

Subject Intergrated Reporting <IR> - IIRC From Cecile Churet
 Framework - Consultation To IIRC Secretariat
 comments

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Page 1 of 5

Consultation comments

Feedback to the IIRC

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.

RobecoSAM has been a longstanding advocate of improved disclosure with respect to sustainability challenges and sustainable business practices and has engaged with hundreds of corporates across sectors and regions over the last decade to promote better reporting practices. Since 2011, we have encouraged companies to adopt the concept of “integrated reporting” by including a discussion of material sustainability issues in their annual report and by reporting on relevant KPIs alongside financial data. We are therefore generally supportive of the move towards integrated reporting practices.

Our overall opinion of the <IR> Framework as it stands is that it is generally comprehensive and going in the right direction. Whilst we have a few concerns, we generally find it helpful and would expect many companies regard it as useful guidance when developing more integrated reporting practices.

Our main concern is that it should be integrated in existing Annual Reports rather than become a standalone “integrated report” (an oxymoron in our view and at odds with the current proposal by the European Commission that encourages companies to publish this information as part of their Annual Report or at the very least to attach it as an annex to their Annual Report).

We would also like to see greater attempts to quantify value, impacts, performance where possible, as the current framework places too much emphasis on narrative content in our view.

Finally, we would like the strategy discussion (which connects the capital, business model and value creation) to be presented as an “integrated strategy”. In other words, we would like management to articulate how the sustainability strategy supports the corporate growth strategy (i.e. what are the connections between the sustainability initiatives and in what way(s) are they expected to help deliver on the corporate growth strategy).

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.

Overall, the guiding principles are fine. The “connectivity” principle might be difficult to achieve in practice, especially at aggregate group level, unless there is a parallel push for triple bottom line accounting methodologies that help quantify the value of different capitals. In our view, the “stakeholder” principle should focus primarily on stakeholder engagement as a mean to identify material issues, it does not need to disclose in too much detail the nature of the relationship with stakeholders and how their needs are addressed (as currently expressed in paragraph 3.16).

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?

While we do agree with the fact that <IR> should be applied across all existing reporting, we do not support the notion that <IR> should translate into a standalone complementary report. We strongly believe it should be integral to the established Annual Reports and that the primary purpose of the <IR> Framework should be to provide guidance on how to improve Annual Reports to communicate an integrated view of the financial and sustainability aspects of the business and how they are jointly managed to create long-term value.

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?

In our view, the <IR> Framework should more clearly emphasize the role of KPIs as essential to performance and impact measurement and hence reporting. However, it should refrain from endorsing specific KPIs as this is out of its mandate. We believe corporates should be in the driving seat when it comes to KPI development, since KPIs for reporting purposes should be derived from KPIs used internally for management purposes. Industry initiatives provide good platforms for corporates to create consensus on industry-specific KPIs, which can then enable greater comparability for investors. Investors can certainly also play an important role by providing input on which KPIs they would consider most useful but their most important contribution will be in the use of these KPIs used in analysis and investment decisions. Ultimately, with the “supply of KPIs” coming from corporates and “demand for KPIs” coming from investors, market forces should provide a clear signal about the KPIs that should be standardized over time. This should then be formalized and institutionalized by established regulators and accounting professionals.

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 do agree with the focus on the different types of capitals. However, whilst the six categories provide one way to break down the types of capital, we do not think that this should be the only acceptable way. Companies should have the flexibility to categorise the types of capital in different ways and to report accordingly. For instance, where relevant, intellectual and human capital could be combined and social capital could be split between suppliers / business partners and external stakeholders (e.g. local communities). We also agree that companies should provide an explanation if they consider one type of capital to be immaterial (paragraph 4.5) but we do not believe it is appropriate to refer to a “benchmark” in paragraph 2.19 and 2.21.

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).

6. *Do you agree with this definition? Why/why not?*

We agree with this definition.

Business model (Section 2C) continued

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 agree with this definition.

Other

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

We would suggest a few amendments to paragraph 2.41. Firstly, the reference to value creation from a shareholder perspective (i.e. the primary intended user of integrated reports) should be associated with generating a return on capital superior to the opportunity cost of capital. In the context of “shared value creation”, this definition should be broadened by including all relevant stakeholders (customers, employees, communities) and by broadening the notions of “returns” and “sources of capital” accordingly.

We also believe that paragraph 2.41 should state explicitly that the present value of expected future cash flows can be impaired by negative impacts or unsustainable uses of other sources of capital. This would help clarify that whilst shareholder value is the primary focus of integrated reporting, it depends on other types of value creation or destruction that affect other sources of capital.

We believe that the statement in paragraph 2.42 which states that “it is not the purpose of an integrated report to measure the value of an organization or of all the capitals, but rather to provide information that enables the intended report users to assess the ability of the organization to create value over time” is confusing. We believe companies should attempt to measure this value and report it where possible. Even though it remains a challenge, this should be encouraged in the <IR> Framework as an aspirational goal, without necessarily being prescriptive. Specifically, we would like the wording in paragraph 2.24, 4.32 and 5.8 modified to encourage companies to move in this direction. Otherwise we see a risk that it will be considered sufficient to provide qualitative information as soon as quantifiable information proves too challenging.

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 agree with this approach to materiality if it is clear that the concept of value creation refers to “financial value creation that is sustainable in terms of its impact/use of associated types of capital”. This would imply striking the right balance between meeting the expectations of the providers of financial capital (primary intended report users) and those of society broadly speaking in terms of environmental preservation, social progress and equality. Only then can we truly advance the broad sustainable development agenda that will benefit all stakeholders.

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?*

The <IR> Framework should contain guidance on assurance. This would also be in line with the European Commission Directive 78/660/EEC¹. In our view, this should consist in an assurance statement of all the relevant data contained in an “integrated Annual Report”.

¹ As required by Article 51a (e) of Directive 78/660/EEC, the report of the statutory auditors should also contain an opinion concerning the consistency or otherwise of the annual report, including non-financial information contained in the annual report, with the annual accounts for the same financial year.

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).

We believe the “Future outlook” content element is unnecessary and repetitive, as it is already included as a time dimension in other content elements (eg. External environment, opportunities and risks, strategy etc).

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, because it would be a way to demonstrate their involvement, level of responsibilities, as well as increase the level of accountability.

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?

Ideally it should cover the “integrated Annual Report” as a whole. If this is not possible then it should clearly indicate which information is assured and which is not.

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?

We believe it is appropriate.

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. Types of capital
 2. Materiality determination process
 3. Value creation
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About RobecoSAM

RobecoSAM is an investment specialist focused exclusively on Sustainability Investing. Its offerings comprise asset management, indices, private equity, engagement, impact analysis and sustainability assessments as well as benchmarking services. Together with S&P Dow Jones Indices, RobecoSAM publishes the globally recognized Dow Jones Sustainability Indices (DJSI). RobecoSAM was founded in 1995 out of the conviction that a commitment to corporate sustainability enhances a company's capacity to prosper, ultimately creating competitive advantages and stakeholder value. Headquartered in Zurich, RobecoSAM employs over 100 professionals. As of December 31, 2012, RobecoSAM's assets under management, advice and license amounted to a total of EUR 8.6 billion.