December 14, 2011

WICI Response to IIRC’s DP

Q1(a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

Yes. The current reporting tends to focus only on financial performance, a result of the past corporate activities, from which most stakeholders can hardly predict the future corporate performance which they are most interested in. To provide them with some clues to the future performance of the company, each company needs to make clear 1) the value creation mechanism which is unique to the company and can last to a certain extent in the future, 2) the specific assets, including non-financial ones, for the company as the origin of the value creation mechanism, 3) the company's own perspective concerning risks and opportunities in the future, and 4) the strategy for the future business, including how it will utilize those assets based on its perspective.

Therefore, we share IIRC’s idea to focus on value creation and to improve the representation of it in the business reporting.

Certainly, many kinds of reports concerning non-financial information have been published by companies. Yet, the contents of most reports fall in such specific categories as CO_2 emission, human rights, compliance and environmental conservation mainly pressed by a certain group with a strong interest in those areas. However, such a disclosure is often far away from the total picture of the company's own value creation mechanism and the core part of the corporate strategy, so few stakeholders, including investors, pay attention to it. Thus, it creates only additional cost or burden on companies. To move away from this situation and to improve the dialogue between stakeholders and companies, we need to depart from a report focusing only on financial performance or a specific social value. Rather, we need to emphasize the broader value creation mechanism of a company.

(b) Do you agree that this action should be international in scope? Why/why not?

Yes. In a globalized economy, companies have an international basis of their operations, stakeholders as well as investors. Diversified systems to regulate business reporting covering financial and non-financial aspects in each country or region would increase compliance costs, while investors in the global market might neglect such diversified and/or duplicate information. All market participants would benefit from an internationally accepted broad reporting framework for assessing corporate value creation.

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

The definition itself is not clear in the document. The idea of a single report is clear; however, the nature of the framework concepts is not as clear. We agree that the function of integrated reporting is to ask companies to identify material elements of its operation, to describe the relationships between them, and explain how they create and sustain value in the short, medium and long term.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

Yes. By using a commonly accepted international framework with a forward-looking nature, value creation oriented, and free from bias of specific social value, both a company and its stakeholders can correctly recognize the material part of its activities and resources and interact with each other in a more dynamic and productive way, on the basis of an integrated report as a valuable communication, and by possibly leveraging on Internet as a collaboration, tool. This communication may improve sustainable activities for value creation, raise the predictability of the whole society, while reducing risk in general.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

Yes. As long as this activity aims for international framework, main target should be larger companies which operate globally. To have a wider scope of issuers from the beginning is a risky choice, because it might dilute the focus of value creation. On the other hand, if a proper framework is created, the essence should be applicable also to small and medium size enterprises, since they are core unit of companies. At the same time, it is true that investors are and should be the heaviest users of the disclosed information. In this context, we agree to start from the core part by focusing on larger companies and investors.

Q4. (b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

As mentioned above, the concept underlying IR should be applicable to SMEs, because the value pursued by them is similar to that of larger companies. In case of the public sectors and NPOs, some modification might be necessary because of the nature of pursued value is different from private companies. We are concerned that to have a wider scope from the beginning might complicate the argument and delay reaching consensus on the reporting framework.

Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Yes. Companies provide a value creation mechanism which converts a range of tangible and/or intangible assets into value for investors and stakeholders. The value creation mechanism which is different company by company can be rephrased as a business model. Therefore, business model and value creation over the short and long term should be the central part of an effective integrated business reporting model.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

The concept of multiple capitals is helpful to understand what is expected in describing the business model and value creation mechanism. Also, the flexible approach for describing capital is important as was mentioned on page11 of the discussion paper, stating 'not all capitals are equally relevant or applicable to all organization.' For example, ESG elements are often quoted as social capital, but we need to put more emphasis on the long term sustainability of a company in which most investors and companies are interested, including – but going beyond – environmental and social sustainability.

As to output, the diagram shown in page 10 is a bit misleading or difficult to understand, because, in many cases, output itself is not the six capitals. Rather, the direct outputs can be represented in a more diversified but direct manner. Therefore, we suggest inserting a box of output or performance between the business model in the center and six capitals in the right hand side of the diagram.

Q7. Do the Guiding Principles 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 Guiding Principles that should be added? Why/why not?

Guiding principles are collectively appropriate. Especially the focus on strategy is the core part which differentiates integrated reports from existing company reports. We believe that through guiding principles, we should aim to:

- Identify sources of differentiation of a company value creation mechanism from others;
- Make it clear the company unique value creation mechanism enabling long term sustainability. Present a comprehensive picture of the company's value creation activities, including financial data, financial performance and non-financial elements;
- Provide clues to stakeholders to predict future performance of the company;
- Allow companies to freely choose the substance without requiring a 'tick the box' type of disclosure;
- Explain material issues for the company with a certain reliability and comparability of the disclosed information for users;
- Reduce the total cost of reporting for companies.

Each principle is also appropriate in general. As to connectivity, it is better to include that the connectivity can be well described through a narrative story of corporate strategy, since the total picture of connectivity as a whole is essential to stakeholders, rather than a partial explanation on how each disclosure is connected.

To make clear the above mentioned seven points as guiding principles is one way to add something to the proposed ones. However, it should be said that those here pointed out are closely related to the five principles in the discussion paper. Thus, five principles

are acceptable as they stand, as long as they can encompass the seven points mentioned above.
Another extension which can be considered is that of adding the principle of “consistency of information”, which favors the benefit of comparability (p.22 of the DP), as well as the principle of “transparency of methodology”.

Q8. 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? Why/why not?
Yes. The proposed content elements are collectively appropriate. However, in each of them, there are some points to be modified as follows.

Operating context: the word ‘capitals’ needs to be included under the paragraph of resources and relationships as mentioned in guiding principles.

Performance:
- As pointed out in the answers to Q2 and Q6, material outcomes for the company should be primarily identified, partly evidenced by some indicators, then the impact on resources and relationships, including capitals, should also be described.
- In the third paragraph, environmental and social impacts are particularly mentioned as well as economic impacts. To avoid a misunderstanding that these aspects are considered mandatory ones, just to mention ‘material impacts’ would be better, leaving the final choice to companies.
- The linkage between past and current performance and between current performance and future outlook are key elements. However, the latter part can be described in ‘future outlook.’
- Though KPIs and KRIs appear only in ‘performance’ in the current paper, indicators are meaningful to enhance the quality of the company narrative story in such other aspect as evaluating material resources or process. Therefore, indicators need to be mentioned in parts other than that devoted to performance.

Future: We suggest a substantial change in this part in line with the other five elements, as follows:

- possible modification of the organizational overview and the business model;
- operating context in the future based on assessment of risk and opportunities and relevant resources and relationships;
- strategic objectives and strategies or actions needed to pursue them;
- governance to reach the objectives;
- projected performance and/or material outputs in the future and their impact on resources and relationships.

Q9. From your perspective:
(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

Main benefits are to revitalize economy as a whole through:

- Increased motivation of employees as described on p. 24;
- Improvement in management through more substantive communication and dialogue with stakeholders;
- Realization of a strategy-oriented corporate management;
- Increase in profitability based on improved management;
- Reduction in reporting costs;
- Realization of winner abundant society by focusing more on the importance of differentiation as explained below.

Disclosing company specific way of value creation would make it possible a richer and more diversified evaluation of a company, i.e., increase the matching of values between a company and its wider stakeholders besides investors. That is because what a company puts a priority on or what kind of activities it carries out, cannot be grasped following a simple criteria of financial performance, but evaluation depends on the degree of commonality between the priorities of a company and the values of each investor or each stakeholder. This also means that a broader number of businesses may be able to gain the capital and reputations that they need to execute their strategies based upon their unique value propositions. That is, the ‘toolkit’ available to companies to create capital and reputation will be improved from the current only profit-focused reporting framework, which may be seen to favor companies with significant short term profits.

Q9. From your perspective:
(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

The biggest challenge is how to attain both materiality and comparability. To tackle this challenge:

- It is useful to present a skeleton of a narrative story to explain the value creation and corporate strategy of the company as illustrated in Annex 1. This approach is taken to avoid regulating the substance of disclosure of each company, while making the story understandable and comparable as possible.
- It is also important to ask companies to include measurable key indicators to support the narrative story. However, referring to KPIs might make a company feel to be obliged to disclose a certain set of them. Therefore, it is necessary to identify the concept and principles of KPIs as WICI did (see Annex 2). To choose the most material KPIs by itself raise the reliability and verifiability of the report, while enhancing comparability in that stakeholders can compare those with the same indicators presented by the company in the past or with other companies which selected the same indicators.
- To recommend companies to use XBRL format is quite essential to enable users of reports to more effectively analyze company disclosures. This approach is taken to improve the comparability and analysis of reports through empowering users of reports by using the tagged or structured information which can be easily and conveniently reused for analysis and/or searching.
- Also, it is necessary not to give too much expectation too soon to investors and to educate them to properly understand and analyze the disclosed information.

Q9. From your perspective:

(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?
To analyze other pilot reports under similar frameworks would be also valuable.

Q10. (b) What priority should be afforded to each action? Why?
n.a.

Q11. Do you have any other comments that you would like the IIRC to consider?
To make it clear what is the short-term goal of IIRC activities as well as its long term vision would be helpful.
Another element that could be made clear is the linkage of Integrated Reporting with Sustainability Reporting, and in particular the fact that IR is not the evolution of the latter report.