

## 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](http://www.theiirc.org)).

### Comments should be submitted by Monday 15<sup>th</sup>, 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.

We are an informal network organization comprised of individuals interested in <IR> from companies and investors in Japan.

We welcome release of the consultation draft of the International <IR> Framework, which focuses on organizations' value creation over time. We share concern on short-termism widely spread within the modern economy and society. It is essential that businesses and investors act in a long-term oriented way in order that overall economy and society achieves value creation over time. We support the fact that IIRC proposed <IR> as a framework which is to drive such behavioral change.

We support following aspects of the proposed consultation draft, in particular.

#### 1. Principle based approach

<IR> is the reporting process which communicates organizations' value creation over time. Value which an organization is to create and the approach chosen by the organization to create value are unique to the organization and not same with others.

Therefore, the reporting of value creation should be designed to allow organizations to reflect the unique nature of the value creation, even though there should be certain level of legitimacy in reporting. Principle-based approach will allow room for flexibility to the reporting and encourage organizations to exercise their ownership in the reporting.

## 2. Extended concept of "Value", not limited to the financial capital

The consultation draft defines the value reported in <IR> as the one which bases on wide range of capitals, not limited to the financial capital, in the conceptual arrangement. Companies run business with the objective of creating value which contributes to the economy and society at large, and as a result, leads to value creation for the providers of the financial capital.

Furthermore, we support the consequential concept that capitals increased, or decreased, through an organization's business activities will become basis of future value creation. We believe this consequential value creation concept will contribute to organizations and investors in considering, reporting and understanding business activities from long-term perspective.

We welcome the basic understanding of value creation which consultation draft has taken to design direction of the corporate reporting.

## 3. Involvement of the management with ownership

The consultation draft requires those charged with governance of the organization to be involved in <IR> with its ownership. We support this requirement.

In the meantime, we recognize following aspects which need to be improved and/or revised in the consultation draft.

### 1. Clarification of key points of the value creation process

Figure 2 and 3 shows the concept of value creation process in the context of <IR>. 2. Fundamental concepts explains what the figures mean, but it is unclear what are the key points or messages of the figure as the explanation is difficult and relatively long. We strongly encourage the IIRC to list up the key points of the "Octopus Model" right after the figure with emphasis in a concise manner, so that reporting organizations and the practitioners easily understand them.

### 2. Other measurement standards

We support the fundamental policy that IIRC will not develop indicators and the measurement methods by leaving the role to the other existing standard setters or initiatives. However, we disagree with the policy that IIRC will develop the online database of the "authoritative sources of indicators or measurement methods developed by established reporting standard setters". If IIRC posts a list of such measurement standards on the website, reporting organizations can misunderstand that it is required to report in accordance with those standards.

We also recognize that there are shared demand for improvement, especially from the view point of <IR>, of current situation with considerable differences in the policies and approaches between those measurement standards. IIRC should prioritize its role to enhance the consistency by drive dialogue between those initiatives.

Please refer to answers to each question for our further comments.

Anyway, we expect further efforts by the IIRC and the relevant bodies make the reporting can communicates organizations' value creation very well.

We are;

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and organisers from IIRC are;

Mariko Mishiro, Technical & Relationship Manager International Integrated Reporting Council

Hiroko Ozawa Relationship Manager International Integrated Reporting Council.

## 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.*

N/A

### ***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?*

We agree with paragraphs 1.18-1.20.

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?*

We disagree with the policy that IIRC will develop the online database of the "authoritative sources of indicators or measurement methods developed by established reporting standard setters". If IIRC posts a list of such measurement standards on the website, reporting organizations can misunderstand that it is required to report in accordance with those standards.

We recognize there are no agreed and shared understanding on the issue "what is suitable measurement standard to be used in <IR>". Solution is needed to deal with differences in policies, approaches and arrangements between standards. IIRC should prioritize its role to enhance the consistency by drive dialogue between those initiatives.

We especially disagree with the one-size-fits-all approach in disclosure because we believe information, including indicators, in <IR> should represent the unique context of an organization and should be most relevant to organization's value.

### ***Other***

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

N/A

## 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 taken in the framework that an organization considers how it uses and affects that various capitals in the reporting of the value creation. We also recognize the 6 capitals presented in the framework as an effective tool which helps organization to consider the composition of the capitals and the efficiency.

In the meantime, we disagree with the requirement on identification and disclosure of capitals which is considered as immaterial as it requires organizations to adopt the category of capitals provided by the consultation draft. We think this is the excessive application of "comply or explain", and it is not expected that the required disclosure works as effective tool to enhance usefulness of the reporting.

2.19 states that "Framework does not require that the categories identified above be adopted by all organizations" and the primary reason for including the capital model are for it to serve "as a benchmark for ensuring that organizations consider all the forms of capital they use or affect" and "as part of the theoretical underpinning for the concept of value". From this standing point, it is very clear that disclosure of capital decided as immaterial is not appropriate.

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

N/A

### ***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?*

N/A

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?*

How outcome relates to value is unclear in the consultation draft, though it is defined in relation to capital. We expect the IIRC to clarify relation between outcome and value which an organization creates.

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)?

N/A

**Other**

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

We understand that value creation model in the Consultation Draft proposes sequential concept that capitals increased, or decreased, through an organization's business activities will become basis of future value creation. Although the Consultation Draft provides pieces of explanation on this concept separately in 2B. Capital, 2C. Business Model and 2D. Value Creation, we believe more coherent explanation is needed to enhance understanding of readers on this unique concept.

We support this "sequential value creation" concept and expect the IIRC to provide coherent explanation in the final Framework.

We agree with the fundamental policy that <IR> communicates organizations' value creation over time. Figure 2 and 3 shows the concept of value creation process in the context of <IR> with the key concepts including value, capitals, business model, inputs, outputs and outcomes. 2. Fundamental concepts explains what the figures mean, but it is unclear what are the key points or messages of the figure as the explanation is difficult and relatively long. We strongly encourage the IIRC to list up the key points of the "Octopus Model" right after the figure with emphasis in a concise manner, so that reporting organizations and the practitioners easily understand them.

We expect the IIRC to clarify followings in the "key points" in particular.

- Definition of value
- Relation between capital and value
- Value in the context of <IR> and value for the providers of financial capital
- Sequential value creation concept
- Relation between output and outcome
- Relation between outcome and capital
- What "society" and "organization" in the figure mean in relation to capitals.

We are concerned that the definition of the "Value" is not clear in the Consultation Draft. As the "Value" is one of the fundamental concepts of the <IR> and primary component of the central theme, it is highly expected that the Framework will clearly define what the "Value" means.

## 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?

It is very important to clarify concept of materiality which helps an organization to report on material issues.

We support fundamental policy of the consultation draft which requires an organization to decide materiality by considering influence of the matters on organizations' value creation in the short, medium and long-term. However, we also believe that it is difficult to assess the future implication of matters, though the consultation requires assessment of importance by assessing the magnitude of effect and likelihood of occurrence. There are many issues, e.g. diversity of the board, which are not appropriate to decide the materiality by assessing the influence.

We believe that it is a matter of policy and intention made by management that what issues the organization is going to report as material. We expect the approach which an organization decides the materiality in view of what are essential components of the long-term value creation model and the strategy on the basis of management's recognition on the operating context and the resources and capitals by considering interests and expectations of relevant stakeholders, rather than one-size-fits-approach with formal standard. basis of management's recognition on the operating context and the resources and capitals by considering interests and expectations of relevant stakeholders, rather than one-size-fits-approach with formal standard.

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

We agree with the requirement on disclosure of process deciding materiality in <IR>.

### **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?

N/A

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

N/A

### **Other**

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

N/A

## 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).

We support "common characteristics of suitable quantitative indicators", in particular "relevant to the circumstances of the organization" presented in 4.31. Indicators disclosed in <IR>, which communicates organizations' value creation, should not be boilerplate but designed to represent the unique value creation model through determining materiality by their own.

## 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?

The consultation draft requires those charged with governance of the organization to be involved in <IR> with its ownership. We support this requirement. <IR> is communication on organizations' value creation and management has the ultimate responsibility on the reporting, and therefore, it is important to clarify and reconfirm the fact.

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

N/A

### ***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?

N/A

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.

N/A



### **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).

N/A

### **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?

N/A

### **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?

N/A

### **Other**

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

N/A