

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.

(i) Consider including value "preservation" in the IR definition:

<IR> is a process that results in communication by an organization, most visibly a periodic integrated report, about value [preservation] and creation over time. "Value creation" should go together with "value preservation": a precautionary, prudent approach is highly recommended in this new, changing and complex world.

(ii) "Resilience"

The use of this term is extremely important, because it mitigates the excessive and overwhelming focus on efficiency: sustainability needs a balance between efficiency and resilience, at the company, regional and global levels. However, it has not been well defined in the document.

Please see GOERNER, Sally J.; LIETAER, Bernard; ULANOWICZ, Robert E. (2009) "Quantifying economic sustainability: implications for free enterprise theory, policy and practices", *Ecological Economics*, v. 69, n. 1, p. 76-81, Nov.

(<http://people.biology.ufl.edu/ulan/pubs/Goerner.pdf>). This should be more emphasized in the document.

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.*

See question 4.

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?*

Not enough.

Additional reports are optional, additional reporting are not.

Although "organizations may provide additional reports and communications (e.g., financial statements and sustainability reports)", they should necessarily use (and disclose) specific frameworks to deal with both financial and non-financial issues / capitals - even if they do not eventually prepare the reports.

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?*

Internationally recognized reporting standards: (i) IFRS and US GAAP; (ii) Global Reporting Initiative, widely spread among listed companies all over the world.

Other

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

(i) Integrated thinking (1.17) should necessarily consider all the the six capitals.

The first bullet should stress the "consider or explain" logic (as in 1.12): ". The capitals the organization uses and affects, and the critical interdependencies, including trade-offs, between them - [if one or more capitals have not been considered, an integrated report should explain the reasons why]. Even if covered by item 4.5, fifth bullet, it should emphasized across the framework.

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?*

Yes, it is excellent, congratulations.

This approach is extremely powerful, for it provides a common language that most stakeholders (business and non-business) can easily understand – it immensely facilitates dialogue among almost all kinds of stakeholders.

By using the multiple-capital model it is possible to overcome some of the limitations of the triple bottom line (TBL) concept, such as, for instance, the temptation to make concessions among the social, economic and environmental factors as if they were equivalent or interchangeable and could be treated independently: environmental integrity is, in fact, a pre-requisite for society and for the economy and all capitals are actually interrelated facets of a single reality and must be managed, protected and improved in an integrated manner.

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

(i) 2.12 - Social and relationship capital

Social is all about relationships - it could be called simply "social capital". "Social and relationship" capital is almost the same as to call natural capital "natural and environmental" capital.

(ii) 2.12 - Social capital is ambivalent: good relationships exist even in criminal organizations. It should be considered some kind of "moral capital", linked to the integrity of top management. See SISON, Alejo J. G (2003) *The Moral Capital of Leaders: Why Virtue Matters* (New Horizons in Leadership Studies Series). Edward Elgar. See comment 10 (ix) below.

(iii) It must be noted that silent stakeholders are still left out - other animals, future generations, etc. should be considered somehow in the framework.

(iv) 2.14 - The text should be more careful conceptually when stating something like "financial capital can be transformed into human capital".

Financial capital, although crucial, is simply derived from the value that the other forms of capitals provide. See www.projectsigma.co.uk. This should be included in its definition (2.17)

(v) 2.16 - Last sentence is not clear: "In this Framework, unless otherwise stated, the term value creation includes instances when the overall stock of capitals is decreased (i.e., when value is diminished or destroyed)".

Value creation means capital depletion? Negative creation?

It might be more clear to say that business strategy could include "value preservation": the ideal is to create value, but preserving it is better than decreasing it.

(vi) 2.19 - "The Framework does not require that the categories identified above be adopted by all organizations".

Please see comment to question 4 above: "if one or more capitals have not been considered, an integrated report should explain the reasons why - a real <IR> should somehow consider all forms of capital, even if not reported - otherwise a purely financial report could claim it is an integrated report.

(vii) 2.22 - Capitals in limited supply and non-renewable should be considered, reinforcing the need to use other reporting frameworks that deal properly with natural and social capitals (see comment to question 2 above).

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?*

(i) Yes, it is comprehensive and clear.

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?*

(i) Outputs are related to positive and negative externalities (or joint products / by-products).

This should be more clear. In the current translation of the Framework to Brazilian Portuguese, for instance, the term chosen for outcome ("resultado") has a positive connotation - maybe something like "consequencia" would be better. The relationship with externalities should be very clear at this point.

This item should make a reference to item 2.44 - see comment 10 (viii) below. Perhaps a reference to item 4.22, third bullet might also help: "Key outputs, explaining the products and services that the organization places in the market, and material by-products and waste." The fourth bullet also helps.

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)?*

(i) - 2.28 "Many organizations rely on raw materials to ensure production continuity".

It should be mentioned the fact that all organizations, no exception, directly or indirectly, depend on natural resources - water and food are indispensable, for instance.

(ii) "Encouraging a culture of innovation".

Innovation, like social capital, is ambivalent: criminals can be extremely innovative. It should be stressed that the desirable innovation is the one aligned with the preservation of natural capital while respecting social capital (sustainability context).

Other

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

Section 2A - Introduction

(i) 2.8 - The organization's strategy identifies how it intends to [optimize, instead of maximize], because one of the consequences of "maximizing" something is to minimize something else (generating negative externalities, for instance). ICGN's STATEMENT ON GLOBAL CORPORATE GOVERNANCE PRINCIPLES, item 1.2, uses the term "improve": "1.2 Long Term Prosperity of the Business. To achieve this objective, the board should develop and implement a strategy for the corporation which improves the equity value over the long term".

(ii) 2.9 - The last sentence is very important: "The organization and society therefore share both the cost of the capitals used as inputs and the value created by the organization".

It is about the purpose of the company: It does not exist only to provide profits for the owners of parts of its financial capital but to provide products and services to society by sharing capitals - there is a mutual interdependence between society and companies.

Section 2D - Value creation

2.37

(iii) First bullet: "An organization can create and maximize [optimize] value by serving the interests of, and working with, all its key stakeholders": Congratulations - moving away from the profit maximization / shareholder primacy approach.

(iv) Third bullet: "Value for <IR> purposes is determined by reference to a wide range of interactions, activities, relationships, and causes and effects in addition to those directly associated with changes in financial capital": Congratulations - value is wider than financial value.

(v) 2.38

"Providers of financial capital are focused on value in the form of financial returns. Those returns are, however, dependent on inter-relationships between various types of capital in which other stakeholders have an interest": Excellent!

(vi) 2.40

"Business strategies that are overly focused on optimizing short term financial performance can impede the ability to create long term value": Excellent - short-termism is bad for financial capital in the long term.

(vii) 2.43

"Value is created over different time horizons and for different stakeholders through different capitals, and is unlikely to be created through the maximization [optimization] of one capital while disregarding the others": Excellent - against short-termism and for a wider range of stakeholders.

(viii) 2.44

"<IR> takes account of the extent to which effects on the capitals have been

externalized ... Externalities may be positive or negative ... Externalities may ultimately increase or decrease value to providers of financial capital who

therefore need information about material externalities to assess their effects and allocate resources accordingly" - Excellent - congratulations for using this language - understanding externalities is key. See comment 8 (i) above.

(ix) 2.45, third bullet: Integrity is not necessarily covered by social capital - that is why moral capital is needed. See comment 6 (ii) 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?

Yes, but partially.

I agree with the primarily focus on the investors, but the Integrated Reporting effort should be based on society's needs which depend on a healthy natural environment, the provider of the conditions for life to exist.

c<IR> is supposed to help the investor community to do their "sustainability homework", checking if their incentives (remuneration) are linked to ESG (longer term) or to the real asset owners' / investors' (individuals, pensioners, etc) demands of high returns no matter how and where they come from.

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

(i) 3.29 - Conciseness

More guidance is needed for this important principle - <IR> will differentiate itself due to its conciseness.

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?

(i) The use of internationally recognized reporting standards for financial and non-financial issues (IFRS / US GAAP & GRI) can provide criteria for the process of defining the content of the report;

(ii) Evidence that the reporting process is becoming embedded in the regular business management processes (see 3.41)

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

(i) 3.32

Senior management and those charged with governance exercise judgement in deciding whether information is sufficiently reliable to be included in an integrated report":
Excellent - top management has to be included in this process.

Other

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

(i) 3.9

"The more that integrated thinking underlies the organization's unique value creation story by being embedded into its activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision making": This is important - non financial information should migrate to the management system, somehow.

(ii) 3.11 - second bullet

"Financial information and other information, especially as it relates to future cash flows": Excellent, for it makes the relationship with the intrinsic value (economic value) of the organization.

(iii) 3.12 - Congratulations for mentioning XBRL.

(iv) 3 C - Stakeholder responsiveness: Excellent session!

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).

4A - Organizational overview and external environment

(i) 4.1 - Shouldn't "Opportunities and risks" come after "Business Model"?

(ii) 4.4 - "An integrated report should stand alone as a concise communication, linked to other reports and

communications..." - it should be more clear that an integrated report is something different from the financial statements or from a GRI report or even an annual report.

(iii) 4.5 - This is a key item and the links to financial and non-financial standards should be emphasized (IFRS / US GAAP & GRI, for instance), for they provide important criteria for defining the content / materiality.

(iv) 4.9 - Although the first and the sixth bullets are important, shouldn't the "sustainability context" in which companies operate be more clear?

4 B - Governance

(v) 4.11 - fourth bullet: "the organization's culture, ethics and values" are related to a "moral capital" (see comment 6 (ii) above)

(vi) 4.12 - Remuneration & incentives are extremely important drivers of behavior.

The common misunderstanding - that owners of shares of the equity capital are owners of the company - is at the root of the (mis)behavior of decision makers in most of the companies, for their remuneration is linked to the success of some of the current shareholders, which is not necessarily the success of the company. When trying to maximize the share price, the company generates negative externalities on society and the environment. Various recent business and financial scandals / failures were driven by managers with large part of their remuneration linked to the value of the shares they directly or indirectly owned. Their incentive was directed to the value of the shares in the very short term instead of the value of the company (and society) in the much longer term. See Roger Martin's book *Fixing the Game* and also Lynn Stout's *The Shareholder Value Myth*.

(vii) 4G

Company has to be careful with potential legal outcomes when sharing senior management expectations with other stakeholders.

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?*

Yes.

<IR> is inherently strategic so it would be necessary to be included in the governance processes of the reporting organization (walk the talk).

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

It is necessary that the Framework defines better what is meant by "those charged with governance". The AGM is a relevant part of the governance system, but, for practical and other reasons, would not be suited for the task. So are the external auditors.

The Board of Directors, or its equivalent, would be the governance body with oversight responsibility for the <IR> and suited to apply a collective mind to its preparation and content definition and also able to prepare and sign a statement acknowledging their responsibility for the integrated report. The BoD is also responsible for the strategy of the company and <IR> is inherently strategic.

The executive team, lead by the chief executive, is the governance body responsible for the delivering the integrated report and leading the IR process, including the contact with all the necessary stakeholders in order to deliver the job properly and be accountable to it.

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?*

Independent external assurance needs to be obtained.

It should cover the whole <IR> process to provide its audience with a consistent document based on a consistent process.

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.*

<IR> is a learning process and practice will show where and when it needs to be adjusted in the future.

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).*

(i) 5G - Reporting Boundary

This section practically deals only with the relationship of <IR> with financial reporting, but no guidance to the relationship with the non-financial one. This needs to be developed before the Framework's launch, otherwise its "integrated" characteristic will be seriously damaged - running the risk of being perceived as, basically, an upgraded financial report. There needs to be some guidance on how to merge the results of different materiality approaches (financial and non-financial), for instance.

(ii) Different / complementary formats

Although the Framework mentions many times an integrated report, it would be advisable to explain better the array of possible scenarios of reports / communications: an integrated report / complete financial statements / sustainability report (printed / digital, etc.). There have been many doubts in different fora regarding IR.

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?*

I think the content of the Framework still needs a few adjustments before its launch.

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?*

How different "reports" / formats could coexist and evolve - it is not clear enough

Other

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

In order to provide the necessary credibility to the process that hopefully will last for many years, the IIRC would need to work on its governance (or make it more clear to external stakeholders). On example: to disclose how (criteria, processes) the members of all its governing bodies are appointed.

This is relevant because the governing bodies will be responsible for the maintenance of the <IR> Framework, the relationship with all its stakeholders, its business model (financial viability), etc.