

## 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.

## 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.*

1.12, especially the sentence starting with “in the case of the unavailability.....” should be eliminated. Nobody can assure that the disclosed integrated report is not missing any material information. However, this section will place too many demands on companies like “comply or explain” regime, so there is a high level of concern that the section 1.12 creates disincentive for corporations to go for integrated reporting.

### ***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 we think the word “annually” does not need to be emphasized when preparing an integrated report. From our experiences in supporting company’s CSR reporting, we feel that many companies do not have enough capacity to produce integrated reports every year. In order to promote companies to adopt integrated reporting, we consider that it is better not to specify the reporting frequency.

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?*

Among the references which are unique to Japan, we recommend “Environmental Reporting Guideline” published by the Ministry of Environment Government of Japan to be included in the database.

## **Other**

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

Objectives of <IR>:

There are a lot of supporting evidences that investors' short-termism and managerial myopia are exacerbated each other, and one of the key objectives of <IR> is to be an interruption of this vicious cycle and re-build a healthy relationship between them in which the long-term investors lead long-term managerial decision-makings. However, since this point is not clearly mentioned in section 1.5, it is crucially important for IIRC to officially state this in the Framework.

## **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 don't agree with this approach in the sense that six capitals are described that they have parallel relationships in Figure 3. The nature of "social and relationship capital" and "natural capital" are different from those of other capitals because these two are close to which traditionally considered as external diseconomy while the other four are commonly known as the basis of company management. We agree that a company's business model depends on the two capitals and affect on them, however, the difference between these 4 and 2 capitals and "the external environment" should be explained more carefully.

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

There is inconsistency between figure 3 and figure 4. In Figure4 six capitals are described that they have hierarchy relationships, in Figure 3 six capitals are described that they have parallel relationships.

### ***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 don't agree with the model. The definition of "business model" needs to be modified. As main report users are assumed to be investors –especially long-term investors as stated in section from 1.6 to 1.8–, the value created by business model must be financial or economic value. The main reason why long-term investors care for non-financial capitals such as intangibles or natural capitals is because those would strongly affect the company's ability to create long-term financial/economic value, and therefore, long term risk-return profile. Accordingly, the business model should be an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create or achieve financial/economic value.

### **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?*

We don't agree with this definition. Since the primary intended report users are financial institutions, outcomes should be defined as more financial friendly terms.

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.*

Definition of "value" : Definition and meaning of "value" in section from 2.41 to 2.45, which we find too far behind considering its importance in <IR> and is vague and inconsistent. As main report users are assumed to be investors –especially long-term investors as stated in section from 1.6 to 1.8–, the value created by business model must be financial or economic value. The main reason why long-term investors care for non-financial capitals such as intangibles or natural capitals is because those have strongly affected the company's ability to create long-term financial/economic value, and therefore, long term risk–return profile. In addition, capitals are defined as "stores of value (in section 2.13)", and it has to be avoided to use the term "value" here.

## **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 don't agree with this approach to materiality because the present approach would give the impression that the only financial capital providers can have the influence on determining materiality. Many financial capital providers tend to overlook or undervalue companies' materiality, especially tail risks. Considering this fact, materiality is not only determined by reference to assessments made by investors, but also by reference to stakeholders' or third party experts' assessments.

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?

The external assurance would not be effective because an integrated report includes the information which is difficult to assure properly, for example a determination of materiality, future-oriented information, and so on. The appropriate stakeholder engagement, including third-party opinion would be effective to ensure reliability.

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).

## 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. There should be such a requirement because we think the integrated report cannot be effective unless there is a strong commitment by those charged with governance.

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?*

We think assurance should not be covered as whole aspects of the report because qualitative information, such as narrative explanation and future-oriented information won't be able to be assured properly.

*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?*

We think more than half of the content of the framework is appropriate at this moment. However, as mentioned above, there are lots of contents should be improved on.

## 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?*

More detailed explanation and best practices of how to disclose business model would be helpful.

## 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)