Comments to the <IR> Draft Framework

The undersigned has considered the Draft Framework in detail. Rather than respond to the broad set of questions I provide comments on what I feel are the critical concerns.

1. Overview

The approach outlined in the document, <IR> will lead to the establishment of further standards, ratings, listings etc. While the development of complementing material may be in focus, this approach will primarily benefit a cross section of consultants. Furthermore the resulting costs for a reporter are difficult to estimate and benefits even harder to ascertain.

<IR> must integrate to something and, at the moment; it seems most likely this will be to annual financial reporting. Clearly links to other reporting systems, standards, charters, tools are necessary. It is unclear how <IR> can accommodate an ever increasing universe. The IIRC will also have to address the real danger of reporting fatigue as <IR> may be perceived as yet another exercise in clarifying/defining a company’s position on ESG.

An online database will be helpful, but initially probably only to a small number of Multi National Companies.

2. Fundamental Concepts

The use of the capitals as outlined by Jonathon Porritt has been described elsewhere but is not well known or widespread. The interpretations are left to the reporting organization, and they will probably view the capitals only in terms of their business needs. It is questionable whether the capitals approach will provide clarity as desired.

It might be more beneficial to consider reporting on:
- an organization’s capitals footprint,
- those strategies the reporter will be using to reduce the footprint,
- how the footprint aligns with other local / global organizations thus reducing the local/global footprint in that capital, and
- how the capitals are priced.

This approach impacts the business model outlined in Section 2C as well.

There is also an urgent need for a global infrastructure to share the reporters’ information and focus on issues highlighted by The Natural Step. While reporting will benefit, I do not see society obtaining the scale needed from the concepts proposed in the draft document in the short to medium term.

A further concern is how capitals are priced. In particular, if the natural capital is incorrectly priced and assessed, then no risk assessment will suffice. The current pricing of CO2 at Euro 0.50/tonne cents poses significantly less risk that at CO2 at Euro 20/tonne. A recent report by TruCost and TEEB concluded that no organizations can currently pay for their use of the natural capital involved in their business.

IR benefits those companies who have a well-defined umbrella ESG strategy in place or in development. Without a well-defined strategy that gives serious consideration and balance to the principle of shared value or its creation and actively driven by senior management with buy-in across the organisation (Plan A, Ecomagination, One Ford, etc.) reports cannot focus on integration.

Perhaps <IR> should focus on how the capitals are being invested to create shared value rather than how the capitals are consumed?

Reporting is an outcome of business decisions, not the driver. Integrated Reporting and its related supporting systems will (re)generate financial benefits, but will not restore our natural capital or make our social capital more resilient.

3. **Business benefits**

While the benefits of providing further and more relevant data to the financial sector are highlighted, this reader is unsure how that would be quantified and assured. A number of studies on the benefits of sustainability reporting and the conclusions from those studies as well as studies by FTSE4Good and DJSI are not overwhelmingly substantive or convincing.

Are you inferring that undertaking an Integrated Report will:
- Provide a reduced cost of capital?
- Provide a change in the set of investors with less focus on financial returns?
- Bring forward more investors?
- Improve share price or asset value?

If so, where is the evidentiary quantification?

It seems clear at present that <IR> is an additional report to a company’s financial and sustainability reports. Given the cost involved and hidden costs for management systems and assurance, the IIRC must provide significantly further clarity as to the business benefit of an <IR> approach. Using proxy considerations to provide evidentiary support is insufficient.

A further very vague area is the provision of assurance and the potential liabilities for those providing assurance.

4. Risk Management and Impact

The undersigned has considerable experience in developing an Enterprise Risk Management (ERM) System and applying that system to a Sustainable Competitive Advantage approach. Used successfully, the ERM approach considers likelihood and consequence for a number of business related categories such as: financial, safety, business operations, political, reputational, legal and regulatory etc. It is not uncommon that the severity or likelihood of a particular risk will be dominated by categories outside of financial considerations.

<IR> considers the impact on financial considerations by a portfolio of risks, e.g. environmental and social. In this readers view this consideration inappropriately weights the impact of the risks. It is this readers experience that this methodology is typical of systems where the driver is the CFO as opposed to a Legal Director, who considers a portfolio of risks in a different way.

Consequently companies that employ an ERM approach would apparently not be suited to <IR> or would need to amend their tried and tested approach. With the benefits of <IR> unsubstantiated at present, the outcome for a reporter using an ERM approach would be to not progress with <IR>. 
5. Conclusion

This reader welcomes the approach presented by the IIRC. The move to further transparency and visibility is unstoppable and <IR> is a further step in this evolution.

<IR> will be of value to some organizations and it should be pursued on that basis.

However, this reader is still looking for a reporting structure that is open, resilient, easily adaptable, and will provide real value for society and reporters alike.

Glenn Frommer
Hong Kong
10 July 2013