August 18, 2020

International Integrated Reporting Council
The Helicon, Third Floor, 1 South Place,
London, EC2M 2RB
United Kingdom

To the IIRC Members:

Comments on the Consultation Draft of the International <IR> Framework

The Japanese Institute of Certified Public Accountants (“we” and “our”) welcomes the opportunity to provide the International Integrated Reporting Council (IIRC) with our comments on the “Consultation Draft of the International <IR> Framework.” Our comments below focus on certain invitation to comments we would like to respond to.
Q1  Do the adjustments to paragraph 1.20 simplify the statement of responsibility in an effective way?

(Answer)
Yes.

(Rationale)
We believe that disclosures on the process followed to prepare the integrated report and the role of those charged with governance would be useful information when assessing the credibility of integrated reports. We support paragraph 1.21, which explicitly states that governance structures of organizations vary among jurisdictions, as it would allow flexible application of the <IR> Framework in accordance with cultural and legal systems of each jurisdiction.

Q2  Does the framing of process disclosures meet the goals of promoting accountability and integrity while still providing flexibility?

(Answer)
Yes.

(Rationale)
The proposal aligns with the idea of recognizing variations in governance structures and processes for corporate reporting. On the other hand, we understand that the reporting process involving those charged with governance is still evolving, and different organizations could have so many different practices. Accordingly, we believe it is in the best interest not only for users of the report to understand what kind of systems and processes are implemented by an organization, but also for other organizations who can learn from precedents, thereby contributing to the overall development of corporate reporting practice. We suggest that <IR> framework encourages preparers to describe features of their reporting process with concrete explanation to avoid boilerplate narrative.

Q4  Does the Glossary sufficiently clarify the potential inclusion of management personnel in the scope of those charged with governance?

(Answer)
Undecided.

(Rationale)
We support including executives in addition to non-executive directors in the scope of
those charged with governance. However, we suggest adding an explanation as to why “owner-manager” is included in those charged with governance, given that an owner-manager generally falls into the category of either an executive or non-executive board of director. For example, if owner-manager needs to be included in the scope of those charged with governance in addition to governance board based on an assumption that a governance model could take place where an owner also serves as management personnel in such company, it should be clearly stated so in the <IR> Framework.

Q5 Do paragraphs 1.21 and 1.22 sufficiently recognize variations in governance models?

(Answer)

Undecided.

(Rationale)

We recommend rewording “commitment of the highest oversight or decision-making body” in paragraph 1.22 to “commitment of the highest oversight and/or decision-making body,” provided that oversight function is not always separated from the decision-making body.

In addition, certain governance model is accepted under the Companies Act of Japan, where the “Audit and Supervisory Board” is responsible for auditing the board of directors and the operation of business. Under this governance structure, the Audit and Supervisory Board is responsible for the auditing part of the overall oversight function, and it is expected that both board of directors and the Audit and Supervisory Board work together to oversee the top management of the company. That said, we highly recommend a sentence should be inserted in the <IR> Framework, stating that there are cases where multiple bodies are jointly responsible for the oversight function.

Q6 Does paragraph 4.19 sufficiently differentiate outputs from outcomes?

(Answer)

No.

(Rationale)

It should be clearly mentioned in the <IR> Framework that organizations consider conflicts among stakeholders when evaluating the value of outcomes (positive and negative). An organization’s strategic decision-making and actions may cause positive outcomes for some stakeholders but negative outcomes for others. Examples of such cases are where the extravagant consumption of natural capital reduces the benefits of future generations, and when exploitative labor increases the interests of shareholders. Such consideration of the environment and social issues is important. Examples of such
cases are where the extravagant consumption of natural capital reduces the benefits of future generations, and when exploitative labor increases the interests of shareholders. For organizations because conflicts among stakeholders have an important effect on the sustainable value creation capabilities of the organization. We recommend that the example illustrated in paragraph 4.19 should take this into consideration.

Q7 Does Figure 2 effectively distinguish outputs from outcomes and link outcomes to value creation, preservation or erosion?

(Answer) No.

(Rationale) As outcome includes external consequences as well as internal consequences, the brown-colored circle of outcome in Figure 2 should be “on” the gray line, not inside, to present half of the circle outside the line, thereby indicating that outcomes also affect external environment. In this way, we believe Figure 2 can effectively distinguish outputs from outcomes.

Q9 Does the increased emphasis on value preservation and value erosion encourage more balanced reporting of outcomes?

(Answer) Yes.

(Rationale) It is appropriate to emphasize the explicit consideration of negative impacts as to maintain neutrality of reporting content. Further, it may be helpful to add following sentence to promote balanced disclosure in 4.19.

“For promoting users’ understanding, an integrated report describes both positive and negative outcomes.”

An integrated report should include both positive and negative sides of outcomes to enable readers to gain proper understanding of organization's activities and consequences.

Q10 Does the closing sentence of paragraph 4.20 sufficiently address the coverage of impacts under the term ‘outcomes’?

(Answer) No.
In accordance with the International <IR> Framework, we understand that the principle of materiality is applied in determining the content of an integrated report. Otherwise, wider outcome in the report may obscure what is important and may deteriorate the usefulness of the report. Therefore, it should be emphasized that the scope of reporting is limited to important outcomes.

The newly added term “impact” can be confusing unless relationship with the other terms, “outcome” and “effect” is explained. The relationship between the terms becomes clearer by adding a phrase such as “impact is an effect on the external environment and is considered to indicate a part of the effect.”

Q11  Should paragraph 1.7 extend beyond providers of financial capital alone to include providers of other forms of capital?

(Answer)
No.

(Rationale)
Integrated reporting aims to optimize resource allocation through capital markets, and to effectively realize a sustainable value creation cycle while maintaining balance between economic and social values. Since the integrated reporting is based on capital markets, providers of financial capital to be centered when determining intended users. The wider intended users grow the broader their information needs grow consequently the report might become unsatisfactory to any of stakeholders. The framework has already adopted the materiality approach that takes into account expectations and concerns of all key stakeholders so that the report maintains balanced relationship among stakeholders while focusing on provider of financial capital.

And to place much emphasis on the importance of considering externalities, it may be helpful to mention following factors, mainstreaming ESG investment in capital markets, growing presence of universal owners who consider profit for society as a whole from longer perspective.

Q12  Do you support the creation of a resource outside the <IR> Framework (e.g. an online database) to showcase authoritative sources of indicators and methodologies across the capitals?

(Answer)
Undecided.
There has been an ongoing debate over measurement standard setting for non-financial information and the overall corporate disclosure system at a global level. Under such circumstances, showcasing sources of developing measurement methods or indicators might not fit for preparer’s immediate needs. We believe it is of value for preparers and users that the IIRC proceed discussion and identify and summarize key points of followings issues:

- selection of KPIs and measurement methodologies in integrated reports
- required due process for measurement standard setting
- accounting and disclosure policy for organizations’ specific KPIs

On the other hand, selection of reasonable standards for each individual subject matter from a number of authoritative or generally accepted standards might be a complicated issue for a preparer. As such providing database which enable users to search standards and frameworks compatible or complimentary with the integrated reporting framework to be a useful information source for a preparer.

We acknowledge the growing interest in SASB and TCFD as reporting frameworks and standards for non-financial information.

Q14 Should the IIRC explore the role of technology in future corporate reporting as a priority?

(Answer)
Undecided.

(Rationale)
Since technology is rapidly evolving area and contains diverse elements, it may be difficult for the IIRC to directly handle this subject. On the other hand, there may be certain needs for guidance regarding the use of technology for data governance / disclosure of non-financial information.

Yours faithfully,

Takako Fujimoto
Executive Board Member—Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants