

CONSULTATION QUESTIONS

The IIRC welcomes comments on all aspects of the 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 Framework are also encouraged through the questions.

Key Points

In the midst of discussions about non-financial reporting, as opposed to financial reporting, which have continued since the 1990s, there have been many attempts to provide different kinds of corporate reports. Corporate reporting is now on the verge of a historically major transformation. All interested parties must certainly be aware of this. In the face of this, we believe the IIRC Framework is in a stage of innovation, having developed concepts that divert the flow of current thinking about financial and non-financial reporting in a new direction.

The capitals, business model, and value creation concepts that the IIRC presents make use of newly defined concepts, but it is clear they are firmly based on financial and non-financial reporting.

On the other hand, while the Framework follows a principles-based approach rooted in new concepts, the preparation of integrated reports has really only just begun in an environment where many are accustomed to traditional reporting. Accordingly, it is necessary first for integrated reporting to spread and become standard around the world and for this movement to receive support.

At this stage, we will provide limited comments from the perspective of a company that supports the drawing up of reports. Comments will vary slightly depending on whether they come from report writers, report readers, or those who wish to ensure the reliability of reports. Limited time and knowledge may also make comments less effective than they might be, and it is natural for there to be small misunderstandings as well. However, we believe that we share the same goals in wishing for integrated reporting to become standard.

About Edge International Inc.

Since its foundation in 1990, Edge International's core business has been the IR communications field, centered on designing and producing annual reports. As the relationships between corporations and shareholders as well as corporations and society are undergoing major shifts as a result of

various system reforms and changes in social conditions, corporate IR communication is also approaching an era of great transformation.

There is an increased tendency to emphasize invisible assets and ESG factors, and Edge International has supported the integration of financial and non-financial reporting through such activities as providing Japanese translations for A4S and the IIRC Yearbook. It continues to provide support through participation in WICI Japan, SIF Japan, and the ESG Communication Forum.

Now integrated reporting is helping to bring about a reform in corporate communication through such initiatives as the Framework developed by the IIRC. Given the importance of this change, Edge International is simultaneously strengthening both its traditional IR and ESG approaches.

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.

No.

However, we think the principles-based requirements in the Framework are given in a total of 20 items, including 1.11 and 1.12, but this point felt extremely difficult to understand. Because of this, it would be advisable to include a numbered summary of the requirements so that they can be easily found. (Presently, there is only a partial summary on page 6.)

Also, 1.2 and 1.3 are definitions rather than requirements. To make them into requirements it would be best to use the word “should” to match the other requirements.

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 paragraphs 1.18–1.20.

Regarding 1.18, for example, the South African company Sasol made its annual integrated report 2012 its primary report, providing cross-references to detailed financial information and sustainability information in other reporting publications.

Public Japanese companies that produce integrated reports also provided detailed IR and CSR information as Internet links. As this kind of interrelationship will become essential, it is necessary to clarify the role of the integrated report and its relationship with other kinds of specialist information.

We talk about 1.19 in our answer to question 3.

Our response to 1.20 is the same as to 1.18.

We agree that an integrated report is different from other reports. However, we feel that the points of emphasis in 1.20 should be limited to the three fundamental notions of the capitals, the business model, and value creation concepts. This is because we believe the other factors are subsumed under the above three concepts.

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 considering sources of indicators or measurement methods developed by other organizations, for example, paragraphs 1.19, 2.17, 2.24, 2.28, 2.34, 2.35, 2.37, 2.43, 3.10, 3.11, 3C, 3.38, 3.50, 3.52, and 4 will certainly be useful as references for explaining qualitative and quantitative non-financial information.

For example, in European integrated reporting, reference is made to guidelines and initiatives including the GRI guidelines and the UN Global Compact. In integrated reporting by Japanese corporations, some corporations make use of ISO 26000 for non-financial information management. In note 19 to “F Performance and outcomes” in the IIRC’s *Prototype of The International <IR> Framework* there is mention of guidelines by WICI and GRI among others.

Consequently, we believe that as a minimum, WICI, GRI, the UN Global Compact, and ISO 26000 should be included as non-financial information sources with a wide level of trust around the

world. We also think this is connected with the problem of assuring the validity of non-financial information in question 19.

Other

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

European and Japanese public companies have produced integrated reports since before the publication of the IIRC Framework. These integrated reports added CSR information to traditional annual reports in an attempt to amalgamate financial and non-financial information.

Against this situation, the IIRC Framework presents concepts of capitals, business model, and value creation that are newly defined, although in keeping with the history of annual and sustainability reports in such countries as the UK, taking the idea of integrated reporting one step further. This point is what makes IIRC's integrated report special and groundbreaking.

However, corporations that plan to produce integrated reports, but have been used to traditional methods and ways of thinking, will come face to face the IIRC's principles-based requirements. Within the requirements, there are items concerning the applicability and effects of capitals, such as materiality. We think it is extremely difficult to faithfully follow the principles-based requirements when there is no report in existence that was drawn up with them as a basis.

On the other hand, many corporations are already including the IIRC's capitals, business model, and value creation concepts as part of current integrated reporting practices.¹ Publication for Japanese annual reports peaks in August, but the IIRC way of thinking is certainly steadily exerting an influence. There are also clear signs of awareness of the IIRC's capitals in the integrated reports and annual reports of European corporations that are not part of the IIRC's pilot program.

We believe integrated reporting in its earlier form is converging with or coming to reference the IIRC Framework and its capitals, business model, and value creation concepts. This is just an opinion, but from the way that corporations in Europe and elsewhere have talked about "effects" and "outcomes" in integrated reports, annual reports, and sustainability reports published in 2013, and from the way they have adopted the capitals concept unchanged, it is possible to discern that future. Of course, the form of reporting is different in, say, France and South Africa, and slightly different again in the Netherlands. In Japan too, there is a slightly different form in which local features remain. However, although these newly defined IIRC concepts for capitals, business model, and value creation have basically spread through the corporate world, we get the impression they are driving a new narrative for corporations. In this way, the significance of integrated reporting is in providing a tool for corporations to tell a new narrative. Accordingly, although it is ultimately necessary to comply with the principles-based requirements, to assist with widespread adoption we

think it would be a good idea to also have a reference level with more-relaxed requirements.

Note 1: For example, the Japanese public company Omron published an integrated report in 2012 in which they described a philosophy, “Borrowing should be returned with interest.” The explanation at least matches with the IIRC’s capitals model.

“It could be said that all the resources needed to operate a business are borrowed from society. For this reason, at Omron, our basic belief is that the Company belongs to society. The employee, capital, and social infrastructure used in our business are all borrowed from society, thus our responsibility is to return these borrowings with interest.” (Cf. Omron Corporation, Integrated Report 2012, page 58)

We do not know whether the IIRC capitals model actually influenced Omron’s Integrated Report 2012, but this way of thinking has taken root in Japanese corporations’ management models.

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 agree.

This is because we think that capitals are a core concept of the IIRC Framework. Value creation until now has been taken to be as described in 2.41 in the Framework, but as we understand it the IIRC has taken value creation as being based on a wider definition of “value” with capitals as prerequisites for value creation. This has been described as an “expanded definition of capital”² by Takeshi Mizuguchi, a professor at Takasaki City University of Economics.

Also, although the Tokyo Stock Exchange’s Principles of Corporate Governance for Listed Companies takes a capital market perspective in positioning stewardship of shareholders and managers centrally, to achieve continued corporate growth it is necessary to perform a complex adjustment of interests affecting a wide range of stakeholders.

Furthermore, the *IFRS Practice Statement’s* “Management Commentary” and the Accounting Standards Board’s *Reporting Statement: Operating and Financial Review* make reference to “resources” and “relationships” that influence an entity’s value. We understand that these resources were ultimately absorbed into the IIRC’s capitals model as human and intellectual capital resources. Also, concerning relationships, as with stakeholders for a company, the “Management Commentary”

promotes inclusion of resources and relationships in non-financial reporting.

The IIRC took these concepts of resources and relationships and made them new by turning them into capital concepts, developing them as tools for expressing capitals in the context of long-term corporate value, or to put it another way, presenting an “expanded definition of capital.” Expanded capital includes not only such existing aspects as stewardship as a part of corporate governance but also hidden drivers of a variety of changes. To borrow the words of the previously mentioned Dr. Mizuguchi, “An integrated report does not simply supplement the most important current report, the annual report; it replaces it.” We can also see in the IIRC’s *Discussion Paper* (page 13) that the integration in an integrated report “helps to break down established silos in the way information is reported, and the traditional focus primarily on financial matters.”

The capitals concept in itself supports this way of thinking. The concept is based on five capitals developed in the late 1990s by the British Sigma Project, supported by Forum for the Future, but the innovation of the IIRC framework is that the capitals are activated through the business model and value creation³.

Note 2: Takeshi Mizuguchi, “Responsible Investment,” 2003, Iwanami Shoten, Publishers. See this author for information about expanded capital and stewardship.

Note 3: Understanding of the IIRC Framework and related matters comes with reference to “Management for Pursuing Sustainability and Competing in the Global Market” contributed as the Japan Association of Corporate Executives’ 17th Corporate White Paper by Professor Yasuhito Hanado (senior consultant for the Waseda University Intellectual Capital Research Society, member of the WICI Japan Governance Group).

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

The idea of multiple capitals is groundbreaking, but because it is a new way of thinking there is a sense that capitals and stakeholders have become mixed together. “Intellectual capital” has been added to and “social and relationship” capital has replaced “social capital” in the original five capitals developed by the Sigma Project, leaving the impression that several concepts have been grafted together.

In the final framework, we hope that the capitals will be fine-tuned and simplified.

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.

This is because we think that the combination of the IIRC Framework's business model concept and the capitals concept originally developed by the Sigma Project has made a value creation story possible. To bring forth the value contained in each of the six capitals, they are put through a particular business model where value-adding activity leads to "output" in the form of products and services, which leads to further outcomes affecting each form of capital.

We agree with the definition of a business model where it is inseparable from the six capitals and shares a dynamic relationship with them leading to output (products and services) and outcomes that affect the capitals themselves.

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.

We see outcomes as the consequences of output from each form of capital being invested in the business model. For example, if sales of products and services increase, this will have an effect on each form of capital. For shareholders, who represent financial capital, the ROE will increase, while for manufactured capital, facilities will become more efficient, and for natural capital there will be a reduction in emissions factors. It is very easy to understand, and we agree with the definition.

However, we would like the concepts of output and outcomes as well as input and output to be more clearly organized.

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 (Section 4E).

In 4.24 and 4.26 in Section 4E, there is reference to organizations with several business models. Most corporations follow several business models through use of core technologies, purchasing, and

other activities. It is the same in Japanese manufacturing. We would like this section to be expanded.

Other

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

Generally, as also explained in the IIRC Background Paper “Business Model,” people usually understand a business model as something applied to make money. However, the business model in the IIRC Framework is completely different from this traditional concept, being a place for creating value from six capitals in a value creation process. We think it is important to emphasize this. To put it another way, value creation based on capitals is a prerequisite for the integrated reporting business model, and its difference from the traditional business model cannot be stressed enough.

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?

Fundamentally, we agree.

Presently, materiality in non-financial reporting is determined through GRI or AA1000 with materiality in integrated reports also generally based on GRI and similar systems.

However, the IIRC’s definition of materiality is connected more with short-, medium-, and long-term value creation rather than sustainability information, and we would like to see more of a role for sustainability. Accordingly, this needs to be emphasized.

Materiality and conciseness (Section 3D)

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

In Japan, those responsible for governance are the members of the Board of Directors and the Board

of Auditors, but with the shape of the integrated report still unclear it will be difficult for those board members to make decisions about materiality, representing another hurdle to the adoption of integrated reporting.

The integrated report is still at the innovation stage and has not been widely adopted. Even if ultimately decisions should be made by senior management, at this stage there should be a system that only represents a step in that direction.

Credibility (Section 5E)

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?

We believe that ultimately auditing or assurance is an appropriate way of demonstrating the reliability of data. However, we also think we need to discuss what demonstrating reliability in integrated reports actually means. This is connected with question 19.

Presently, the reliability of financial data is demonstrated by auditing the financial statements, while the reliability of non-financial data is demonstrated through assurance engagement or the comments of opinion leaders. The reliability of integrated reports published now is demonstrated through these traditional methods with a separation into auditing of financial and assurance of non-financial information.

In some Japanese integrated reports, while financial statements are audited, non-financial data is shown to be reliable through third-party opinion leaders. This shows that the customary way of demonstrating reliability in CSR reports has been carried through without change into integrated reports.

However, we think the IIRC's integrated report, which is based on integration of financial and non-financial information, is slightly different in nature (for more on this, see the responses to questions 4 and 5). That is why we think further debate on reliability is necessary (please see the response to question 19).

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

In paragraph 3.31, it is stated that internal reporting systems enhance reliability and in paragraph

3.32 that those charged with governance make decisions to ensure reliability. Public companies already have internal control systems in place and people responsible for governance making decisions to ensure reliability of financial statements.

However, non-financial data is generally not even defined with no clear idea of the range it covers compared with the financial statements. Novo Nordisk and other leading companies have been working to raise the reliability of non-financial information to the same level as financial information, but we are not sure it is possible for all corporations to do so. This is partly connected with the lack of information systems and the problem of cost described in paragraphs 3.38 to 3.41, but also because integrated reports are at an innovation stage and are still not widely used.

It follows that the most important thing is for integrated reporting based on the IIRC Framework to be adopted worldwide or at least for reporting that integrates financial and non-financial information to be adopted, even if not based on the IIRC Framework. This will lead the way to solving the above problems.

Other

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

It is easy to see “conciseness” as meaning a reduction of pages in an integrated report. In fact, there is a tendency in integrated reports to cut the notes to the financial statements that make up most of an annual report. However, we see conciseness, in cases where content has been enhanced, as the brevity of a value creation story that shows logical progression.

Accordingly, conciseness in integrated reports should not be equated with a small number of pages.

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).

In paragraph 4.2 it is stated that the order given in paragraph 4.1 is not meant to be universal, but we think that “E Business model” should at least come after “A Organizational and external environment” and before “B Governance.” The business model demonstrates the IIRC’s key concepts of capitals, business model and value creation. An integrated report is a tool to understand a corporation’s value creation at a glance. The business model plays an important role as a place for a corporation’s story.

Although ultimately the order will be left to those responsible for compiling reports, we think that given its importance, the position of the business model in the suggested order should be changed.

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?

We agree to a limited extent. The reason is as stated in the responses to questions 12 and 13.

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

As stated in the responses to questions 12 and 14, the widespread adoption of the integrated report will naturally make essential the participation of those responsible for governance.

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?

We do not clearly understand the question, "If assurance is to be obtained, should it cover the integrated report as a whole?" As we understand it, when compiling an integrated report based on the IIRC Framework, questions of assurance can be divided into the following three types: (1) Is the integrated report drawn up according to the principles-based requirements in the IIRC framework? (2) Has materiality been appropriately determined? (3) Has the numerical data been calculated according to fixed standards?

Assurance in current CSR reports has been conducted in this way, while for annual reports based on financial statements auditing is carried out based on auditing standards generally agreed to be fair.

In integrated reporting until now, assurance of non-financial information and auditing of financial information have remained separate, although included in the same report. It follows that for current integrated reports, assurance is conducted separately rather than for the integrated report as a whole.

Concerning assurance for the integrated report as a whole, there are the questions of assuring whether the integrated report has been drawn up according to the IIRC's principles and assurance for the calculations of non-financial information included in the report. However, external information sources such as GRI and WRI have been established for assuring these calculations.

Consequently, when asking, "If assurance is to be obtained, should it cover the integrated report as a whole?" there is a need to define "assurance for the integrated report as a whole". Furthermore, it is best to leave open the possibility of using external information sources (this is connected with question 3).

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.

Concerning paragraph 5.19 within 5E, in the case of Japanese corporations, internal control systems have been established that conduct audits in line with the Financial Instruments and Exchange Act. These systems oversee compliance and risk management, closely connected with the materiality and risks discussed in the Framework. For whoever is preparing an integrated report, involvement with

internal audits is also essential, and making the preparation of the integrated report subject to an internal audit will increase its reliability. However, in a corporation that becomes possible through the approval of the person responsible for governance. This is connected with the problem in paragraph 5.18 of the Framework.

Regarding paragraph 5.21, our company's main business activity is supporting the production of integrated reports, and we are not specialists on assurance engagement. Accordingly, we cannot comment.

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).

No other comments.

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 or providing report users with information about an organization's ability to create value in the short, medium, and long term?

As we said in the responses to questions 2, 4, and 5, the Framework provides new tools in the way of thinking about corporations' value creation as coming through development of capitals within a business model. Since 1990, amidst much discussion of non-financial reporting as opposed to financial reporting, there have been many attempts at different kinds of corporate reporting. There has also been discussion in annual reports of the influence of resources and relationships on corporate value.

Now, corporate reporting is on the verge of a great historical transformation. Within this context the IIRC Framework is in an innovation stage, having developed tools that divert the flow of thinking about financial and non-financial reporting in a new direction. We believe that the collage of concepts the Framework provides, with the capitals, still retaining something of a grafted shape, the business model, which develops those capitals, and the final Outcomes that bring value creation

to the corporation and society, makes possible a new narrative for corporations and organizations.

Because of that, the first stage is to encourage widespread adoption of integrated reporting so that report writers will make use of the Framework.

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) The way of thinking and concepts presented by the IIRC in its Framework will be extremely new for people encountering them for the first time. Until now, in Japan a rules-based approach has been more common than a principles-based approach. New concepts are always needed for innovation, and it would be good to have some compact additional information covering these concepts. (Although the *Background Papers* fulfill this role to some extent.)
- (2) An accompanying list of authoritative sources for indicators or measurement methods developed by established reporting standards authorities and others
- (3) A leading example of an integrated report.

Other

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

No other comments.

As stated in the responses to questions 4, 5, 22, and 23 and the Key Points.