

PETER BURGESS COMMENTS ON THE IIRC CONSULTATION DRAFT PREPARED BY THE INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC) ... JUNE 2013

Draft responses using the template for response prepared by IIRC and available on the web

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft

Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

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Stakeholder group: Other

If replying on behalf of an Organization please complete the following:

Organization name: TrueValueMetrics.org

Industry sector: Not applicable

Geographical region: Global

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

My academic training is in engineering and economics at Cambridge. My professional training as a Chartered Accountant in the UK (E&W) was with Coopers and Lybrand. I have had a professional and corporate career including CFO of a US based international company. I have also been a consultant for the World Bank and the United Nations on international development initiatives.

I have a long standing commitment to accountancy and metrics as the core of excellence in management and performance optimization. In my view the proposals contained in the present IIRC Consultation Draft do not meet even a minimum standard for effectiveness.

My simple characterization of the Consultation Draft is that it seems more like a public presentation of the organization's internal business plan, together with all the 'dirty linen' associated with the organization's operations. The planned 'Integrated Report' (IR) serves little purpose for the organization and has little value for the people seeing the IR.

More specifically, I see the IR as just another version of voluntary 'self-accountability' by the corporate organization which has a track record of near 100% failure, and not getting any better.

I like the clarity in the Consultation Draft about the 'boundary' of reporting, but I do not believe that this issue has been carried to its logical end. The Consultation Draft has not only a reporting focus that is organization centric, but also seems to have a view of society that is organization centric. This needs to change.

As I see it, an economic activity is at the core of everything. An economic activity is usually operated by a corporate organization. An economic activity is also located in a place. In a comprehensive reporting system the data about an economic activity would be aggregated in two directions: (1) into the organization; and, (2) into the place.

The state and performance of the place can be aggregated into the state of the nation and the state of the planet.

The Consultation Draft gets close to identifying state as a component of the IR, but does not give it any clarity. In my view of the issue, state, progress and performance are inter-related. There is talk in the Consultation Draft about connecting, but nothing about what connections are important. The connection between state, progress and performance is central to a system of metrics that is easy to operate and easy to understand.

The Consultation Draft does not have any clarity about the fact of multiple perspectives being important in reporting that will be respected. The corporate perspective is only one of the perspectives that needs to be the subject of reporting.

The Consultation Draft avoids the issue quantifying value. Until there is a broadly accepted approach to quantifying value, everything about reporting value is merely a rather poor piece of narrative journalism without even the professional commitment of the objective journalist.

In my view, it is clear that if this version of the IR initiative is implemented, there will be absolutely no better data about most of the important matters ... just more work for the office workers.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.

I would eliminate ALL the reporting that is about process and focus only on the impact on profit for the organization, on the impact on quality of life for people, on the impact of the place or community where the organization and people are living, and on the impact of the planet as regards waste and pollution and consumption of resources.

I would set the stage for reporting that has a focus on place as well as organization. The scale of many modern organizations means that any consolidated report has little practical meaning for any reader interested in issues like accountability and the behavior of the organization.

I would also set the stage for more effective reporting about the value chain, and better use of 'reporting boundary' to avoid the clever use of legal constructs to avoid organization's legitimate responsibilities.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

Generally NO. The work of corporate social responsibility should go on all the time and there should be a system of internal oversight that is effective, but external reporting should be on the same exact cycle as the external financial reporting. In my view the value impact reporting should also have much the same format as financial reporting, but all about value impact for people, place and planet as well as profit. The value impact reporting should also use the same data to have similar reporting for the place ... that is the community

3. If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

This could be of huge value. There are already a growing number of initiatives that are developing metrics that have the potential to be used in impact reporting. This is a work-in-progress but of great importance. I would make 'standard values' a central part of the database, with the standards reflecting the relative value of various elements rather than being absolute relative to a money measure.

Other

4. Please provide any other comments you have about Chapter 1.

NONE ... at this time

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

I prefer to think of resources rather than capital, but the underlying real thing is the same. Certainly it is vital that capital is thought of a much more than just money capital. I consider that capital / resources fall into two categories: (1) those that relate to money and material; and, (2) those that are natural ... from nature. Some resources regenerate, some do not. Accounting and reporting for changes in capital / resources needs to be based on their different behaviors.

6. Please provide any other comments you have about Section 2B?

In money profit accounting, the change in balance sheet is a simple way to measure profit. In value accounting, the change in state is a simple way to measure progress. The state is a construct within the reporting boundary that quantifies every element of capital and gets revalued from time to time to measure progress. The same data are going to give different results depending on the reporting boundary, and this becomes an important component of better decision making. Some of the main boundary forms are those that relate to a person, those that relate to a family, those that relate to a place ... a community, those that relate to a simple organization operating in a single place, those that relate to an organization operating in many places with many business models, those that relate to a nation, and those that relate to the planet, and various categories of large scale planetary issues.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

The definition of business plan is OK, but not important and not relevant.

In my view the purpose of reports and metrics is to report on performance, on the results. What is the result of the game? The way in which the results are achieved is of no interest to me ... and none of my business. How the game is played is of interest to the coach, but the fans want to see the results.

The analysis and reporting should be neutral as regards the way in which the organization functions, the internal business model, and so on. What matters is whether or not the reporting shows good performance or not, with a balanced benefit for all stakeholders.

I want to see what has already happened, and what the state is as a result of this past performance. I want factual reporting about this. Reporting about what is going to happen in the future belongs somewhere else, and should not be part of IR.

If the company wants to publicize its business plan, that is their prerogative. I want them to report on the impact they are having on people, place, planet and profit in an integrated manner, and do it reliably without any distractions about the future.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

Well YES ... but impact is much more than outcomes. Quality of life is not just a result of using resources to create tangible outcomes, it is also about a whole range of interconnected behaviors. These relationships are somewhat known, but they should be quantified to show how business behavior has a huge impact on quality of life, way more important than the behavior has on business profit.

Just as the stock market values profit performance in different ways depending on a variety of

unrelated factors, so also is value susceptible to change based on unconnected factors that affect the imputation of value.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

The disclosure requirements are either going to be legal boilerplate or treated with contempt / ignored.

The thinking in the IR framework is very conventional, merely adding a layer of work in the analysis and reporting area without adding much that is new and useful. For example, there needs to be a way to report on the lack of something in an objective and useful way. The loss of value and the diminution in quality of life because of a 'lack of' something is big and important. So many good things are taken for granted, but when they are taken away, quality of life goes down precipitously.

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

NONE at this time

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

My approach to materiality starts and ends with numbers ... the quantification. If something is associated with small numbers it is not material, otherwise it is material. A narrative argument is inefficient and a waste of time and effort.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

NONE at this time

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

The sort of report envisioned by this Consultation Draft can never be demonstrated to be reliable. There is far too much narrative and hardly any numbers. If the report was going to be more numbers centric, then initially the numbers may be very unreliable, but then over time the numbers will become more reliable as they are used, and corrected. At the same time, the numbers will help to change behavior and the numbers will then be changing in response to change behavior.

14. Please provide any other comments you have about Section 3E.

NONE at this time

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

NONE at this time

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

I would simplify the contents section to focus on three ideas: (1) state; (2) progress; and, (3) performance. The state is a value balance sheet at a point in time for the activities within the 'reporting boundary'. The progress is the change in the value balance sheet between two points in time. The performance is the amount of progress achieved relative to the amount of resources consumed.

A big part of the needed framework relates to the availability of data to produce analysis and reports for any and all reporting boundary selections which may be at any level from the individual person to the planet as a whole. Everything aggregates or consolidates from the specific economic activity that is the building block for everything in the economy and society.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

The question of responsibility is complex, and requirements like this are likely to be quite ineffective. As the IR is proposed the responsibility of a senior official in a large organization is perfunctory at best. The system needs to have a form that makes it clear that the reporting is right or wrong, and that is not happening with the proposed design. People can see bad behavior at the local level, but this does not become visible in the proposed IR. Bad behavior by big organizations is common, but of no consequence when the profit performance is satisfying investors.

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

NONE at this time

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess

a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

I do not like this question. It seems to reflect the general theme that the IR is mainly aimed at the financial community to encourage favorable investment environment for the organization. For me this is not the central issue. The central issue is whether or not the economic activities of the organization are giving value for people, place, planet and profit. With a relevant IR organizations that produce value for people, place and planet without making much, if any, profit, should be considered successful organizations. There are many important activities that should be funded that would improve quality of life, but cannot be as long as profit is the only metric for decision making about allocation of financial resources.

20. Please provide any other comments you have about Credibility (Section 5E).

Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

Not applicable

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

The presentation should be short and should include everything of importance in a way that is easy to understand and clear. The model for reporting efficiency should be the reporting of financial performance where a balance sheet, profit and loss account and cash flow informs the interested reader about everything around the money profit business model ... performance and impact. It is not concerned with how, just the results. A similar construct around value could be equally efficient, but it does require a system of quantification of value that is broadly accepted. A system of standard values for value accounting rather like there is standard costs in money accounting would serve this purpose.

I would like to see the financial accounting reporting and the value accounting reporting in the same reporting set, in the same presentation style. Work already done around the value proposition suggests that the value performance has more potential for society than money performance ... and this would, of course, be a game changer for the global economy and world society.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

I am of the view that this reflects more work and very little additional value. The core issue in IR that aims to address the issue of reporting on externalities is the lack of appropriate metrics ... a lack of a methodology to quantify value. As long as important values remain unquantified, they will be regarded as irrelevant and essentially zero, even though this is obviously wrong. I want to see a system of standard values developed which, though it will not be perfect, it will be a lot better than what is

presently in play.

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

(1) I want to see reporting and data about 'economic activity' that aggregates in one direction to the implementing organization and aggregates in another direction for the place.

(2) I want to see a system of standard values for everything. Every person can have their profile of perspectives on value ... then every place ... then every country ... then the whole world. Reporting on economic activity would use the standards for the place. To the extent that this results in different results than using standards for the organization's home country, this becomes a 'talking point' and also important in the optimization of a global economy. The era of one perspective of 'profit for my organization' at the expense of everything else has to be replaced with something better.

(3) I want to see reporting about socio-economic performance and impact that flows not only from organizations, but also from people who observe and then record what they see as impact of economic activity, good and bad, corporate and otherwise.

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.

NONE at this time