

## 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.**

Name:

Email:

Stakeholder group:

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

Organization name:

Industry sector:

Geographical region:

### 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.

Structural Capital is missing from the core framework but could easily be adapted.

Structural Capital includes # Value Adding Management Layers of Accountability, Decision and Control ( Work Level ), the incentives and rewards at each Work Level that are differential and add value in creating Strategic Governance, Ethical Governance and Sustainable Governance, the equitable pay differentials between each Work Level, core business processes and related databases of information for the enterprise.

Human Capital combines with Structural Capital to Create Organizational Capital.

Organizational Capital is material to firm valuation and the 7 Levels of Innovation which drive the Current and Future Value of the Enterprise ( cashflows and returns on capital ) . The 7 Levels of Innovation could be made explicit in the model.

Customer Capital should be made more explicit and could be part of Relationship capital. It is the stocks and flows of customers that directly impacts cashflows and firm valuation.

## 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.*

An additional principle would be that the Integrated Report should reflect the Management Structure, Accountability Design and Incentive Design of the enterprise including each differential and value adding layer of management

this principle ensures more than just reporting but aligned decision, action and rewards in the enterprise and how executed and governed

### ***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?*

Yes but would add this this is about "Levels of Systems Thinking" and the creation of value creation systems for customers, shareholders and societies

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?*

ANSI, ISO, SASB, Marketing Accountability Standards Board

## **Other**

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

May need to recognize there are 5 levels of Governance and highlight elsewhere.  
LOG 1 = Compliance Governance for Regulators  
LOG 2 = Growth Governance for Customers  
LOG 3 = Strategic Governance for Shareholders  
LOG 4 = Ethical Governance for Societies  
LOG 5 = Sustainable Governance for Humanity

## **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?*

Overall yes but see our opening comments about the need to recognize that Organizational Capital is a higher order combining Structural Capital and Human Capital together is what materially drives value creation.

Organizations dont hire crowds of human capital . The human capital is deployed into work systems of accountability & authority, mgmt layers and business processes.

Customer Capital and stocks and flows of customers and the customer portfolio would appear to be missing and material to the model and intangible value drivers and cashflows

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

### ***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?*

A business model is more complex than that. It as complex system that integrates strategic design decisions related to customers segments to serve, revenue streams, channels, customer relationships, value propositions of products, services and solutions , key resources and capital to be deployed, key business processes, key partnerships and supplier ecosystems , cost structures and incentive systems. see the book The Business Model Innovation Factory .

### **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?*

Outcomes are the transformation of key inputs into the business system and value creation by the Organization for key customers segments and markets to be serve that generate revenues and cashflows and in turn value creation for shareholders and society.

The flow from the Outcomes to Capitals to the Organization to Customers Segments / Markets & cashflows is not clear in the current IIRC model and could be made more explicit

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)?*

This is why disclosing key stocks and flows about customers segments and % of high value customers making up 70 % + of revenue is key to understanding these intangible value drivers

### **Other**

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

Attributes that customers " value and are prepared to trade off and pay for " is key.

Managing to customer " attributes " by customer segment is what generates revenues / cashflows.

current and future . The interdependencies of other capitals over time impacts costs, profits and returns

## **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?*

Materiality is also based on key drivers of RISKS to revenues, costs and cashflows and should be disclosed to investors

more than a 5 % impact in performance is a standard for material disclosure

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?

evidence of information databases and data quality through internal or external 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).

Identifying number of Management Layers, number of Full Time Equivalent Employees ( FTE ) , # Contract Employees, # Managers, # distinct business Models , # Markets & Geographies , # Customers and Customer Value all provide material insights that impact enterprise complexity

## 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?

Yes - and those charged with governance should ensure Integrated Enterprise Performance Measurement over the 1, 3, 5 and 10 yr + strategic horizons to ensure the license to operate and ability to innovate for customers, shareholders and society

and ensure long term incentive design is in alignment with integrated measurement and reporting

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?*

specifics so a reasonable investor can understand material value drivers and risk drivers of the business model

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?*

just because something is measured and or reported / disclosed does not make it real in terms of how the organization ( organizational capital ) truly creates / destroys value

ONLY by testing / auditing for level of adoption of integrated performance measurement and incentive design ( operational and strategic ) within the management structure can investors truly understand how decision, control, risk and resource allocation truly function.

today many companies issue GRI & ESG reports etc but this does NOT reflect how decisions, rewards and risk and governance inside the company truly functions and materiality for long horizon investors

## 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?*

customer capital

structural capital

7 levels of innovation which drives true Enterprise Sustainability

## 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)