Comments on Consultation Draft of the International Integrated Reporting Framework

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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.

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 (paragraph 18-1.20).

1. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?
    a. Yes. It might be worth noting somewhere—if not here—that if the organization already publishes a sustainability report, particularly one that conforms to the GRI, integrated reporting should not be considered a way to restrict the thoroughness of other sustainability reporting.
2. 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?
    a. At a minimum, GRI. I would also consider the Hauser Center's KPIs, and keep an eye on other developing systems, including the KPIs from SASB and the possibility of a taxonomic description of sustainability indicators from the Global Initiative for Sustainability Ratings (GISR).

Other

1. Please provide any other comments you have about Chapter 1.
    a. This is something of a curiosity question, but on p. 8, IR is defined as a process that results in communication, not the communication itself. Is there a difference?
    b. Under Objectives of IR, on p. 8, (paragraph 1.5) the thing that seems to be left out is the interacti0on between all the capitals. It talks about allocation of financial capital and accountability and stewardship for the others, but it seems to me the idea is to stimulate companies to recognize that how they treat human, natural and other capitals has an impact on financial capital, and that concept is missing. I do see the idea that IR promotes integrated thinking, which is a step in the right direction.

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).

3. Do you agree with this approach to the capitals? Why/why not?
    a. This is an interesting approach to the capitals. I think it captures the right things, but it's interesting that the nomenclature seems to put much more emphasis on human capital than other natural capital (humans are, after all, fauna). Intellectual capital and social/relationship capital are both forms of human capital; manufactured capital is too, in the sense that physical capital is in some sense stored up labor (just as fossil fuels are stored up sunlight). So if you take the past—human effort (manufactured) capital out, and the intellectual capital, and the social/relationship capital out of human capital, what's left? Muscle power? I think that "human capital" embodies intellectual and social/relationship capital, and that those are the two primary values that human capital has, together with stored-up labor (manufactured capital). Since there's no implication that each of the six capitals is one-sixth of the total of "capital," it's okay, but if that is what people infer, as they often do, then natural capital gets very short shrift. Lumping air, water, soil, sunlight, wind, weather, biodiversity, biomass, and every other earthly thing into one category called "natural capital" and then putting that up against four (or five,, since financial

capital is purely an outcome of human endeavor) human capitals seems like a bit too much anthropocentrism. I see why you would want to categorize the various forms of human capital, so rather than just having two or three designations (human, natural and perhaps financial) maybe it would work to at least subdivide natural capital a bit, as in physical capital (air, water and soil) and biological capital (biodiversity, productive capacity) etc.

4. Please provide any other comments you have about Section 2B?
    a. I think it is appropriate to point out in paragraph 2.14 that the stock of many natural capitals—not all of them, but a lot—really is fixed over time, or for spans of time that are relevant to human endeavor. The supply of solar energy is essentially fixed, as is the amount of water on the planet, and for all practical purposes the stock of fresh water (it would take a thunderously great change in technology to covert more than a sliver of the sea into fresh water). I am glad you point out how one kind of capital can be transformed into others. But it is also true that the law of diminishing returns does limit the degree to which one kind of capital can be transformed into another, especially how anything can be transformed into natural capital. How much effort would it take to restore depleted and contaminated soils? And once we have converted stored-up sunlight (oil, coal and gas) into energy, all we have left are molecules of waste (like carbon dioxide, soot, and particulates) and whatever the energy was used for, like transforming iron ore into steel and steel into whatever it wants to be, from wind turbines to ships). The flows from one form of capital into another are often asymmetrical, and sometimes completely irreversible.

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).

5. Do you agree with this definition? Why/why not? 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). Do you agree with this definition? Why/why not?
    a. It is a useful definition.
6. 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 (Section 4E).
    a. One of the bullet points under 2.28 (inputs) talks briefly about knowledge or organizational intangibles, and says it is important to explain their capacity to create value. I'd be inclined to go further than this. It's not that difficult to

figure out what an organization's intangible value is, but discussion of the various pieces of intangible value is becoming far more important as intangibles increasingly overwhelm the value of tangible assets on corporate balance sheets. Some intangibles can be readily understood, like intellectual property (the value of patents and copyrights). But there's always or usually a residual, often lumped into something like brand value or franchise value, and I think it would be most enlightening for investors to understand what the company thinks accounts for that, and what measures it takes to manage risks to that source of value. The mention in that bullet point in 2.28 is too brief to give that the weight it deserves, I think.

b. Point 2.33, about innovation, seems to assume that innovation is always good. Of course it is true that a lack of it would probably be a very bad idea. But change isn't always positive; what is important in integrated reporting is not only describing the company's approach to innovation and responsiveness to change, but *how that innovation or change contributes to or detracts from sustainability*. I don't think it would take a lot of effort to get that idea across in this point.

Other

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

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).

2. Do you agree with this approach to materiality? If not, how would you change it?
    a. It's different than what we use in the US, or at least what the SEC uses. It's still a judgment call, which is the same as the approach in this document, but the US one relies on the judgment of investors, not senior management. And honestly, I prefer that; senior management also has a lot to gain or lose personally by making materiality choices, especially those managers that get a significant portion of their compensation in the form of incentive pay, especially stock options. We have seen countless demonstrations of management unloading their own shares prior to the announcement of a bankruptcy while issuing neutral or bullish reports to investors, and we have seen countless examples of

management delaying the release of bad news until after some significant event (for instance, in the case of JP Morgan's London Whale, till after most of the proxies were voted two years ago). I would prefer a definition of materiality that rested on the judgment of stakeholders and shareholders, rather than management.

3. 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).

1. How should the reliability of an integrated report be demonstrated?
    a. The way it's done for financial reporting is third party auditing, and while it is daunting to think about all sustainability reporting having to be audited to be reliable, that's probably the best way to do it.
2. Please provide any other comments you have about Section 3E.

Other

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

Chapter 4: Content Elements

2. 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).
    a. I was delighted to see in section 4.5 that the materiality determination process should be disclosed. Bravo.

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>.

3. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?
    a. Interesting question. The cynical way to look at this kind of requirement is that it assists with making those who conceal material information more personally liable in theory, but in practice, it remains surpassingly difficult to make corporate managers personally liable for almost anything (except antitrust violations, here), just because of the way corporate law was written and enforced. But beyond that, I think it's always good for people who should be accountable to be accountable by name, and to be willing to put their names on information that they believe is accurate and true. So yes, I think that should be required. But it wouldn't be a tragedy if it didn't happen. There are still requirements to report all material information in most of the world's markets,even if they're not terribly well enforced.
4. 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).

1. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?
    a. Probably the whole report, since the paper has already defined the report as covering all material information.
2. 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

1. 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

2. 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?

a. I believe the Framework is an excellent guide, with the slight caveat that I think it would be useful to simplify the view of the capitals per my earlier comment. I like the reinforcement of the idea that integrated reporting is about integrated thinking, and that it's not just so-called financial factors that affect a company's financial performance or the satisfaction of its investors or creditors.

Development of <IR>

1. 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?
    a. I think materiality is always crucial. I have heard company reps say that if they cannot accurately estimate the financial impact of something they cannot report it, as they lack the basis to determine its materiality. This is, of course an excuse; one sees all the time statements like "the following regulatory change has been proposed; we do not believe that this will have a material impact on the company." So someone has made a determination, even without certainty about costs of regulations. One can't emphasize too often that materiality is a judgment of the investor, or if it is a judgment of the company that company should be thinking about the investors' points of view, not their own, in making those judgments. I also think that emphasizing effects on intangibles is also quite important, and something that one rarely sees in financial reporting, and yet is increasingly important as intangibles account for increasing percentages of market caps. This is particularly important with respect to ESG information that is not inherently quantitative. Much environmental impact information is, but things like human rights are less so. Yet a severe human rights controversy can affect investor confidence in management, as can a severe safety problem (BP, Massey Energy and TEPCO should be enough words to explain with crystal clarity what the worst case scenarios look like). Finally, if you have any good examples of integrated reporting, explaining why they're good would be helpful to companies as they try to shift their thinking.
2. Please provide any other comments not already addressed by your responses to Questions 1-23.