



# International <IR> Framework (version 2021)

**Enable more decision-useful reporting for  
business value creation**

19 April 2021

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KPMG in Malaysia



In January 2021, the International Integrated Reporting Council (“IIRC”) published revisions to the International <IR> Framework to enable more decision-useful reporting. The International <IR> Framework (January 2021) supersedes the International <IR> Framework (December 2013). This latest version applies to reporting periods commencing 1 January 2022. However, early adoption is most welcomed.

In the revised <IR> Framework, the **Content Element** and **Guiding Principles** of the <IR> Framework **remains intact**. The revisions of the <IR> Framework focus on (1) **clarity** of definition/ terminologies (e.g. the distinction between outputs and outcomes), (2) **simplification** of the required statement of responsibility for the integrated report and (3) improved insights into **quality** and **integrity** of the underlying reporting process. Greater emphasis is placed to ensure balanced reporting of outcomes and value creation, preservation and erosion.

Further details of the revisions are described in the following pages.

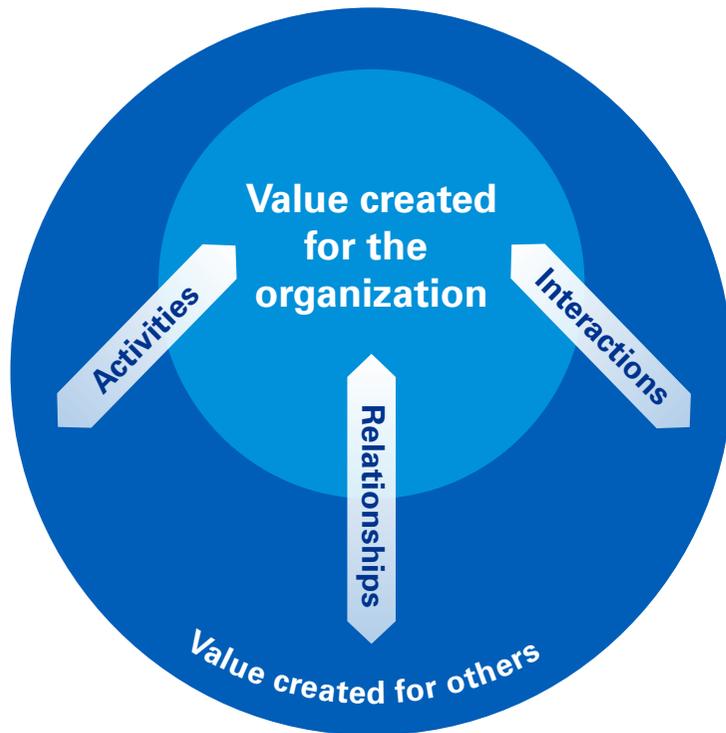


## Revision 1

# Value creation, preservation or erosion for the organization and others

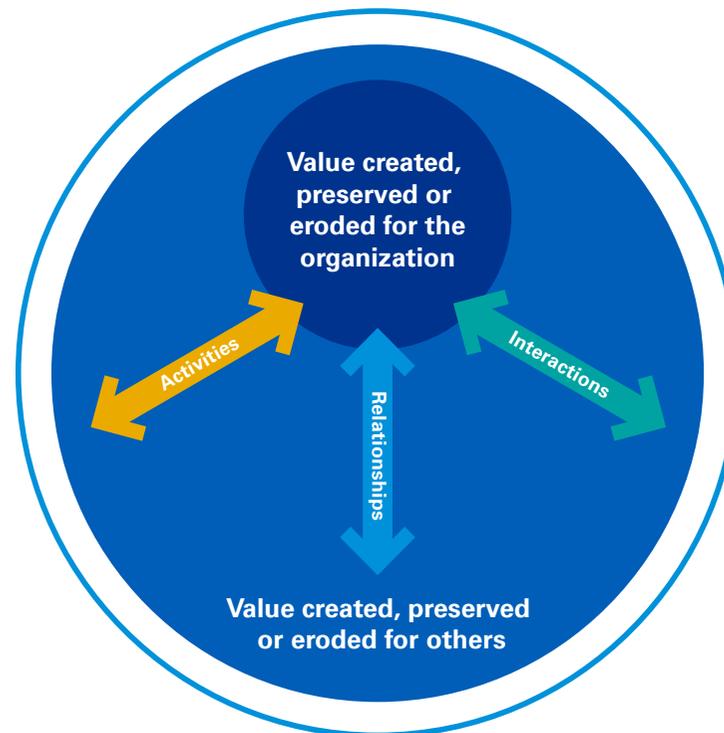
## International <IR> Framework (December 2013)

The value **created** by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs.



## International <IR> Framework (January 2021)

The **fundamental concept of value creation** is caused by business activities, relationships and interactions.



## Key changes

The **fundamental concept of value creation** is expanded – organizations are encouraged to communicate the value **creation, preservation or erosion** over time.

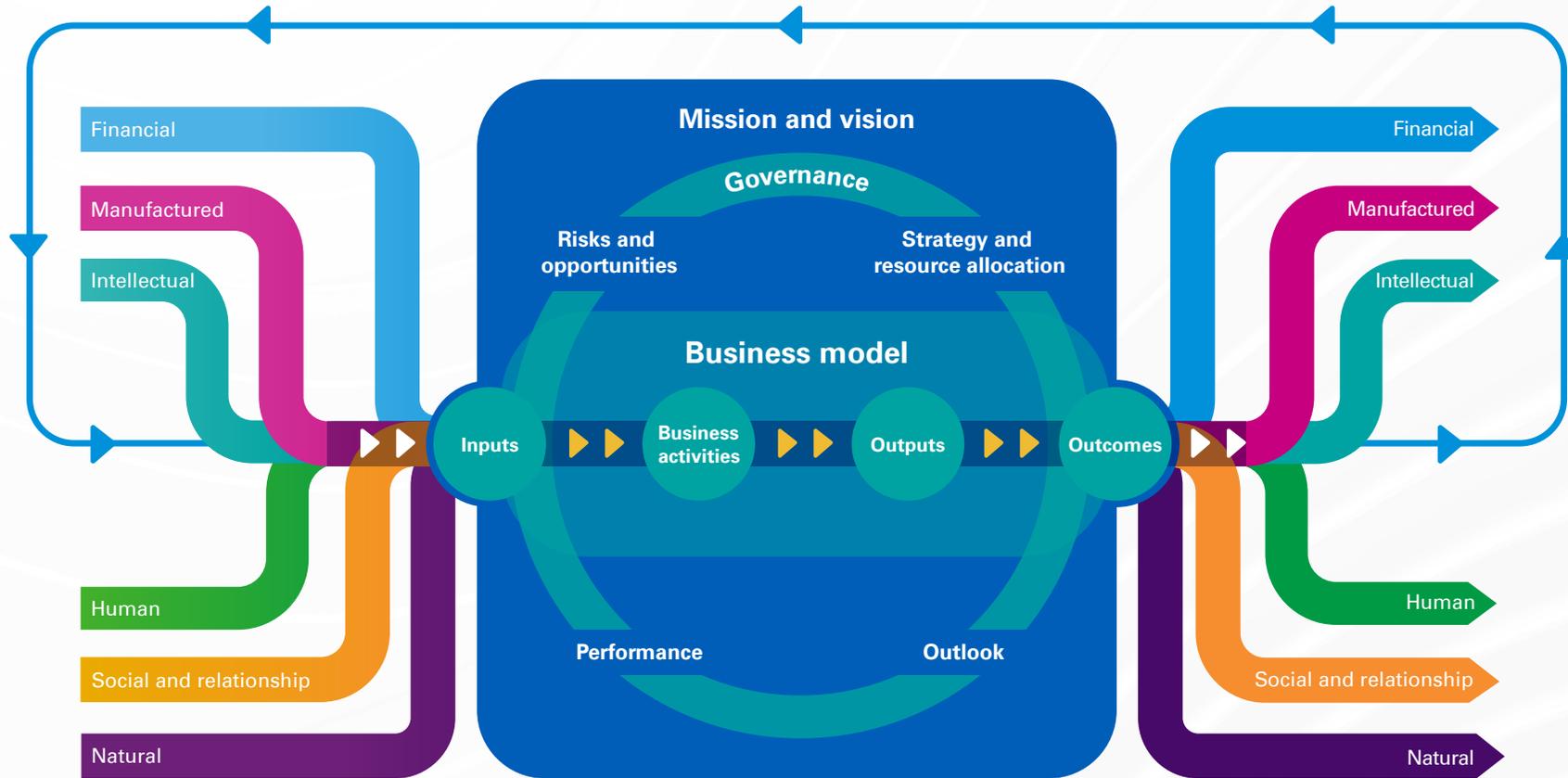
## What <IR> Practitioners could do?

In line with IIRC's call for balance and meaningful reporting, organisations are encouraged to discuss

the value created, preserved and eroded, across the short, medium and long term via disclosure of both positive and negative outcomes, as well as providing appropriate context and explanation for clarity.

## International <IR> Framework (December 2013)

The value **created** by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs. The line arrow was linear from Inputs through to Outcomes.



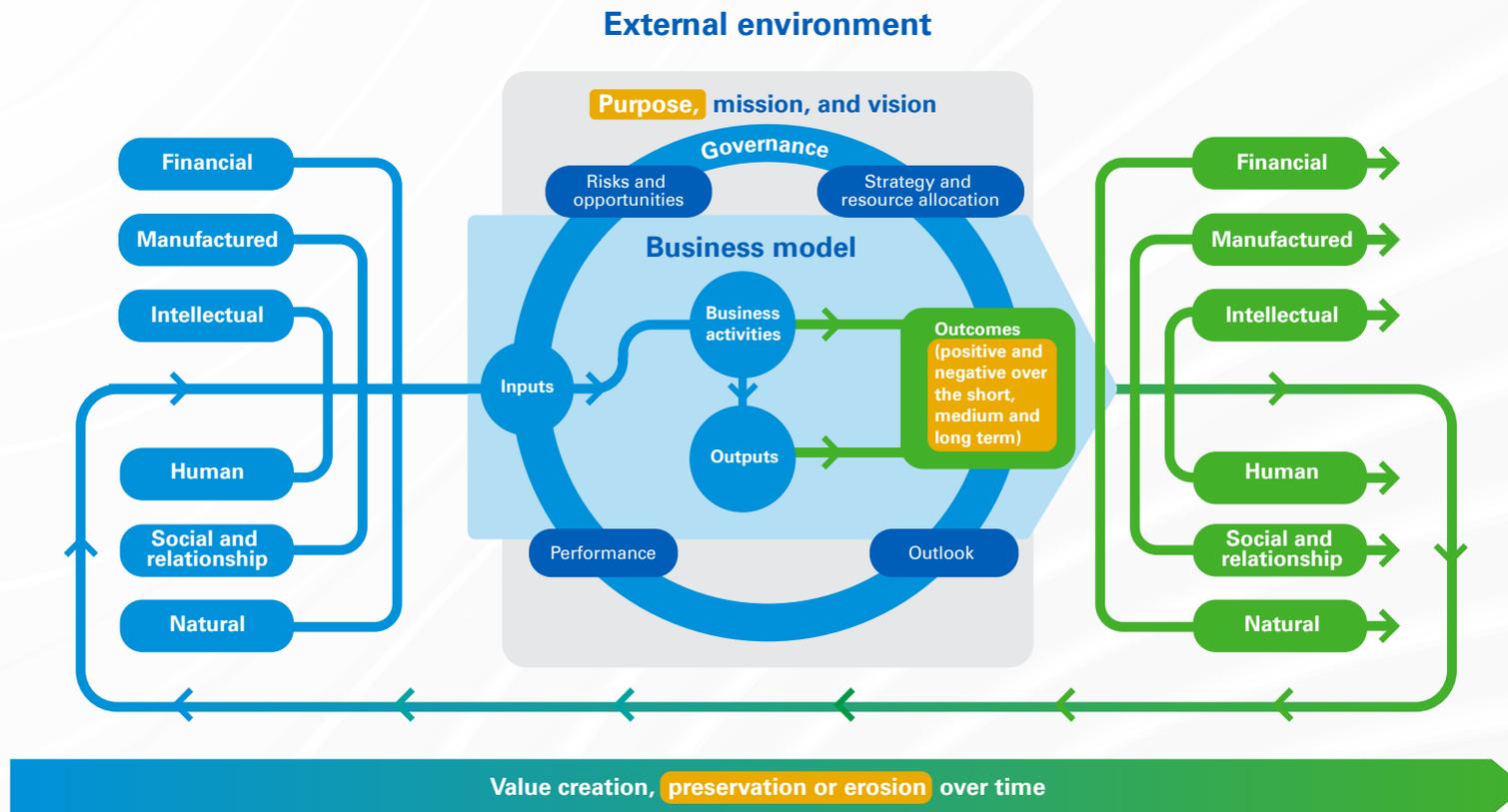
**External environment**

**Value creation (preservation, diminution) over time**

Source: The International <IR> Framework (2013), International Integrated Reporting Council (IIRC)

## International <IR> Framework (January 2021)

The value creation process through which value is created, preserved or eroded. The external environment sets the context within which the organization operates.



\*the changes are highlighted

Source: The International <IR> Framework (2021), International Integrated Reporting Council (IIRC)

## Key changes

The **purpose**, mission and vision encompass the whole organization. The **Business model** insert is now within a broad blue arrow (was a rectangular block) to better show the connectivity of the process. And its left and right sides have been extended to show that Inputs come from within and outside of the organization and, similarly, Outcomes are internal to the organization as well as external (interdependencies of the business capitals). The new elaboration shows that **Outcomes** come from both **Outputs** (products, services, by-products and waste) and **Business activities**.

## What <IR> Practitioners could do?

The revisions to the Business Model considerations are depicted in the diagram above. It is important to note that the diagram below is not intended to be a fixed template for disclosure. Companies are encouraged to customise the business model based on the business landscape and circumstances of the organization.

# Chapter 5: General Reporting Guidance

International <IR> Framework (December 2013)	International <IR> Framework (January 2021)	Key Changes	What <IR> Practitioners could do?
<p>This Chapter was previously known as Section 4I (part of Section 4: Content Element).</p>	<p>The revised &lt;IR&gt; Framework also introduced the “Chapter 5: General Reporting Guidance” section which guides the organisations on some reporting matters related to the Content Elements.</p> <ol style="list-style-type: none"> <li>1. Disclosure of material matters (see <b>paragraphs 5.2–5.5</b>) <ul style="list-style-type: none"> <li>• Guidance on the disclosure of key information related to material matters (such as effect on the organization’s strategy, business model or the capitals, as well as quantitative and qualitative information, including comparative information for prior periods and targets for future periods.</li> <li>• Guidance on the nature of quantitative indicators for disclosures to help increase comparability and are particularly helpful in expressing and reporting against targets.</li> </ul> </li> <li>2. Disclosures about the capitals (see <b>paragraphs 5.6–5.8</b>) <ul style="list-style-type: none"> <li>• Guidance on the disclosure of key components relating to capitals (such as impact to the business model and business strategy, complexity, interdependencies and trade-offs.</li> </ul> </li> <li>3. Time frames for short, medium and long term (see <b>paragraphs 5.9–5.11</b>) <ul style="list-style-type: none"> <li>• Guidance on the disclosure of timeframe is subject to the decision of organisation with reference to respective industry sectors, business and investment cycles, strategies, and its key stakeholders’ legitimate needs and interests.</li> </ul> </li> </ol>	<p>This is part of Section 4: Content Element. There are no major changes. It is just a repositioned of “General Reporting Guidance” as a standalone chapter in itself.</p>	<p>In the &lt;IR&gt; disclosure, companies are provided with guidance on how to develop the narratives about its material matters and the relevance to company strategy, business model, capital allocation and performance tracking.</p> <p>This is followed by discussing the value created, preserved and eroded, across the short, medium and long term based on the timeframe defined by the organisation.</p>

# Chapter 1G: Responsibility for an integrated report (paragraphs 1.20 – 1.24)

International <IR> Framework (December 2013)	International <IR> Framework (January 2021)	Key Changes	What <IR> Practitioners could do?
<p>1.20 An integrated report should include a statement from those charged with governance that includes:</p> <ul style="list-style-type: none"> <li>An acknowledgement of their responsibility to ensure the integrity of the integrated report</li> <li>An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report</li> <li>Their opinion or conclusion about whether the integrated report is presented in accordance with this Framework</li> <li>or, if it does not include such a statement, it should explain: <ul style="list-style-type: none"> <li>What role those charged with governance played in its preparation and presentation</li> </ul> </li> </ul>	<p>1.20 An integrated report should include a statement from those charged with governance that includes:</p> <ul style="list-style-type: none"> <li>An acknowledgement of their responsibility to ensure the integrity of the integrated report</li> <li>Their opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the &lt;IR&gt; Framework.</li> </ul> <p>Where legal or regulatory requirements preclude a statement of responsibility from those charged with governance, this should be clearly stated.</p> <p>1.21 The extent to which the integrated report is presented in accordance with the &lt;IR&gt; Framework is evaluated against the requirements identified in bold italic type and summarized in the Appendix. Where an organization is in the process of adopting the &lt;IR&gt; Framework, it is appropriate to identify which requirements have not been applied and the reasons why.</p> <p>1.22 In applying paragraph 1.20, the organization will take into account its own governance structure, which is a function of its jurisdiction, cultural and legal context, size and ownership characteristics. For example, some jurisdictions require a single-tier board, while others require the separation of supervisory and executive/management functions within a two-tier board. In the case of two-tier boards, the statement of responsibility is ordinarily provided by the body responsible for overseeing the strategic direction of the organization.</p>	<ul style="list-style-type: none"> <li>In addition to the Board of Directors, corporate trustee, the Executive Management/ Management Committee is recognised as the person(s) with responsibility for overseeing the strategic direction of an organization and its obligations relating to accountability and stewardship. (i.e. “those charged with governance)</li> <li>The STATEMENT of responsibility by those charged with governance (“the “STATEMENT”) has been simplified to prevent confusion, whilst ensuring the accountability and credibility of the &lt;IR&gt;.</li> <li>The STATEMENT to include opinion or conclusion whether or the extent to which</li> </ul>	<p><b>Malaysian Context</b></p> <p>Based on the Malaysia Listing Requirements, the duty to ensure the integrity of reporting focuses on reporting financial performance. There is a lack of emphasis on non-financial performance. The Board Charter usually formalises the roles and responsibilities to review and approve the financial statement.</p> <p>It is not a common practice for the Board of Directors to review and assure the integrity of the non-financial performance and hence, there may be a pushback for the Board of Directors for issuing the STATEMENT.</p> <p><b>What &lt;IR&gt; Practitioners could do?</b></p> <p>In line with the IIRC’s intent to reinforce the robustness of reporting and ensure the integrity of &lt;IR&gt; reporting, companies may consider implementing the following:</p> <ul style="list-style-type: none"> <li>Companies may consider formalising the roles and responsibilities of the Board of Directors to review and approve the non-financial data/ statement /report.</li> <li>To ensure the Board of Directors and Senior Management are equipped with the knowledge of &lt;IR&gt; Framework and non-financial management within the organisation.</li> <li>Companies may consider reviewing their existing data collection and performance monitoring process to ensure the robustness and reliability of the internal process to withstand scrutiny.</li> </ul>

## Chapter 1G: Responsibility for an integrated report (Cont'd)

International <IR> Framework (December 2013)	International <IR> Framework (January 2021)	Key Changes	What <IR> Practitioners could do?
<ul style="list-style-type: none"> <li>◆ What steps are being taken to include such a statement in future reports</li> <li>◆ The time frame for doing so, which should be no later than the organization's third integrated report that references this Framework.</li> </ul>	<p>It is important to consider the intent of paragraph 1.20, which is to promote the integrity of the integrated report through the commitment of the body responsible for overseeing the strategic direction of the organization.</p> <p>1.23 In cases where legal or regulatory requirements preclude a statement of responsibility from those charged with governance, an explanation of measures taken to ensure the integrity of the integrated report can provide important insight to users. Accordingly, disclosures about the process followed to prepare and present the integrated report are encouraged. Such disclosures can include:</p> <ul style="list-style-type: none"> <li>• Related systems, procedures and controls, including key responsibilities and activities</li> <li>• The role of those charged with governance, including relevant committees.</li> </ul> <p>1.24 Process disclosures are encouraged as a supplement to a statement of responsibility from those charged with governance as this information indicates measures taken to ensure the integrity of the integrated report.</p>	<p>the integrated report is prepared in accordance with the &lt;IR&gt; Framework. However, the terminology "collective mind" is removed to reduce the reporting burden. Please see <b>Paragraph 1.20</b> for further details.</p> <ul style="list-style-type: none"> <li>◆ In the event, the regulatory requirements preclude disclosure of the STATEMENT, an explanation of measures/ processes/ internal controls undertaken to ensure the integrity of the integrated report is encouraged (known as Process Disclosures). Please see <b>paragraph 1.23 and 1.24</b> for further details.</li> </ul>	<ul style="list-style-type: none"> <li>• To ensure data reliability, companies may consider obtaining independent assurance on the non-financial data disclosed in the Report.</li> <li>• Independent assurance on non-financial data would be good support for the internal audit function and provide greater comfort to those charged with governance when they provide the statement of responsibility. This would also help companies to identify the areas to improve their data collection process.</li> </ul> <p><b>What to disclose in the &lt;IR&gt;?</b></p> <ul style="list-style-type: none"> <li>• When applying the changes in <b>paragraph 1.20</b>, it is important to note that, the organization should take into account its governance structure, as well as local jurisdiction and legal context, size and ownership characteristics.</li> <li>• In the event, the regulatory requirements preclude disclosure of the STATEMENT, companies may consider explaining its internal processes to ensure the integrity of the reporting process (e.g. risk identification, evaluation and assessment process, meetings/ discussions with Board/ dedicated committee, internal audit on selected indicators, external assurance, etc.)</li> </ul>

\* text indicated in **green** – new addition in revised <IR> Framework

\* text indicated in **yellow** – removed in revised <IR> Framework

# Chapter 4C: Business model – Outcomes (paragraphs 4.19 – 4.20)

International <IR> Framework (December 2013)	International <IR> Framework (January 2021)	Key Changes	What <IR> Practitioners could do?
<p>4.19 An integrated report describes key outcomes, including:</p> <ul style="list-style-type: none"> <li>Both internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)</li> <li>Both positive outcomes (i.e., those that result in a net increase in the capitals and thereby create value) and negative outcomes (i.e., those that result in a net decrease in the capitals and thereby diminish value).</li> </ul> <p>4.20 Identifying and describing outcomes, particularly external outcomes, requires an</p>	<p><b>Outcomes</b></p> <p>4.19 An integrated report describes key outcomes. <b>Outcomes are the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.</b> The description of outcomes includes:</p> <ul style="list-style-type: none"> <li>Both internal outcomes (e.g. employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g. customer satisfaction, tax payments, brand loyalty, and social and environmental effects)</li> <li>Both positive outcomes (i.e. those that result in a net increase in the capitals and thereby create value) and negative outcomes (i.e. those that result in a net decrease in the capitals and thereby erode value).</li> </ul> <p><b>A simple example illustrates the distinction between outputs and outcomes, and the importance of a balanced consideration of outcomes.</b></p> <p><b>An automotive manufacturer produces internal combustion engine cars as its core output. Positive outcomes include increases in financial capital (through profits to the company and supply chain partners, shareholder dividends and local tax contributions) and enhanced social and relationship capital (through improved brand and reputation, underpinned by satisfied customers and a commitment to quality and innovation).</b></p> <p><b>Negative outcomes include adverse consequences for natural capital (through product-related fossil fuel depletion and air quality reduction) and reduced social</b></p>	<p>The &lt;IR&gt; Framework further explains the definition of Outcomes within the Business Model.</p> <ul style="list-style-type: none"> <li>Outputs and outcomes are different concepts – please see Paragraph 4.19</li> <li>“Outcomes” is defined as the positive and negative consequences (both internal and external) for each capital leveraged resulting from companies’ business activities and outputs, across the short, medium and long term.</li> <li>The outcome comes from both outputs and business activities.</li> <li>The disclosures of both positive and negative outcomes can support the disclosure for the analysis of trade-offs and dependencies</li> </ul>	<p><b>Malaysian Context</b></p> <p>Based on KPMG latest survey on ESG reporting, the sustainability reporting in the Asia Pacific has grown by 6 per cent since 2017 to 84 per cent. In Malaysia, 99 per cent of companies are performing sustainability reporting.</p> <p>It is noted that some companies are less forthcoming about disclosing the negative outcomes (e.g. number of breaches/ in compliance, fatalities, increase in consumption, financial losses) and material ESG data. They are concerned that such disclosure would affect the company's reputation and its competitive advantage (as some could be commercially sensitive).</p> <p>However, balance and meaningful reporting is an important criterion to ensure meaningful reporting and transparency. Investors need both positive and negative outcomes and information to assess the company performance for improvements and consistency for an investment decision.</p> <p><b>What &lt;IR&gt; Practitioners could do?</b></p> <ul style="list-style-type: none"> <li>To ensure performance are closely monitored, companies may consider establishing robust monitoring processes to ensure performance is regularly monitored to ensure accuracy of reporting. Companies should record the details of each incident (such as causes, corrective actions and mitigation actions).</li> <li>Such information will allow companies to have</li> </ul>

## Chapter 4C: Business model – Outcomes (Cont'd)

International <IR> Framework (December 2013)	International <IR> Framework (January 2021)	Key Changes	What <IR> Practitioners could do?
<p>organization to consider the capitals more broadly than those that are owned or controlled by the organization.</p> <ul style="list-style-type: none"> <li>For example, it may require disclosure of the effects on capitals up and down the value chain (e.g., carbon emissions caused by-products the organization manufactures and labour practices of key suppliers). (See also <b>paragraphs 3.30–3.35</b> regarding the determination of the reporting boundary.)</li> </ul>	<p>and relationship capital (through the influence of product-related health and environmental concerns on social licence to operate).</p> <p>4.20 An integrated report presents outcomes in a balanced way. Where practicable, it supports the organization's assessment of the use of and effects on the capitals with qualitative and quantitative information. (See <b>paragraphs 1.11, 3.44–3.45, 5.6–5.7.</b>)</p> <p>4.21 Identifying and describing outcomes, particularly external outcomes, requires an organization to consider the capitals more broadly than those that are owned or controlled by the organization. For example, it may require disclosure of the effects on capitals up and down the value chain (e.g. carbon emissions caused by-products the organization manufactures and labour practices of key suppliers).</p> <p>(See also <b>paragraphs 3.30–3.35</b> regarding the determination of the reporting boundary.)</p>	<ul style="list-style-type: none"> <li>This is in line with IIRC's aim to reinforce the needs for balance reporting (e.g. to discuss value created, preserved and eroded as well as to encourage comparison of both positive and negative outcomes.</li> <li>to focus on process disclosures undertaken to develop an &lt;IR&gt; – paragraph 1.23 and 1.24</li> <li>to substantiate the qualitative disclosures (context and explanation) with quantitative data/metrics, which allows data comparability and consistency – paragraph 4.20</li> <li>A simple example illustrates is provided to differentiate between outputs and outcomes.</li> </ul>	<p>detailed analysis to develop an improvement action plan as well as better reporting in term of balance and transparency. It will restore the confidence of stakeholders.</p> <p><b>What to disclose in the &lt;IR&gt;?</b></p> <ul style="list-style-type: none"> <li>In line with IIRC's call for balance reporting, companies are encouraged to disclose both positive and negative outcomes, substantiating with appropriate context and explanation to allow for understanding and data comparability. This is followed by discussing the value created, preserved and eroded, across the short, medium and long term.</li> </ul>

\*text indicated in **green** – new addition

## Key Takeaways

The main purpose of Integrated Reporting is to communicate to stakeholders how an organisation creates, preserves or erodes value over time. The revision of the International <IR> Framework has accelerated the adoption and application of integrated reporting across the industry. The revisions aim to provide clarification on the substance, promote integrity and robustness of <IR> processes, as well as enhancing the quality of disclosures with clearer articulation on broader value creation and what it means for business. In the recent IIRC's revised <IR> Framework virtual launch event on 19th January 2021, IIRC recognises that Integrated reporting is a continuous journey for companies to fully adopt the <IR> Framework-

The International <IR> Framework will help organisations measure their value creation based on the six broad categories of capitals, namely financial, manufactured, intellectual, human, social and relationship, and natural. Reporting through this International <IR> Framework enables companies to have integrated thinking and to be more future-oriented. It will also promote cohesiveness and efficiency within the reporting structure of an organisation. These lead to better-informed decisions, management of key risks and identification of new opportunities.

Further information:

**Frequently Asked Questions | Integrated Reporting**

IIRC's revised <IR> Framework virtual launch event:

**Revised <IR> Framework Virtual Launch Event 2021**



## How can KPMG help?

The Governance & Sustainability ("G&S") professionals in the KPMG Management & Risk Consulting Sdn. Bhd. ("KPMG MRC"), is supported by our network member firms, with solid experience in supporting local, regional and international clients on the Integrated Reporting journey.

KPMG G&S specialists can provide bespoke integrated reporting services to match your differing needs no matter what stage you are at on your integrating reporting journey. The cornerstone of our <IR> advisory services is beyond ordinary annual corporate reporting exercise, we see integrated reporting as the precursor to implementing integrated thinking within an organisation. We can help companies to establish their integrated reporting processes, support businesses to integrate ESG factors into strategy development and business operations, as well as enhancing the performance monitoring processes. Back by our vast experience in providing independent assurance services, we can provide independent assurance on your integrated reporting process to ensure integrity and reliability.

# Contact Us



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