

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.

This submission seeks to include food security into the Integrated Reporting Framework.

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.*

Corporate Social Responsibility assessment needs to be included in Integrated Reporting frameworks. While often, the complex nature of CSR makes assessment of inputs and outcomes problematic from both the business model and materiality perspectives, the

lack of progress in reporting has led to a challenge of current long term viability assumptions, patchy at best CSR information and a presumed "poorly prioritised" resource allocation mix. Current structure is based on compliance, at best, rather than value creation and philanthropy.

A 'needs outcome' approach to modelling for Stakeholder Boundaries would be better placed to show viability although significant discussion is required to reach this conclusion. Our understanding of the value creation process of the business model is yet to fully represent the many societal outcomes. Integrated Reporting therefore fails to meet stakeholder needs.

Food Security is rarely reported despite specific reference to food as a human right. With a global direct impact of up to a billion people, reported linkage to political unrest, competition for scarce resources and significant opportunity and risk to reputation, reporting frameworks will need to consider how to account for these global issues.

Briefly, IIRC discussion paper on the capitals states

"Integrated Reporting results in a broader explanation of performance than traditional reporting. It makes visible an organization's use of and dependence on different resources and relationships or 'capitals' (financial, manufactured, human, intellectual, natural and social), and the organization's access to and impact on them. Reporting this information is critical to:

- a meaningful assessment of the long-term viability of the organization's business model and strategy;
- meeting the information needs of investors and other stakeholders; and
- ultimately, the effective allocation of scarce resources."

This submission will demonstrate the facets of food security and the limitations of the current IIRC model. The model needs to expand to denote the concept of responsibility. Burden of proof must match the strength of our convictions.

Integrated Reporting may demonstrate our lack of action but we need to make sure it is capable of mapping any progress. Reporting may be symbolic but as Graziano Da Silva explains, It's not only the government that fights hunger. Civil society, private sector, has an important role to play in this game.

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?*

Integrated reporting will fail to recognise aspects of Sustainability Reporting such as Food Security

What is food security?

"Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life". (World Food Summit, 1996)

The measures include access, availability, utilisation (nutrition and preferences) and reliability and each separately has the potential for significant impact on stakeholders. These have a significant impact on "the organization's significant economic, environmental, and social impacts" and "substantively influence the assessments and decisions of stakeholders." (GRI 2012).

Food security reporting is currently limited to food industry and particularly those that have been interpreted as transgressing stakeholder guidelines (see DZ Bank on food speculation and access, Walmart for transparency concerning availability, Coca Cola/McDonalds in relation to Nutrition). Yet Josette Sheeran in her Ted talk (2011) explains that we have a burden of knowledge of the impact of our lack of action.

The United Nations recognise four pillars in disaster recovery

- Enable the environment
- Watch to safeguard
- Apply Prevention and Mitigation measures
- Prepare to respond

Currently, reporting fails to recognise or support this activity. Should an extreme event occur, reporting fails to provide the necessary inputs for global bodies to assess our capacity to respond. This submission seeks to assure that dialogue exists. There have been between 50 and 65 food emergencies each year since 2000.

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?

A. Organizational overview and external environment

The Standard Reporting System already includes CSR initiatives in the reporting cycle.

- Climate change.
- Environmental management
- Water use.
- Hazardous waste.
- Waste management.
- Product formulations.
- Employment.
- Human rights. *
- Ethics

*Food is a human right recognized under international law which protects the right of all human beings to feed themselves in dignity, either by producing their food or by purchasing it.

In accounting, there are precise definitions available and we should expect similar rigour for other Integrated reporting elements. Measures such as Food Security are defined by the United Nations protocols although some corporations have sought to create similar definitions albeit likely to challenge Human Rights definitions of culture preference.

Inclusion of indicators or measurement methods can only be considered after ratification of these definitions and scope. Boards globally are beginning to recognise that to fulfill their duty (Business judgement rule, Good Faith, No Interest, Rational Decision), perspectives and disciplines must expand to consider other themes regarding the business model and the ability to make continue to create value.

Extreme movements in food prices tend to increase commentary on drivers. In 2008, pricing lead to questioning of biofuels, speculative trading, genetically modified seed, land grabbing, small farm productivity, meat consumption and all aspects of the food chain. It is becoming increasingly complex to determine the corporate governance requirements when having to balance sustainability, food security, water scarcity and energy nexus, while delivering profit. Oversight of the capitals will require greater definition case studies of this paradigm. We should also expect greater debate regarding the materiality concept.

Other

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

IIRC Reporting models will need to indicate the strategic ethical stance of the organisation with regards Corporate Social responsibility. The IIRC model assumes that the capitals are transformed by the business model but this is not always the case in CSR.

- value creation in a resource based view
 - consistent with IIRC model but rarely adopted for CSR activity. Human Rights for example was reported in only 15% of cases in IIRC research of Fortune 500 companies. Food security a small subset of that group.
 - shared value although must recognise multiple stakeholders,
 - innovation and competition,
 - integration of business in the community,
 - builds human capital and becomes incorporated in business strategy, and
 - is necessary for sustainable competitive advantage.
- risk management
 - may be consistent with elements of IIRC model but fails to be deliver outcomes as it is not future orientated nor does it seek to exploit opportunities.
 - mitigates and builds external relationships for defensive reasons
 - a Public Relations tool based on traditional philanthropy,

- prevent negative media publicity by imposing “ethical” codes of conduct within their value chains.
- cooperate with competitors in the same industry in an effort to set common values, spread risks and shape opinion.
- philanthropic outcome.
- may be consistent with elements of IIRC model but capitals are delegated to external parties.
- mitigates and builds external relationships for defensive reasons
- a Public Relations tool based on traditional philanthropy.

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?*

I do not agree with the approach as I believe it conflicts with the concept of licence to operate.

Integrated Reporting seeks to overcome views such as

“Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible”. Milton Friedman

In the discussion of the capitals 2.13 states The capitals are stores of value that, in one form

or another, become inputs to an organization’s business model. Yet figure 6 of the Business model document correctly recognises the fact that performance of the business plan leads to reputation and other ongoing capability benefits. Some of these benefits are created for society and are not necessarily of continuing value to the organisation. Often these outcomes are the stated reasons for industry clusters as they may be called upon at a later date.

The strategy and resource allocation at macro level will have an effect at micro level, in regions, and homes. Figure 6 needs to recognise performance at an organisational level can add value to society through capacity development. Technical expertise, technology transfer, practical tools, methodologies, extension, training, policy advice, advocacy, education and awareness-raising are outcomes from successful performance.

Development of strategic partnerships also should be recognised in the capitals.

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

The model already recognises the Capitals may come from many sources but has not recognised that value may be created by other organisations/society. This will particularly be relevant in philanthropic activity.

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?*

I do not agree with the definition as it presumes that organisations can be characterised by having a single business model.

The model must recognise that multiple business models may exist within the one enterprise. For illustrative purposes, Panera Bread (<http://paneracares.org/our-mission/>) has traditional food supply value creation as well as vehicles designed to support philanthropic food security initiatives.

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?*

I do not agree with this definition as it has not recognised that outcomes may be created by other organisations/society. This will particularly be relevant in philanthropic activity.

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)?*

Integrated reporting must be capable of tracking activity and scope of action with regard food security. Opportunities and risks of food security are often assumed not material to the company but can either enhance or cause devastating damage to reputation. Boycotts of Nestlé in 1977 with regard breastmilk substitution highlighted the potential and the company is subject to action to this day.

At the same time as delivering long term profit and environmental measures, boards have a duty to consider societal aspects by realising opportunities. Food security requires analysis of

- access,
- availability
- utilisation
- reliability.

Concerns about insufficient food access have resulted in a greater policy focus on incomes, expenditure, markets and prices in achieving food security objectives.

Organisations can directly support access to food by

- providing education on human rights,
- including disadvantaged groups in the diversity policy,
- adhering to terms of employment and health and safety practices,
- introducing policies that support individual action.
- assisting where possible to reduce 'food deserts'.

Food availability addresses the "supply side" of food security and is determined by the level of food production, stock levels and net trade.

Current research shows that the nexus between water, food and energy will have an increasing impact. The demand for biofuels is one example.

Past land management practices(including pests, weeds and extreme weather events) can impact on soil health and productivity. So can the introduction of new technologies and methods of adaptation, including short term forecasting, better regional information and risk based assessments. Increasingly, arable land is becoming scarce, as are phosphorus fertilisers and fossil fuels.

Markets also have to contend with bribery and corruption, money laundering and fraud by introduction of robust policy implementation and assurance. Lagging investment in agriculture and infrastructure results in slower yield growth. While irrigation and services are needed for yield, warehousing and distribution systems improvements seek to reduce potential for waste.

The model must consider that some waste may become a resource for other processes. For example, rather than becoming landfill, a circular economy approach will upcycle. Food waste may become animal fodder, biofuel inputs or composted into fertiliser.

Availability may be impacted by pandemics such as Avian and swine Flu, measures to control contamination of food such as wheat rust, fruit fly, or locusts, or migration of labour. Organisations have a wide scope to consider as well as many strategies that may be adopted to prevent, mitigate or respond to availability issues.

Food Utilisation addresses adequate diet, clean water, sanitation and health care to reach a state of nutritional well-being where all physiological needs are met. Often these initiatives are supported by contributions to local causes, transfers of intellectual property, cash and food and other activities outside the predominant business model. The model must therefore address the issue of philanthropy.

Most of all, food systems must offer stability and not risk losing access to food as a consequence of sudden shocks (e.g. an economic or climatic crisis) or cyclical events (e.g. seasonal food insecurity). It is for this reason Integrated Reporting must be dynamic.

Reporting of these opportunities creates symbols and stories that promote good corporate citizenship. They also enable the environment and create momentum to ensure safeguards exist in the community.

Other

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

Organisations can operate multiple strategies and business models simultaneously.

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?

Materiality needs to expand further than influence the assessments of providers of financial capital. As discussed in question 9, the providers of financial capital are not the only primary users of reports and we should expect robust discussion about performance and opportunity costs. Securing the capitals may not be by ownership, especially in the case of intellectual and human capital. Ensuring continuing support internally and external is a key reason for integrated reporting.

Society has pillars which include safeguards. Our reporting creates symbols for our licence to operate and adherence to protocols such as food security enhances an organisation's reputation and likelihood of future integrity. Providers of financial capital materiality limited view is consistent with logic provided by Milton Friedman (see question 5). Conventions such as UN Global Compact derived from the Universal Declaration of Human Rights are proving impossible to ignore.

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Business should make sure that they are not complicit in human rights abuses.

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

The concept of competitive harm needs to be clarified in that it should not allow business activities to remain undisclosed if disclosure would be considered material to issues like food security and water scarcity. We should expect that materiality should not be measured by impact on outcomes of business alone but also on the opportunity cost.

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?

Data included in the report should be reported periodically online to demonstrate adherence to internal reporting timetables and integrity assessments. Outcomes of more robust reviews and summaries of stakeholder engagement should be made available.

IIRC should consider further projects similar to recent reviews demonstrating Integrated Financial and Sustainability Reporting in the United States to benchmark best practice. These benchmarks then should be investigated to show scope and measurement methods to highlight any limitations.

Issues such as food security do not have significant practice and therefore organisations such as United Nations and other Non Government organisations should be invited to moderate and convene industry discussions.

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

It is exceedingly difficult to assess the food security of a region or person against the actions of an organisation. For this reason, organisations routinely suggest that either due to materiality or reliability, reporting is likely to be impacted by material error and fail to report.

Sustainability issues will require a practice statement to be issued by industry to allow relevant information to be assessed.

Other

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

As discussed in figure 7 of the business model, there is an expected equation as to likely outcomes and outputs from the business activities and inputs. As discussed earlier, capacity building in society is rarely reported as is direct opportunity costs of activity. In order to consider food security from a corporate governance perspective, the access/availability/utilisation checklist must see both what value creation exists but also where activity has destroyed value, especially in the commons.

Food security has some key hotspots such as arable land, water scarcity and food waste. By understanding a pareto of these issues, reporting may help society recognise the true priority of our endeavours. For example, diversion of water from small farmers in Egypt on top of the significant price increases was a contributing factor in political unrest.

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?*

For reasons of conciseness, we should assume that those responsible have carried out their obligations. A statement should only be warranted when exception to the rule occurs.

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

As perspectives and disciplines expand to consider other themes regarding the business model and the ability to make continue to create value, there should be a statement to explain the reasons for the change to governance. Stakeholders should be educated on the reasons for increased priority as well as any technical information necessary for a stakeholder to assess that reports are reliable.

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?*

Assurance should be split into methods ratified by IIRC and those of an experimental nature.

Reporting has considerable accepted models that should be ratified by IIRC such as

- Environmental management
- Water use.
- Hazardous waste.
- Waste management.
- Product formulations.
- Employment.
- Human rights.
- Ethics

Many of the other disciplines to be reported in the initial period can be considered to be experimental, especially in the case of issues like food security, planetary boundaries, or circular economy. Integrated reporting should allow for innovation in reporting but make clear distinction as to the accepted nature based on peer review status.

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.

The difficulty of Integrated Reporting is that over time, we receive updates which impact on prior period reporting. While getting Performance certifications and compliance assessments may provide a short term KPI, the purpose of the report is to assess future performance. Reliability of the reporting system needs to be discussed.

The model currently adopts principle of periodicity whereas performance of systems are better measured against protocols such as trend and variation from the mean, with appropriate control and maintain and system improvement initiatives reported.

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?

The report must mirror the concerns of society and for this reason will be hamstrung at first due to the lack of measures. The World Economic forum produced a list of Risks in 2012/3 which included energy, water scarcity and food security, yet we are yet to see the true impacts reported at organisation level. I can foresee reports giving testament to the ongoing performance of organisations despite the fact we are reaching a point in history where energy and food are constrained through water shortage leading to widespread economic constraint.

The framework has the mechanics to demonstrate value creation but needs to install symbols that will provoke the discussions necessary to drive innovation in reporting. Reports in 2008 should provide enough evidence to suggest we have a long way to go given the upheaval since. I look forward to steady progress in the Integrated Reporting arena as a result of this consultation process.

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?

As stated above I envisage explanatory material in the following areas

- Measures to be included in the reporting boundary.

Measures should be defined with confirmation of peer review status and scope with regards to the report. With issues like food security, energy and water scarcity likely to become contested, particularly by United Nations and other Non Government

Organisations, readers of reports should have access to explanatory notes as to the voracity of the measures.

- Composition of the Capitals

Over time, as understanding of the true capacity building is determined of Capitals by the process, benefits likely to be sourced from the capitals should be explained. Changing politics, economics, sociology, technology , ecology and legal issues will result in changing composition of Capitals and the likely extracted worth to the organisation.

- Business model parameters

Over time, organisations routinely consider bargaining power and threats of industry composition as defined by Porters 5 forces. Explanatory material should be available to express changes in the competitive forces and the willingness of the organisation to expand or contract within the value chain.

Other

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