Submission by the Climate Disclosure Standards Board (CDSB) to the International Integrated Reporting Council

20 March 2020

CDSB welcomes the opportunity to offer our written response to the International Integrated Reporting Council's (IIRC) Framework revision, through the three topic papers on: Responsibility for an integrated report; Business model considerations; and Charting a path forward.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the **CDSB Framework**[1]) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework has been referenced in *Defra's Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance*, the London Stock Exchange's ESG reporting guidelines, as well as in guidance to mandatory reporting requirements and stock exchange reporting guidelines internationally. IIRC should be familiar with the CDSB Framework having been a longstanding member of our Technical Working Group.

Our comments are intended to be constructive, to support the IIRC in its review of its <IR> Framework.

Please find our comments below and do not hesitate to contact us if we can be of further assistance.

Best regards,

Mardi McBrien
Managing Director
Climate Disclosure Standards Board

[1] Climate Disclosure Standards Board (2019). ***CDSB Framework for reporting environmental & climate change information: Advancing and aligning disclosure of environmental information in mainstream reports*** [PDF]. Available online at: https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

Responses to the Specific Questions in the three topic papers

Topic Paper 1: Responsibility for an integrated report [SUBMITTED BY SURVEYMONKEY ON 19 MARCH 2020]

Q1. Should the emphasis of Paragraph 1.20 shift from a statement of responsibility to process-related disclosures. Please explain.

CDSB believes that the emphasis of para.1.20 should not shift from a statement of responsibility to process-related disclosures. This governance statement is in essence a statement of conformance with the <IR> Framework and is crucial for showing accountability and demonstrating to report readers that firstly, those governing the organisation have had oversight of all the material capitals' information provided and secondly, that it is treated with the same level of rigour as financial information and subject to robust internal controls. Both of these are crucial. We therefore do not support Proposal A as this would be a weakening of the <IR> Framework and a corresponding reduction in the trust of the information provided in the integrated report.

We also note that one reason cited in the consultation document for limited uptake of the statement of responsibility is conflict with local regulations. The IR Framework should make explicit that where there is a conflict between it and national legal requirements, the latter should be followed.

Q2: To which systems, procedures and controls should the guidance refer?

We refer to you to the World Business Council for Sustainable Development's (WBCSD) work with COSO (the Committee of Sponsoring Organizations of the Treadway Commission) which helps companies "integrate ESG risks into their mainstream risk processes". See in particular their 2018 Application Guidance to help organizations align ERM to ESG-related risks available at: https://www.wbcsd.org/Programs/Redefining-Value/Business-Decision-Making/Enterprise-Risk-Management/Resources/Applying-Enterprise-Risk-Management-to-Environmental-Social-and-Governance-related-Risks

Q3: Should the guidance encourage the disclosure of key roles and responsibilities in the integrated reporting process? Please explain.

Yes, the guidance should encourage the disclosure of key roles and responsibilities in the integrated reporting process as this allows the reader to understand how the data and information disclosed in the integrated report is managed. This also helps to make the guidance aligned to that of the Task Force for Climate-related Financial Disclosures' recommendations. We also suggest that the specific interface with governance be disclosed, for example to show how data and information flows between those managing the capitals and the board.

Q4: Should the guidance cite a voluntary 'statement of responsibility from those charged with governance' as best practice? Please explain.

Yes, as this shows clear leadership and buy-in from the top which also illustrates how the disclosures have been considered at the highest level. This leaves the reader with confidence in the integrated report disclosures.

Q5: Is there value in clarifying the term "those charged with governance"

Our experience with companies making climate-related financial disclosures has shown that there is often a blurring between the two TCFD governance disclosures: notably, management's role and board oversight. Therefore, further clarification on what "those charged with responsibility" means would be helpful.

Topic Paper 2: Help shape the future of integrated reporting [SUBMITTED BY SURVEYMONKEY ON 20 MARCH 2020]

Q1: Should the <IR> Framework explore illustrative examples and visual techniques to elevate the significance of outcomes?

Yes, illustrative examples of what good practice looks like are appreciated by report preparers.

Q2: Should the <IR> Framework further explain the link between outcomes and value creation by including an illustrative example?

Yes, illustrative examples are appreciated by report preparers.

Q3: Should Sections 4C and 4F of the <IR> Framework further reinforce:

i. That the term 'value creation' also reflects cases in which value is preserved or eroded?
ii. The importance of providing evidence to support claims and conclusions made in the integrated report?

It may be helpful to have explanatory notes to show cases where value is preserved or eroded. For example, this could follow a similar format to previous IIRC Technical Resources, i.e. The Background Paper on Value Creation (see: https://integratedreporting.org/wp-content/uploads/2013/08/Background-Paper-Value-Creation.pdf). In the same manner, similar guidance could offer advice on what evidence would be useful to substantiate the claims and conclusions in the integrated report.

Q4: Should the <IR> Framework clarify its coverage of longer-term impacts on society and nature, under its existing 'outcomes' definition?

Yes, and CDSB and other partners are developing further Application Guidance related to disclosures of different aspects of natural capital over the next three years.

Topic Paper 3: Charting a path forward [SUBMITTED BY SURVEY MONKEY ON 20 MARCH 2020]

Q1.

a. Do you agree with the proposed change to Paragraph 1.7?

We do not support the removal of financial capital from 1.7. From our recent review of annual and integrated reports, we see that other stakeholders are receiving more focus than investors who need material and decision-useful information to inform, first and foremost allocation of financial capital. This decision-useful information to inform capital allocations will need to cut across all forms of capital including financial capital and be integrated. To this end, we wish to point out that the Second Status Report of the TCFD found insufficient disclosure practice in linking financial and non-financial information. Therefore the <IR> Framework should be reinforcing not deleting this point.

b. Do you agree with the proposed change to Paragraph 1.8?

No, we do not agree with these changes. An integrated report benefits providers of financial capital and it may also benefit the needs of other stakeholders. We therefore suggest paragraph 1.8 be reworded to address this point. Our comments in the previous question also apply here.

Q2. What considerations should inform the IIRC's strategic deliberations on the role of technology in future corporate reporting?

Digital reporting has now entered the mainstream and to ensure that information on financial and other capitals are reported in the same way, it is now the right time to embrace the eXtensible Business Reporting Language for <IR>. Advances in digital reporting of financial information means that reporting information on other forms of capital will be reported in a different format and medium. This does not only hold back progress on non-financial reporting, but also separates information that is intended to be used in conjunction with each other. Given that the future direction of reporting is clearly laid out in most jurisdictions, it is imperative that all forms of reporting move in the same direction. There is therefore a strong need to ensure equivalence in technological advances and developing financial and other corporate reporting at the same pace using the same reporting platform.

While we expect that some responses may refer the IIRC to the use of technologies such as blockchain or Artificial Intelligence, we would caution the Council in moving too fast before establishing the foundations of such technologies. Such work has the risk of taking up infinite resources (both financial and human capital) and detract from significant, short term improvements. The role for such technologies should be only explored after digital reporting is implemented and is in use.

Q3. Are there further ways in which the <IR> Framework can enhance the assurance-readiness of integrated reports

Overall, the <IR> framework is well suited for assurance-readiness, using many of the shared concepts that are a part of IFRS, as well as being concerned with reviewing the processes involved in value creation across each of the capitals. One area that is not well developed is the control environment, namely internal controls and how those may relate to each capital. Testing controls efficacy is a key feature of an audit engagement, having these documented could enhance the frameworks assurance readiness.

Q4. Consider the following statement: Matters of assurance rest with regulators and related standard setters and not with voluntary reporting frameworks. DO you agree or disagree? Please explain.

Regulators need to require assurance in some cases, but standard setters should ensure that their frameworks are suitable for assurance. It could be argued that standard setters are not creating standards fit for purpose if they are not assurance ready or hinder it and thus failing in their duties. Standards exist to promote the effectiveness of reporting, for which assurance is a key element. If voluntary reporting frameworks wish to be adopted easily with little cost to users, then they should look to be aligned closely with relevant standard setters. Thus, if the two above criteria are satisfied then matters of assurance should not be a concern for voluntary reporting frameworks as they will be already met. Moreover, there is nothing to stop a voluntary framework suggesting that assurance over whether the reported information is in line with the voluntary framework may be a valuable exercise, through appropriate reference within the Framework itself (as found in the CDSB Framework). However ultimately, full assurance uptake will only occur where mandated by regulation/legislation and standard setters.

Q5: Are there further matters that the IIRC should consider:

a. In the modernization of the <IR> Framework?
b. As part of its strategic agenda?

a) Harmonisation with other standards, e.g. drawing on the work of the Corporate Reporting Dialogue.
b) There has been experimentation with integrated reporting, we encourage the IIRC to do analysis of those disclosing under its framework to see how they align to the <IR> Framework's guiding principles and content elements. This evidence base should inform where the <IR> Framework needs to evolve to enhance corporate disclosures across all the capitals.