The Forum for Sustainable and Responsible Investment

November 18, 2011

Professor Mervyn King
Chairman
The International Integrated Reporting Committee
c/o The Prince's Accounting for Sustainability Project
Clarence House
London, SW1A 1BA
United Kingdom

Submitted online to dpresponses@theiirc.org

RE: Comments on the International Integrated Reporting Committee (IIRC) Discussion Paper *"Towards Integrated Reporting: Communicating Value in the 21st Century"*

Dear Chairman King:

I am writing on behalf of US SIF: The Forum for Sustainable and Responsible Investment, the U.S. membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing (SRI). According to US SIF's recent Report on *Socially Responsible Investing Trends in the United States*, SRI assets in the United States topped $3 trillion at the end of 2009, representing one in every eight dollars under professional management in the United States and up 34% since 2005, during a period when all U.S. assets under professional management only increased 3 percent. As such, we represent a key and growing constituency in the United States.

US SIF appreciates the thoroughness of the preparation and presentation of the IIRC Discussion Paper "*Towards Integrated Reporting: Communicating Value in the 21st Century"* released in September ("Discussion Paper"). As a fundamental concept, we support your efforts for an integrated reporting framework with both financial and environmental, social and governance (ESG) information.

However, our core interest is in the disclosure of the most robust ESG data possible. US SIF would actually prefer to see a separate and comprehensive ESG report published rather than a much shorter ESG section of an integrated report. Sustainability reporting has been a priority for sustainable and responsible investment professionals for many years. There is often a division between the work of corporate investor relations and sustainability departments, which is then reflected in conflicting actions and messages or an unfortunate lack of knowledge by investor relations about a company's ESG programs and commitment. An effective integrated reporting framework would force companies to focus on how sustainability issues intersect with day-to-day business practices and long-term planning, and implement strategies that eliminate those conflicts. We also believe it is important for ESG information, especially as it relates to risk, reputation and corporate financial performance, to be put in front of not only SRI analysts, but all types of equity and alternative investment analysts.

Integrating ESG information into corporate annual reports and 10-K filings to the US Securities and Exchange Commission (SEC) was one of the principal components of our submission to the SEC on July 2009 on needed reforms in this area, which also included contingent liability and disclosure guidance on sustainability risks, uniform ESG performance indicators and reporting standards for all corporations, and strong enforcement of these provisions by regulatory bodies. The full text of the US SIF letter and the list of signatories can be viewed at http://www.socialinvest.org/documents/ESG_Letter_to_SEC.pdf.

We believe that ESG issues are material to financial performance, and that requiring the information would be enlightening both for corporate management and for their shareholders. With the exception of some information on corporate governance, reporting on environmental and social risks and opportunities is not mandatory for the vast majority of companies. In addition, while requirements for reporting all material matters are mandatory in many markets, without enforcement or strong reporting requirements there is inadequate attention paid to them. Increased and focused attention to these issues on an ongoing basis can help companies and their shareholders manage potential liabilities.

In addition to our responses to Consultation Questions in the Discussion Paper most relevant to our members, we would like to underscore fIve broader points on integrated reporting.

- We urge the IIRC to pay particular attention to ensure that integrated reporting does not diminish the quality of the good ESG or sustainability reporting that exists today. While currently most companies do not publish sustainability reports, there are a number of companies that publish impressive substantial reports. We are concerned that IIRC's efforts to integrate, remove "clutter" and shorten the length of a report may have the unintended consequence of excluding certain ESG information from such reports thereby further diluting the quality of the sustainability reporting that exists today. We acknowledge that many sustainability reports, unlike financial reports, are heavy on feel-good anecdotes and light on statistics, data, policies and outcomes. Nevertheless, efforts to remove information in the integrated reporting format must not result in the removal of information important to investors. In the event of a reduction or exclusion of certain ESG information, investors would lack valuable information to effectively determine opportunities and risks.

- We urge the IIRC to reconsider its position that "only the most material information should be included in the Integrated Report" which should be defined by senior corporate management. By doing so, IIRC leaves materiality, which forms one of the key "building blocks" of the five guiding principles of integrated reporting, at the hands of "senior management and those charged with governance" to "exercise judgment" on the information to be included in the integrated report. Investors want reporting that provides material information which assesses not only the financial performance of a company, but also identifies the company's material risks and opportunities based on ESG factors. We recognize that companies have a responsibility to identify material issues. However, we are concerned that IIRC's complete reliance on management's determinations of "only the most material information" may differ significantly from the materiality considerations of investors, communities, and others who are affected by corporate impacts. US SIF and its members want to see a wide range of comprehensive ESG information from the reporting company to understand and assess for ourselves what is truly material. Therefore, we urge the IIRC to provide clear guidance on the definition of "materiality" and illustrate examples of material ESG risks.

- The bottom line is that many US SIF members would actually prefer to see a separate and comprehensive ESG report published than a watered-down, much shorter ESG section of an integrated report. Integrated reporting is a means to greater ESG disclosure only if the IIRC broadens its definition of what must be provided in these reports and emphasizes the overriding importance of providing this data in a robust and comprehensive way.

- We are pleased to see the IIRC's extensive multi-party collaborative consultation process. However, our general impression is that major accountancy firms have been more actively represented than investors, civil society and other stakeholders which we believe is a significant shortcoming of this process. Investors bring a critical and experienced voice to the table, and we urge the IIRC to undertake greater outreach to, and participation from, sustainable and responsible investors who are the major users of these reports.

- We are concerned that the IIRC Discussion Paper does not elaborate on the role of the Global Reporting Initiative (GRI) in the integrated report process. US SIF and our members have long supported corporate sustainability reporting efforts of the GRI. Given that the IIRC is co-led by the Prince of Wales' Accounting for Sustainability and the GRI, we would expect to see greater synergies on how GRI reporting fits into the integrated reporting process. We hope that the IIRC's efforts to develop an integrated reporting framework will at least mention the tremendous efforts of GRI as one of the most widely used sustainability reporting frameworks in the world. The fact that increasingly large global companies utilize the GRI framework, including Bloomberg, a leader in delivering business and financial information to more than 300,000 subscribers globally, is a testament to its importance.

Below are direct responses to the consultative questions with the specific numbers corresponding to the requests for comment in the IIRC discussion paper on integrated reporting.

Responses to Consultative Questions:

1a&b. We agree that action is needed to help improve how organizations represent their value-creation process. We also agree that this action should be international in scope. Environmental, social and governance risks and opportunities are not confined solely to defined national or regional borders. They apply extra-territorially and therefore the application should be international in scope. Moreover, given the global nature of business and resulting interdependencies, international companies and their subsidiaries should not be excluded from this reporting.

2. While we generally agree with the definition of Integrated Reporting (below in text box), we have two major concerns. First, as mentioned earlier, we remain concerned that the IIRC leaves the issue of *materiality,* which forms the definition of integrated reporting and is one of the key "building blocks" of the five guiding principles of integrated reporting, in the hands of senior management and those charged with governance. As investors, we believe that ESG issues are material to investment and inform and improve an investor's ability to assess risks. These issues give investors further insight into how management decisions are made. Limiting the identification of key material issues to corporate management is restrictive. Therefore, we urge the IIRC to provide clear guidance on the definition of "materiality" and illustrate examples of material ESG risks. Second, the definition of integrated reporting does not mention risk. We recommend that the definition be revised to include the disclosure of risks.

IIRC definition: Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly:

- *shows the connectivity between them; and*
- *explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.*

3. We generally support the development of an international integrated reporting framework. As investors, we have moved toward international standards for other financial reporting, and while there are particular risks that apply in particular places, there is no geographic constraint on the presence or absence of ESG risks and opportunities. However, we do have broad concerns about the impact of the framework as discussed earlier. We are concerned that integrated reporting may diminish the quality of the good ESG reporting that is done now. We encourage the IIRC to consider greater participation by sustainable and responsible investors at the table who would be major users of this report. We also recommend more disclosure around the role of GRI and the significant work already completed by the organization and many reporters.

4a&b. We do not agree that the initial focus should be on reporting by larger companies for several reasons. First, we find that larger companies are more likely than smaller ones to do more robust reporting. Therefore, a requirement that initially only applies to larger companies would not enhance our understanding as a more expansive requirement would. Second, larger companies are more likely to be covered and scrutinized by the media and watchdogs for their actions. In our experience, even without sustainability reporting, it is easier to gather information on the ESG impacts of larger companies' actions than on smaller companies, whose ESG impact is just as relevant to investors as the larger companies. Third, while larger companies may have the capacity to do more damage, an ESG failure at a smaller company is much more likely to experience significant financial difficulty from an event or compliance problem than larger ones. Finally, it is often the hope of both the company and its investors that small companies grow and become large; it is much easier to adapt an ESG reporting system to growth than to have to invent one for a large company. For those reasons, we agree that the concepts underlying integrated reporting should be equally applicable to all companies – small, medium and large.

5a&b. We generally agree that the organization's business model and its ability to create and sustain value in the short, medium and long term, are appropriate as central themes for the future direction of reporting. Investors must understand the business model and its adaptability to changing conditions all the time. The Discussion Paper states that value is influenced by external factors that present risks and opportunities, which create the context within which the organization operates; co-created through relationships with others; and dependent on the availability, affordability, quality, and management of various resources, or "capitals" (financial, manufactured, human, intellectual, natural and social). We believe that the ability of an organization's business model and ability to create and sustain value is not only linked as a financial issue, but also involves sustainability issues at its core.

6. We find the concept of multiple capitals helpful in explaining how an organization creates and sustains value. The paper describes and explains multiple capitals as resources and relationships that organizations depend on, such as financial capital, manufactured capital, human capital, intellectual capital, natural capital, and social capital. We agree with the statement that the "extent to which different organizations use or impact each of these capitals varies: not all capitals are equally relevant or applicable to all organizations."

7. The Discussion Paper lists five Guiding Principles: strategic focus, connectivity of information, future orientation, responsiveness and stakeholder inclusiveness, and conciseness, reliability and materiality. We generally agree that these principles provide a sound foundation for preparing an Integrated Report and are collectively appropriate. Materiality has been a key indicator for investors. Our concern is, however, that allowing only "senior management and those charged with governance" to determine which environmental, social, and governance data affect the actual or potential impact on a company's investment value has the potential to exclude other ESG information that is indeed material to investment decisions or are required under regulations.

8. We agree that the Content Elements identified in the Discussion Paper (organizational overview and business model, operating context, including risks and opportunities, strategic objectives and strategies to achieve those objectives, governance and remuneration, performance and future outlook), provide a sound foundation for preparing an Integrated Report and are collectively appropriate. However, it is unclear as to how each is defined. Other Content Elements that should be added include a clear policy statement on relevant sustainability public policy issues, including, but not limited to, human rights, labor, environment etc. The IIRC may consider an organizational principle, such as "regulatory vulnerability and brand/intangible value" that would unite those important areas.

9a,b,c. Integrated Reporting impacts US SIF in multiple ways. Based on the Discussion Paper, US SIF would be identified under the reporting organization perspective, since we report on our financial and sustainability performance; the investor perspective, because we represent the voice of the sustainable and responsible investor community, and the policymaker and standard-setter perspectives because we engage in public policy on behalf of members. We generally agree on all the main benefits and challenges.

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Properly done, integrated reporting should include all information that is useful for analysis from the perspective of investors. Markets are driven by information. In our opinion, a company's ESG disclosure is material information and critical to shareholder value. If the information investors receive does not include "material" ESG issues, investors are vulnerable to covert risks and unprepared to take advantage of emerging opportunities.

10a&b. We generally agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC, such as a two-year pilot program, developing the international integrated reporting framework, monitoring or contributing to the development of emerging measurement and reporting practices, outreach, harmonization and governance. We recommend that when disclosing, companies should consider the GRI framework. We request that there is greater involvement and participation by sustainable and responsible investors and request that you accord it a high priority.

Thank you for the opportunity to comment on the Discussion Paper on integrated reporting. We believe our recommendations would ensure that all investors could realize the maximum benefit of these critical disclosures. Should you have any follow up comments or questions, please feel free to contact me at lwoll@ussif.org or 202-872-5358 or Alya Kayal, Director of Policy and Programs at US SIF at akayal@ussif.org or 202-872-5359.

Regards,

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