



December 14, 2011

International Integrated Reporting Committee

To: dpresponses@theiirc.org

Re: Towards Integrated Reporting: Communicating Value in the 21st Century

Dear Sir or Madam

Sustainable Silicon Valley respectfully submits the following written comments in response to the International Integrated Reporting Committee (IIRC) Discussion Paper *Towards Integrated Reporting: Communicating Value in the 21st Century*.

Sustainable Silicon Valley ("SSV") is a non-profit operating out of Santa Clara, California. SSV collaborates with businesses, local governments and non-governmental organizations to identify and address sustainability issues in the Silicon Valley region and beyond. We work with our partners primarily in the areas of carbon emission reductions, water resource management and energy efficiency within partner organizations. SSV accomplishes these advances in sustainability by providing training, hosting networking events and posting sustainability solutions and discussions on our website (www.sustainable.v.org) and social networking portal (www.ecocloud-sv.com).

We appreciate the opportunity to comment on this discussion paper.

The following are responses to the discussion questions raised in the paper:

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

Yes. We believe that action is needed by organizations and regulatory bodies to improve reporting of the valuation creation process. Financial reporting focuses exclusively on a narrow set of disclosures which provide granular information on recognized financial assets and liabilities. These disclosures are provided primarily for securities regulators and financial analysts. The structure of financial reporting within for-profit organizations does not provide a basis for understanding the full life cycle of a company's products and services. We believe there is a need to provide information that goes beyond a company's current and periodic financial position. Organizations, primarily those in the for-profit area, should be held accountable for the environmental and human resources necessary to build and sustain value. This information should be presented in a way that provides a balanced approach to how an organization reached its current state, a picture of the current state of an organization as well as how the organization's strategy will enable it to achieve or maintain future results.

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

Yes. Although SSV is primarily focused on supporting organizations based in the Silicon Valley, we recognized that our actions and the actions of our partners have an international scope. Additionally, we know that our partner organizations' products and services have a global impact. A global, common framework is necessary to promote transparent, integrated reporting. Greater consistency and comparability is necessary in today's global economy as the majority of our partner organizations operate and report across the globe.

As financial reporting is moving to global standard setting body, we see an opportunity to build a more integrated framework for organizations to use in reporting results. We believe that convergence in financial reporting between US standard setters and International Financial Reporting Standards can also help to improve integrated reporting standards throughout the world.

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

The definition of Integrated Reporting in the discussion paper is focused on the outcome of the combination of multiple sets of information and the governance of the collective mind of management. We see the need for a more direct explanation of the essence of integrated reporting in a conceptual framework. In this context we suggest that the definition of integrated reporting provide the values inherent within integrated reporting as well as intended outcomes. A discussion of values should lead into the principles for information included in an integrated report. The definition of integrated reporting should be presented from the view of a company or organization as a responsible corporate citizen rather than a combination of information sets from various parts of an organization.

Additionally, the definition is focused on materiality as a basis for what is reported. We see the need for basic set of disclosures on environmental metrics (carbon emissions, water use and use of renewable resources) and human capital resources although these items may not be deemed material by management.

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

Yes. We support the development of an International Integrated Reporting Framework. We recognize that there is an absence of guidance for integrated reporting as well as an international body requiring the reporting standards to be applied.

Although we support the development of industry or sector guidelines, the reporting framework should be based on the activities of an organization rather than sectors alone. The majority of SSV's partners are engaged in the development, manufacturing and distribution of technology related products and services. We see the need for specific guidelines for technology companies with separate guidelines for



software, technology products (computer hardware, networking equipment and devices) as well as cleantech and renewable energy solutions.

If an organization company is primarily reliant on contract manufacturers to manufacture its products, the company should include disclosures related to the Company's suppliers.

An improvement to the way an organization reports results would be to include narrative information as well as tables and other quantitative information regarding the use and regeneration of environmental resources, integration and development of human capital as well as financial income and losses generated in providing products and services.

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?

We believe that integrated reporting standards should serve both large and small companies. However, we recognize that larger companies have a larger impact on the environment, people and economic output. Larger organizations should lead the way in providing disclosures while smaller organizations must also be accountable in reporting the benefits and impact of operating as a global citizen.

(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?

Yes, the principles and concepts of the Integrated Reporting Framework are widely applicable to small and medium enterprises, the public sector and not-for-profit organizations and their respective stakeholders. These organizations should also provide transparent disclosures related to their historical operations and their future outlook. The framework should include key elements specific to these organizations and the readers of their reports. The content and amount of detail provided in the integrated report will vary on the environmental, human and economic impact of the organization.

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?

An organization's business model is a limited approach to determine the ability to create and sustain value. Value in this context is primarily focused on a financial model for success as well as factors internal to the company. We support an integrated framework which includes guidance on how an organization describes its benefit to society in the context of external factors such as the environmental resource requirements, compliance with local and international laws as well as social factors that contribute or limit the organization's ability to generate value in the long term.

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

Yes. We find the concept of multiple capitals helpful in explaining how an organization creates and sustains value. We see that a discussion regarding resources and relationships as the primary drivers of accountability in integrated reporting. The capitals discussion is a helpful means to describe the resources and external factors which contribute to or limit an organizations ability to generate returns as a responsible corporate citizen. We suggest that the discussion of capitals may be more easily understood in the context of the activities and practices of the organization in developing resources and relationships. The use of capitals may carry the connotation of objectification of physical assets similar to capital equipment.

We see the need to separate intellectual capital from technological capabilities in the operating context. An organization may have significant intellectual capital but lack the systems and processes necessary to scale these resources. For example a professional service firm may have significant intellectual property retained in its professionals but the firm may operate in an environment whereby technological resources are either lacking or not required for the organization to be successful.

We agree that natural capital and social capital are important elements of integrated reporting. Although these items are often excluded from financial reporting due to misconceptions of materiality, we see the importance of including disclosures on potential impacts and benefits on the environment and society. We see that it is important for an organization to understand and develop the concept of its social license to operate.

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?

The guiding principles outlined in the Discussion Paper require a foundation that precedes these principles. We suggest that these principles require a basic set of values upon which the preparers and users of integrated reporting can both agree. A basic implied social contract, communicated through a common set of values, will serve to build consensus around the guiding principles provided.

We agree with the principle of providing future orientation as it provides a basis for establishing an organization's track record in future periods. Forward looking statements provide a basis for readers to gauge an organizations ability to meet its commitments to their stakeholders. We also recognize that these statements are aspirational in nature and should not be used on the basis of setting specific compliance or performance expectations.

We recognize that some organizations may be hesitant to provide forward looking statements. However, we see that these commitments provide an avenue to increased transparency and accountability.

A more detailed discussion regarding materiality is necessary for integrated reporting. Materiality may be used as a way to eliminate information that management may not deem important to results although this information may be important to specific stakeholder groups. We see the need for a minimum set of disclosures such as carbon emissions, employee safety and environmental litigation. Although these examples are not meant to be a complete list, we see the need for basic information that should be provided for all organizations.

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 see the importance of an organizational overview and operating context in the content elements discussion. These content elements must provide a description of the systems and processes an organization relies upon to complete the organization's objectives. Although we also see the importance of providing the organizations strategic objectives, we don't want the integrated report to be overly focused on what an organization aims to be but rather grounded in the transparent reality of how the organization performed historically and in the current period.

Q9. What will Integrated Reporting mean for Me? From your perspective as a key stakeholder:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

The benefits of integrated reporting in the Discussion Paper appear to be extensive. We are cautious with regards to these benefits as we do not believe that one report will be able to meet the needs of all stakeholders. We agree with the benefits from an investor and stakeholder perspective. However, the benefits from a reporting organization's perspective appear to be overstated. Benefits listed which are internal to organizations such as information regarding resource allocation, identification of opportunities and enhanced risk management, are already available to management though not disclosed externally. Providing this information to stakeholders may present a competitive disadvantage. We see the primary benefits of the report to be engagement with stakeholders and comparability across organizations on a broader range of disclosures as discussed above.

We also want to express caution that integrated reporting does not minimize the progress gained through sustainability reporting. The increase in sustainability reporting has positively impacted many stakeholders and continues to serve as a method for messaging the efforts many organizations have made to improve corporate citizenship. We do not want an integrated report to cut short these efforts or minimize the importance of sustainability metrics alongside financial metrics and general discussions regarding an organization's business model and strategy.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

The extent of additional disclosure is a primary challenge for the advancement of integrated reporting. As the discussion paper notes, building capacity to complete the disclosures is a significant hurdle. Although larger organizations may have larger compliance and financial reporting teams, the extent of disclosures required for integrated present a significant shift in the type of information necessary. Although we understand the integrated report may reduce financial disclosures, we recognize that is very difficult to remove items from the reporting framework once analysts and regulators have come to expect certain disclosures in financial reports.

(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?

We believe that the benefits of an integrated report will only be realized if the information provided to users is in sufficient detail for users to be able to process the information in a way that is meaningful to them. This information must come from a robust control environment and must be audited by external parties in order for users to place reliance on these disclosures. The extent of information and the requirements for assurance on that information suggests the benefits will be very challenging to achieve. However, we see these challenges as opportunities for new technologies to emerge as well as opportunities for employees to engage in a more holistic approach to viewing organizations.

*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?*

The IIRC should focus its efforts on establishing a framework for integrated reporting. The integrated framework may be more weighted to the most useful non-financial metrics and topics provided in the discussion paper. The integrated reporting framework should have a basic set of environmental and human resource measures which can be more easily added to the existing financial reporting structure. Without a framework for these disclosures, we caution the value of pilot program. The IIRC should, through outreach with the IASB and FASB, seek to integrate the most useful and broadly accepted non-financial metrics into the current reporting framework. We see the importance of working through established channels for reporting rather than adding an additional reporting mechanism and the infrastructure required to support a separate integrated report.

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

We see an opportunity to accelerate mainstream adoption of integrated reporting by introducing integrated reporting guidelines incrementally through the established channels such as the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Annual reports



already contain significant information regarding an organizations business model, customers, markets and risks. What these reports often lack is information regarding the impact on the environment and society. For too long these items have been regarded as not material because the cost associated with these items have been externalized and borne by other organizations.

As financial reporting in the US becomes increasingly converged with international standards, there is an opportunity to integrate sustainability related disclosures into the new reporting framework. Integrated reporting in the US may require legislation or additional guidelines released through the Securities and Exchange Commission (SEC) or similar regulatory body to change significantly. We have already seen an incremental increase in sustainability related information through the SEC's guidance on climate disclosures.

Sustainability related issues impact organizations and are important to users. Therefore, these items must be discussed more prominently in an organization's management discussion and analysis with supporting quantitative measures. The most expedient way to move forward with integrated reporting is for the IIRC to seek access to the financial reporting process and provide a framework for integrated reporting while working to reduce more onerous financial disclosures. These incremental changes will lead to a more concise, integrated report without creating a new infrastructure for integrated reporting.

Sincerely,

Carl Hekkert, CPA
Treasurer
Board of Directors
Sustainable Silicon Valley