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.

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

Organization name:	Rockefeller & Co., Inc.
Industry sector:	Financials
Geographical region:	North America

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 views expressed herein are those of Rockefeller's Sustainability and Impact Investing team. Comments and observations are subject to change.

Rockefeller & Co., Inc. is a global asset management and investment advisory firm based in New York City with over 30 years of history integrating governance, environmental and social criteria into the investment process as part of its sustainability and impact investing capabilities. Our Sustainability & Impact Investing Group believes that environmental, social and governance factors are material to a company's financial performance and we employ an integrated analytical process that focuses on business models and materiality in our investment decision-making process. We look at companies' sustainability practices holistically and over the years. As a result, we have developed a deep understanding of the risks that business models in many different sectors pose to the environment and society, as well as the best practices in managing such risks. We believe that understanding those factors and analyzing them allows us to identify companies that are industry leaders with best practices and cutting-edge solutions in integrating sustainability and business. We believe that embedding sustainability practices into business models and corporate cultures and mindsets can help increase productivity and competitive advantage, leading to positive financial and societal impact. Knowing that this is a journey, not a destination, and that there are no perfect companies, we have also committed to engaging with boards and management in seeking to improve business practices and corporate behavior. Our strategy of engagement has evolved over the years while maintaining true to its heritage and its commitment to seek investing in sustainability leaders that can have positive impact.

We applaud the IIRC's work on this framework and want to express our support for the framework and our wishes for it success.

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.*

We like the concept of principles-based requirements and overall, we believe that these are good principles and cover most of the necessary elements. However, we have a few concerns. The first and most important is that given the importance of the six capitals in the IR reporting framework, there are no principles articulated in bold (and therefore no applicable principles) in section 2, the section devoted to the capitals. Principle 3.2 in section 3A does articulate the need to report on the use of the capitals, but it appears to come as an afterthought in this principle, which has implications on its perceived significance. The capitals are referred to again in 4.5 and 4.27; however here again, their importance to the framework appears to be marginalized and therefore, could be missed. Our second concern relates to the scattering of the principles throughout the text. We believe that it would have been more helpful to have gathered them together in one place. This would have allowed for a better analysis of the principles and would help to avoid confusion on the part of the user of the principles. Furthermore, we have trouble with the articulation of principle 1.12 regarding the unavailability of information. We believe that unless there are clear auditing standards for an integrated report, it will be difficult to assess whether this principle has been adhered to or simply ignored. One of the shortcomings of the principles and the framework is the repeated use of the phrase: "The creation of value over the short, medium and long term". We believe this phrase is vague, conflates a number of concepts and is not the type of language that a US business audience will relate to. We will comment on this later, but would like to see recognition of the need for more clarity relating to that sentence, a disaggregation of the time periods and guidance on the reporting on value creation, as well as on long term value creation.

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, we agree with all of the elements in paragraphs 1.18 to 1.20. We believe that reporting needs to be updated regularly and we strongly believe that other reports in addition to integrated reports will likely be needed in order to satisfy specialized users. These paragraphs adequately characterize the intended interactions. We strongly support the suggestion of linkage within the integrated report to other reports and we believe that this needs to be emphasized so as to allay the fears of many stakeholders that the integrated report will replace all other reports and result in diminished information, negatively affecting many of these stakeholders' needs.

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?*

We would recommend links to CDP (including Carbon, Water, Forestry, and Supply Chain elements), SASB, GRI, and DVFA, as well as Greenhouse Gas Reporting Protocol, Global Initiative for Sustainability Ratings, The Prince's Accounting for Sustainability Project (A4S), Project Delphi, UNEP FI, UN Global Compact, and industry initiatives such as the Equator Principles.

Other

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

No response.

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 fundamentally agree with the concept of capitals and would like to see them adopted. We believe that their widespread adoption could have a transformative effect not only on how companies report, but on how they fundamentally organize themselves, as they would be more keenly aware of the societal and environmental resources they use in their business. Hopefully, this would raise their awareness to the impact that their business activities may have on society and the environment. However, we are well aware of the various criticisms and pushback that the terms have received. Most of these are addressed in the background paper on capitals that the IIRC has published, so these challenges are not new to you. We would recommend though that the use of the term "resources" rather than "capitals" be revisited, due to the many challenges that the term capital raises. This may be a barrier to a wider adoption of IR by the investor community, which would consequently likely delay its adoption by the corporate community.

Another challenge we see with the use of the capitals as a core reporting mechanism is that this is not how companies currently gather information or report information. While we appreciate and strongly support the innovation, it will take time for companies and organizations to incorporate this kind of “accounting” into their day to day practices, and therefore, to develop the capacity to be able to report on them seamlessly. This is of course the transformative aim of IR. Therefore, we believe that the IIRC will have to undertake a robust educational effort and that many case studies will be required to illustrate the concept, even when these illustrations are not explicitly using the words of the framework. Here again, we suggest that the use of the word resources may resonate more readily with many audiences and therefore lead to faster uptake of IR. We say this with the full awareness that the terminology of the capitals has a tradition in the sustainability community, which explains the desire to retain it.

Moreover, we believe that the transformative nature and value of the use of capitals is to be able to account for all of the resources that a company uses and the impacts of its business activities on these resources externally. The framework does a good job of distinguishing between outputs and outcomes, but we find the treatment of outcomes and materiality very weak (see below) and as a result, it seems to lessen the potential impact of the concept.

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

No response.

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?

In general, we agree with this definition of business model, but as is pointed out in the guidance paper, sometimes the differences between the business model and the strategy are clear and sometimes they are intertwined. Additionally, this is not always about industry and sectors, so encouraging companies to discuss both is important. The principles articulated in chapter 4 go a long way to creating a base for addressing the question of the business model and we applaud you for that. However, as we mentioned in response to Question 1, there is a problem in many of the principles with the articulation of the concept of “creating value over the short, medium and long term”.
We believe that the framework can do a much better job of defining value, because in its present form, it does a good job of avoiding defining value. Although it appears to imply that its definition of value is for the intended user of the report - i.e., the providers of financial capital, and therefore that value is defined as monetary value - in a number of instances, it does refer to other kinds of values. In many instances, it also refers to the transformation from one kind of capital to another, such as the process of training and professional development transforming financial capital into intellectual capital. It also refers to other kinds of transformation, such as environmental value destruction or societal value creation. However, nowhere does it pull together in a concise manner what is meant by value, how these concepts relate to each other and whether the term should only be taken as monetary value.

Business models, by their very definition, are systems for facilitating monetary value creation. This applies to a for profit organization as much as a NGO. A few hours with the principal figures of an organization, a spreadsheet and an understanding of money flows and funding, and a smart person could recreate the financial elements of a “business model”. However, as the framework correctly points out, the business model is about more than that - it is about the resources used by the organization, how they are used and how they are transformed during that use. Consequentially, outputs and outcomes are a direct effect of the business model. The point of IR is to account for all of the effects of the business model and therefore to create an understanding of all the different outputs, outcomes and their values. Because value creation and the time horizons are often referred to in the framework in a monolithic fashion, it creates confusion. We would like to see values disaggregated, better defined, attached to outcomes as well as outputs and related to the transformative effect that some of the capitals can create over time (for example, in the long term, skill training and educational support for a workforce generally leads to a healthier society, which becomes a more sustainable environment for a company. Conversely, an exploitative model - such as the one that has existed in the Bangladeshi garment industry - creates a disruptive and chaotic environment). We doubt that any company would describe their “low cost” business model as exploitative and in many instances, they don’t need to be. However, the point of IR is that it would unveil the impact of such a business model and alert the investors to the long term risks.

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?

Integrated Reporting is about how many elements of a company’s activities are interconnected, and therefore, our comments on some of these questions must be connected to some other questions. As mentioned in the sections above, we believe that the section on outcomes needs a much more robust treatment and that at the moment, the definition of outcomes is too vague and the examples given in 2.35 and 2.36 are too narrow. In particular, this paragraph refers the user to section 5 G, which defines the boundaries of the report and there, the language limits itself to the “value” that the financial reporting entity can create over time without dwelling on the risks. We recommend later that outcome be one of three topics on which the IIRC should develop explanatory material, but there is room to expand on the definitions and importance of the treatment of outcomes in the framework itself. Outcomes are about the impact that the business has on the internal and external stakeholders as you define it. However, that underestimates the importance of these impacts for many large businesses - the external impacts are much more than just taxes paid and employments created. It should also be about contributions to the resilience of the community by positive net effect, such as respect for human rights, contributing to a culture of safety and integrity rather than supporting the opposite by active or passive practices. The financial crisis and the recent tragedies in Bangladesh have given us a rather too vivid illustration of what a passive attitude towards potential outcomes can bring. Therefore, to our way of thinking, outcomes are one of the central values that Integrated Reporting can bring to companies by steering them towards better understanding and managing externalities and therefore, it is about risk management, stakeholder expectation and a future orientation. Outcomes will also benefit from goal setting and metrics. Many useful metrics are being developed by other organizations. We suggest that although the IIRC does not intend to develop metrics, it explicitly encourage the use of goals and metrics in reports and refers the user to the many platforms being developed.

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)?

No response.

Other

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

No response.

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 actually have trouble with this definition of materiality. We believe that materiality springs directly from the business model and the risks that this model creates for negative outcomes to each of the six capitals. So for us, outcomes, externalities and materiality are closely intertwined. We do agree that the providers of financial capital are the primary audience for materiality, but we also believe that in the long term, materiality must encompass more than the narrow legal and accounting definitions that are currently understood and in use. The guidance documents seek to cover these issues by emphasizing the potential magnitude of the issues as well as the probability of their occurrence. We appreciate the effort of the guidance and do believe that once read carefully in its entirety, the guidance document would lead to a definition of materiality with which we would be comfortable. However, this is just not as direct and concise as we believe it needs to be. As we see it, it still leaves too much room for interpretation and would require a level of disclosure and capacity of reporting on the materiality analysis that few (although some) corporations may be capable of and some, though capable, may be challenged by legal or other reasons from doing so. The point of materiality is that providers of capital need this information in order to make informed investment decisions. The potential of a business model's long term negative outcomes if risks are not managed properly would be useful information to an investor and therefore, under many accounting or legal definitions of materiality, would need to be disclosed. However, the reality is that this is not always the case and therefore, markets currently do not allocate capital using these metrics because of the lack of information. One of the potential benefits of IR is that with strong support for a robust definition of materiality, the eventual widespread adoption of such reporting would create transparency whether or not a company reports because the lack of reporting would become information in itself. However, this would need the adoption of robust reporting by some industry and sector leaders and the current treatment of materiality does not support such leadership.

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

No response.

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?

Reliability and completeness: We agree with that definition of completeness as well as that of reliability, but in addition, we believe that reliability is earned over time and therefore, a detailed description of processes used to achieve goals and outcomes, as well as consistency and a description of challenges and reasons for missed goals will also help to create reliability over time. Most users of reports review reports over time and sophisticated users do so even when approaching a new investment, so completeness and consistency over time tend to lead to reliability and credibility.

14. Please provide any other comments you have about Section 3E.

No response.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

No response.

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).

No response.

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, we believe that those charged with the governance of the firm should take full responsibility for the integrated report. Those charged with governance are charged with overseeing strategy and risk management. The goal of an integrated report is to integrate all aspects of strategy and risk management over three different time periods into the report to the providers of financial capital. We see these as exactly the same goals and the IR could cover many of the requirements that are now fulfilled by the governance reports (i.e., proxy statements in the US) and therefore, should lessen the burden on these reports. As such, it is therefore logical that the members of the governance body should oversee the integrated report.

We also believe that at least in the US, disclosure in proxy statements - especially about executive compensation - will need to become broader in order to satisfy shareholders' needs of understanding how compensation relates to strategic goals. An integrated report overseen by the governance body of the organization could help to fulfill that need.

18. *Please provide any other comments you have about Involvement of those charged with governance (Section 5D).*

No response.

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?*

Whether assurance is provided for the whole report or just a section will probably depend on circumstances. Over time, assurance on the whole report will become necessary, but as the whole field is new and young, we will leave the technical judgments on assurance to the experts.

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.*

No response.

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).*

No response.

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?*

No response.

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?

We would like to see more guidance on four issues: Values, Time Horizons (and especially reporting on long term value creation), Outcomes and Stakeholder Responsiveness. We believe they are all necessary to the greater uptake and adoption of IR.

Time Horizons - The IR has a unique opportunity to take a lead on directing a refocus on long term investing by encouraging companies to lead on reporting for the long term by recognizing that sometimes, long term "value drivers" mean recognizing, embracing and preparing for disruptive technologies or changed stakeholders expectations. There is a need for guidance in this kind of reporting, especially in disaggregating the three time frames often called for in the IIRC principles and encouraging the recognition that often, these call for different tactics and carry different sets of uncertainties. Ford Motor Company's recognition of the changes in the automobile markets and embracing the challenge by calling themselves a "mobility" company is a good example of that kind of longer term strategic thinking that still focuses on the value creation in the medium and short term.

Stakeholder responsiveness - We believe that this is a critical section of the integrated reporting framework; one which stands at the core of "integrated thinking" because it relates to system thinking and feedback loops, which make this kind of approach so effective. Although Section 3C gives a good description of what sorts of practices and reporting would be useful in this area, we think that further guidance of this element, with good examples of practices and of such thinking, would be useful to the development and uptake of IR and further its potential leadership in refocusing reporting and communication to shareholders on the long term.

Outcomes – This is the third topic on which we believe that it is important that the IIRC provide more guidance. We have commented at length on this above in our response to Question 8.

Values - Just like the concept of time horizons, the IR needs to clarify its use of the term values and create practical guidance on the different kinds of values that an organization creates or destroys and why they are important to the providers of financial capital. Again we have commented on this above in our response to Question 7.

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.

No response.