

## Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website ([www.theiirc.org](http://www.theiirc.org)).

**Comments should be submitted by Monday 15<sup>th</sup>, July 2013.**

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|--------------------|--|
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| Stakeholder group: | <input type="text" value="Academic"/>                |

If replying on behalf of an Organization please complete the following:

|                      |  |
|----------------------|--|
| Organization name:   | <input type="text"/>                       |
| Industry sector:     | <input type="text" value="please select"/> |
| Geographical region: | <input type="text" value="please select"/> |

### Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

I consider that the concepts of different categories of capital is a valid approach to the assessment of sustainability, notably with regard to the obligation of the present generation to leave the planet in good shape for future generations. But the Consultation Draft fails to make this point. In fact it makes no mention of inter-generational justice, which is a key requirement for sustainability. My principal criticisms of the draft (which are explained more fully later) are:

1. The primary user group should be the body of stakeholders and society at large.
2. Financial capital should not be included as a category of capital.
3. The idea of trade-offs between different categories of capital is problematic; for example to suggest that a decline in natural capital may be off-set by an increase in financial capital is fundamentally wrong.
4. I fear that firms will use the principles-based approach to avoid reporting on matters that they want to hide. I consider that the IIRC should insist that firms report on certain specified matters of social and environmental interest, for example the impact of the firm's activities on natural capital. I would go so far as to specify the specific information to be provided, such as amount of emissions of green-house gases.

## Chapter 1: Overview

### ***Principles-based requirements***

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

### ***Interaction with other reports and communications***

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

## **Other**

4. Please provide any other comments you have about Chapter 1.

## **Chapter 2: Fundamental concepts**

### **The capitals (Section 2B)**

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

I do not agree that financial capital should be included as a category of capital. A firm adds value by increasing, for example, manufactured capital. But, when a firm's profit is not derived from the increase in one of the five other categories of capital, then there is no increase in the total value of society's capital. An increase in the value of a financial asset (such as a derivative or a quoted share) does not generally represent an increase in the wealth of society as a whole. In many cases, the increase in the value of a financial asset of an individual firm will be off-set by the decline in the wealth of a counter-party (as with derivatives). In other cases, society has, in essence changed its mind as to the value of its current wealth - for example when the stock market index goes up or when bond prices increase following a fall in interest rates. Society as a whole is not better off.

6. Please provide any other comments you have about Section 2B?

I feel that a clearer distinction should be made between:

1. Capital internal to the firm
  - (a) Owned by the firm, for example cows on a farm
  - (b) Not owned by the firm, for example, its work-force
2. Capital external to the firm

I suggest a table that present examples for all the categories of capital, analysed as above.  
I am uncertain which category land belongs to. Is it perhaps a separate category? It seems wrong to include cows and land in the same category

### **Business model (Section 2C)**

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

**Business model (Section 2C) continued**

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

**Other**

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

**Chapter 3: Guiding Principles**

**Materiality and conciseness (Section 3D)**

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

I disagree fundamentally with designating the providers of financial capital as the primary report users. The effect of paragraph 3.2.3 is to make financial interests the determining influence over the report's contents. The report's content should be determined by the information needs of all stakeholders and of society at large. The firm has an obligation, based on accountability, to report on its impact on the environment. This obligation should not be avoided just because investors consider it to be unimportant.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

**Reliability and completeness (Section 3E)**

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

I consider that the Consultation Drft understates the importance of assurance. The IIRC should consider introducing a scheme similar to that employed by the GRI - that a report may not be stated to be in accordance with the IIRC's guidelines unless it has been subjected to independent audit.

14. Please provide any other comments you have about Section 3E.

**Other**

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

## Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

## Chapter 5: Preparation and presentation

### ***Involvement of those charged with governance (Section 5D)***

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

**Credibility (Section 5E)**

The Framework provides reporting criteria against which organizations and assurance providers assess a report’s adherence (paragraph 5.21).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

20. *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

**Other**

21. *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

## Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

## Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

## Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

Please save the completed PDF form to your computer and submit via the IIRC website at [www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)