CDP comments to the consultation draft of the International <IR> Framework

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1 About CDP

CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP works with the world's largest investors to motivate companies to disclose their impacts on the environment and natural resources, and take action to reduce them.

Over 4,100 companies in some 60 countries and 110 cities around the world now report through CDP annually. 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 helps investors, companies and governments to minimize risks and identify the cost savings and financial opportunities created by measuring, managing and reducing impacts on the environment and natural resources.

CDP acts on behalf of 722 institutional investors, holding US$87 trillion in assets and 65 purchasing organizations such as Dell, PepsiCo and Walmart. It collects information on three themes:

- climate change;
- water;
- deforestation.

It is headquartered in London, UK, and has offices in Beijing, Berlin, Brussels, Milan, New Delhi, New York, Sao Paulo, Stockholm, Sydney 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. This partnership model has been central to increasing CDP's global reach.

2 CDP comments on consultation points

CDP welcomes the possibility to comment on the consultation draft of the International <IR> Framework. CDP has been involved in the <IR> process from an early stage and participates in the Technical Working Group, IIRC Technical Team and IIRC Council. We see a close and complimentary alignment between IIRC's and CDP's mission and objectives.

This response has been prepared using also the discussion materials for the response to the IIRC's consultation provided by CDSB's Technical Working Group, whose contribute CDP would like to acknowledge.

2.1 Chapter 1: Overview

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

CDP agrees with the six (6) guiding principles as presented in the Draft Framework and we see no need to add new principles.

We note that there can be tension between the several principles, e.g. "conciseness" and "completeness" or between "conciseness" and "comparability". We think that this potential tension is not addressed in the Framework but that it will have to be addressed in the future in supporting companies to prepare their Integrated Reports. The issue of which KPIs to use will be of particular importance and one where the need for the company to tell its unique story will have to be balanced with the principle of "comparability".

Additionally, the principles should not be confused with content requirements and thus the use of "principles-based requirement" is perhaps misleading. Principles are used to guide the company on how to best meet the content requirements.

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

We agree with how the interaction with other reports and communications is done, but with the following caveats:

a. We think that an integrated report can be a separate standalone report, but it does not have to be one. In particular we think it is interesting to conceive an integrated report as a "strategically focused, future oriented, material, concise, reliable and complete" Annual Report, that highlights the most important connections between the information.

b. Where it says "Organizations may provide additional reports and communications…" we think that organizations WILL continue to prepare other reports required for compliance or other purposes. In fact, considering that providers of capital are the intended primary users of integrated reports, we are sure that other reports will continue to be essential, as the needs of providers of financial capital are unlikely to satisfy all the needs of society in general.

c. In paragraph 1.19, rather than saying "the IIRC aims to complement material developed by established reporting standard setters…", we think the framework should say "material developed by established reporting standard setters complements the IR Framework by providing indicators, measurement tools and guidance that may help companies to implement integrated reporting…".

d. In paragraph 1.20, we would not say that "IR differs from other reports and communications in a number of ways" – this is inconsistent with IR's messaging about prompting an evolution in reporting. In fact, much of the content required by the Framework is already required by and/or covered in existing reporting frameworks and company communications. We would say in paragraph 1.20 "IR builds on developments in financial and other reporting by taking existing content and adding an emphasis on conciseness, strategic focus, future orientation, connectivity, capitals, business model, value creation….etc"

We would like to work with the IIRC to explain to reporters, either in the Framework or in supplementary material, how the CDP process facilitates the IR Framework, namely by facilitating integrated thinking, as described in paragraphs 1.15 to 1.17, on how the use of natural capital contributes to value creation.

> *"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?"*

We agree that such a database would be very helpful. In our view, however, it could start simply by listing the authorative sources of indicators. We think also that it is not enough to define the indicators. One can observe the same indicators named differently, or differently indicators using the same name. As such, the harmonization of terminology and naming conventions is an essential aspect. In practice, if XBRL is adopted as a standard for all aspects of business reporting, one can expect to see the indicators being documented with taxonomies and published on the web. We believe

that harmonization efforts for all six capitals will be needed as reporting on those capitals evolve.

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

No further comments.

2.2 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?

We support the concept of the capitals and we have no objection to the categorizations suggested by the IIRC or to the suggestion that they should be used as a benchmark for reporting. Alternative language formulations could be found to mean the same thing as capital, e.g. resources. However, we consider that if the use of the term "capital" helps to make the ideas underlying the concept more accepted and understood by the business community, then it is fine to use it.

We agree that, if a company does not disclose on one particular capital, it should justify it. If the report is to be truly integrated and to have an holistic, long term view of the business, we think that all capitals will indeed be interrelated and interdependent in material ways for the company. So, we would expect not to see any capital missing in a truly integrated and holistic report.

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

No further comments.

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?

We agree with this way of describing the business model, although believe that there might be other useful ways to describe it. In our view this provides a useful structured model to think about business activities.

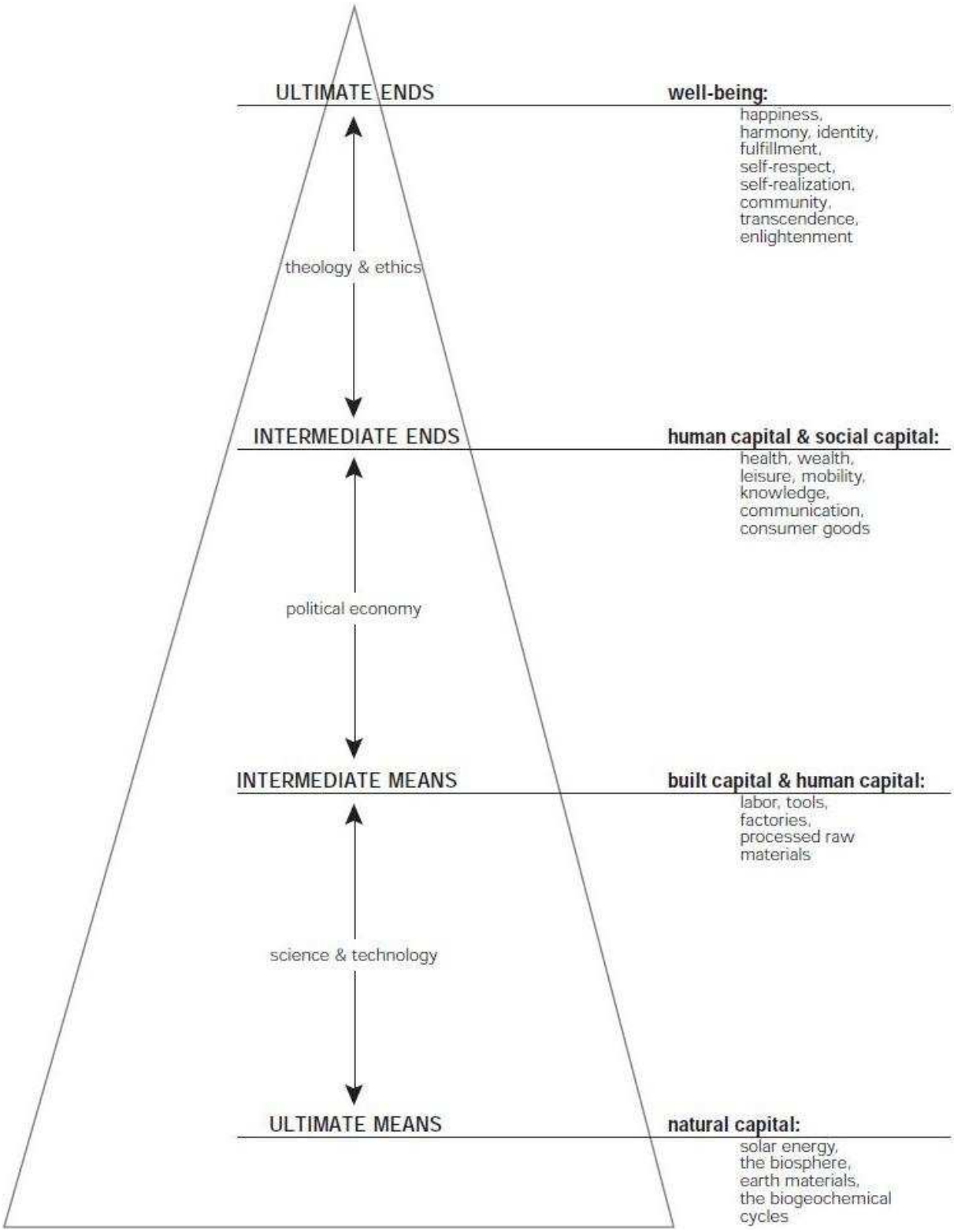
Business model (Section 2C)
Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).
8. Do you agree with this definition? Why/why not?

Outcome is an "end result" or a "consequence". As such, when it says "Outcomes are defined as the internal and external consequences (positive and negative) for the capitals", outcome is being characterized by using a synonym, which is not the most useful or informative way.

It could be said that an outcome "are the changes in the capitals, in both quality or quantity, direct or indirect, positive or negative, as a result of an organization's business activities and outputs."

The outcomes of a certain activity are always multiple and, up to a certain point, unpredictable. Where/when to measure them will clearly be dependent on agreed upon conventions.

As an example, one can take the burning 1 tonne of oil. The potential outcomes of this single (and simple) act are quite varied depending on the viewpoint used to asses them. Consider the following picture presented in "Indicators and Information Systems for Sustainable Development" by Donella Meadows and originally drawn by Herman Daly (Towards a Steady-state Economy, 1973).


ULTIMATE ENDS
well-being:
happiness,
harmony, identity,
fulfillment,
self-respect,
self-realization,
community,
transcendence,
enlightenment
theology & ethics
INTERMEDIATE ENDS
human capital & social capital:
health, wealth,
leisure, mobility,
knowledge,
communication,
consumer goods
political economy
INTERMEDIATE MEANS
built capital & human capital:
labor, tools,
factories,
processed raw
materials
science & technology
ULTIMATE MEANS
natural capital:
solar energy,
the biosphere,
earth materials,
the biogeochemical
cycles

From the point of view of natural capital, one can say that the stock of oil has been depleted by 1 ton – that will be one outcome. Also, on the side of natural capital, one can say that X tCO2 have been emitted to the atmosphere. Both are quite measurable outcomes.

More difficult to measure are the outcomes from the contribution those emissions have on earth's climate. Maybe through complex modelling and some simplifications the outcomes could be expressed in terms of a quantifiable ºC increase in global average temperature. But this would still not reflect the true outcomes in terms of increased instability in climate, namely dryness or floods or other expected effects of climate change. Or the outcomes related with potential loss of social capital or even outcomes related with the "ultimate ends" of happiness, identity, etc. The outcomes are multiple, due to the systemic/holistic nature that integrated reporting is trying to acknowledge. The IR Framework does not define where to measure the outcomes, but there will be practical barriers and pragmatic reasons to measure them at certain points. These points will have to be agreed upon.

The outcomes emerge, not from the emissions of one single actor, but from the collective emissions of all actors. The systemic effects here are the most important and companies cannot be expected to measure them. One needs a system component that monitors outcomes at a higher level (e.g. UNFCCC, CDP), but that that is reliant on information from lower levels (countries, companies).

It is important to agree what to measure at each level and understand what mechanisms there are to aggregate the lower measures/signals into higher level and use them to understand where the system is heading. On this topic we defer to the publication by Donella Meadows mentioned above that provides a useful and informed reflection on this issue.

If the wider (social, systemic) context is not explained or reasonably understood it might be extremely difficult to get companies to measure some real material indicators in a coordinated way so that the information reported is actually useful at higher levels of governance.

> *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)?*

No further comments.

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

No further comments.

2.3 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?

We agree that materiality cannot and should not be determined by the reporting organization alone and that stakeholders and report users have an important role to play in determining materiality. For clarity, the requirement at paragraph 3.22 could be amended to read "An integrated report should provide concise information that is material to the intended audience for assessing the organization's ability to create value."

We believe there is an important nuance that perhaps needs to be explained. While materiality helps to determine what is necessary for the assessment of the company by the intended users, materiality is based on a judgement call made by the "senior management or those charged with governance" and not necessarily by the intended users. We think that good governance processes on definition of materiality will usually call upon the several company stakeholders to help define what is relevant for them. It is then up to management to justify what has been included as material, as well what has not been included as material. This judgement call on the material aspects can be as revealing about the governance of the organization, as the disclosures that are made.

We also think it is important to clarify the links between other definitions of materiality or other commonly used words to describe it, such as "relevance". For example, in IASB's conceptual framework, relevance is not part of the materiality process (as suggested by paragraph 3.25 of the IR Framework). Materiality is applied in order to constrain reporting of matters that have been identified as relevant.

In the new G4 guidelines by GRI, it is considered that "Relevant topics are those that may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders, and, therefore, potentially merit inclusion in the report. Materiality is the threshold at which Aspects become sufficiently important that they should be reported."

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

We contend that climate change is material and that there is no need for a materiality determination process or an assessment of likelihood occurrence to be undertaken in order for climate change to be identified as material. There is plenty of information from reliable sources in the public domain to support the materiality of climate change to organizations and providers of financial capital alike.

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?

As per previous comments we think that where some of the principles are already used in other frameworks, one should try to re-use and align with them, justifying any deviation. On the topic of reliability, please consider CDSB's approach and CDSB's comments on this question.

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

No further comments.

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

No further comments.

2.4 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).

This section is relevant for the practical implementation of IR by organizations. Future work to demonstrate best practice, on how the application of the principles to specific content elements can lead to good IR, will be important for IR uptake.

2.5 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?

Materiality is a filter that needs to be applied by those in charge by governance. It is central to IR as discussed above for materiality. It would be strange if those charged with governance had no oversight of <IR> and in particular on the definition of materiality.

Knowing this, it would be misleading for any organization to publish an Integrated Report – and call it as such - and not be following the fundamental characteristics and principles of <IR>.

We are not sure what it adds to include such a statement. Maybe the requirement should be to disclose who has had to sign off the IR. The readers of the report will then be able to draw their own conclusions on the conformity of the report to <IR> or not on this particular aspect.

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

No further comments.

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

We think it is unlikely to be practical to obtain assurance to all aspects of an integrated report. Furthermore, some aspects of the report might already be assured for other reporting purposes and thus, it might be that a reference to those requirements is more appropriate.

Our experience of climate change-related reporting suggests that the evolution of reporting will be assisted by allowing a wider variety of "checking" approaches to information contained in an integrated report than has traditionally be acknowledged by the accounting profession. In addition to assurance as understood and applied by the accounting profession, we encourage the IIRC to consider the relative merits of allowing "assurance" to be obtained through multiple channels including verification procedures applied by consultants specializing in particular types of information (e.g. greenhouse gas emissions).

> *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.*

We are not sure what purpose section 5E serves. There is nothing in Section 5E to tell a company what it should do. It makes factual statements about certain current practices and says that they are important without giving any indication as to their relative merits for IR purposes. We suggest that the whole section is deleted OR that the IIRC sets out what it considers necessary for an integrated report to be regarded as credible.

> *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).*

We consider that the use of technology will be essential for the future of Integrated Reporting. As such, we very much support the introduction of section 5I on the use of technology for the preparation and presentation of an integrated report.

We also agree with the several references made to XBRL. We see XBRL, in its current form or as a technical evolution of its current state, as an enabler of Integrated Reporting. XBRL will facilitate connectivity and comparability of information as well as accessibility of the information and its use. XBRL can also be, in practice, a "good excuse" to drive necessary harmonization of concepts/indicators between different standard setting organizations. It also has the potential to generate new concepts, from the building blocks of those already in existence[1].

CDP considers that there is currently insufficient knowledge about the use of technology as a facilitator of reporting, and in particular of business reporting, within IIRC. We strongly encourage the IIRC to set up a focus group to work on this particular issue. We draw the IIRC's attention to the work of other standard setters and reporting initiatives on XBRL, as well as the relationship with the issue of which indicators to use, and of establishing or not a database of indicators. We encourage the IIRC to take that work and those issues into account when developing its own thinking on the use of technology for reporting.

2.6 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?*

CDP considers that there are very important foundational aspects that the Framework articulates well: the concept of integrated thinking; the importance of the capitals and the way companies depend on them for their business model; the 6 principles, with a particular focus on materiality and connectivity of information.

We believe that a number of challenges remain in terms of the practical application of the framework in order for companies to understand whether they are fulfilling the principles and requirements of the Framework. Thus, we believe that the publication of the Framework is but the start of <IR>.

[1] For example, the very interesting article on XBRL and integrated reporting by Javier Mora and Maria mora published at http://www.uhu.es/ijdar/10.4192/1577-8517-v12_3

2.7 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?

1 - To explain the link between IR and existing reporting mechanisms. For example, given that some of the content elements of the Draft IR Framework are the same as or similar to those required in management commentary/MD&A, what more or different does Integrated Reporting require? Where a company considers it material to report on past and future water consumption (under the heading natural capital), what, if anything, would it be required to report over and above GRI indicators on water or some narrative disclosures required in the CDP Water request?
2 – To explore and explain how information technology impacts reporting and how it can facilitate the integrated reporting process.
3 – Continue the work on identifying good practice and highlighting how the principles have been used to meet specific content requirements.

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

We very much value the work done so far by the IIRC. We would like to take this opportunity to raise some issues that have not been presented above in answering Questions 1 to 23:

1. We think the IIRC is biased towards English speaking, western, developed economies. We would like to see a more balanced regional composition of IIRC.
2. We also think there is a bias towards accountancy language/procedures. We firmly believe that, while the accountancy profession has developed rigorous processes and terminology for financial capital, the holistic approach required by Integrated Reporting and consideration of other types of capitals will require the interaction with other areas of knowledge that have been historically more concerned with these other forms of capital. We think that currently there is an imbalance on the recognition of other approaches and practices.