

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 Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the continued efforts of the International Integrated Reporting Council (IIRC), and welcomes the opportunity to comment on the Consultation Draft of the International Integrated Reporting (“<IR>”) Framework.

We support the development of <IR> Framework. The business, investors and accountancy professions need a high quality and consistent reporting framework on <IR>, as it has been increasingly recognized as the way to go. IIRC is the voluntary and market-led initiative with participation of stakeholders. Therefore, we believe that it is the most appropriate for IIRC to develop an innovative framework of <IR>, by reflecting and incorporating what stakeholders really need.

We recognize that the objective, role, structure and volume of the Consultation Draft are designed appropriately. In particular, we believe that the following aspects of the proposed Consultation Draft are essential to responding to the public interest. Therefore, we strongly encourage IIRC to maintain the position to these aspects in the <IR> Framework, which is expected to be released by the end of 2013.

1) "Value creation over time" as the central theme of <IR>

As explicitly stated in the Discussion Paper released in September 2011, the short-termism of the economy is the fundamental global challenge. There is public demand that reporting responds to the challenge by building a bridge between the businesses and the investors and incentivizing them to act in a long-term oriented way. We believe that the fundamental policy of the Consultation Draft, <IR> communicates the sustainable value created by an organization over time, meets the primary and fundamental objective.

2) Provider of financial capital as the primary audience of the <IR>

It is important that <IR> focuses on the providers of financial capital, including investors as the primary audience, in order to influence their decision-making. We recognize that other stakeholders also use the <IR>, and rather, the <IR> is highly expected to be used by a wide range of stakeholders in future. However, in order to achieve the ultimate objective, it is essential for <IR> Framework to focus on the information needs of the key user group. Also, to reflect their needs, it should be supported by the sound and clear materiality principle, and be consistent as a whole. Furthermore, the focus on financial capital providers is also appropriate to secure consistency with the current reporting systems in most of the jurisdictions. This aspect will, we believe, help organizations and policy makers to use, or refer to, the <IR> Framework under the regulatory circumstances in their jurisdiction.

3) Provision of the "Principle-based Requirements" in the Framework

The Consultation Draft provides the "Principle-based Requirements" for organizations to state that their integrated reports are prepared in accordance with the Framework. We believe that it is essential for the Framework to set the requirements, so as to ensure quality of <IR> to a certain degree, under international consensus among stakeholders. We also support the principle-based approach, which is designed to secure flexibility and creativity of reporting, so that reporting best reflects the unique nature of business and the value creation.

In the meantime, we recognize several key areas in need of improvement or revision in the Consultation Draft. We encourage IIRC to address the following issues on a priority basis.

1) Relation between <IR> Framework and the measurement standards on indicators and others

It is highly expected that IIRC exercises key roles to enhance the quality of the <IR> as a whole. Although the Consultation Draft states that the development of the indicators and the measurement standards is a mandate of other standard setters, it is essential that those measurement standards ensure the expected quality level and consistency with <IR> Framework. In this context, it is expected that <IR> Framework works as an "umbrella" of various reporting standards. Therefore, IIRC should prioritize its support to the development of a common understanding on fundamental characteristics of suitable reporting standards, as well as appropriate governance and due processes of standard setters. We strongly expect IIRC to exercise a central and effective role in the discussion among relevant parties including standard setters, in order collectively to realize and implement <IR>.

2) Definition of the "Value"

We recognize that the definition of "Value" is not clear in the Consultation Draft. As "Value" is one of the fundamental concepts of the <IR>, and a primary component of the central theme, we highly expect that the Framework will clearly define what the

"Value" means.

In addition, it is unclear how "Value" of a reporting subject of the <IR> (i.e. "Value" based on wide range of "Capitals") should be understood in relation to "Value" for providers of financial capital as a primary audience of the <IR>.

This should be clarified in the Framework, since the relation between those two aspects of "Value", created by an organization, affects understanding of materiality concepts within the context of <IR>.

3) Credibility of <IR> and the assurance

We believe that it is key that <IR> Framework and a set of reporting standards are developed as suitable criteria of <IR> practice, and the "assurability" of the <IR> practice is ensured to enhance the credibility. Therefore, it is essential to consider the aspect of "assurability" in the developing process of <IR> reporting standards.

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.*

The requirement of disclosure of "the reason why the organization considers any of the capitals identified in the Framework to be immaterial given its particular circumstances, if that is the case", in paragraph 4.5 of the chapter IV, should be eliminated.

Please refer to our comment on Question 5 for reasoning.

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?*

We agree with the interaction with other reports and communications characterized in paragraphs 1.18-1.20.

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 strongly encourage IIRC to carefully reconsider developing the online database of "authoritative sources of indicators or measurement methods developed by established reporting standard setters". We have serious concerns that such reference to the other measurement standards may cause misunderstanding that IIRC authorizes those

standards/standard setters as suitable criterion/organizations for <IR>, as the international <IR> framework issuer.

It is highly expected that IIRC exercises key roles to enhance the quality of the <IR> as a whole. Although the Consultation Draft states that the development of the indicators and the measurement standards is a mandate of other standard setters, it is essential that those measurement standards ensure the expected quality level and consistency with <IR> Framework. In this context, it is expected that <IR> Framework works as an "umbrella" of various reporting standards. Therefore, IIRC should prioritize its support to the development of a common understanding on fundamental characteristics of suitable reporting standards, as well as appropriate governance and due processes of standard setters. We strongly expect IIRC to exercise a central and effective role in the discussion among relevant parties including standard setters, in order collectively to realize and implement <IR>.

Other

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

None

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?*

The requirement of disclosure "the reason why the organization considers any of the capitals identified in the Framework to be immaterial given its particular circumstances, if that is the case" in paragraph 4.5 of the chapter IV should be eliminated.

Firstly, it contradicts with the fundamental policy on "Capitals" model stated in paragraph 2.12 of the Consultation Draft, "this categorization is not required to be adopted by organizations preparing an integrated report". The capitals model in the Framework are provided to serve as "part of the theoretical underpinning for the concept of the value" (2.19), and therefore it is not a matter to be reported.

Furthermore, we do not think that the required disclosure of the immaterial capital works as effective tool to enhance completeness of the reporting, because such statements tend to be "boilerplate".

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

None

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 agree with the proposed definition of Business Model.

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 expect more clarification on definition of "outcome", in particular in relation to "Value," in the final Framework.

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)?

None

Other

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

As stated in our general comment above, we recognize that the definition of "Value" is not clear in the Consultation Draft. As "Value" is one of the fundamental concepts of the <IR>, and a primary component of the central theme, we highly expect that the Framework will clearly define what the "Value" means.

In addition, it is unclear how "Value" of a reporting subject of the <IR> (i.e. "Value" based on wide range of "Capitals") should be understood in relation to "Value" for providers of financial capital as a primary audience of the <IR>.

This should be clarified in the Framework, since the relation between those two aspects of "Value", created by an organization, affects understanding of materiality concepts within the context of <IR>.

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 are concerned that the definition of "Materiality" in the Consultation Draft does not sufficiently reflect the information needs of providers of the financial capital. The Principle-based requirement on "Materiality" (paragraph 3.22) and the definition (paragraph 3.23) requires a reporting organization to determine materiality, by considering influence on users' decision regarding an organization's ability to create value over time. However, Chapter 2. Fundamental Concepts provides the conceptual foundation on value based on a wide range of capitals, and it is unclear how the extended concept of value relates to, and interacts with, the value for the providers of

financial capital.

We encourage IIRC to clearly state in the Framework that an organization should determine materiality by considering the influence on the wide range of value which an organization creates over time, with the premise that the providers of financial capital need information on the future financial return in the long-term.

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

Materiality is the principle which serves as a foundation to decide what to report in <IR>, and therefore it is key that reporting organizations appropriately apply this principle to their practices in order to enhance usefulness of <IR>.

We expect IIRC to provide contextual and application guidance on materiality principle, following completion of <IR> Framework. The guidance should be consistent with the fundamental concept of materiality, and be based on experiences of the reporting practices. We encourage IIRC to review reporting practices on materiality, and publish case study reports, and in the mid-term, provide guidance on materiality by deriving and generalizing the key essences.

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?*

None

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

None

Other

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

None

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).*

Paragraph 4.31 in the Performance section presents common characteristics of suitable quantitative indicators. We welcome these characteristics to be presented in the Framework, since these significantly contribute to usefulness of <IR>, by enhancing suitability of the indicators.

However, it is not necessary to meet all of the characteristics of quantitative indicators. We encourage IIRC to distinguish between “fundamental characteristics” which all quantitative indicators should satisfy, and “preferable characteristics” which are expected to satisfy to further enhance the usefulness.

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?

The Consultation Draft refers to the ultimate responsibility of “those charged with governance” on <IR >. As defined in the Glossary of the Consultation Draft, we understand that the term means the highest decision-making body within an organization.

The term “those charged with governance” is used in International Standards on Auditing (ISAs). As mentioned in ISA260 A1 “governance structures vary by jurisdiction and by entity”. In Japan, there are cases where the “board of directors” and “audit and supervisory board” share responsibility on building and monitoring governance of the organization in Japan. Therefore, we are afraid that “those charged with governance” is not an appropriate term in the <IR> Framework.

We believe that the “highest decision-making body” within an organization should take the ultimate reporting responsibility on <IR>, and this term should be used in the Framework, instead of “those charged with governance”.

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

None

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?

<IR> is the reporting process which integrates financial and non-financial information covering content elements, as stated in the Consultation Draft. Therefore, assurance on <IR> should not be limited to the specific aspects in nature. However, there are several challenges, such as practical capability and liability of assurance providers, to provide holistic assurance on <IR>. Therefore, assurance on <IR> should be recognized as a long-term objective. We believe that we should focus on realizing assurance on the key aspects, by clarifying information needs of users and considering practical capability in the short or mid-term. We recognize the following key aspects which providers of financial capital may have specific interests on credibility of <IR>:

- Application of materiality and conciseness: whether key management issues are disclosed in a concise manner, and/or whether materiality decision processes are appropriately designed, managed and disclosed
- Accuracy of the information: Accuracy of the quantitative indicators, reliability of information on facts disclosed in <IR>; and
- Balance: whether there is any bias to mislead the users' decision, and whether disclosed indicators represent key management issues in a balanced manner.

We also recognize a significant challenge in providing assurance on future-oriented information, which may be included in <IR>. We believe that IIRC needs to pay particular attention in considering assurance on future-oriented information.

Anyway, it is essential to develop the assurance practice standards for the integrated report. Balance between information needs and practical feasibility should be considered carefully.

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.

(1) Paragraph 1.19 states "The Framework does not prescribe specific indicators or measurement methods to be used in an integrated report. The IIRC aims to complement material developed by established reporting standard setters and others, such as industry bodies, and does not intend to develop duplicate content.". If so, we believe that it is essential that measurement methods used in <IR> process, as well as the <IR> Framework, collectively constitute suitable reporting criteria, in order to provide meaningful assurance services to the users.

Therefore, we would suggest that IIRC states in the <IR> Framework that assurance on the integrated report should be provided based on the criteria "whether the report is prepared in accordance with the <IR> Framework and relevant measurement methods or not". It is also essential that specific measurement methods be disclosed, with a declaration of the purport to the <IR> Framework in the integrated report.

(2) We recognize the issue of assurance, and relevant responsibility, on credibility of other reports or communication linked from an integrated report. There may be a misunderstanding as to the credibility of those linked communication, even though assurance is provided only to the overarching integrated report.

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).

None

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?*

It is unclear what types of forward-looking information are encouraged to be disclosed and what challenges or limitations are recognized in the Consultation Draft. We believe that it is necessary that the <IR> Framework requires reporting organizations to include a cautionary statement on the presumption and limitation of the forward-looking information with the inherent nature, in the integrated report.

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?*

(1) We encourage IIRC to further discuss the relation between forward-looking information, which IIRC expects organizations to report, and its verifiability.

(2) As stated in our general comment above, We believe that it is key that <IR> Framework and a set of reporting standards are developed as suitable criteria of <IR> practice, and the "assurability" of the <IR> practice is ensured to enhance the credibility. Therefore, it is essential to consider the aspect of "assurability" in the developing process of <IR> reporting standards, and to do that, we expect that appropriate governance structure will be established.

Other

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

None