

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.

The WBCSD in cooperation with our members in Japan held an Integrated Reporting workshop on 15 July 2013 in Tokyo for the purposes of soliciting feedback from businesses and other interested organisations on the Draft Consultative Framework issued by the IIRC on 16 April 2013

The workshop was attended by 20 participants representing the following companies and service providers

Toyota
JFE Steel
AGC
Honda
Sompo Japan
Hitachi
CRIEPI
Nissan
Denso
Keidanren

Toshiba

The participants reviewed the framework and after considerable discussion and reflection they offered the following feedback. The elements of the draft framework that the participants feel are positive are

1. The principles based approach gives business the ability to be flexible
2. The IR framework is reasonable and logical but in the opinion of some participants it is not innovative.
3. The framework could also be useful for internal management information and decision making
4. It is good that IR encourages long term strategy setting
5. It is useful for the improvement of the mid-term management plan (a requirement in Japan)
6. Use of the framework could mainstream CSR issues

However in terms of areas of general concern the following overarching feedback is offered for consideration.

1. The way the draft framework is presented does not allow for comparability between companies within the same sector. The absence of specific KPI's to be disclosed will be an issue in compliance with the guiding principle of comparability.
2. Competitive based information should not be disclosed. This is acknowledged in the framework but there are situations when this is not explainable as required by the framework (the explanation itself can sometimes lead to leaking proprietary information).
3. The preparers of Integrated Report are concerned about their credibility within their organisation for being associated with a report that investors may not want.
4. Following on from point 3, do investors really want this kind of vague story?
5. Expression including diagrams are sometimes confusing. The translation to Japanese maybe an issue as some key terms have been phonetically translated (for example the translations for outcome and output are the same). The original English itself is confusing for non native speakers. Terms like value creation are difficult to explain in Japanese. Rewriting rather than literal translation would be a solution.
6. Integrated Reporting as a title is confusing– should consider changing the title to communication
7. Should consider choice of words in Japanese eg “Integrated” “Reporting”
8. Octopus diagram is confusing – should be improved. The inter-relationship between the capitals is not clear.
9. Clarify IIRC’s position on <IR> and purpose. Why do they believe this framework is fit for purpose?
10. How does the IIRC know that investors are interested in long term value> It is clear that the framework will not address the issues and recommendations noted in the ACCA and Eurosif research. The IIRC clearly needs to modify the framework in light of this research. [Link to research:](#)

<http://www.eurosif.org/images/stories/pdf/1/2013%2006%20eurosif%20acca%20investor%20survey%20on%20nfr%20full%20final.pdf>

11. Cultural Difference. – Rules based v principle based is a challenge for Japanese business as it is not typical for Japanese company to be front runner. Will only become mainstream if mandated by Law

12. The business case for selling <IR> internally is a big challenge in the absence of mainstream demand

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 additional principles are needed to be added.

Para 3.42 – 3.45 is not convincing nor workable for those who are concerned about their competitiveness (if not disclosed it is not possible to provide a reason for non disclosure)

Accuracy of past information can be assured but accuracy of prospects for the future cannot be assured given the assumptions (Dreams, aspirations etc...)

There are many caveats which are welcomed (see section 3.19). These are liked and should not be removed from the framework

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?*

It is clear that an Integrated Reporting is another report. Therefore what happened to the commitment made by the IIRC CEO that <IR> is better reporting not more reporting? This will lead to more work and effort and more reporting which will be difficult to sell internally to most companies.

Continuous reporting is understood but will require significant investment in internal processes, controls and systems to make this a reality. This could be a detractor from implementing IR given cost constraints and resource priorities. The IIRC should indicate how much they expect a company will have to spend to be able to produce an Integrated Report. The companies in the pilot group should provide an estimate of the costs they will incur and a research paper issued so that the true costs of this initiative are understood.

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?*

- i) Standards from the Japanese Environmental Agency
- ii) Some of the GRI metrics
- iii) DJSI

Other

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

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?*

This section needs to be more specific with some examples. The definitions of the various capitals do not generate universal understanding.

All businesses are dependant on manufactured capitals and it is not clear to participants how to describe this effectively

There is concern over where an organization should recognise outsourced / sub-contracted labour in the supply chain. Is it Human or Social / Relationship Capital? A sector overview of the capitals should be developed.

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?*

Many Japanese have diverse business models reflecting the diversified nature of the business. The definition should therefore be amended to recognise that a business may have more than one business model.

Guidance on how to concisely communicate multiple business models should be provided in the framework.

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?*

The definition of outcomes is agreed however as noted above the translation into Japanese has created confusion between Outcome and Output as they are the same in Japanese.

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.*

The section on value is not sufficient. Many participants do not understand how they would be able to indicate if they have a net gain in value creation or a net loss of value due to the fact that some of the outcomes are monetized, some are quantified but many are qualitative. Paragraph 2.42 is very confusing and does not offer enough guidance on how effectively communicate the outcome of the business on the collective capitals.

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?*

The definition and approach to materiality is not agreed.

If materiality is to be based on what is considered important to investors then why not ask them what is important as oppose to get management to think on their behalf

The intention of the business is all that is important not the expectations of investors.. The materiality of an issue should be set by management and if the investor agrees then they invest if not they de-invest or walk away. This is the way the capital markets work and as the framework is market driven then so to should materiality.

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

Materiality is defined as impact times likelihood which is the classical definition of risk. Materiality and Risk are not the same concept. An item is material to the business if its impact to the achievement or destruction of value creation is assessed to be material

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?*

Only top management (the Board) can clearly outline the future strategy of the organisation

An Integrated Report should clearly define who is responsible for its production and approval.

In addition, the report should be free from inconsistencies, demonstrate robust governance and include a good coverage of and balance among the principles.

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).*

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?*

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?

Assurance should be on the content not on compliance with the framework. The principles based nature of the framework does not lend itself to effective assurance. Assurance on compliance with the framework is not value adding for the readers of the report whereas assurance of the accuracy and realistic disclosures are value adding for readers.

The term assurance should not be used for a forward looking value creating story. Forward looking narrative information is impossible to assure substantively. Auditors cannot provide assurance on this at this time however it is expected that assurance providers can provide assurance on the reasonableness of the assumptions made in forward looking disclosures etc.

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?

The longer term plans of the IIRC are not known. Participants did not know if the council would continue to exist and if it had funding to exist. If the council does plan to continue then the issues noted below need to be addressed asap.

1. The way the draft framework is presented does not allow for comparability between companies within the same sector. The absence of specific KPI's to be disclosed will be an issue in compliance with the guiding principle of comparability.

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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 Risks – how to manage uncertainties and business resilience
- 2 Internal control / assurance / reliability / continuous reporting
- 3 What is value creation (see para 2.42) and the relationship between Value Creation and Cash flow
- 4 Differences between outcome and output given the confusion caused by the Japanese translation.

Other

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