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PAGE 2: Multiple capitals

Q7: Q1(a) What is your experience with the multiple capitals approach in integrated reports?

<Fundamental concepts for value creation and the capitals>
・In Japan, communicating organizations' ability to create value over time as has gained wide support. However, it appears that the idea of value creation defined as increases or decreases in the capitals, which is the fundamental concept of the International <IR> Framework (the "Framework") of IIRC, is not well understood nor widely accepted as a general practice in Japan.
・In general, when organizations discuss about their business model in reports and provide information on the "capitals," they often talk about inputs, such as their strength or own resources. On the other hand, it appears that outcomes are generally considered as "value" instead of the "capitals." We understand that few organizations are currently able to explain in their reports about the relation between the outcomes and increases/decreases in the capitals.

<The availability, quality and affordability of a capital>
・Very few integrated reports, if any, clearly explain the availability, quality and affordability of a capital in relation to the value creation process. However, we have seen some reports discussing about human capital, for example, where they further talk about the importance of acquiring talented personnel, improving employees' skill, empowering employees and achieving diversity, which consequently (but may not be intentionally) is explaining the availability and quality of the capital.

Q8: Q1(b) What, if anything, should be done and by whom to improve this aspect of implementation?

<Fundamental concepts for value creation and the capitals>
・Better understanding is required at the level of management and corporate planning divisions about the concept of value creation and how it relates to increases or decreases in the capitals in order to provide more valuable information to report users.
・Given the nature of the Framework, terms for the fundamental concepts of value creation can sometimes be theoretical or abstract, which might be causing difficulty in the understanding of the concepts among practitioners. We suggest as one of the solutions that the IIRC provide a commentary on the terms by referring to business languages generally used among management and practitioners.
・For example, the relationship between value creation and the capitals could be explained by using words, such as "management resources," "strengths and weaknesses," "value driver" and "core competence." Furthermore, we understand that "capitals" are generally considered as an input or a basis for value creation in our business world. Thus, it might be easier for management and practitioners to discuss the capitals separately from value creation for other stakeholders, such as investors and customers.

<The availability, quality and affordability of a capital>
・We believe information on the availability, quality and affordability of a capital is very useful to investors in assessing organizations' effectiveness of business models and reasonableness of strategies. We anticipate further development in this area of reporting.
・We recommend the IIRC to put together best practices regarding disclosures on the availability, quality and affordability of a capital by each category of capital or type of business model. Going forward, we believe this could be further utilized as a basis for the IIRC in developing a guidance to improve this aspect of implementation.

PAGE 3: Connectivity and integrated thinking

Q9: Q2(a) What is your experience with connectivity in integrated reports as an indication of integrated thinking and/or enabler of enhanced decisions?

<Connectivity between strategy and other elements>
・The Framework discusses "connectivity" between various elements in an integrated report. We believe that the connectivity between strategy and other elements (e.g. vision, business model, risks, performance and governance) is particularly important and becomes a key in determining the quality of integrated reports.
・That being said, we acknowledge that the quality of integrated reporting still varies in practice, meaning that not all reports are able to effectively present the connectivity between strategy and other elements.

Q10: Q2(b) What, if anything, should be done and by whom to improve this aspect of implementation?

<Connectivity between strategy and other elements>
・We recommend that the IIRC should clarify the relation between strategy and other elements and also develop and introduce a list of best practices regarding disclosures on connectivity between the elements.

PAGE 4: Key stakeholders’ legitimate needs and interests

Q11: Q3(a) What is your experience with the identification, in integrated reports, of key stakeholders’ legitimate needs and interests and how those needs and interests are considered and addressed?

<Reporting on stakeholder relationships>
・We understand that, in most cases, integrated reports just identify key stakeholders or introduce actual stakeholder meetings companies hosted for reporting
・Furthermore, when preparing integrated reports, we acknowledge that each organization has different practice as to how and to what extent the organization takes into account for the needs and interests of a wide range of stakeholders, and how such needs and interests should be balanced with those of providers of financial capital.

Q12: Q3(b) What, if anything, should be done and by whom to improve this aspect of implementation?

<Engagement with stakeholders>
・Enhanced understanding on “stakeholder dialogues” is required among practitioners, who often consider that engagement with stakeholders is undertaken as part of their CSR activities by inviting experts to organize a focus group and have dialogues with management.
・We clearly understand, though, that the key stakeholders’ legitimate needs and interests described in the Framework cannot be identified through such one-time, specially-held meetings. Rather, engagement with stakeholders occurs regularly in the ordinary course of business (e.g. day-to-day liaison with customers at each department, communication with employees and dialogue with stakeholders), through which information on their needs and interests are understood, gathered, communicated, analyzed and assessed in order to be identified by the organization. When such process and systems to identify key stakeholders’ legitimate needs and interests are incorporated in an organization and when such needs and interests are properly reflected in the development of the organization’s business model and strategy, then we can say that more sophisticated integrated thinking is embedded in the business and more useful information is made available to investors for their assessment purposes.
・We suggest that the IIRC develop a list of best practices for a high-level, continuous stakeholder management and gather related reports as an illustrative example, which we believe would contribute to a successful integrated reporting.

PAGE 5: Materiality and value creation

Q13: Q4(a) What is your experience with the Framework’s definition of materiality, in particular: • Application of the value creation lens? • Use of different time periods to identify material matters?

<Application of the value creation lens>
・We assume that organizations generally determine matters to be included in an integrated report (i.e. the content of the report) through their own value creation lens.
・However, at the same time, we understand that materiality determination policy and process for the purpose of preparing the integrated report are not fully established by organizations in many cases. As a result, we see few integrated reports disclosing a summary of the organization’s materiality determination policy and process. Even when such information is disclosed, it is often included as part of sustainability or CSR discussions.

<Use of different timeframes to identify material matters>
・As we have not conducted research on an organizations’ use of different timeframes to identify material matters for integrated reporting purposes, we are not in a position to comment from an objective point of view. Having that said, we have rarely seen reporting practices in Japan where an organization distinguishes short term material matters from long term material matters for disclosure purposes.

Q14: Q4(b) What, if anything, should be done and by whom to improve this aspect of implementation?

<Application of the value creation lens>
・Considering the relationship with key stakeholders, the materiality determination process requires application of the value creation lens not only from the perspective of the organization but also of the key stakeholders.
・Further, we understand that materiality should be determined from a broad perspective of the entire entity, not just from a CSR-related narrow perspective.
・Organizations should be able to provide a comprehensive overview of their structure and process for the preparation of the integrated report, including the responsibility of those charge with governance. Having that said, we recommend the IIRC prepare a guidance for the detail of the overview.

<Use of different timeframes to identify material matters>
・We believe it would become a key for the success in integrated reporting to always consider a range of timeframes not only from the materiality perspective but throughout the preparation of the report, and to clarify in which time period is the disclosure about in the report. Thus, we recommend that the IIRC conduct research on best practices to prepare guidance for the use of different timeframes in the context of different aspects in the Framework.

PAGE 6: Conciseness

Q15: Q5(a) What is your experience with the conciseness of integrated reports?

<Misunderstanding of conciseness>
・We are afraid that many organizations still think “conciseness” is about fewer pages and less volume of information, such as by decreasing the number of words.
・As a result, we occasionally find integrated reports full of generic disclosures with limited information specific to the organization, which we believe would not be useful for providers of financial capital.

Q16: Q5(b) What, if anything, should be done and by whom to improve this aspect of implementation?

<Addressing the misunderstanding of conciseness>
・We understand that it could be a challenge for many organizations to avoid “generic disclosures” that are not specific to the organization. We believe that the IIRC and other related associations can improve the situation and promote practical and meaningful disclosures with conciseness by showing a list of best practices, as an example, for disclosures on other significant issues in relation to integrated reporting.

PAGE 7: Business model – outputs and outcomes

Q17: Q6(a) What is your experience with the reporting of business model information, particularly outputs and outcomes?

<Relation between business activities/outputs and outcomes>
・We are afraid that the relation between outputs and outcomes as well as business activities and outcomes are not well understood in the practice of integrated reporting.

<Reporting on outcomes>
・In order to assess an organization’s ability to create value over the medium to long term, an integrated report should provide information about how the organization’s business activities are designed to achieve specific outcomes, highlighting positive factors affecting the relationship and the status of achievement. However, at the moment, we understand that many organizations stick to the discussion of its activities and outputs in their integrated report, and little reporting is made on outcomes.

Q18: Q6(b) What, if anything, should be done and by whom to improve this aspect of implementation?

<Reporting on outcomes>
・We suggest that the IIRC provide a list of best reporting practices focusing on the disclosure of outcomes.

PAGE 8: Those charged with governance / Framework identification

Q19: Q7(a) What is your experience with whether reports: (i) identify the involvement of those charged with governance, and (ii) indicate that they are presented in accordance with the Framework? What are the implications of excluding such information?

<Statement for the involvement of those charged with governance>
・We understand that there are very few cases, if any, where a statement is included in an integrated report regarding the involvement of those charged with governance.
・Under the regulatory requirements under the Financial Instruments and Exchange Act in Japan, the CEO and CFO, rather than the board of directors (i.e. those charged with governance), are the ones with the responsibility statement for the disclosures in the annual securities report. Given such circumstances, we believe it would be extremely difficult for Japanese organizations to include a statement in the annual report that the board of directors takes the ultimate responsibility for integrated reporting purposes.

<Presented in accordance with the Framework>
・We understand that very few organizations report for the purpose of complying with the Framework. Instead, most organizations look into the Framework as one of the international reporting norms in order to prepare higher quality reports. Even when disclosed in an organization's integrated report, the Framework is generally just stated as the "reference", or one of the "references", used for its reporting purposes.

Q20: Q7(b) What, if anything, should be done and by whom to improve these aspects of implementation?

<Statement for the involvement of those charged with governance>
・We agree with the IIRC for the need to enhance the oversight role and responsibility of those charged with governance in integrated reporting, which largely focuses on the communication of an organization's value creation process including strategy and governance.
・Given the variety of norms and practices across jurisdictions for the governance and process applied to corporate reporting, we believe that different approaches should be accepted to enhance the role of those charged with governance. Although we fully agree with the IIRC for further development in reporting practices and the establishment of related norms, we strongly support the market-led approach to be followed in such cases.
・Therefore, we believe that an integrated report would only need to provide a comprehensive overview for an organization's structures and steps being taken for the preparation, presentation and approval of the report, including an explanation of the responsibility of those charged with governance (i.e. the Explain basis, not the Comply or Explain basis). For further improvement in reporting practices, we recommend a list of best practices or guidance for the disclosure of comprehensive overviews should be issued by the IIRC or other related associations.
・Essentially, we need to explore further and clarify the relation between corporate reporting and corporate governance so that organizations, investors, public accountants and other key stakeholders can foster a sense of mutual understanding regarding corporate governance, which we believe would be highly dependent on systems, norms and customary practices across nations or jurisdictions. Therefore, we recommend setting up a focus group for each jurisdiction or area to address local issues and summarize them at a global level.

<Presented in accordance with the Framework>
・Currently, we do not think organizations have high enough motivations to go beyond referring to the Framework and state that the integrated report is "in accordance" with the Framework. The main reason could be that following the Framework would not be a good enough reason for the organization to be highly valued by investors.
・Basically, we believe credibility can be ultimately enhanced and supported by appropriately implementing different aspects of integrated reporting into practice, such as establishing and operating a system for integrated reporting (including the involvement of those charged with governance), complying with the Framework and measurement standards and obtaining assurance from third parties. It could become very useful if the IIRC published issue papers regarding this matter in close cooperation with other investor-led groups, such as the International Corporate Governance Network (ICGN). (Going forward, we expect that institutional investors' engagement will help organizations be more involved in addressing further enhancement in credibility.)

PAGE 9: Other Guiding Principles

Q21: Q8(a) What is your experience with the application of these remaining three Guiding Principles in integrated reports?

<Strategic focus and future orientation>
・We understand that many organizations are currently adopting strategic focus and future orientation as their major guiding principles for integrated reporting, meaning that the principles have gained wider support in this aspect. However, when it comes to their future time span, they generally talk about the next three to maximum five years, which correspond to the number of years for their mid-term management plans. Thus, we believe a longer-term perspective is required for organizations when disclosing information on their visions and strategic policies.

<Consistency and comparability, Reliability and completeness>
・ We acknowledge that consistency and comparability as well as reliability and completeness are not widely accepted as guiding principles in Japan.
・ Especially in Japan, positive matters are generally highlighted in integrated reports, leaving behind negative matters. As referred to in the Ito Review report, we have to remember the risk of integrated reports becoming “integrated PR documents.”

Q22: Q8(b) What, if anything, should be done and by whom to improve these aspects of implementation?

<Clarification of future oriented information, including visions, strategic policies and action plans>
・Future oriented strategic information includes visions, strategic policies, strategic objectives and action plans (e.g. mid-term management plans), which all have different purposes with different timeframes but are significantly interrelated at the same time. To improve integrated reporting practice, we recommend that the IIRC should consider the following: clarify major components of future oriented information as well as their relationships; and develop a guidance based on a summary of best reporting practices regarding connectivity between strategy and other elements as we commented at Q2.

<Development of measurement standards>
・We urgently need to develop high-quality measurement standards for each capital and reporting theme to ensure consistency, comparability, reliability and completeness in integrated reporting. We acknowledge that measurement standards are being developed by certain associations, including the Sustainability Accounting Standards Board (SASB). However, it is uncertain as to whether we can fully rely on the quality level of such standards for the purpose of integrated reporting in accordance with the Framework.
・We suggest that the IIRC develop a guidance for requirements when organizations adopt certain measurement standards, such as indicators developed by other associations and entity-specific KPIs.

PAGE 10: Other Content Elements

Q23: Q9(a) What is your experience with how these remaining Content Elements are reported in integrated reports?

N/A

Q24: Q9(b) What, if anything, should be done and by whom to improve these aspects of implementation?

N/A

PAGE 11: Other quality issues

Q25: Q10(a) Aside from any quality issues already raised in Q1-Q9, what is your experience with the quality of integrated reports?

・We do not think that good enough clarification is made yet on the relationship between financial reporting and integrated reporting and thus we still face many challenges regarding this matter. We understand that non-financial information included in an integrated report should be able to provide useful information to investors, who will be affected by the information when conducting financial evaluation on corporate values.

Q26: Q10(b) What, if anything, should be done and by whom to improve this aspect of implementation?

・We should further consider how to disclose non-financial information to make it more useful for the investors' financial evaluation on corporate value. We also recommend developing a guidance and a list of best practices regarding this matter.
JICPA has prepared a research report in the past on corporate reporting that encourages investors' long-term perspective and especially focused on the reporting of non-financial information.

PAGE 12: Other enablers, incentive and barriers

Q27: Q11(a) What is your experience with enablers, incentives or barriers to Framework implementation not covered by other questions, including the extent to which they apply particularly to: • Specific jurisdictions? • Large or small organizations? • Private, public or non-profit sectors? • Different stages of Framework implementation?

<Specific jurisdictions>
・Given the relation between regulatory disclosures and voluntary disclosures in Japan, we acknowledge that corporate reporting needs further improvement in certain areas, including complicated procedures for the disclosure and possible confusion among report users.

<Private, public or non-profit sectors>
・We understand that the fundamental concepts for value creation in an integrated report are developed to be applicable not only for private sectors but also for public and non-profit sectors. However, as a result, it is uncertain as to whether investors, who are the primary providers of financial capital in private sectors (i.e. mainly listed companies), are appropriately obtaining information they need from the integrated report.

Q28: Q11(b) What, if anything, should be done and by whom to improve these aspects of implementation?

<Specific jurisdictions>
・We recommend that research should be conducted on a global basis as to what kind of obstacles we need to overcome when disclosing key elements of integrated reporting within the framework of regulatory requirements, such as strategy, business model and non-financial KPIs of an organization.

<Private, public or non-profit sectors>
・At the core of an organization is its business model, drawing on various forms of capitals as inputs, creating value using capitals through its business activities and leading to stocks of various capitals, which is applicable for all sectors. However, we understand that there is a significant difference between private sectors and public or non-profit sectors when it comes to considering whether capitals generated are owned by providers of financial capital, and if so, how they are owned and allocated to the providers of financial capital.
・Such difference is mainly attributable to the way private sectors look at the importance of their financial strategies and capital policies as well as related disclosures. In other words, it appears the IIRC's Framework does not necessarily highlight the aspect of how values created by an organization flow into providers of financial capital as their values, which as a result could be causing failure to meet the information needs of many investors.
・Considering the above, we highly recommend that the IIRC should develop a framework and related guidance which focus on the relationship with information needs of investors, who are the primary providers of financial capital in private sectors (i.e. mainly listed companies). In detail, we suggest the IIRC publish issue papers with theoretical underpinning as to how listed companies, who obtain financing from investors, apply the value creation model structured under the concept of various capitals in order to generate financial returns for their investors. We also recommend developing a case study document for best practices regarding this matter.