

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.

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Stakeholder group:	<input type="text" value="Other"/>

If replying on behalf of an Organization please complete the following:

Organization name:	<input type="text" value="World Intellectual Capital Initiative (WICI)"/>
Industry sector:	<input type="text" value="Not applicable"/>
Geographical region:	<input type="text" value="Global"/>

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.

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.*

We support the contents, however we question the inclusion of item 4.5 as part of the requirements (please see our response to question 17 for further explanation of this point).

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?*

Yes, but we believe there is ongoing market confusion with respect to whether the IIRC is advocating for a separate, stand-alone integrated report, or whether it is acceptable for companies to incorporate <IR> into their existing reporting structures, and if the latter is acceptable, what companies should consider in doing so, for example to avoid duplication and to connect related information. Given that practice is likely to vary by jurisdiction, we believe that it is very important for the IIRC to clearly articulate that there is flexibility in terms of how a company might approach <IR> vis a vis their other reporting processes and channels.

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?*

Indicators suggested by METI (Japanese Ministry of Economy, Trade and Industry) and WICI serve as a useful reference, however, these are just examples as there are many sources of high-quality KPIs. Instead of providing a set of KPIs, IIRC should recommend a set of common criteria for desirable attributes of KPIs to drive quality and consistency in the KPIs that companies choose to report on. The IIRC may wish to consult the WICI Concept paper as a helpful example of such criteria, accessible at <http://www.wici-global.com/kpis>.

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?

We agree with the approach as it is important to build a common understanding that capitals other than just financial and manufactured can contribute to the organization's unique value creation potential. Additional illustrative examples may be helpful in explaining the approach to the capitals, as may a reference to the more detailed IIRC background paper on the capitals.

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

Most of the social capitals in the draft framework are considered to be the organization's relationship capitals. There is already consensus among academics and practitioners around the definition of intellectual capital, and the expression of intellectual capital in the <IR> framework should reflect this accepted definition under which intellectual capital refers to human capital, relationship capital and organizational capital as a whole. Therefore, in our view the categorization of the capitals should be financial capital, manufactured capital, intellectual capital and natural capital.

It may be beneficial to further clarify in the framework that companies are not required to address each of the capitals, rather to consider each of the capitals and then to determine what to disclose following the materiality determination process.

It would also be beneficial to include in the <IR> framework a comparison between the traditional accounting definition of capital, and the concept of capital presented in the <IR> framework.

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?

Yes we agree as the approach reflects the realities of business and the individual characteristics of each organization. The definition of outcomes could, however, be revised for clarity as explained in our response to question 8.

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 do not disagree, however, the idea to regard 'outcome' as the impact on capitals may be improved. Output creates value, which has influence on society as well as the allocation of capitals for future value creation strategy. It would be more clear if the framework were to provide a comparison between the traditional definition of value (corporate value=total market value), and the concept of value reflected in the consultation draft.

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)?*

The explanation covering the fact that business models can change over time is not sufficient. The context of 4E can be misleading since it can be perceived to be required to disclose how the past business model is resilient for the future. Instead, it is desirable to require disclosure related to the resilience of the business model from the future perspective based on the recognition of risks and opportunities.

Other

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

It would be clearer if the business model diagram were to articulate where the value is created. The concept of value can be included in the definition of outcome.

It would also be clearer if the framework were to provide a comparison between the traditional definition of business model (earning model with the focus on profit) and the concept of business model presented in the framework (value creation model with the focus on outcome).

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?*

Yes we agree.

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

It would be more beneficial if the materiality determination processes were to articulate assessing the importance of those matters in terms of potential effect on future value creation.

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?

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.

We agree with the articulation of the connectivity concept, and believe that this concept is critical in helping preparers to articulate their value creation story in an integrated and effective manner.

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?

We do not view paragraph 4.5 as being on the same level as the other content elements, and therefore we do not believe it should be included in chapter 4 alongside the other content elements.

We believe it would be helpful for the framework to provide further clarification around Future Outlook. As already mentioned, we believe it is important for companies to disclose information about business model, strategy and performance based on opportunities and risks and available capitals both in the past-to-present period and the present- to- future period.

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?*

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).*

It is important to undertake a social collaborative process to ensure continuous improvement of the framework over time. As integrated reporting gains momentum, a feedback loop will develop between the investors who use integrated reports and the companies who prepare integrated reports, thereby improving the reporting process and informing ongoing framework development and maintenance.

Furthermore, if the reporting cycle is annual, it could be perceived that the organization is only expected to update the report on an annual basis. The IIRC might consider suggesting that organizations report major changes related to integrated reporting concepts through mid-term reports.

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?*

"Evolve over time" is a core concept of the integrated reporting framework. As long as the focus on this concept is maintained, the proposal of the draft framework serves as the appropriate starting point.

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) Further explanation around each organization's freedom of choice about what to disclose
2) Articulation of the attributes of high-quality KPIs (please see our response to question 3 for further clarification)
3) Further explanation around the connectivity between the time horizons of past-to-present and present-to-future
4) Further explanation to address the concept of comparability in the context of a principles-based framework, including a discussion of the need for transparency in disclosure where the traditional notion of comparability is not practical due to company-specific and industry-specific differences.
5) Further explanation around the concept of "integrated thinking," which is introduced on page 9 of the draft framework.
6) Further explanation/clarification on setting the scope of the reporting boundary, including consideration of where to set boundaries in addressing outcomes.

Other

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

It could be further emphasized that it is important to disclose the total picture of value creation in a concise and integrated manner

In addition, it is important to articulate the point that long-term investors value convincing evidence that informs future outlook, to support an understanding of what has changed vis a vis the past-to-present period.

It is desirable to encourage the use of a standard format (such as XBRL) to support the reusability of company disclosures from any source. Further, references between disclosures and referential sources can be expressed in the XBRL Taxonomies and reused by companies and analysts.

Internet web service/RSS (or 'broadcasting') distribution of company disclosures from disparate enterprise communities enable consumer/analyst assembly of concepts deemed relevant for their specific analysis. This standardized supply chain approach reflects a 'consumer' centric approach to 'reporting' wherein consumers integrate disclosures deemed relevant to their analysis. This consumer centric or 'pull' approach enables more cost effective processes while placing responsibility for transparency and relevance on producers and consumers respectively.

Furthermore, the recent EC Transparency Directive guidance includes 2020 incorporation of regulatory requirements for a harmonized electronic reporting format such as XBRL. This mandatory reporting requirement may enhance the demand for a comprehensive IIRC styled framework and related XBRL taxonomy to facilitate the desired enhancements in accessibility, analysis and comparability. It may be useful for IIRC and WICI to enhance their collaboration and accelerate development and testing of XBRL taxonomies relevant for the EC Transparency Directive.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013