



## Public Comment to the IIRC re: 2020 <IR> Framework Revision

Submitted by Members of the Sustainability Context Group and r3.0  
19 August 2020

We, the undersigned members of the Sustainability Context Group (SCG), a network of global experts conducting advocacy for Context-Based Sustainability that applies thresholds and allocations, and r3.0 (Redesign for Resilience & Regeneration), a global common good not-for-profit pre-competitive market-making platform of Positive Mavericks that now hosts the SCG, are pleased to submit the following comments to the International Integrated Reporting Council (IIRC) in response to its May 2020 *Consultation Draft* of the *International <IR> Framework* Revision:

1. First and foremost, we would like to draw IIRC's attention to our [Public Comment Submission](#) of 8 July 2013 on the *Consultation Draft* for the original *International <IR> Framework*, as we believe the Submission remains relevant today. (See Annex below for the full text of our 2013 Public Comment). In particular, we draw IIRC's attention to our effusive praise and support for its embrace of the multiple capitals, and underlying capital theory more generally. We continue to appreciate IIRC for taking this decisive stance, and for continuing to uphold and enhance it.
  - a. In our original Submission, we had proposed that the "*Framework's* commitment to the multi-capital model could actually stand to be strengthened." Specifically, we stated that "the IIRC might want to be even more explicit than it already is about the **causal connections between impacts on vital capitals, stakeholder well-being, and the performance of organizations**. The performance of an organization, that is, is a function of what its impacts on vital capitals of importance to stakeholder well-being are. This is because capitals constitute resources that stakeholders depend on for their well-being. **Any organizational activity that puts the quality or sufficiency of such capitals at risk can put the organization itself at risk, not to mention shareholder value**. Impacts on vital capitals should therefore be measured, so as to be effectively managed." We pointed out that "**many vital capitals are actually shared by organizations with others, who also depend on them for their well-being**." (Emphasis added.)

- b. More specifically, we stated that “**the size of capital stocks and flows of capitals can be expressed, both conceptually and quantitatively, in terms of their carrying capacities: The Carrying Capacities of Capitals** (<https://www.greenbiz.com/article/carrying-capacities-capitals>). This is an attribute of capitals that actually enhances the ability to measure impacts on them, and which is otherwise **part and parcel of capital theory** in a way that deserves recognition. (see supporting capital theory references in the following URL): *Capital Theory References* (<http://www.sustainableorganizations.org/Capital-Theory-References.pdf>)” (Emphasis added.)
  - c. We concluded thus: “Here it should be clear that **the conceptual commitment to vital capitals as a key principle in performance measurement and reporting necessarily entails a co-commitment to the principle of carrying capacity**, since it is precisely the fact that capitals are limited in their scope and supply that makes them so relevant. Thus, measuring and reporting the effects of organizational activities on the carrying capacities of vital capitals should be encouraged in the Framework, while deferring to organizations themselves to innovate and experiment with alternative means of doing so.” (Emphasis added)
2. Before reviewing how IIRC responded to our 2013 Public Comment, we would like to make it clear from the outset just why it’s imperative to address not just capitals, but also the carrying capacities of capitals: because it is the very sustainability of these vital capital resources that matter, both for supporting the wellbeing of all beings who rely on these resources, but also for supporting the ongoing ability of organizations to continue to create sufficient value from these vital capital resources. Organizations and their stakeholders (rightsholders, really, because they have *rights* to these vital capital resources to uphold their wellbeing) rely on the sustainability of these vital capital resources. So it’s not enough to simply address capitals – it’s necessary to address the sufficiency of impacts on the carrying capacities of all material vital capitals.
3. When IIRC released the [International <IR> Framework](#) in December 2013, it retained its commitment to the multiple capitals, but it did not integrate the carrying capacities of capitals. While the <IR> Framework may seem to integrate the carrying capacities of capitals, a careful read reveals that the <IR> Framework goes to pains to explicitly *exclude* this interpretation (i.e., it explicitly excludes the carrying capacities of capitals). Quoting three key passages helps illuminate this fact (with emphasis added, and commentary appended, to aid in this understanding); the first two quotes skirt the possibility of calling for the integration of the carrying capacities of capitals, but the third quote hammers nails into the coffin of the possibility of integrating the carrying capacities of capitals.

- a. “4.54 Disclosures about the capitals, or a component of a capital ... Include the factors that affect their **availability, quality and affordability** and the **organization’s expectations of its ability to produce flows from them to meet future demand**. This is particularly relevant with respect to **capitals that are in limited supply, are non-renewable, and can affect the long term viability of an organization’s business model.**”
- i. **Commentary:** This passage comes tantalizingly close to calling for the integration of carrying capacity, though a close reading reveals that it merely mentions that capitals may be “in limited supply” and “non-renewable,” and that external “factors” may “affect” capital “availability, quality, and affordability,” but it does not call for assessing the *company’s own impacts on the capitals*, in particular those that may either exceed ecological, or fall below social, thresholds of carrying capacity.
- b. “2.14 Although organizations aim to create value overall, **this can involve the diminution of value stored in some capitals, resulting in a net decrease to the overall stock of capitals**. In many cases, whether the net effect is an increase or decrease (or neither, i.e., when value is preserved) **will depend on the perspective chosen**; as in the above example, employees and employers might value training differently. In this Framework, the term value creation includes instances when the overall stock of capitals is unchanged or decreased (i.e., when value is preserved or diminished).”
- i. **Commentary:** Here, the use of the term “net” could tempt an interpretation that this refers to the threshold of the carrying capacities of capitals, but a careful reading reveals that it merely means a “net” decrease or increase: the term “net” does not refer to a carrying capacity threshold.
- c. “4.46 This Framework **does not require** an integrated report to provide an exhaustive account of all the complex interdependencies between the capitals such **that an organization’s net impact on the global stock of capitals could be tallied.**”
- i. **Commentary:** This is the “smoking gun” proof that the *Framework* does not embrace the carrying capacities of capitals, but rather demonstrates active antipathy to the concept. And we find it quite shocking to read this, given that it creates a kind of intellectual incoherence and cognitive dissonance. On the one hand, the <IR> *Framework* robustly advocates for companies to account for their impacts on the multiple capitals in nearly all of the 150 times the term is mentioned in its 37 pages, but in this one instance –

arguably the *most* relevant and important instance, as the global stock of capitals is what we as humanity have as our collective resources – the <IR> *Framework* unequivocally advocates *against* companies accounting for their “net impact on the global stock of capitals...”.

4. Using this as a pivot point, we would like to remind the IIRC of its contrasting warm embrace of the carrying capacity concept in the [Value Creation Background Paper](#) (prepared by EY as the Lead Organization) to inform the <IR> *Framework*. The final paragraph of this Paper is such a ringing endorsement for the concepts of carrying capacity and thresholds that it warrants quoting in its entirety (emphasis added):
  - a. 58 Ultimately value is to be interpreted by reference to **thresholds** and parameters established through stakeholder engagement and evidence about the **carrying capacity and limits of resources** on which **stakeholders and companies rely for wellbeing and profit**, as well as evidence about societal expectations. Interconnections between corporate activity, society and the environment and the purpose of the corporation should therefore be understood in terms of **what the corporation, society and the environment can tolerate and still survive – that will be the main determinant of value. The challenges will be to reach agreement at corporate, national and international level on what those thresholds and limits are, how the resources within those limits should be allocated, and what action is needed to keep activity within those limits so that value can continue to be created over time.**
    - i. **Commentary:** *We strongly recommend* that IIRC adopt this language and construction in its 2020 <IR> *Framework* revision.
5. We would like to remind IIRC of the White Paper it is jointly producing with r3.0 on *Multicapitalism*, a concept which integrates at its core the carrying capacities of capitals. This paper, which is currently in final draft manuscript form, provides ample language and conceptual construction upon which to base inputs into the 2020 <IR> *Framework* revision.
6. We would also like to draw IIRC’s attention to r3.0 Senior Director Bill Baue’s Public Comment as part of the “topic-focused engagement” in the first phase of the consultation process, in response to Topic Papers Two and Three. We append this Public Comment to this Submission, and a copy of it is also available at this URL: <https://medium.com/@r3dot0/r3-0-responds-to-iirc-framework-revision-feedback-process-473f0c0ada4f>

7. We would also like to draw IIRC’s attention to r3.0 Senior Director Bill Baue’s participation in the 24 June 2020 Virtual Roundtable on the <IR> Framework Revision hosted by the US Integrated Reporting Community.
8. Next, we would like to commend the IIRC for *stepping closer* to integrating the carrying capacities of capitals in the May 2020 *Consultation Draft* of the *International <IR> Framework* – specifically by making mention of the “planetary limits.” However, this document still falls significantly short of actually addressing the carrying capacities of capitals per se (including anthropogenic capitals such as social, human, etc.) – so we still see a need for enhancement. As with the original 2013 <IR> Framework, we will here quote sections of the new *Consultation Draft* that come closest to integrating the carrying capacities of capitals, with emphasis added and commentary appended to support clear understanding.
  - a. “3.8 The key forms of connectivity of information include the connectivity between:
    - *The Content Elements*. The integrated report connects the Content Elements into a total picture that reflects the dynamic and systemic interactions of the organization’s activities as a whole. For example ...
      - o Linking the organization’s strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and **resource shortages as planetary limits are approached.**”
  - “4.6 Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization’s ability to create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g. by influencing the availability, quality and affordability of a capital that the organization uses or affects).”
  - “4.7 These factors occur in the context of the particular organization, in the context of its industry or region, and in the wider social or planetary context. They may include, for example:
    - Environmental challenges, such as **climate change, the loss of ecosystems, and resource shortages as planetary limits are approached**”
  - i. **Commentary:** We appreciate mention of “planetary limits” (also referred to as “Planetary Boundaries” in a robust body of scientific research coordinated by the Stockholm Resilience Centre that was

[introduced in 2009](#) (documenting that humanity is *overshooting* three of these nine Planetary Boundaries), and [updated in 2015](#) (documenting that humanity is now also *overshooting* a fourth Planetary Boundary). However, the *Consultation Draft* does not call for assessing a company's own impacts that would contribute to the crossing of these carrying capacities of natural capitals. As well, the *Consultation Draft* only mentions planetary limits being *approached*, when in fact almost half of these planetary limits (4 of 9 Planetary Boundaries) are actively being *transgressed*.

1. Furthermore, the *Consultation Draft* mentions "Societal issues, such as population and demographic changes, human rights, health, poverty, collective values and educational systems," but does not frame that *at all* in terms of social limits, thresholds, or norms. We would point your attention to the concept of Doughnut Economics, first [proposed](#) in 2012 (building on the concept of "inner limits" of basic human needs for all the world's people and of doing so without violating the 'outer limits' of the planet's resources and environment" first [introduced](#) in 1974). These inner limits were [comprehensively quantified](#) in a peer-reviewed scientific journal in 2017, finding that humanity is *shortfalling* on *all twelve* Social Foundation thresholds. A methodology for assessing the social sustainability performance of organizations in these terms (the Social Footprint Method) has also been in existence since 2008, a detailed description of which was [published](#) in 2015.
9. Ultimately, we encourage the IIRC, in the strongest possible terms, to finish the task it started in embracing the multiple capitals, by further embracing and integrating the carrying capacities of capitals in its <IR> *Framework* revision. To reiterate, it is intellectually incoherent to advocate for organizations to account for their impacts on the multiple capitals on the one hand (as the <IR> *Framework* Revision continues to do, appropriately we might add), and then to fail to advocate for organizations to account for their impacts on the carrying capacities of capitals (as the <IR> *Framework* Revision indeed fails to do) on the other. The *whole reason* to account for impacts on the multiple capitals is to *assess the sustainability of those impacts* – in other words, whether those impacts *respect* the carrying capacities of capitals or transgress them. As noted, empirical research documents that humanity is currently transgressing 16 of the 21 primary ecological and social thresholds. Business organizations are accountable for the lion's share of these impacts. If humanity is to have *any chance* of averting or softening the ecological and civilizational collapses that now [seem inevitable to scientists](#), it is absolutely imperative for global reporting standards to provide guidance instructing companies to report on their impacts on the multiple capitals explicitly in terms of their carrying capacities.

10. And finally, notwithstanding the IIRC's main purpose of addressing the needs and interests of providers of financial capital, we respectfully submit that unless organizations carefully attend to, and disclose, the sustainability of their impacts on the carrying capacities of vital capitals with all stakeholders in mind, not just some of them, the well-being of shareholders, lenders and other providers of financial capital will be at risk. To create value for shareholders, one must not destroy, nor fail to maintain, the sufficiency of vital capitals for others, whose interests and well-being, while perhaps not at the core of an organization's mission, are no less material or legitimate. Stakeholders are rightsholders! The sustainability performance of an organization, therefore, is a non-extraneous, important consideration for everyone, including providers of financial capital. Indeed, with this in mind, a thoughtful return to the original vision and principles of integrated reporting – including its prominent focus on the sufficiency of impacts in sustainability performance – as set forth in the [King II report](#) in 2002 and the [King III report](#) in 2009 – is in order. Somewhere along the way, sustainability performance was dropped from the scope of integrated reporting, and with it, its vital integrative concept was lost – it's time to put it back in!

Signatories to 19 August 2020 Public Comment by the Sustainability Context Group and r3.0 Partners to the IIRC during the Public Comment Period re: its 2020 <IR> Framework Revision Consultation Draft\*

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