Eumedion feedback IIRC Consultation May 2020

Please find the consultation draft here and the companion document to the consultation draft here.

Q1: Do the adjustments to paragraph 1.20 simplify the statement of responsibility in an effective way?

Yes. Generally, we welcome the proposed changes to 1G, but we are undecided as to their effectiveness in terms of actually improving the reporting process by preparers. The adjustments under 1.20 and the rest of 1G, as well as to the glossary, can help to simplify and clarify the various elements therein contained and to lower any barriers therein for adherence to the IR Framework by preparers. As we stated in our response to the focus engagement consultation earlier, we do wonder if such clarifications or simplifications will be able to address the root causes of companies remaining vague about (compliance with) the application of the framework. But overall, the proposed changes to 1G and the glossary should provide some additional clarification for preparers; they seem to allow for flexibility for preparers; and they will possibly enable investors to have a more focused discussion with preparers on the application of the IR Framework. This can also limit the so-called 'cherry picking' of elements of the IR Framework by preparers.

Also, we are under the impression that many preparers apply elements of the IR Framework to their annual reports, without applying elements of integrating thinking within their organisation. To the extent that the proposed changes to section 1G and the glossary will contribute to encouraging preparers to provide more insight into the process of preparing the report or that they will allow for a basis to discuss such matters with preparers, we also welcome these overall amendments.

Q2: Does the framing of process disclosures meet the goals of promoting accountability and integrity while still providing flexibility?
Q3: Does the Consultation Draft strike an appropriate balance between maintaining a principles-based approach and usefully informing preparer considerations?
Q4: Does the Glossary sufficiently clarify the potential inclusion of management personnel in the scope of those charged with governance?
Q5: Do paragraphs 1.21 and 1.22 sufficiently recognize variations in governance models?

For Q2-Q5, we refer to our answer to Q1. It applies to all of the proposed amendments to section 1G and glossary as addressed by Q1 to Q5.

Q6: Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

Yes. The proposed clarification of what differentiates output from outcome is a welcome addition.

However, the two new examples provided are both related to relatively 'obvious' and comparable cases, namely a car manufacturer and a large transportation company. In reality, differentiating between outputs and outcomes (and the interaction between the capitals) is a less straightforward exercise for many companies in various sectors, such as service sectors. Examples that make clear how e.g. employment agencies or payment service providers can differentiate between outputs and outcomes will help preparers within such sectors to, first of all, recognise the need to distinguish between outputs and outcomes also for their line of business, and also to also have a better understanding of how to actually apply this aspect of the IR Framework to their line of business.

Also, the IR Framework does consistently describe the different horizons of value creation (short, medium and long term), but in 4.19 it only very briefly touches upon the short, medium and long term outcomes. The concept of short, medium and long term outcomes is also presented in Figure 2. But it is unclear if and how preparers should distinguish between the three value creation horizons on the one hand, and the three outcome horizons on the other.

We expect that including multiple or more elaborate examples on this particular topic may therefore hold the key to providing the necessary clarification of the concepts of output and outcome. If such examples end up taking up excessive space in the document, including the examples in the appendix may well be a better alternative.

Q7: Does Figure 2 effectively distinguish outputs from outcomes and link outcomes to value creation, preservation or erosion?

No. The illustration seems to suggest more emphasis on outcomes than on outputs. In that sense, the visualisation seems not optimally aligned with the (new) descriptions provided in 4.18 and 4.19, which provide examples on how outputs and outcomes should be presented, as well as on how outputs and outcomes are connected. We would prefer a visualisation that more clearly shows how both outputs and outcomes should be explained and how they are connected.

Q8: Does the final sentence in paragraph 4.19 sufficiently encourage evidence-based reporting of outcomes?

No. The final sentence of 4.19 makes clear that reporting generally speaking will need to be based on both quantitative and qualitative information, which we applaud. However, if the IR Framework aims to encourage disclosure that is more evidence-based, then it is not clear to us why this is not explicitly and directly stated, as well as further illustrated how to approach such evidence-based disclosure. Too much pressure on 'evidence based' disclosures, may lead to unintended consequences. In some jurisdictions, the evidence that asbestos is toxic still appears controversial. It also took considerable time before the evidence of global warming became widely accepted.

Q9: Does the increased emphasis on value preservation and value erosion encourage more balanced reporting of outcomes?

No. The proposed additions indeed further clarify the concepts of value creation, preservation and erosion. However, we do not think the problem of companies reporting in an unbalanced way is per se due to the way it is described in the Framework, which in our opinion is already sufficiently clear. As Eumedion, we call on companies to explain how they 'create long term value'. Of course, we imply explaining the destruction of value as well. Should we now also on each occasion need to specify the three underlying variants? We prefer not to. Also we do not expect companies to suddenly on each occasion refer to 'creation, preservation & erosion'. We prefer an IR Framework that properly defines that the term 'value creation' in a single definition that incorporates the three flavours. If erosion needs particular emphasis in the IR Framework, we prefer a footnote reference that makes this explicit.

Q10: Does the closing sentence of paragraph 4.20 sufficiently address the coverage of impacts under the term 'outcomes'?

Yes. The explanation is sufficiently clear to us.

Q11: Should paragraph 1.7 extend beyond providers of financial capital alone to include providers of other forms of capital?

No. Eumedion still strongly disagrees. We interpret the proposed extension as a means to broaden the 'primary audience' to all stakeholders of the company, including the natural environment. We would first like to make clear that we fully agree that the purpose of a company is to serve all of its stakeholders. However, this does not necessarily imply that individual stakeholder groups are best informed by combining all the reporting that is relevant for each of them into a single corporate report. Each stakeholder would be confronted with large quantities of irrelevant information. Besides that, nearly all companies communicate with their employees and customers through other means than the corporate annual report. While for investors and non-governmental organisations the corporate annual report is, respectively may be, a primary source of information. We do see merit in the IIRC explicitly acknowledging how the investor community has evolved over the past decade. Investors that integrate sustainability factors in their investment, engagement and voting decisions have become mainstream. The ultimate beneficiaries of investment portfolios also increasingly expect institutional investors to act as responsible investors. Many institutional investors would not be able to live up to their fiduciary duty if they were to ignore sustainability factors. The company's reporting on sustainability performance and narrative that explains the company's ability to create long-term value for all of its stakeholders are more and more considered as material for investors' decisions. Taking 'responsible & engaged investors' as a starting point, we struggle to identify topics that are of paramount importance for other key stakeholders of a company, and would not qualify as financially material for investors. A single target audience is also pragmatic for the IIRC; it is conceptually less complex in drafting standards. We also question whether this shift could have (unintended) consequences for the future agenda of the IIRC. We expect that corporate reporting from a responsible and engaged investor angle is and will remain to be sufficiently comprehensive and will contain relevant information for many other stakeholders. All the reasons why the IIRC originally chose to set the existing definition remain as valid as they were.

Additionally, we do see a need for stakeholders to understand how a company judged materiality. The IR Framework would benefit from a requirement for a materiality assessment as developed by GRI as standard 101 (page 10 and 11 of the document https://www.globalreporting.org/standards/media/1036/gri-101-foundation-2016.pdf#page=%2010).

Q12: Do you support the creation of a resource outside the <IR> Framework (e.g. an online database) to showcase authoritative sources of indicators and methodologies across the capitals?

No. We are not convinced that setting up such resources 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 position paper 'Towards a global, investor focused standard setter for corporate non-financial reporting' dated 6 July 2020 on this topic. The document can be found via https://www.eumedion.nl/clientdata/215/media/clientimages/Position-paper-standard-setter-non-financial-reporting.pdf. The IIRC has no track record in measurement, we therefore question whether the IIRC has sufficient authority in judging whether GRI, SASB or another measurement framework should prevail in specific circumstances.

Q13: Should the IIRC address the concept of integrated thinking more deeply?

Yes. As we stated under question 1, we are under the impression that many preparers apply elements of the IR Framework to their annual reports, without applying elements of integrating thinking within their organisation. This hinders organisations and stakeholders in grasping the full benefits of integrated thinking. By now, quite a number of organisations must have experienced truly adopting integrated thinking. We can imagine that the IIRC can further contribute in this realm, possibly by sharing good practices and case studies.

Q14: Should the IIRC explore the role of technology in future corporate reporting as a priority?

No. There indeed are significant benefits if the management report would become more machine readable, as this will allow 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 position paper on this topic (as referred to under question 12).

Q15: Please provide any other comments not already addressed by your responses to Questions 1 – 14.

No further comments.