



Climate Disclosure Standards Board

c/o Carbon Disclosure Project

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Dear IIRC Committee members,

Towards Integrated Reporting – Communicating Value in the 21st Century

Thank you for the opportunity to comment on the IIRC Discussion Paper. We are very supportive of your initiative and objectives.

About CDSB

By way of introduction, CDSB is an international organization committed to the integration of climate change-related information into mainstream corporate reporting. In support of its objectives, CDSB has developed a Climate Change Reporting Framework “CCRF” available at <http://www.cdsb.net/climate-change-reporting-framework/>. The CCRF is an example of the way in which climate change considerations may be integrated into mainstream reports. It was developed with valuable input from some of the members and organizations currently involved in IIRC’s work. The CCRF draws on the work of CDSB’s Board Members (listed in the front cover of the CCRF), on international developments in corporate disclosure and on the work of the International Accounting Standards Board (IASB).

Although it is focused on climate change-related disclosure, the approach and principles set out in the CCRF are based on and enhance relevant principles from many other corporate disclosure practices and from the established financial reporting model. The approach taken in the CCRF is therefore extensible to many other forms of corporate reporting and we believe that the extensive process through which CDSB went to determine the most suitable framework mirrors some of the challenges that you face in achieving your objectives.

Please note that the views expressed in this response are the collective views of CDSB’s Technical Working Group and Secretariat, but not necessarily of the organizations represented.

General comments on the Discussion Paper

By definition “integration” suggests the combination of parts into a whole. Presumably therefore, understanding and identifying the “parts” of corporate reporting is a prerequisite to integration. CDSB has been monitoring and tracking international developments in corporate reporting including financial, governance and environmental reporting requirements. We would be pleased to offer you access to our online database of international rules on reporting if that is likely to be of assistance to your work. Looking at the reporting landscape, in which there are in excess of 150 country standards or law with some form of sustainability related reporting requirement or guidance, our overall impression is that the combination of the various parts of reporting or, to use your language “bringing together of the diverse but currently disconnected strands of reporting” is likely to take some years to achieve. At a JustMeans conference in March 2011, a representative from a US and UK dual listed corporation explained that, despite the organization’s significant resources, it took them four years to combine their different submissions into one report that met the requirements of both jurisdictions.

We suggest that in its future work, IIRC seeks to define more precisely the purpose of the integrated report. It is represented in the Discussion Paper as “an organization’s primary reporting vehicle” (pages 2 and 20) and as the “reference point for other communications” (page 6), that “brings together the different strands of reporting into a coherent integrated whole” (page 7) in order for “management to explain what really matters” (page 10). Although these descriptions are not necessarily inconsistent, we were not sure whether the report is intended to amalgamate, consolidate or subsume (in whole or in part) existing reporting practices or to act as the thin layer that sits above all other reporting channels and that “sign-posts” the reader to further information about things that really matter to management based on their analysis of market context, their strategy and business model and stakeholder engagement. If the latter is correct, then an integrated report does not need to subsume or resolve the fragmented practices that have developed over time. It can simply try to make sense of them while more harmonized practices evolve and to deliver the “new honesty” about the tangible and intangible value of the company that was called for by FEE in 2009.

As the Discussion Paper notes, currently there are “diverse but currently disconnected strands of reporting” (page 2). In fact, there is no single global definition of an annual or primary report or the various national derivations that exist, nor is there necessarily a national requirement in all jurisdictions to deliver a primary annual report, (for example no such requirement exists in Canada or Japan). In the absence of a universally understood “primary report” an integrated report could not therefore “replace” existing primary reporting (to the extent that it exists) and it remains to be seen how jurisdictions that do not currently require an annual primary report would adopt integrated reporting in future. In the circumstances, it might be productive for

IIRC to focus on making sense of the disconnected strands PENDING such time as they can be rationalized or harmonized, possibly through integrated reporting practices.

Question 1 (a) Do you believe that action is needed to help improve how organizations represent their value creation process? Why/Why not?

Yes, but provided that:

1. Terms like “value creation” are adequately defined; and
2. Practices that are already working and contributing towards understanding of how business creates value are incorporated as far as possible into integrated reporting practices (as suggested on page 7 of the Discussion Document under the heading “Building on Developments to Date”). We are not convinced that sufficient work has yet been done to identify all existing relevant practices and/or the extent to which they are or are not satisfying the needs of preparers and users; and
3. The objectives of reporting are clear.

We suggest that it is particularly important to define the objectives of integrated reporting very carefully. A recent article in the Accounting, Auditing and Accountability Journal Vol 24, No 8, 2011, entitled “Private climate change reporting: an emerging discourse and opportunity” (pp. 1119 – 1148) refers to the lack of trust between companies and society that requires responsive postures such as social and environmental accountability. The article suggests that sustainability reporting can be used by companies to create and disseminate a “discourse of care” which attempts “to tread a middle ground between economic values and environmentalism” and/or a rhetorical response to ecological crises perpetrated by companies’ activities.

In the absence of clear objectives of integrated reporting defined in consultation with both preparers and users of information, there is a danger that reporting could be adapted by preparers to serve perceived, rather than actual needs and therefore that material facts about the net impacts of the organization’s strategy and associated activities will be lost in clutter.

We agree that action is needed to help improve the way in which organizations represent their value creation process (subject to the term being adequately defined). However, we think that en route to that improvement, more fundamental questions will need to be addressed such as:

- Whether, to what extent and how sustainability matters should be measured and how the connection with value creation should be presented;
- How to tease apart possible tensions between the demands for accountability (that is transparency about their social, ethical and environmental obligations) and materiality;

- How to deal with the blurring of boundaries that occurs where organizations are called on to measure, monitor and assess impacts of operations under their influence but not within their control, for example in the supply chain;
- What is it about the current state of financial, environmental, social and governance reporting that is preventing companies from making decisions and long-term decisions?
- HOW will bringing together information assist with decision-making?

Question 1 (b) Do you agree that this action should be international in scope?

Yes. Integrated reporting is a reaction to a changing world. Those changes are attributed to globalization and resulting interdependencies. By definition, integrated reporting must not restrict its scope, although output should be constrained by relevance, materiality and accountability (as defined by users of reports). In order to develop a framework that is truly international in scope, we recommend that IIRC relies on models that have achieved success in recognizing legitimate national differences whilst providing for a degree of international harmony. For example, the IASB's convergence project and the OECD's model tax convention and mutual recognition of chemicals program.

Question 2 – Do you agree with the definition of Integrated Reporting?

Broadly yes. However, we note that the definition focuses on what integrated reporting does or is designed to do (ie: bring together material information and elicit a clear and concise representation of how an organization demonstrates stewardship and creates value now and in the future), rather than what it IS. On balance, we prefer the definition in the King Report on Governance for South Africa (King III), which defines integrated reporting as “ a holistic and integrated representation of the company’s performance in terms of both its finance and sustainability”. We would suggest small amendments to the King III definition as follows, “Integrated reporting is a holistic and integrated representation of the company’s performance and the impact on society and the environment of that performance, in terms of both its finance and sustainability, taking into account the market and policy context in which it operates and its strategy and governance structure”. The addition of the underlined words links the internal and external effects of the company’s performance and reflects the need for reporting to go beyond representations of performance to include disclosures on context, strategy and structure.

As noted above, we have some reservations about whether an Integrated Report will become “a single report that will become an organization’s primary report” as indicated on page 6 of the Discussion Paper. Presumably this will depend upon agreement from national regulators that require and oversee “primary reports”. Also, the phrase “a single report” ignores the strong

trend for large companies to prepare a type of “composite” report that links statutory, non-statutory, printed and web based material.

We are pleased to note that the concept of resilience is referenced in the Discussion Paper as well as sustainability. In line with the thinking set out in UNEP FI and IISD’s “Lenses and Clocks” report, we believe that integrated reporting should show the links between an organization’s stability, sustainability and resilience.

Question 3 – Do you support the development of an International Integrated Reporting Framework?

Yes, provided that the Framework adopts, enhances and leaves undisturbed any provisions and practices that already serve the needs of preparers and users of information. We therefore suggest that by way of preparation for the development of a Framework, the IIRC conducts a thorough review of international provisions on reporting and tests their contribution towards/role in integrated reporting through the Pilot Program and other means.

As noted in our answer to question 8, we believe that the content elements of integrated reporting are well established. By contrast, approaches to HOW an organization should approach its reporting are less well developed. In particular, the means by which management should apply integrated thinking. We therefore suggest that IIRC should focus its work on “how” to think and report in an integrated way rather than on what to report.

We are aware that you are in the process of developing tools and guidance to help organizations to develop their approaches to integrated reporting. We think that development of practical guidance that takes a pragmatic view of reporting, particularly from the point of view of preparers, is crucial to the success of integrated reporting.

Question 5 - Are the organizations’ business model and its ability to create and sustain value in the short medium and long term appropriate as central themes for the future direction of reporting?

Yes, in principle. However, the absence of a single definition of business model, the scope for interpretation of what it means and the associated reporting variables might exacerbate the confusion and lack of consistency and comparability that integrated reporting seeks to resolve. We suggest that in the first instance, IIRC offers a “working approach” to describing the business model and the outcome of its operation in terms of sustainable long-term value along the following lines:

Strategy	Implementation activities	Dependency on capitals	Impacts on capitals	Holistic management of activity, dependency on capitals & impact	Value creation
↔	↔	↔	↔	↔	↔
<i>Describe</i>	<i>Activities on which successful implementation of strategy depends, including those in the following categories (design, emit, produce, consume)</i>	<i>Internal & external</i> <i>Positive and negative</i> <i>Short term & long term</i>	<i>Internal & external</i> <i>Positive and negative</i> <i>Short term & long term</i>	<i>BALANCING activities, dependencies and impacts on capitals to create and sustain value</i>	<i>Short medium and long term</i>

Question 6 - Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value?

Yes. We note that this is not an entirely new concept. It draws on work already in the public domain, such as Forum for the Future’s Five Capitals Framework. We think it would be useful for IIRC to consider the experience of initiatives that have used similar approaches before developing the concept of the capitals further.

Question 8 - Do the content elements identified in the discussion paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate: Is each individually appropriate and are there other content elements that should be added?

The content elements of reporting (including integrated reporting) are fairly well established and there is already a degree of consensus on WHAT should be reported through the work of international institutions such as IASB, GRI, CDP and others. Therefore, in developing an International Integrated Reporting Framework, we believe that attention will need to be focused on WHY an organization should prepare an integrated reporting and HOW it should report.

Question 10 – Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Are there significant actions that should be added?

We support and endorse the actions listed on page 25 of the Discussion Paper under the title “Future Direction”. We offer assistance with your future direction, particularly through access to our database of international provisions mentioned above and involvement in the Consistency Project, which we are conducting jointly with OECD, UNCTAD and the GRI.

In addition to the actions listed, we suggest the following:

- A program of research on the elements, requirements and objectives of current international corporate reporting requirements. This would form a firm basis for the harmonization activities included in your list.
- A program of research on work that has already been done on some of the concepts referenced in the Discussion Paper. The paper draws on aspects of social science and philosophy that have been pondered for some time, including how “reductionism” and boilerplate compliance can be balanced with holism and systems thinking. We think there is merit in conducting a literature review to identify the thinking and practices that are most likely to support the objectives of integrated reporting.
- Developing a system for thorough review and assessment of integrated reports along the lines of the review activity undertaken by the Financial Review Panel and the research conducted by Leeds University and others, referenced in the link below.

http://www.leeds.ac.uk/news/article/2696/doing_good__or_just_talking_about_it

Yours sincerely

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Executive Director
The Climate Disclosure Standards Board