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International Integrated Reporting Committee

Clarence House

London SW1A 1BA

United Kingdom

Comments on the Discussion Paper

“Towards Integrated Reporting, Communicating Value in the 21st Century”

To the IIRC Members:

The Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the continued efforts of the International Integrated Reporting Committee (IIRC), and welcomes the opportunity to comment on the Discussion Paper.

We support integrated reporting as a framework which helps the market economy to respond to global challenges, such as increasing business uncertainty, needs for long-term oriented business and market, as well as environmental and social sustainability. We acknowledge that such responses need international and institutional arrangements. Therefore, we support the development of IIRC and its objectives.

It is essential to build consensus among various stakeholders, because the development of international framework for integrated reporting is a process to build up a new concept. Therefore, we encourage IIRC to;

- discuss the priority issues;
- develop short, medium and long-term policy and strategy; and
- present realistic and acceptable proposals to key stakeholders.

Furthermore, we believe it is also essential to secure consistency with financial reporting framework which has been developed by the International Accounting Standards Board (IASB), as IIRC defines an integrated report as a primary report of organization. Especially, in this discussion paper, it is not clear how the integrated reporting relates to the current financial reporting and how the governance of corporate reporting standard setting should be developed and established . Also, it is unclear how IIRC, the Global Reporting Initiative (GRI), which has developed international framework for sustainability reporting, and the Climate Disclosure Standards Board (CDSB), which has developed international framework for climate disclosure, will play and share the respective roles in developing integrated reporting framework.

We recognize that IIRC will present a proposal on these governance issues as a public consultation paper. We encourage IIRC to hold continuous consultation with relevant parties including policy makers and other standard setters, such as IASB and GRI, before publishing the consultation paper.

General Comments

Different types of approaches

We believe that the fundamental policy of IIRC is in the right direction, which develops a principle-based framework to help reporting organizations to reflect various contexts and strategies in their reporting. However, we are concerned about a lack of discussion and explanation in the discussion paper about benefits and limitations of different types of approaches, such as ‘rule-based or principle-based approach’ and ‘regulatory and voluntary reporting’. It is also unclear how IIRC is going to balance those approaches in integrated reporting. We found somewhat negative to describe regulatory or rule-based approach without a clear rationale and its scope, for example, in the descriptions of “Trust” and “Adaptive” on Page 9.

Although a principle-based approach is preferable to reflect the different context of organizations, comparability between organizations is not achieved if each organization reports different issues and KPIs. Voluntary reporting can promote self-motivated and diversified disclosure practices. On the other hand, there is a limitation that organizations do not often disclose information on negative aspects because voluntary reporting system does not have enforcement instruments to achieve fair disclosure.

We encourage IIRC to present the combination of those different types of approaches by balancing those benefits and limitations in the exposure draft of integrated reporting framework, expected to be released next year.

Intended Users

The discussion paper positions investors as the primary users of the integrated reporting. However, it also includes other stakeholders as the intended users. If reporting organizations are to respond to the various needs of other stakeholders in their integrated reporting, the amount of information may eventually increase, and the reporting may not satisfy the needs of investors. We encourage IIRC to focus on the needs of stakeholders who have an interest in a comprehensive picture of the reporting organization, in order to meet the needs of intended users and establish a concrete reporting framework.

Furthermore, as information needs of investors expand, more extensive disclosure may be required to satisfy all of the various types of investors. We expect IIRC to focus more

on medium and long-term oriented investors, especially when dealing with non-financial information including sustainability information.

Future oriented information

Future oriented information may contribute to the future prediction by users, and promote future oriented corporate assessment. However, prospective information may increase the risk of misstatement and lead to misunderstanding by users. Depending on the reporting organizations' attitudes (conservative or optimistic), it is possible for organizations in the same situation to disclose completely different future prospects. As future consequences are affected by various factors, the prospect is continuously altered by a changing business environment. If the prospect changes from the disclosed prospective performance information, organizations have to revise the disclosure. It is pointed out that these practices may cause additional burden to the organizations.

Therefore, we believe that IIRC should conduct more detailed analysis on the future oriented information, including the types of future-oriented information to be disclosed, measures to prevent misleading disclosure, and the roles of reporting organizations, regulatory bodies and assurance providers.

Reliability and assurance

It is important to ensure reliability of information disclosed in integrated reporting. However, as it contains various types of information (including narrative information, future oriented information and non-financial quantitative information), required level and type of reliability, as well as the approach to secure the reliability, are not the same as in financial reporting, mainly based on historical financial information.

It is expected that IIRC will have more discussion on the roles of reporting standard, reporting regulation and assurance to enhance reliability of integrated reporting. We understand that International Auditing and Assurance Standard Board (IAASB) deals with assurance issues as an assurance standards setter. However, we believe that IIRC should work on reporting criteria in cooperation with IAASB to secure the “assurability” of reporting criteria.

Terminology

Some terms in the discussion paper do not have a clear definition and the relationship with other terms is not clear. For example, “Interdependency” is emphasized until page 16, however this term is rarely used after page 16. Instead, a similar term “Connectivity” is emphasized after page 16. The relationship between those two words is not clear. We believe that IIRC should prepare a glossary of key terms and clarify the relationships in a public consultation.

Answers to the questions

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process?

Why/ why not?

(b) Do you agree that this action should be international in scope?

Why/ why not?

Q1.(a)

Yes. Due to increasing uncertainty in the business environment and increasing importance of intangible factors in corporate values, non-financial factors undoubtedly became a key component of the corporate reporting.

From a global economic and social standpoint, emerging environmental degradations and resource limitations are getting more and more evident. Sustainability has become one of the most fundamental and urgent issues for the global society. For the sustainable development of both the whole economy and individual businesses, it is essential to promote market participants to make appropriate decisions.

Therefore, we believe it is necessary for corporate reporting to reflect how companies create and sustain the values, with more holistic views.

Q1.(b)

We agree with the proposal.

Globally consistent framework can contribute to development of a better global market and more efficient practices by companies in this globalized economy. Furthermore, as many of the issues related to sustainable development are global issues, globally consistent actions are necessary.

Q2. Do you agree with the above definition of Integrated Reporting?

Why/ why not?

Q2.

We do not agree with the definition.

The paragraph following the title “Integrated reporting defined” does not provide the definition but, rather, provides its characteristics. We believe that IIRC should provide the definition in this section, with clarification of the intended users and the central

theme, which is described as “business model: how the organization creates and sustains values in the short, medium and long term” in the following framework.

Q3. Do you support the development of an International Integrated Reporting Framework?

Why/ why not?

Q3.

We support the proposal.

Please refer to our answer to Q1 for the reason.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors?

Why/ why not?

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Q4.(a)

We agree with the proposal.

Many large companies, especially listed companies, report non-financial information, and some companies started to provide integrated types of reports. Most of such information is intended to be used by investors. The use of such information has been expanded to institutional investors and their agents, and some reports require more information. We believe it is a reasonable approach to focus on the reporting entities and users with real practical needs. Also, it is effective and efficient in terms of contribution to sustainable development to focus on large companies which tend to consume more resources, create more values and have more influence.

Q4.(b)

We do not agree with the proposal.

It is not clear what is the meaning of “the concepts underlying Integrated Reporting”..

The following concepts may be applicable to other types of organizations:

- non-financial factors become more material; and

- organizations should report not only financial issues but also the overall picture.

However, we recognize there are the following fundamental differences in reporting between large companies and SMEs, as well as public sector and non profit organizations:

- intended users of information and their needs;
- responsibility and liability of persons in charge of reporting, between profit organizations and non profit organizations;
- resources available for reporting in the organization, between large organizations and small organizations.

Therefore, we believe it is difficult to directly extend the reporting framework, developed with focus on larger companies, to other types of organization.

Furthermore, it is highly challenging for IIRC to develop integrated reporting framework for large entities. Considering limited resources of IIRC, we believe IIRC should focus, for the time being, on the needs of large companies and its work for other types of organizations to be deferred and considered as medium and long term challenges.

Q5. Are:

- (a)** the organization's business model, and
- (b)** its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting?

Why/ why not?

Q5.

(a) (b)

We agree with the central themes of integrated reporting.

As most of investors, primary users of integrated reporting, are interested in future cash-flow of companies, "organizations business model and its ability to create and sustain value in the short, medium and long term" is relevant to their needs.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value?

Why/ why not?

Q6.

We agree with the concept that organizations create value with multiple capitals and the value consists of those capitals.

However, investor's interest is eventually on future cash-flow. It is the same in a medium and long-term oriented investment such as "responsible investment", although the timeframe is relatively longer and the analysis and assessment covers broader issues, such as environmental, social and governance (ESG) issues. Therefore, the relationship between the central theme of integrated reporting (value creation and sustaining process) and future cash-flow of organizations should be clarified in the framework. This is also important in terms of consistency between the Conceptual Framework for Financial Reporting issued by IASB (IASB framework).

Furthermore, there is no general consensus on value creation concept, category of capitals and the definition. The diagram on "business model and value creation" and the narrative explanations of each capital, in page 10 and 11 of the discussion paper, may mislead readers of the framework, since it seems to provide the definition. Besides, its relationship with guiding principles and content elements is not clear. Considering the objective of the reporting framework, we believe that it is more important to explain how the value creation model, as the central theme of integrated reporting, relates to the guiding principles and content elements, rather than to explain the individual capitals.

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report — are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added?

Why/ why not?

Q7

We recognize the "conciseness, reliability and materiality" in these guiding principles is a similar concept to qualitative characteristics, "relevance, faithful representation and other enhancing characteristics" in the IASB framework. However, it is not complete enough and consistent with the IASB framework. For example, this discussion paper states that "reliability also encompasses the need for information to be comparable", however, these two characteristics are different and sometimes trade-off.

The IASB framework is developed by a due process involving various types of

stakeholders of financial reporting. We believe that IIRC should present the characteristics consistent with the IASB framework, unless any of the characteristics are relevant to integrated reporting.

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report — are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added?

Why/ why not?

Q8.

We believe that the content elements in this framework are reasonable.

(Please refer to the general comments of this letter on “Future Outlook”.)

Q9. From your perspective as a key stakeholder:

(a) Do you agree with the main benefits as presented in the Discussion Paper?

Why/ why not?

(b) Do you agree with the main challenges as presented in the Discussion Paper?

Q9 (from perspective as assurance providers)

We agree with the main benefits and challenges.

(Please refer to the general comments of this letter on reliability and assurance.)

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC?

Why/why not?

Are there other significant actions that should be added?

(b) What priority should be afforded to each action?

Why?

Q10. (a)

We agree with the proposed future actions.

We encourage IIRC to present “basis of conclusion”, which is essential to understand the context in discussion papers and the framework.

(b)

We encourage IIRC to place priority on following activities:

- clarifying investor’s information needs

We believe it is necessary to investigate the following issues, to support development of reporting framework in a manner consistent with both users needs and corporate practices for integrated reporting:

- how investors, mainly institutional investors, gather and use information which may be included in integrated reporting;
- what types of information is missing in the current corporate reporting;
- how investors expect such information to be provided and presented.

- Coordination arrangement with other standard setters and its reporting frameworks

Although it is not clearly stated, we believe that one of the *raison d’etre* of IIRC is to be central in promoting a consistent reporting framework and standard setting activities by liaison with relevant standard setters. We encourage IIRC to put emphasis on close coordination of roles and responsibilities with other standard setters and respective reporting frameworks.

Yours faithfully,

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Executive Board Member — Management Advisory Services and Research

The Japanese Institute of Certified Public Accountants