



Memorandum

Date: Jul 15, 2013

From: Veena Ramani, Director, Corporate Program, Ceres

Subject: Ceres feedback on Consultation Draft of the International <IR> Framework

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.

While no principles-based requirements need to be added or eliminated, Ceres feels that certain requirements need to be modified to avoid duplication and burdensome reporting. Details are available in the rest of the document.

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 (paragraph 1.18-1.20).

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

The narrative in Para 1.18 - 20 appears to suggest that reporting organizations should prepare a stand-alone integrated report in addition to the disclosures already being released. (Currently, these principally include financial reports, annual reports and sustainability reports.) Ceres does not support requiring companies to publish an additional stand-alone report for the following reasons:

- Requiring an additional report will place an unreasonable burden on companies who already complain of "reporting fatigue".
- Requiring an additional disclosure document will lead to duplication of content. For instance, many of the content elements identified in Chapter 4 of the framework are already being disclosed by companies, especially within their sustainability reports, and are similar to GRI indicators.
- Building on the above, the financial community is looking for consolidation, rather than further fracturing of corporate disclosures.

Ceres recommends that the <IR> Framework follow an approach that aims at demonstrating the qualitative and quantitative linkages between the dominant reporting frameworks (especially sustainability, annual and financial reporting) within the context of the outputs that companies are already producing. As a part of this:

- The <IR> Framework should provide guidance on how companies can demonstrate financial impacts of sustainability initiatives, and build sustainability into financial disclosures. This is critical to get the right information to the financial community and other stakeholders.
- The Framework should provide guidance on how companies can develop and demonstrate the linkages between their sustainability and financial performance, including through integrated governance structures, approaches to materiality, strategy and goal development etc.
- In the short term, the <IR> Framework should showcase an approach to disclosure which helps companies feature their sustainability and financial performance together, whether through stand alone sustainability and financial reports or through other formats, and highlight the interlinkages between the same. The Framework could propose a “layered” approach to reporting where information is available in a single source, and webpages, PDFs and other disclosure formats could be leveraged to provide additional details to interested constituencies.
- In the medium term, the Framework should define a pathway to disclosure whereby companies would eventually combine their sustainability and financial disclosure in a meaningful and material manner, and eliminate the need for siloed reporting. Ceres’ vision is for this type of disclosure to cater to the needs a multi-stakeholder audience.

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?

While we appreciate the IIRC's inclusive approach in providing references to a range of reporting frameworks, we feel that the framework should elevate certain disclosure frameworks - especially the GRI - that have come to be accepted as the de facto global norm for sustainability disclosure. Identifying the GRI in this manner would signal to companies that they should continue to use the GRI in reporting on material issues. This approach that builds on existing disclosure infrastructure would reduce the burden on companies and would ensure more comparable disclosure, which is a priority of the investor community.

The recently released G4 provides detailed mapping between the guidelines and other disclosure frameworks, including the OECD Guidelines for multi-national enterprises, the Global Compact and the WRI GHG Reporting Protocol. This represents one important step towards the consolidation of disclosure frameworks.

While we recognize that there is room for improvement with the GRI Guidelines, the GRI is

an evolving framework, and the organization employs a robust multi-stakeholder process to ensure that its principles and indicators remain relevant.

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

- **Process versus product:** The narrative in Chapter 1 refers to two concepts – (i) the process of integrated reporting - <IR> and (ii) the resultant disclosure product – the integrated report. While the narrative in Chapter 1 is focused on the process of <IR>, much of the rest of the framework is focused on the look and the feel of the integrated report. It is a bit confusing to understand the purpose of the draft framework and whether it is intended to provide guidance on the process of <IR> or details on the eventual disclosure product. Additional clarification would be helpful.
- **Audience:** Ceres believes that the intended audience of integrated reports should be broader than the financial community, as a range of constituencies, including employees, advocacy groups, consumers and the public have a stake in the company's financial and sustainability strategy and impacts. While integrated reporting can be primarily focused on the financial community, this should not be done by constraining the information provided to the broader stakeholder community. We support the narrative in Para 1.8 which notes that the interests of long term investors will likely align with the interests of the broader stakeholder community, and recommend that the "stakeholder inclusiveness" principle be enhanced to ensure that the perspective of the broader stakeholder community is taken into account. The section in the report on Value Creation (2D) also reinforces this perspective that an organization can maximize value by serving all its key stakeholders and we support this idea.

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 to defining capitals, as this equates more traditionally recognized capitals (e.g. financial, manufacturing) with the more sustainability-focused capitals (social, natural). The inclusion of the recognition of the relationship between the different forms of capital is critical and we were pleased to see this highlighted as part of the uniqueness of integrated reporting. We also appreciate the clarification in Para. 2.12 that reporting organizations do not need to use the "capitals" vocabulary in talking about their various capitals, and can instead use more ordinarily used terms, such as workforce, stakeholders, biodiversity etc.

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

While we agree with the narrative in Para 2.18 that not all capitals are equally relevant for all organizations, we recommend that the framework adopt a "report or explain" approach that places the burden on the reporting entity to explain in detail where they consider a type of capital to be less relevant. Additionally, companies could explain what circumstances and strategic decisions could make a certain capital relevant to their business.

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 with this definition for business models, and particularly appreciate the focus on long-term value creation. However, while long termism is a critical and laudable goal, there is less understanding on how companies can demonstrate that this is a part of their business model. The framework should clarify if there are specific systems or approaches that a company could point to in this regard.

8. 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). Do you agree with this definition? Why/why not?

We agree with the definition and support the emphasis on outcomes, (including environmental and social externalities) as a part of the business model discussion. The IIRC could provide more guidance on the systems that a company could put in place to help them

capture impacts from social and environmental initiatives, and ensure robust disclosure of outcomes.

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).

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?

We believe that investor requirements and resultant corporate approaches to materiality operate along a continuum. At one end of the continuum are investors who are narrowly focused on short-term financial returns. On other parts of the continuum are the growing cadre of investors who recognize the impacts of "intangibles", including social and natural capitals, especially on corporate value in the medium and long term. **We recommend that the narrative in Section 3D should explicitly note that companies should approach the materiality determination process with a broader perspective, and thereby attempt to satisfy the needs of the financial community across the continuum.**

The framework recognizes that the perspective of long-term investors are likely to align over time with the stakeholder perspective. (Para 1.8) We strongly agree with this analysis. In Ceres' 25 years of experience in engaging with companies, we have found that input obtained from robust multi-stakeholder engagement with a broad constituency can help a company proactively identify and assess emerging risks and opportunities which have the capacity to impact the company's value (including reputation, brand, relationships, license to operate) in the short, medium and long term. **We therefore recommend that the narrative in Section 3D include specific reference to feedback obtained from multi-stakeholder engagement as a key input that companies should consider in the process of identifying, assessing and prioritizing material issues.** The stakeholder inclusiveness principle could also be enhanced keeping this in mind.

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

See response to Question 11

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?

Reporting organizations can demonstrate reliability by:

- Providing details of the internal and external mechanisms in place to ensure the reliability of the data/ information that is being presented in the integrated report. As a part of this, companies should provide third party assurance and verification of the integrated report, similar to financial statements.
- Providing details on how compliance with the mechanisms in place is being achieved.

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.

- **Stakeholder inclusiveness** - Building on our response to Question 11, we believe that the narrative associated with the stakeholder inclusiveness principle should be made stronger, and explicitly linked with the company's process to identify material issues, as the process of stakeholder engagement helps companies identify issues and priorities that long term investors would find relevant in terms of the company's value. Additionally, we feel that the narrative on stakeholder inclusiveness could be enhanced to give companies clearer guidance on (i) how to talk about their approaches to multi-stakeholder dialogue, and (ii) the impact of such dialogue on corporate strategy and decision making.
- **Consistency and comparability** - We support the inclusion of this principle as a part of the draft framework. Especially given that <IR> is focused on the financial community, the disclosures produced should be consistent and comparable to allow the financial and other constituencies in their decision making. Given that the draft framework has taken a principles based approach to disclosure, it is very important to include specific reference to globally accepted reporting frameworks that companies should use to flesh out the various content elements in detail. This should include reference to the GRI Guidelines for Sustainability Reporting.

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).

Some of the content elements overlap with KPIs included in existing reporting frameworks, including the GRI. The final version of the framework could include narrative on how the indicators in the G4 (and other relevant disclosure frameworks) map with the IIRC content elements.

Additionally, the framework should provide more guidance on how companies should discuss their future performance, in particular, as it relates to the integration of their sustainability and financial strategy and performance.

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?

Given that the entities charged with governance oversight for integrated reporting are responsible for much of the scope and reliability of the integrated report, the report should include a statement acknowledging their responsibility for the content therein. Given that the integrated report is primarily aimed at the financial community, the company's Chief Financial Officer could sign off on the integrated report.

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

The Guidelines should provide details on how to identify the governance body with oversight responsibility for <IR>. Does this refer to a Board level entity specifically, or could this be interpreted to include systems at the executive or management level? This should be clarified. We support there being clear board oversight in addition to specific C-Level management responsibility for integrated strategy and reporting, in addition to clarity of how each business unit is accountable for the organization's goals and targets related to each form of capital.

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?

At a minimum, external verification should be obtained for disclosure relating to all material aspects of the company's performance.

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.

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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).

We support the narrative on Para 5.29 and 5.30 that note that an integrated report should incorporate opportunities, risks and outcomes attributable to stakeholders that have a material impact on the organization's functioning over time. Building on our answers above, we believe that stakeholder engagement can be used to identify some of these issues as a part of the report boundary determination process.

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 that the framework takes a good first step to explaining the ways in which organizations should integrate their sustainability and financial thinking and disclosure. However, to ensure robust uptake from the corporate community and use by the financial community, we recommend the following as a part of the finalized framework:

- The framework should define a pathway to disclosure whereby companies would eventually combine their sustainability and financial disclosure in a meaningful and material manner, and eliminate the need for siloed reporting. Ceres' vision is for this type of disclosure to cater to the needs a multi-stakeholder audience.
- In particular, the framework should do more to provide information on how sustainability and financial metrics can be integrated in a meaningful manner.
- The framework should include specific reference to internationally accepted reporting standards, including the GRI - as well as specific details on how integrated reporting incorporates and fits with other and existing reporting frameworks.
- While we note that the primary audience of integrated reporting is the financial community, we believe that the explicit integration of stakeholder engagement will help unearth issues that are relevant and material to long term value creation.

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?

- We recommend the IIRC prioritize the development of a FAQ/ One Pager that clearly addresses some of the existing confusion in the marketplace between sustainability and financial reporting, including the ways in which the various disclosure frameworks fit together.
- The IIRC could develop a "how to/ transition document" that provides practical guidance to companies on how to move from stand alone sustainability and financial disclosures to integrated reporting.

Other

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