

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.

Change imprecise terminology of basic definition: As an investor relations consultancy for Japanese corporations, we note a problem with the basic definition – “<IR> is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time” (Framework 1.2) – and recommend use of the term <IRP> for “integrated reporting process”, which better denotes the full scope of integrated reporting’s meaning as a process and discipline, avoids overlap with the established term investor relations (IR), and prevents confusion with the integrated report per se.

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.*

Change imprecise terminology of basic definition: We note a problem with the basic definition – “<IR> is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time” (Framework 1.2) – and recommend use of the term <IRP> for “integrated reporting process”, which better denotes the full scope of integrated reporting’s meaning as a process and discipline, avoids overlap with the established term investor relations (IR), and prevents confusion with the integrated report per se.

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?*

From our perspective in Japan, we recommend a focus on the who, what, and how:

A. Who: In Japan in particular, it is important that integrated reporting not lose sight of the primary audience: “An integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments”. (Framework 1.6) Our overall reading of the Draft suggests that this point cannot be overemphasized and should even appear as a key theme on the cover of the Framework.

B. What: In Japan the “integrated reporting process” <IRP> is sometimes too narrowly defined, or misinterpreted, as a single “integrated report” only; that is, an integrated report in Japan might sometimes be prepared as merely a kind of unwieldy combination of the financial annual report plus existing CSR, sustainability, and/or environmental reports, with some arguing that combining reports marginally cuts costs. As the use of the gerund (“-ing” form of the very phrase “integrated reporting process” (we suggest <IRP> as we commented elsewhere) implies, integrated reporting is a continuous or active process, and not simply an annual exercise confined to one single, overly-long, difficult-to-follow, and hopelessly cluttered document.

C. How: Accordingly, per Framework 4.4, “An integrated report should stand alone as a CONCISE communication, LINKED to other reports and communications for those stakeholders who want additional information” [upper case added for emphasis]. “Concise” in this case means a sharp focus on what is really material information for the principal audience, namely the providers of capital interested in making the right allocation decisions over time. The IIRC Emerging Integrated Reporting Examples Database provides examples of the range of reports that qualify as best practice cases, including, to cite but one report, the Coca-Cola Sustainability/CSR Report 2012 (<http://goo.gl/Eyfws>), which is not a single all-encompassing report per se.

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?*

Best practices: Rather than “established standard setters”, Japanese and other corporations might gain the most from being able to see best practice examples of

integrated reporting style content elements and formats so as to become better able to implement these across their own corporate communications processes. Indeed, the aforementioned IIRC Emerging Integrated Reporting Examples Database can provide examples of the range of reports that qualify as best practice cases.

Other

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

Governance in Japan: From our perspective in Japan, the “integrated reporting process” (<IRP>) can have a positive impact on governance in Japan, where outside directors are still more the exception than the rule (only about 35% of Tokyo Stock Exchange 1st Section companies have outside directors): Going forward, one of the roles of outside members of the Board of Directors ought to be to conduct regular reviews of management strategy and its impact on corporate value creation over time.

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?*

Potential beneficial impact on governance in Japan: One of the potential implications of the integrated reporting process (<IRP>) in Japan would be to encourage both company management and outside Board of Directors members, who, as we commented elsewhere, are still rare in Japan (only about 35% of Tokyo Stock Exchange 1st Section companies have outside directors), to (a) utilize the capitals model as “a benchmark for [consideration of] all forms of capital [i.e., financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital] they use or affect” (2.19) and (b) work together to reach strategic decisions about how these factors can best create corporate value.

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

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?*

Accounting challenges: We are left with the problem that many aspects of the business model as defined by IIRC and information proposed for inclusion in an integrated report can be accounted for solely in notional or qualitative terms, as shown by the comment that “Many ‘knowledge’ and ‘organizational’ intangibles are not captured on the balance sheet but may be vital to a robust business model” (Framework 2.28).

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?*

Limits of accounting: As we commented elsewhere, we are left with the problem that many aspects of "outcomes" as defined by IIRC and proposed for inclusion in an integrated report can be accounted for solely in notional or qualitative terms, as shown by the comment that "Many 'knowledge' and 'organizational' intangibles are not captured on the balance sheet but may be vital to a robust business model" (Framework 2.28).

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)?*

Other

10. *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).

11. *Do you agree with this approach to materiality? If not, how would you change it?*

There are several materiality related qualifications to add:

A. Primary audience: The primary intended report users – providers of financial capital – ipso facto may not know what information is material for any given company; therefore guidance from the corporate issuer of the report is required. Importantly, corporate management and outside directors have a fiduciary duty regarding the materiality aspect of integrated reporting because they have a more comprehensive and more accurate sense of situation; this is particularly important in Japan, where outside directors are still the exception rather than the rule. In point of fact, analysts and investors need the help of company managements in assessing the impact of non-financial issues, such as knowledge, organizational, and environmental factors. The analysts and investors who can perform such assessments and forecast long-term performance may well come out ahead recognizing corporate value creation trends.

B. Increased burden of risk management: A given stakeholder group, not only limited to investors, may become dissatisfied about a company's failure to address issues that concern that stakeholder group, which could in theory adversely impact corporate value; or, a crisis or other adverse event might occur. That is, an issue that may not have been material at one point might become material later. Therefore, the responsibility for risk contingency planning takes on added importance for both corporate management and

outside directors.

C. Need to reduce clutter: At least for some Japanese companies, one of the key issues in integrated reporting is to reduce some of the “clutter” (non-material information) imported from CSR and other types of reports. Dealing with this issue will require a sharp focus on what is, from the perspective of investors, material for corporate value over time.

12. 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).

13. How should the reliability of an integrated report be demonstrated?

Need for basic definitions and best practices: The key issue is what providers of financial resources will accept. The sensitivity of this acceptance may vary from sector to sector, company to company, or investor to investor. However, as many of the accounting issues and best practices have yet to be defined, the aforementioned IIRC Emerging Integrated Reporting Examples Database can provide examples of the range of reports that qualify as best practice cases.

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

Other

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

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).

Need to think strategically: As opposed to believing that merely bolting several different reports together meets objectives, Japanese and other corporations will need to carefully consider how to logically and concisely answer the questions posed by the following content elements: “A. Organizational overview and external environment, B. Governance, C. Opportunities and risks, D. Strategy and resource allocation, E. Business model, F. Performance, G. Future outlook” (Framework 4.1 A.-G.).

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?*

A. Raises organizational issues: A statement acknowledging the governance responsibility of an individual person might be provided, but with the proviso that each party, whether in Japan or elsewhere, clearly defines what their roles are and where they disagreed with either the content or approach of the company.

B. Japanese C-Suite, outside directors, and IROs must work together: Some Japanese companies will have to reexamine the positioning of Investor Relations Officers within their organizations. IROs need to be as close to C-suite management as possible, as they typically are in leading companies in the United States and Europe. C-suite management, outside directors, and IROs need to understand the integrated reporting process (<IRP>) issues, and make an assessment of what is and is not material for the future of the company, and then incorporate it into strategy.

18. *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).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

The market will judge: In perhaps many cases the final decision on materiality will rest with company management and outside directors, and be guided by conclusions that emerge from management meetings with analysts and portfolio managers. In those cases, credibility can be linked back to investor judgments as expressed in corporate valuation by the market. However, where specific factual or technical matters can be verified, such as volume of effluent emissions or the reliability of financial statements, etc., then appropriate external assurance can also be usefully obtained.

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.*

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?

A. Lengthen time horizon: Utilization of the integrated reporting process (<IRP>) may work to decrease some of the excessive emphasis on short-term-ism by both corporations and investors.

B. Help create global benchmarks: With capital flows now truly global, it will be useful to develop universal benchmarks that stakeholders can use to assess various corporations regardless of national borders.

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?

A. We strongly recommend use of the term <IRP> for "integrated reporting process," which better denotes the full scope of integrated reporting's meaning as a process and discipline, avoids overlap with the established term investor relations (IR), and prevents confusion with the integrated report per se.

B. To assure that an already extremely busy and information overloaded primary audience is spared bombardment with too much information, stress that "An integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments". (Framework 1.6), which would encourage corporate issuers to prepare concise integrated reports

C. To provide guidelines, assure availability of best practices case studies of how companies have implemented integrated reporting (e.g., IIRC Emerging Integrated Reporting Examples Database)

Other

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