



The Forum for Sustainable and Responsible Investment

July 15, 2013

Professor Mervyn King
Chairman

Peter Druckman
Chief Executive Officer
The International Integrated Reporting Committee

Submitted via email and online

RE: Submission on the International Integrated Reporting Committee (IIRC) Consultation Draft of the International <IR> Framework (Draft Framework)

Dear Professor King and Mr. Druckman:

In November 2011, US SIF: The Forum for Sustainable and Responsible Investment commented on the IIRC Discussion Paper *“Towards Integrated Reporting: Communicating Value in the 21st Century”* and we are pleased once again to provide you with comments on the Consultation Draft of the International <IR> Framework.

US SIF is the US membership association for firms, institutions, organizations and financial professionals engaged in sustainable and responsible investment. US SIF and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. US SIF’s members include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, foundations and other asset owners. US SIF is a founding member of the Global Sustainable Investment Alliance (GSIA).

US SIF Foundation’s 2012 report on *Sustainable and Responsible Investing Trends in the United States* found that sustainable and responsible investing (SRI) accounted for 11.23 percent of all assets under professional management in the United States at year end 2011. According to the report, \$3.74 trillion out of \$33.3 trillion of investment assets is held by individuals, institutions, investment companies or money managers that practice SRI strategies. This total, an increase of 22 percent since year end 2009, reflects growing investor interest in considering environmental, community, other societal or corporate governance (ESG) issues to refine how they make decisions as they select and manage their portfolios or raise their voices as shareholders. As such, we represent a key and growing constituency in the United States.

US SIF and its members have advocated for improved corporate sustainability reporting that includes the disclosure of the most robust environmental, social and governance information possible, including supporting the Global Reporting Initiative reporting framework. Integrating ESG information into corporate annual reports and 10-K filings to the US Securities and Exchange Commission (SEC) was one of the principal components of our submission to the SEC on July 2009 related to mandatory ESG disclosure. Our submission also included contingent liability and disclosure guidance on sustainability risks, uniform ESG performance indicators and reporting standards for all corporations, and strong enforcement of these provisions by regulatory bodies. The full text of the US SIF letter and the list of signatories can be viewed at http://www.socialinvest.org/documents/ESG_Letter_to_SEC.pdf. US SIF continues to advance the broadest disclosure possible.

In addition to our specific responses to the Consultation Questions in the Draft Framework, we would like to underscore three broad points:

- The Draft Framework identifies “providers of financial capital” as the “primary intended report users” of the International <IR> Framework. The Framework, however, does not define the providers of capital. We assume that the Framework designates investors and shareholders as providers of capital, as they tend to be the major users of these reports. But this remains unclear. We encourage the IIRC to define the providers of capital and also acknowledge other stakeholder users of this report, including employees and communities, who are also important providers of capital to corporations.
- As stated in our earlier comments on the Discussion Paper (November 18, 2011), we urge the IIRC to reconsider its position that only material information should be included in the International <IR> Framework and that materiality is defined, determined, prioritized and aggregated/disaggregated, among other things, by “senior management and those in charge of governance” alone. Investors seek reporting that provides material information which assesses not only financial performance of a company, but also identifies the company’s material risks and opportunities based on ESG factors. We recognize that senior management and those charged with governance at companies have a responsibility to identify material issues. However, we are concerned that the Draft Framework places *complete reliance* on senior managements’ determinations on materiality, and that that interpretation may differ significantly from the materiality considerations of investors, communities and others who are affected by corporate policies, programs and actions related to ESG issues. The Draft Framework’s over-dependence on senior management without any review process on the determinations of materiality is concerning.
- We also remain concerned, as listed in our November 2011 comments, that the IIRC is not paying sufficient attention to ensuring that integrated reporting does not diminish the quality of the good ESG or sustainability reporting that exists today. Most companies do not publish sustainability reports, although there are a number that publish impressive, substantive reports. There is a danger that companies may publish an integrated report as their sole report and stop doing additional sustainability reporting. Surprisingly, the Draft Framework makes no mention of the Global Reporting Initiative (GRI) or its role in the integrated reporting process. We urge the IIRC to at least mention the tremendous efforts of GRI as one of the most widely used sustainability reporting frameworks in the world. The bottom line is that many US SIF members

would prefer to see a separate and comprehensive ESG report published, such as a GRI compliant report, than a watered-down, concise <IR>.

Below are direct responses to the consultative questions with the specific numbers corresponding to the requests for comment on the IIRC Consultation Draft of the International <IR> Framework.

Responses to Consultation Questions

1. We agree with some of the principles-based requirements identified throughout the Framework and outlined in paragraphs 1.11 and 1.12, but have concerns with others. For example, we are concerned that paragraph 1.11 allows for an exception for <IR> communication in the case that *“unavailability of reliable data, specific legal prohibitions or competitive harm results in the inability to disclose information that is material.”* While we are pleased to see that the organization should indicate the omission and explain the reasons, it is unclear why there is an exception. The Draft Framework does not disclose who determines the unavailability or reliability of data. We are concerned that if only senior management or those charged with governance are responsible for those determinations without a review of oversight process, it may result in the exclusion of material information.
2. Under paragraphs 1.18-1.20, we generally agree that the <IR> process is intended to be applied to all relevant reports and communications and that it should aim to complement material developed by established reporting standard setters. But we have several concerns. Our first is that the stated need to avoid duplication will result in companies issuing only one <IR> and not doing a separate complete sustainability report. It might appear that the <IR> is merely an extract, summary or combination of existing financial and sustainability reports. Second, we are concerned that in paragraph 1.20, and throughout the document, there is a strong emphasis on *“conciseness.”* Again, we are concerned that this term may influence report issuers to be too brief in their reporting. Third, the same paragraph states that an integrated report has an emphasis on *“providers of financial capital as the primary audience”* also referenced in paragraph 1.7 stating that providers of financial capital are the primary intended report users. The IIRC should define the “providers of capital” and also acknowledge providers of capital beyond investors and shareholders, such as employees and communities. The IIRC should also explain why it views providers of capital as its primary constituents for <IR> to the exclusion of other stakeholders, who may also demand enhanced accountability and stewardship to make more informed capital allocation decisions. Finally, paragraph 1.18 should be more precise so that organizations *should* (not “may”) provide additional reports and communications and that integrated reports *should* (not “may”) include links to other reports.
3. If the IIRC creates an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, US SIF Foundation’s *2012 Report on Sustainable and Responsible Investing Trends in the United States* and future reports should be included as a source for sustainability trends. Additionally, we recommend that the Global Reporting Initiative be included as one of the sources of indicators and measurement methods.
4. Chapter 1 mentions value creation repeatedly, but fails to define it. Given that the <IR> is a way to communicate value creation, it would be helpful to define the concept at the beginning instead of in Chapter 2 (2.41 and 2.42) We are pleased to see that the Framework is equally applicable to all

companies regardless of size and location as reflected in the statement: *“Framework is intended primarily for private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations”* (paragraph 1.10). While we find that larger companies are more likely to do more robust reporting and are likely to be covered and scrutinized by the media and watchdogs for their actions, a framework that also covers small and medium companies is just as relevant to investors and other stakeholders as it serves to further enhance our understanding of their ESG impacts. Moreover, ESG risks and opportunities are not confined solely to defined national or regional borders. They apply extra-territorially and therefore we are pleased that the application is international in scope.

5. The Framework lists six categories of capital under paragraph 2.17: financial, manufactured, intellectual, human, social and relationship, and natural. We find the concept of multiple types of capital helpful in explaining how an organization stores value (paragraph 2.12) and agree with the statement in paragraph 2.18 that *“[n]ot all capitals are equally relevant or applicable to all organizations.”* However, while the categories of capital may be useful to help companies understand the importance of its relationships with stakeholders and the environment, the choice of the word “capital” – an economic term that typically refers to an asset that will yield a return for the corporation – may be seen as a simplistic way to view the world. For example, natural and human capital does not merely exist to provide input to corporations. Additionally, the Draft Framework makes no mention or reference to how these capitals affect sustainability.
6. An additional comment about Section 2B: The Framework should include investors in the list of external stakeholders, such as in paragraph 2.17.
7. In Section 2C, the Framework defines a business model 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.”* We generally agree that an organization’s business model and its ability to create and sustain value in the short, medium and long-term, is an appropriate central theme for the future direction of reporting. Investors must understand the business model and its adaptability to changing conditions all the time. However, we are concerned that the term *“chosen system of inputs...”* in paragraph 2.26 allows only senior management and those charged with governance to choose those inputs. The IIRC should include a process whereby other stakeholders – such as employees, investors, customers, suppliers and communities – can participate in the process to submit inputs, as well as comment on selected inputs, outputs and outcomes.
8. We generally agree with the Framework’s definition of outcomes, which is 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).
9. We recommend that Section 2C’s paragraph 2.30 include a reference that carrying out business activities requires the business model to reflect sustainability attributes. We find that there is not an adequate mention of sustainability in the Draft Framework.
10. We have several additional comments on Chapter 2.
 - First, under 2A, and throughout the Draft, investors appear to be missing. Even though the draft repeatedly says that the <IR> is for providers of financial capital, there is no mention of investors.

- Second, the Framework should consider including “workers,” in addition to employees, under social and relationship capital. Some people working for the company may be casual, freelance, contract, volunteer or independent contractors. There have been instances of improper classification of employees as independent contractors to avoid payment of payroll taxes, the minimum wage or overtime and to avoid compliance with other wage and hour law requirements such as providing meal periods and rest breaks. There have also been cases of employers misclassifying employees to avoid reimbursing their workers for business expenses incurred in performing their jobs, and to avoid workers’ compensation insurance, payments under unemployment insurance, disability insurance, or social security. Therefore, it is important to recognize and include workers as part of the social and relationship capital as outlined in the <IR> Framework.
- Third, under paragraph 2.24, it is unclear why the Framework does not require organizations to attempt to quantify all uses of and effects of the capitals. An attempt to quantify and set goals and targets should be made wherever possible.
- Fourth, in Section 2D, the Draft Framework states that “*value creation lies at the heart of IR*” and outlines its definition in paragraphs 2.41-2.44. The Draft Framework conceives of value creation as including future cash flows and “other conceptions of value that are dependent on a wider range of capitals, interactions, activities, causes and effects, and relationships than those directly associated with changes in financial capital.” (2.41) However, we believe that the ability to create value is not only linked as a financial issue, but also involves sustainability issues at its core. Value creation should encompass sustainability issues at its core and in a more explicit manner than is reflected in this Draft.
- Fifth, under paragraph 2.38, the Framework states that <IR> provides value for providers of financial capital and that other stakeholders are likely to benefit from the information in an integrated report. It is unclear how other stakeholders would benefit from a report focused on providers of financial capital.

11. Materiality has been a key indicator for investors. We have concerns with the statement in Section 3D paragraph 3.23 defining materiality: “*A matter is material if, in the view of senior management and those charged with governance, it is of such relevance and importance that it could substantively influence the assessments of the primary intended report users with regard to the organization’s ability to create value over the short, medium and long term.*” We are also concerned with paragraph 3.24 that leaves the determination of materiality, as well as its relevance and importance (paragraph 3.25) entirely up to “*senior management and those charged with governance.*” As investors, we believe that ESG issues are material to investments and inform and improve an investor’s ability to assess risks. These issues give investors further insight into how management decisions are made. Allowing only senior management and those charged with governance to determine which ESG data are material has the potential to exclude other ESG information that is indeed material to investment decisions or is required under regulations but has been overlooked or dismissed by corporate management. Limiting the identification of materiality to corporate senior management and those charged with governance is overly restrictive. It will be more important for companies to focus on a credible and robust process used to determine materiality and risk prioritization which includes the involvement of other stakeholders, such as

employees, customers, suppliers, investors and communities. Additionally, while we understand the desire to recognize a sharp focus on providers of capital, we are concerned that limiting the report to providers of financial capital results in the exclusion of other important stakeholders.

12. An additional comment about Section 3D falls under paragraph 3.28, which states that the material matters require disclosure, but says nothing about where such disclosure needs to be. Disclosure needs to be easily accessible to all stakeholders. Additionally, under paragraph 3.29, the Framework states that an integrated report includes “*concise information that provides sufficient context to make it understandable, and avoids redundant information.*” We are concerned that this emphasis will end up changing important content. Once again, if senior management produces a short separate integrated report with what it deems to be material, there may be a danger of losing the fundamental objective of the <IR> Framework.
13. We are pleased to see that the Draft Framework states that reliability is enhanced by mechanisms such as robust internal reporting systems and independent, external assurance (paragraph 3.31). However, we are concerned that the Draft Framework also states that reliability is enhanced by “appropriate” stakeholder engagement. We are unclear about the determination of appropriateness. All stakeholder engagement is an important factor in reliability and completeness of the report.
14. Our general comment for Section 3E is that there is too much reliance on senior management and those charged with governance to exercise judgment on whether information is sufficiently reliable to be included in the integrated report, without any review or oversight of this process. In addition, while we understand that the reasons for excluding material information because of “*competitive harm*” will be explained in the integrated report (paragraph 3.45), we are concerned that the statement itself is highly judgmental and subject to overly broad interpretation by senior management and those charged with governance.
15. We have no additional comments about Chapter 3 that are not already addressed by our responses above.
16. Under Chapter 4, we recommend including executive compensation under paragraph 4.11. Under paragraph 4.16, we are concerned that the Draft Framework requires that “*information is only included in an integrated report when it is of practical use to the intended report users*” – which are providers of financial capital. Limiting <IR> to the practical use of providers of financial capital – a determination made by senior management and those in charge of governance – may be limiting and exclude the impact on communities and the larger society.
17. Under Section 5D, the Framework discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>. However, the IIRC does not define the types of individuals charged with governance. While we recognize that individuals in charge of governance at the company often set the tone for the organization and have a major role in defining its purpose, values and strategy, it is concerning that that the Framework allows for *only* senior managers and those responsible for governance to identify, prioritize and have oversight over materiality. We are also unclear about the composition of the persons “responsible for governance” or their willingness and capability to understand and communicate on <IR> and ensure continuing effectiveness. Moreover, the Framework does not identify accountability mechanisms to ensure that senior management and persons charged with

governance are identifying materiality and executing their responsibilities under this Framework properly. We recommend that IIRC include a process to evaluate whether the “right things” are being reported and whether the organization is being responsive to the interests and expectations of all its stakeholders. For example, engagement with both internal (staff) and external stakeholders is one critical process by which companies can identify risk and understand which ESG issues are material. It also allows for a richer and stronger 'two-way' relationship between external stakeholders and the company. Greater emphasis needs to be placed on the role of decision makers/leaders in <IR> process – and their responsibility and accountability for decisions and actions.

18. Regarding involvement of those charged with governance, Section 5D should also include a statement that not only should an integrated report identify the governance body with oversight responsibilities, but it also should (not “may” as stated in the Draft) include a signed statement from that body regarding the matters. This process provides for greater accountability.
19. Regarding credibility (Section 5E), the Draft Framework provides reporting criteria against which organizations and assurance providers assess a report’s adherence (paragraph 5.21). Obtaining independent, external assurance must be a *requirement* for <IR> rather than an option, as it enhances the credibility of the report. The assurance should cover the integrated report as a whole, rather than specific aspects of it.
20. Under the credibility (Section 5E), IIRC may consider requiring companies to give a draft of the report to key stakeholders to see if it reflects their perceptions of the company and their concerns about its impacts. We also suggest that the senior management and those charged with governance include representatives of stakeholder groups.
21. In Chapter 5, under section 5H, we are concerned that the aggregation and disaggregation of data is once again up to the sole discretion of senior management and those charged with governance, without any review of oversight process.
22. We recognize that <IR> will evolve over time – as it should. However, we have concerns about the appropriateness of the overall content of the Framework 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. One of our major concerns is the outsized role of the senior management and those charged with governance and the limited stakeholder involvement.
23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, the three topics that we recommend be given priority include: a) a clearer description of value creation that includes sustainability at its core, b) the process to determine materiality, and c) the role of stakeholders, in addition to senior management and those charged with governance, in the integrated reporting process.
24. <IR> affects US SIF and our members in multiple ways. US SIF and its members report on financial and sustainability performance. US SIF represents the investor perspective as the voice of the sustainable and responsible investment community while also representing the policy maker and standard-setter perspectives because we engage and influence public policy and global standard-setting organizations on behalf of members. As a result, <IR> should include all information that is useful for analysis from the perspective of investors. In our opinion, a company’s ESG information is

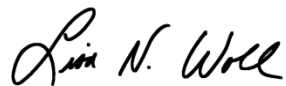
material information and critical to value creation. If the information investors receive from the <IR> does not include “material” ESG issues that the senior management deems as “non-material” then investors are left vulnerable to risks and are unprepared to take advantage of emerging opportunities. If the providers of financial capital are the “primary intended report users” of the International <IR> Framework, then communities impacted by the company’s operations are left out and considered less important in the reporting process. We urge the IIRC to rethink these critical issues.

As the membership association of sustainable investors, this consultation provides a unique opportunity for us to help shape a robust reporting framework that will allow for more informed and longer term investment decisions and, most importantly, a platform to encourage the inclusion of ESG factors into investment decisions.

Thank you for the opportunity to comment on the Consultation Draft of the International <IR> Framework. We believe our recommendations would ensure that all investors could realize the maximum benefit of these critical disclosures.

Should you have any follow up comments or questions, please feel free to contact me at lwoell@ussif.org of 202-872-5358 or Alya Kayal, Deputy Director of Policy and Programs at US SIF at akayal@ussif.org at 202-872-5359.

Sincerely,

A handwritten signature in black ink that reads "Lisa N. Woll". The signature is written in a cursive, flowing style.

Lisa N. Woll
CEO
US SIF: The Forum for Sustainable and Responsible Investment