacanada.ca) or myself.

Yours truly,

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[2] *https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/guidance-for-mda-preparation-and-disclosure*
[3] *https://www.cpacanada.ca/-/media/site/business-and-accounting-resources/docs/an-evolving-corporate-reporting-landscape-updated-june-2015.pdf*

Appendix A: Summary of CPA Canada Focus Group Comments on Implementation of International IR Framework

As part of our focus group, we targeted a small group of report preparers, partners from large accounting firms, and advisors and consultants familiar with the IR Framework (nine in total). Given the limited uptake of integrated reporting in Canada, we did not focus on the "users" of integrated reports (i.e., providers of financial capital).

Two of the three organizations represented by the report preparers indicated they are heavily influenced by the IR Framework and have already been incorporating various aspects of the IR Framework in their reporting for several years. One of these organizations indicated their integrated report for the upcoming year would include a statement for the first time that it is compliant with the IR Framework. The third organization, a participant in the IR Framework pilot program a few years ago, does not prepare an integrated report but continues to actively monitor developments in the integrated reporting space.

During our discussion, we focused on the five selected themes indicated below and have summarized the responses of focus group participants under these categories. For each of the five main themes, we present first a general comment to summarize at a high level the input we received, followed, without attribution, by specific comments based on what participants said.

Theme 1: Materiality and the value creation lens (Q4a, Q4b of Invitation to Comment)

In Integrated Reporting, material matters are those that significantly affect ability to create value. A recent IIRC review of integrated reports showed that 42% of organizations misapplied the Framework's definition of materiality. In such cases, organizations tended to disclose information based on stakeholder priorities, investor interests, and social and environmental focus with no demonstrable link to value creation.

- i What factors may contribute to an organization's misunderstanding of materiality in the context of Integrated Reporting? Is it that companies are failing to disclose the link to value creation or that immaterial items are being reported?
- ii How can this aspect of implementation be improved? Who should facilitate this improvement?

General Comments

Four broad challenges were noted:

1. the existence of differing definitions of materiality
2. legal considerations

3. the need to consider materiality of potential impacts on value creation across the multiple capitals, not just with regard to financial capital
4. the need for a longer-term mindset in the materiality determination process (discussed in Theme 2 below).

It will take time and guidance for companies to deal with these challenges. Shifts in management mindsets will facilitate application of the IR Framework concept of materiality.

Specific Comments

Multiple definitions

- Our organization tries to combine the assortment of materiality definitions it encounters, including those that apply to financial reporting, GRI, AA1000, etc. Our report *does* focus on the interests of providers of financial capital, as well as others who may be interested. But we are trying to meet the requirements of more than one definition of materiality in a single report.
- Despite the complexities of multiple definitions for the same word, the word ought to be retained. A shift in the mindset of businesses, not a word change, is needed. There's a GRI legacy that keeps many (sustainability) reporters thinking about materiality in the context of the GRI reporting framework.

Legal considerations

- There are concerns stemming from the word "material" and its legal implications. Our organization generally thinks in terms of the SEC's definition and legal standpoint.
- Since our company does not issue an integrated report, in terms of materiality it considers only the legal and financial context for its investor-oriented document.
- The IIRC's use of the word "material" is unfortunate, as it carries specific legal implications.
- Although management is *slowly* warming to the principles of Integrated Reporting, more work needs to be done to help companies move beyond a legal/financial frame of reference to recognize the importance of a "value" perspective.

Multiple capitals to consider

- Another challenge comes from linking different areas of the business. For example, what is the impact of cutting maintenance on safety (human capital) and equipment longevity (manufactured capital)? It is difficult to make that link and then demonstrate how other types of capital are impacted and, therefore, determine whether those matters are in fact material.

Theme 2: Time horizon for materiality determination process (Q4a of Invitation to Comment)

General Comments

This discussion flowed from the challenges related to applying the IR Framework definition of materiality. Consideration of materiality to providers of financial capital in the context of value creation calls for consideration of longer-term time horizons than in conventional financial reporting.

As noted under Theme 1, it will take time and guidance for companies to factor in time horizons for the purpose of materiality determination.

Specific Comments

- Our organization always looks beyond the next year; however, it has no formal way to distinguish between short, medium and long term.
- Notably, the risks due to climate change are forcing the organization to consciously look to the longer term.
- Inclusion of time-horizon considerations in the Framework is very helpful, as the organization does not yet have this aspect built into its internal risk-management processes.
- Our materiality determination process considers only the annual reporting cycle.
- Regulatory reporting guidance *CSA Staff Notice 51-333 Environmental Reporting Guidance*[4] includes guidance on materiality assessments and encourages longer-term considerations when evaluating the impact of environmental matters.
- Long-term thinking is difficult when you are stuck in the quarterly reporting cycle.

Theme 3: Statement from those charged with governance (Q7a, Q7b of Invitation to Comment)

Paragraph 1.20 requires a statement from those charged with governance acknowledging their:

- *Responsibility for ensuring the integrity of the report*
- *Application of a collective mind to the report's preparation and presentation*
- *Conclusion about whether the report is presented in accordance with the Framework.*

  i Do you agree that report integrity is supported by a statement from those charged with governance? Why or why not?

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[4] http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf

ii In practice, Paragraph 1.20 is poorly implemented. Can you speculate why?
iii Are any of the three reporting elements above particularly problematic?

General Comments

This requirement is seen to add little value to reporting by public companies. Also, it duplicates existing practice since regulatory reporting already includes disclosures about steps corporations take and processes they put in place to oversee the integrity of external reporting.

Specific Comments

- Our company looks to *concepts* in the Framework rather than *compliance*.
- Our report's governance section *already* covers policies and a range of statements related to the business, processes, certification, internal controls, etc. The company has looked at this Framework requirement and has concluded it is non-critical (i.e., it adds little value to the company's report).
- Our report already indicates that it has been approved by the board's audit committee. By extension, the board has been involved in the report's preparation. Because the company does not see an audience for such a statement, it seems redundant.
- The board's assessment of report credibility and alignment with standards is actually *very* reliant on management and the auditor.

Theme 4: Multi-capitals approach (Q1a, Q1b of Invitation to Comment)

All organizations depend on various forms of capital. The International <IR> Framework classifies these capitals as financial, manufactured, intellectual, human, social and relationship, and natural. The Framework requires that integrated reports explain how the capitals relate to strategy and performance (ref: Paragraphs 3.3 and 4.30).

i What are the challenges and limitations to applying the multi-capitals approach?
ii Are certain capitals more difficult to report on than others? If so, which and why?
iii How can implementation of the multi-capitals approach be improved? Who should facilitate this improvement?

General Comments

Comments by participants suggest that the fundamental integrated reporting concept and the terminology of "capitals" have not really taken hold or been adopted by companies either for internal management thinking and decision-making or for external reporting purposes.

The linkages between capitals and how they relate to an entity's business model, strategy and performance seem to be topics where guidance is needed, accompanied by shifts in board and management thinking about how value is created and impacts the capitals on which organizations (and others) depend.

Specific Comments

Identify the information gap

- Companies (e.g., mining companies) believe they already *do* report on multiple capitals. They continue to come back with, *"What exactly do investors want to know? How are they making their decisions? Just tell us: What are the gaps?"*

Terminology

- Integrated reporting needs to be embraced so that reporting is just an extension of all value-creating activities in a company and not just another bolt on report. Rather than adopt the IR Framework's terminology, our company prefers to align its terminology to that more commonly used by its stakeholders. Even internally, some want certain terms to be used. Personnel changes in key positions have also presented a buy-in opportunity.
- Notably, the IIRC has not defined the term "value". Why is this?
- Use of the term "non-financial" for certain capitals has proven unhelpful. Ultimately, all factors and impacts have a bearing on financial performance. Some internally use the term "pre-financial".

Relationships among the capitals

- Our company's great challenge is quantifying relationships among the capitals.
- Referring to separate categories or classes of capitals provides a useful foundation for the reporting process. However, there is a danger that organizations will now apply "siloed" thinking to those capitals and lose sight of the interaction between and across the categories.

Manufactured capital

- There is a conceptual hurdle. Companies tend to think only of physical assets they own; however, critical manufactured capital can go beyond what you own. This includes access to ports, rail and trucking and the interconnectivity of these factors with the other capitals. This is where integrated thinking is so critical at the C-suite level.

Theme 5: Enablers and Incentives for Integrated Reporting in the Canadian market (Q11a, Q11b of Invitation to Comment)

The International <IR> Framework is applied to varying degrees across some 30 countries. Adoption has flourished in regions such as South Africa and Japan, where regulatory, policy and cultural drivers have proven useful catalysts.

i What are the key enablers and incentives to Framework implementation?
ii Do these enablers and incentives apply equally to large and small organizations? To private, public and non-profit entities? Across jurisdictions and cultures? Please explain.
iii What, if anything, should be done and by whom to create a more conducive environment for Framework implementation?

General Comments

Regulators' support and encouragement for integrated reporting, together with endorsement and guidance by CPA Canada and industry associations would be very helpful. Boards of directors can play a key role in driving better reporting, with benefits to management as well as report users. Conceptual and practical guidance plus education and examples showing benefits are called for, together with collaboration by the IIRC with other reporting initiatives to minimize duplication of reporting effort.

Specific Comments

Demonstrate the value of improved reporting:

- Canadian securities regulators are looking at many of the same issues themselves. One needs to demonstrate the value of improved (corporate) reporting.
- Companies will ultimately be influenced by the impact on cash flows. It all boils down to *"Is there value to thinking of reporting in another way?"*
- Management itself does not see the value and simply treats reporting like a "form". Education is needed to see value in enhanced reporting.

Regulatory and industry association support

- Regulatory support for integrated reporting and endorsement by CPA Canada and industry associations would be helpful enablers.

Collaboration with other reporting initiatives

- The IIRC should collaborate with SASB, GRI and others to get agreement that, if preparers discuss "*x and y"* in their integrated report, this should be sufficient. That same information need not be repeated across multiple reports and disclosure vehicles. Buy-in from SASB in particular, would be helpful to help ease external reporting burden on Canada's inter-listed companies.

The important role of boards

- It's important to recognize the important role boards play in driving improvements in external reporting. Corporate initiatives to enhance/streamline reporting are driven by boards. One company undertook an initiative to revisit the length/content of its annual report and through this process, the board concluded, "We aren't the company we think we are." The exercise of clearly articulating how the company creates, delivers, and captures value highlighted the fact that the business model of the organization had evolved and, as a result, a shift in strategy and a change in management team was necessary. There was clearly value in communicating better.