

**Carbon Disclosure Project**

**“TOWARDS INTEGRATED REPORTING –  
communicating value in the 21<sup>st</sup> century”**

**response to the consultation  
on IIRC’s position paper**

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# 1 About the Carbon Disclosure Project

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The Carbon Disclosure Project is an independent not-for-profit organization holding the largest database of primary corporate climate change information in the world.

Over 3,000 organizations in some 60 countries around the world now measure and disclose their greenhouse gas emissions, water management and climate change strategies through CDP, in order that they can set reduction targets and make performance improvements. This data is made available for use by a wide audience including institutional investors, corporations, policymakers and their advisors, public sector organizations, government bodies, academics and the public. CDP puts this information at the heart of financial and policy decision-making.

CDP operates the only global climate change reporting system. Climate change is not a problem that exists within national boundaries. That is why we harmonize climate change data from organizations around the world and collaborate to develop international carbon reporting standards.

CDP acts on behalf of 551 institutional investors, holding US\$71 trillion in assets under management and some 60 purchasing organizations such as Dell, PepsiCo and Walmart.

It operates 4 main disclosing programmes:

- Investor programme;
- Water programme;
- Supply-Chain programme;
- Cities programme.

CDP is headquartered in London, UK, and has offices in New York, Berlin, Paris, Sao Paulo, Stockholm and Tokyo. We also partner with organizations around the world that have driven the rapid and effective collection of greenhouse gas emissions data in their countries.

Through the collection of information that captures details of the measurement, strategic, governance, risk and management aspects of climate change, CDP has arguably been working on the development of integrated reporting, over a decade ago. CDP started with climate change and has been working in this field since then, because we believe climate change is the most important issue with which society has to deal – and we believe that integrated reporting cannot develop without adopting what has been achieved so far in climate change reporting.

## 2 CDP position on consultation points

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### 2.1 The World has Changed – Reporting Must Too

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*Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?*

*(b) Do you agree that this action should be international in scope? Why/why not?*

CDP strongly supports the view that as a consequence of a changing world, reporting also needs to evolve. Thus, it follows logically that the current reporting framework established for a narrow perspective of relationships between capital and increased industrialization and consumption of goods, no longer seems fit for the current and evolving needs.

In particular, as the world becomes “full” and different limits are approached, finance is no longer the main constraint nor the most valuable output to be considered by economic actors. As limits are approached, the systemic relationships that previously encouraged unconstrained consumption and production start to show how other variables influence the process of value creation. As a consequence, society as a whole is also reclaiming other sources of value besides financial value, as well as their equitable distribution through society.

The identification of these other sources of value and the way they are expressed and shown together, is an important step towards creating, transforming and consolidating a new approach to the articulation of financial, economic, social and natural needs. Until the launch of IIRC, there was no organization coordinating or harmonizing the way these new sources/values are to be expressed and articulated together. Whilst IIRC’s discussion document makes a great start, we think there is further work to be done to:

- Define “value” and “value creation”;
- Explain whether integrated reporting aims at capturing intangible externalities and if so, how;
- Determine the audience for integrated reports;
- Define the precise requirements for reporting.

CDP believes that this coordination is of utmost importance for the development of this new way of representing value because of the need to communicate it to:

- several external, non-specialist, stakeholders. If there is no coordination the message could become blurred and untrustworthy to users;
- specialist audiences, such as investors and financial analysts. Their needs demand that issues such as reliability and comparability are properly addressed and understood in a common way by all actors.

Being an international NGO, CDP strongly believes that action needs to be taken at an international level. We live in a global economy, a global financial system, with global corporations trading globally. Also today’s most pressing issues are global in scale: population growth, biodiversity loss and climate change. We therefore think it is sensible to address them with an initiative that is global in scope.

### 2.2 Towards Integrated Reporting

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*Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?*

*Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?*

*Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?*

*(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?*

CDP considers it important to have a clear definition of what Integrated Reporting is and is not. The current definition that is given is too generic and focused on what IR is supposed to do (“bring together material information about strategy...”) or how it works (“combines the most material elements of information currently reported in separate reporting strands...”). In our opinion the IIRC gets closer to a definition when it states that “Integrated Reporting is ‘a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustain value’”.

It is also important to refer to existing work when defining Integrated Reporting. CDP would like to see a discussion of how new definitions could relate with existing definitions such as that in the King Report on Governance for South Africa (King III), which defines integrated reporting as “a holistic and integrated representation of the company’s performance in terms of both its finance and sustainability”. It would also be interesting to discuss how it relates to some of the work already being done by companies towards Integrated Reporting, such as that documented in the work of Robert Eccles, “One Report: Integrated Reporting for a Sustainable Strategy”. We expect that the pilot programme will bring additional clues regarding companies’ practices and views.

CDP encourages IIRC to produce a Basis for Conclusions document when/if it publishes any further definitions of integrated reporting so that readers can appreciate the debate held internally. We consider that the work done by CDSB on establishing its Climate Change Reporting Framework is a good template, where together with the Framework, a document was delivered on the reasons for the decisions made.

CDP fully supports the development of an International Integrated Reporting Framework. However, CDP strongly believes that existing initiatives, such as CDP and others identified in page 7 of the discussion paper, need to be incorporated into integrated reporting practices and taken into account in progressing towards Integrated Reporting objectives. We are not convinced that sufficient work has yet been done to identify all existing relevant practices and/or the extent to which they are or are not satisfying the needs of preparers and users.

CDP also considers that it is essential to clarify who the users of the information in an Integrated Report are as well as their requirements for information. In our view, the users of an Integrated Report, as currently defined in the paper, is ambiguous, as it states “The initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors”. Does this mean that in the future it is foreseen that other users will be able to refer to the Integrated Report? Is it expected that the information requirements of other users and stakeholders, such as clients or employees, and the needs of investors, will necessarily converge in the future?

In this respect, CDP considers that Integrated Reporting should be established for the purpose of Investor needs and that should be the focus of IIRC work.

We agree that Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations. However, we also consider that Integrated Reporting is a tool to drive systemic change on how the several economic actors interact with the business environment. As such, we consider that it is a priority to start with large multinational corporations that largely dominate the financial and physical capital and fluxes in the world.

## 2.3 Business Model and Value Creation (page 10)

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*Q5. Are: (a) the organization’s business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?*

*Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?*

For CDP the use of the organization’s business model and how it integrates with the business environment, shaping and being shaped by it, is an appropriate approach to think about Integrated Reporting. This view stems from the fact that we strongly support the concept of “integrated thinking” (or systems thinking) as a philosophical (and practical) approach to address sustainability issues. We consider that many of the current challenges that are faced by society derive from the fact that insufficient care is given to the systemic consequences of individual economic acts done to maximize financial value in the short term.

However, some principles to describe “business models” and how it creates or adds value will have to be agreed for the sake of fairness and comparability and CDP regards this as part of the scope of IIRC. Also, CDP considers that the prevalent view in Integrated Reporting should be on longer and mid term value and value creation, otherwise it pre-empts the significance of going through an integrated thinking process.

In line with CDSB’s response to the Discussion Paper, we suggest that IIRC offers a “working approach” to describing the business model and the outcome of its operation in terms of sustainable long term value along the following lines:

Strategy	Implementation activities	Dependency on capitals	Impacts on capitals	Holistic management of activity, dependency on capitals & impact	Value creation
↔	↔	↔	↔	↔	↔
Describe	Activities on which successful implementation of strategy depends, including those in the following categories (design, emit, produce, consume)	Internal & external  Positive and negative  Short term & long term	Internal & external  Positive and negative  Short term & long term	BALANCING activities, dependencies and impacts on capitals to create and sustain value	Short medium and long term

Also, central to this discussion is the notion of value, how value is created (referenced in Q1.1a) and how future value (gain or loss) is described in the present. In our view this has not yet been addressed sufficiently by IIRC.

We find the introduction of multiple capitals forms a very interesting way of starting to approach the problem of “value creation”. We believe however, that IIRC will again have to establish guidelines in terms of what forms of capitals should be considered and what their differences and relationships are for the sake of comparability of reporting. IIRC currently names 6 forms of capital: financial; manufactured; human; intellectual; natural and social capital. A taxonomy of capital forms will probably need to be created, with some form of agreement being reached on how to characterize and measure them, in order to reach some level of comparability in reporting.

CDP considers that it is unlikely that there is alignment on the notion of “value” for all different stakeholders and expects this to be one of the dividing lines in establishing Integrated Reporting as an instrument for Investors and/or other stakeholders.

**2.4 Guiding Principles (page 13)**

*Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?*

IIRC provides 5 guiding principles:

1. Strategic focus;
2. Connectivity of information;
3. Future orientation;
4. Responsiveness and stakeholder inclusiveness;
5. Conciseness, reliability and materiality.

We consider the principles to be appropriate as they emphasise inclusivity, focus and long-term thinking. But we notice that “Reliability also encompasses the need for information to be comparable between organizations and consistent for the same organization over time”. We understand that IIRC is to adopt a principle based approach and wonder, whether comparability itself should be a principle for preparers of information.

In this regard, we wonder if in future IIRC will need to issue sector-specific reporting models in order to enhance comparability. We would welcome any clarification from IIRC on this matter.

Finally, one of the principles refers to materiality and, although agreeing that materiality is a relevant principle, the concept is very closely associated with financial reporting. Thus, we wonder if its use is appropriate if IIRC decides that the main end users of an integrated report are wider than just the investor community. More important, even if integrated reporting is defined as responding primarily to investors needs, materiality is so closely aligned with financial value that it probably requires a “redefinition”. Is it conceivable, from an investor perspective, to have a “material” effect on social or ecosystem capital that has a negligible effect on financial capital?

## 2.5 Content Elements (page 14)

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*Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?*

We consider that the content elements defined do provide a sound foundation for preparing an Integrated Report.

CDP expects this will be one of the main areas to be tested in the pilot programme, as well as best practice in terms of how to join financial and non-financial performance within the content structure provided by IIRC. .

## 2.6 What Will Integrated Reporting Mean for Me?

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*Q9. From your perspective:*

- (a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?*
- (b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?*
- (c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?*

CDP agrees with the benefits identified in IIRC paper as well as main challenges.

However, we would like to single out the existent tension between the perceived benefits of “cost reduction” and the challenge of “Information systems”, often referred to as “reporting burden”. Please, see next section for further comments on this topic.

We believe that integrated reporting, if intended for investors needs, will be more closely related to an “integrated synthesis” than “integrated analysis”. We believe Integrated Reporting is a synthesis for Investors purposes that result of an “integrated analysis”. “Integrated analysis” requires a much larger data set than the final one presented in Integrated Reporting.

## 2.7 Future Direction

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*Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?*

*(b) What priority should be afforded to each action? Why?*

*Q11. Do you have any other comments that you would like the IIRC to consider?*

We found the consultation paper extremely well written and intellectually interesting, presenting the main issues and formulating the right questions. However, it does not provide many of the answers.

Considering the complexity of the task this is understandable, but in our opinion it should as a minimum indicate IIRC’s plans for future development. We think it would be highly beneficial for IIRC to disclose a generic roadmap with timeframe, next steps and setting IIRC’s perspective of the overall direction of the integrated reporting debate. This could be by providing alternative scenarios for what Integrated Report could mean in practice in the future.

In future consultation papers one would expect much more detail on what Integrated Reporting actually is and how it should be properly done, as well as the benefits of it and to whom, based at least on the results of the pilot programme.

We regard the issues referred to at the end of section “2.2 - Towards Integrated Reporting” as closely connected with a major concern of companies, the issue of reporting burden (mentioned in previous section). We believe IIRC should clarify its vision of the role of Integrated Reporting in easing the reporting burden and articulating at least some scenarios of how Integrated Reporting would help. An estimate of costs of transitioning from existing reporting to integrated reporting for business, as well as the potential benefits, would be ideal.

CDP’s position in this respect is that technology (e.g. XBRL) will play a key role in making reporting easier, but at the same time that will rely on more and more varied sources of data. CDP expects that in order to produce an Integrated Report companies will have to have a wealth of information within their reach, which provides the company with quantitative data on the variables likely to impact its “value”. Through systems thinking or integrated thinking as it is characterized in the discussion paper (page 6), the company will be able to produce an integrated view or Integrated Report, drawing from the several information sources or reports available to it and that should be the basis for its operational decision making. In our opinion, this is unlikely to be a single view or report, as different stakeholders have different perspectives on the “value” of the company. What should be clear and consistent, even if approached from different perspectives, is the story told in each of these views and reports because it is articulated having as a basis the same model or representation of how the company relates to its overall business environment.

We look with great expectation to the result of the pilot with companies and we would like to collaborate, to the extent possible, with IIRC in piloting approaches to Integrated Reporting.

Finally, CDP would like to express (again) our concern with the issue of materiality. Climate change will have such a disrupting power over peoples lives as we currently conceive them, creating disruptions in production chains and global trade and potentially billions in losses of all types of capital, that it can not be ignored.

**In CDP’s opinion, there is no more material aspect than climate change.**