

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).

Comments should be submitted by Monday 15th, 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.

The objectives of the project are laudable, its ambition impressive, and the progress, inclusivity and reach of the IIRC process has been exemplary. In addition the overall framework is comprehensive and seems likely to provide some benefits in terms of more integrated thinking within organizations.

However, in its current form, I believe it is flawed as there is no requirement for companies to identify their material impacts on natural capitals, in a comprehensive "end to end" way. Although the IR draft includes in the "natural capitals" in its scope, the materiality guidelines allow firms to base inclusion on "risk" rather than impact, which is highly judgemental to and can be used to allow firms to ignore these natural capital impacts. The result is likely to be that companies with intrinsically unsustainable business models where the major action is needed, will not be identified by this process; worse they may continue to use multiple internal measures as a evidence of sustainability credentials, as a smoke screen for inaction - getting investors to "check the petty cash and not the main account?"

Recognising the cost of unpriced externalities in supply chains or end use, are likely to dwarf benefits from other actions in many cases. TEEB's "Natural Capital at risk" 2013 report identifies US\$ 7.3 trillion of unpriced benefits(13% of global economic output), almost 90% of which come from land and water use and GHG emissions. The TEEB report argues that where these impacts are substantial they drive material risk (the report goes on to identify specific industry sectors and regions where this is so).

In conclusion, I believe that without some explicit requirement to include the full, end to end natural capital impact (along the lines of PUMA's EP&L or TEEB's 2013 report), the framework is not yet "fit for purpose". Given that tools in this sector are still contentious and embryonic, the pragmatic approach to achieving this would be to anticipate the requirement in the document, with a deadline - while mobilizing what ever it takes to develop and agree the relevant tools.

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.*

No the principles are clear and well stated: but in 1.5 the concept of transparency should be added to the 3rd dot point:

"enhance accountability, [TRANSPARENCY] and stewardship to the broad base of capitals...."

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

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?

Overall yes, although I like the elegance of the model, I wonder if having six apparently equal "capitals", will dilute the focus on what is critical, especially while time maybe spent in in forcing what is already being done into this format. This particularly concerning as the capitals have very different levels of familiarity and reporting need:

- Financial and manufacturing capital are familiar capital concepts with \$ values (no change)
- Intellectual and human capital are familiar ideas, but without \$ values (new and varied metrics and qualitative?)
- Social capital maybe unfamiliar as capital , but well established as corporate citizenship: Reporting requirements are more about compliance to relevant frameworks (eg Ruggie on human rights, ETI)
- Natural capital new and largely unfamiliar capital concepts with \$ values (but with no approved, standardised tools - the priority to develop).

Time maybe spent representing what is already being done and It may reduce the focus on natural capital

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?

This seems like an early Porter view. It does not reflect any of the triple bottom-line concepts I think the definition could be extended to include something on. "while considering its impact on its key stakeholders, society and the environment"

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?*

Yes - it is comprehensive, but needs to be interpreted to ensure it captures all impacts section 2.36 provides good guidance on considering "effects on capitals up and down the value chain" but it could be stronger to say it SHOULD require disclosure of all material impacts throughout the full end to end value chain.

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?*

3.23 Allows too much judgement about what the company wants investors to hear. This is a critical weakness

I think materiality should be defined by level of impact on a capital - and where this can be monetized (as for Natural capital) a judgement based on the scale of that impact be required in the code, or even some absolute standards set. This is much less subjective than letting the management decide on whether a big natural capital impact represents a big risk (which is still highly debatable and subject to personal convictions). Investors can make that judgement on a level playing field across companies.

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

5.7 is the critical paragraph that takes an impact and assesses its effect - "it requires judgement". Better for transparency to have all big impacts on capital reported - and then a management interpretation.

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?

External assurance is vital

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).

These have largely been addressed in the comments above, but in terms of outputs the approach should be based on a two step process:

- a) material impacts on capitals (especially natural capital) - the facts
- b) management view on the opportunities and risks

Currently by going straight to "risks" investors have to rely too much on internal company judgement where there could be major conflicts of interest.

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, providing that it does not lead to reduced disclosure in areas where information is directionally correct but where exact values are contentious (e.g. natural capital)

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.*

The critical driver of credibility will be the scope of what is included, which is driven to a large extent by the company's interpretation of what could affect their business. This makes assurance difficult as in evaluating "risks" there are highly judgemental issues.

Amending the framework as above to include impacts on capitals that can be "assured " and judgements of the effect on the business that can be clearly identified as the company's opinion, which is vital to transparency.

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?*

As currently drafted, i believe it falls short of its objective, by giving too much leeway in the reporting of material impacts on the capitals (which are factual) and allowing Companies to edit what is reviewed based on their judgement of what effect that has on the business.

As stated in the opening paragraph, this is likely allow fundamentally unsustainable business models to continue unquestioned, potentially contributing to long term catastrophe

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?*

Developing a tool kit to quantify the eco-sytem services or natural capital benefits that a company's business model uses, that are currently not recognized (The "externalities"). Despite the contentious nature of valuation approaches, there is sufficient work (especially through TEEB) to consider generating some standards within a reasonable time frame.

Developing, agreeing and implementing this is, in my view, overwhelmingly the main priority which could transform the value of the IR approach.

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