Public Comment to the IIRC re: its April 16, 2013 *Consultation Draft* of the *International Integrated Reporting <IR> Framework*

Submitted by Members of the Sustainability Context Group
July 8, 2013

We the undersigned members of the *Sustainability Context Group*, an international community of corporate sustainability professionals, managers, academics, analysts and advisors, are pleased to submit the following comments to the IIRC in response to its April 16, 2013 *Consultation Draft*:

1. **We fully support, in the strongest possible terms, the *Framework's* grounding in capital theory as a basis for measuring, assessing, and reporting organizational performance.** In our view, the IIRC is the first of the major reporting standards to take an explicit and aggressive stance on this subject, the importance of which cannot be overstated. There simply cannot be any meaningful measure of organizational performance (either financial or non-financial) without taking account of impacts on vital capitals. We applaud the IIRC's leadership on this issue and urge it to stay the course.
2. **The *Framework's* commitment to the multi-capital model could actually stand to be strengthened.** The relevance of vital capitals to organizational performance, of course, is that such capitals are relied upon by stakeholders for their well-being. An organization's impacts on the quality or sufficiency of capitals for stakeholder well-being, therefore, is what must be taken account of in integrated measurement and reporting. Why? Because many vital capitals are actually shared by organizations with others, who also depend on them for their well-being.

   Here we think the IIRC might want to be even more explicit than it already is about the causal connections between impacts on vital capitals, stakeholder well-being, and the performance of organizations. The performance of an organization, that is, is a function of what its impacts on vital capitals of importance to stakeholder well-being are. This is because capitals constitute resources that stakeholders depend on for their well-being. Any organizational activity that puts the quality or sufficiency of such capitals at risk can put the organization itself at risk, not to mention shareholder value. Impacts on vital capitals should therefore be measured, so as to be effectively managed.

   Capitals can, in fact, be quantified in terms of their stocks and flows, as well as the effects of impacts upon them. Indeed, Costanza et al (*An Introduction to Ecological Economics*, 1997) define capital as "a stock that yields a flow of valuable goods or services into the future." With this in mind, we believe the IIRC's *Framework* should encourage organizations to assess and report their performance not just in terms of impacts on vital capitals, but on the quality and sufficiency of capitals at levels required to ensure stakeholder well-being. This has measurement implications that we do not believe the current draft of the *Framework* fully does justice to.

For example, the size of capital stocks and flows of capitals can be expressed, both conceptually *and* quantitatively, in terms of their *carrying capacities*: http://www.greenbiz.com/blog/2013/06/18/carrying-capacities-capitals
This is an attribute of capitals that actually enhances the ability to measure impacts on them, and which is otherwise part and parcel of capital theory in a way that deserves recognition (see supporting capital theory references in the following URL): http://www.sustainableorganizations.org/Capital-Theory-References.pdf

Here it should be clear that the conceptual commitment to vital capitals as a key principle in performance measurement and reporting necessarily entails a co-commitment to the principle of carrying capacity, since it is precisely the fact that capitals are limited in their scope and supply that makes them so relevant. Thus, measuring and reporting the effects of organizational activities on the carrying capacities of vital capitals should be encouraged in the *Framework*, while deferring to organizations themselves to innovate and experiment with alternative means of doing so.

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Sincerely,

<u>Signatories to July 8, 2013 Public Comment by SCG to the IIRC</u>
<u>During Public Comment Period re: <IR> Consultation Draft*</u>

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11. John Byrd, University of Colorado Denver
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13. Karin Chamberlain, First Peoples Worldwide (consultant)
14. Charles Cho, ESSEC Business School
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