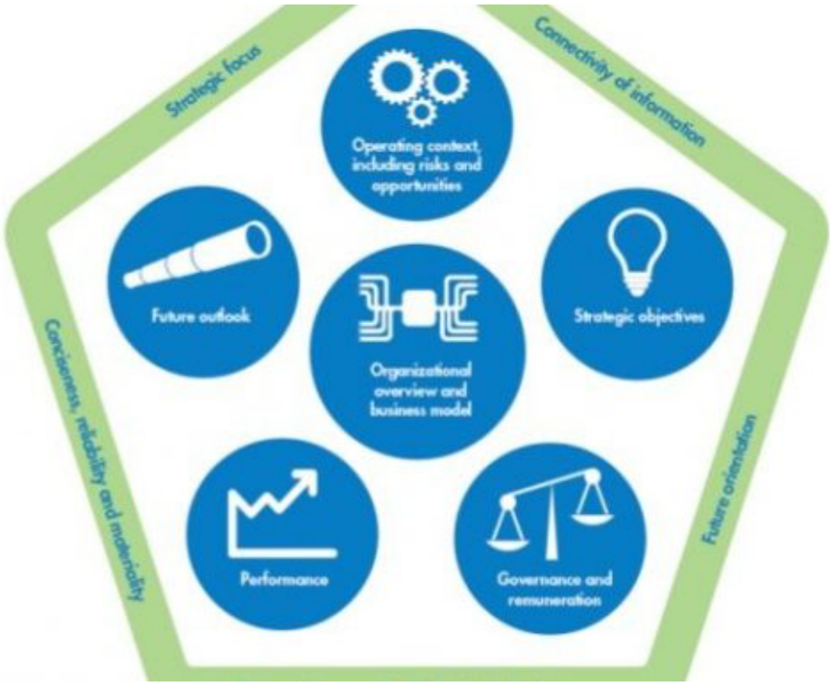
FAQ:
Using the Six Capitals in the Integrated Report



Using the six capitals in the integrated report

New preparers of integrated reports may wonder at how the six capitals referred to in the *International <IR> Framework*[1] (<IR> Framework) should be presented in the integrated report.

What are the six capitals and why are they used in integrated reporting?

An integrated report should provide users with insight on the important resources and relationships used or affected by the organization – these are collectively referred to as ‘’the capitals” in the <IR> Framework. The capitals can be seen as “stocks” of value on which the organization depends for its success as inputs to its business model and which are increased, decreased or transformed by the organization’s business activities and outputs (products, services and waste). The capitals concept highlights that an organization depends on all forms of capital, not just financial capital, and that it has resulting effects on these capitals. A sustainable organization will maintain and where possible enhance stocks of capital rather than deplete or degrade them.

The capitals are categorized in the <IR> Framework as financial, intellectual, human, natural, manufactured, and social and relationship (see pages 18 and 19 of the *International <IR> Framework (2021)* for the definitions).

[1] Refers to both the *International <IR> Framework* in 2013 and its revision, the *International <IR> Framework (2021)*

What is the expectation in terms of reporting on the capitals?

An integrated report aims to provide a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organization's ability to create value over time. This includes providing the important inter-dependencies and trade-offs between the capitals, and how changes in their availability, quality and affordability can affect the organization's ability to create value over time.

Is it necessary to adopt the definition of each capital as per the <IR> **Framework?**

Organizations are not required to adopt the exact definitions set out in the <IR> Framework and are free to use their own definitions (however, it would help the users of the report if these are explained therein). The primary reasons for including the capitals, per the <IR> Framework, are: "As part of the theoretical underpinning for the concept of value creation, preservation or erosion", and "As a guideline for ensuring organizations consider all forms of capital they use or affect". The six capitals, as defined, serve as a very useful completeness check on inputs (uses) and outcomes (effects) ensuring that none are overlooked.

Is it necessary to structure the integrated report along the lines of the six capitals?

An organization is free to choose a structure for its integrated report that best serves it in telling its value story. So, it's not obliged to structure the report along the lines of the capitals. Some organizations do, however, choose to structure their reports around the capitals.

Should quantitative indicators or a financial value be assigned to the effects on the capitals?

The <IR> Framework doesn't stipulate quantitative indicators, but notes that they "can increase comparability and are particularly helpful in expressing and reporting against targets"[2]. Further, in the *International <IR> Framework (2021*), in the updated Content Element: Business model, there use is encouraged: "An integrated report presents outcomes in a balanced way. Where practicable, it supports the organization's assessment of the use of and effects on the capitals with qualitative and quantitative information[3]".

Quantitative indicators, such as key performance indicators or monetized metrics, can be relevant in explaining an organization's use of and effects on the capitals, but so too is qualitative disclosure. Indeed, some capitals may be clearly reported on with narrative because value is subjective and different stakeholders may judge the effects on capitals differently. It's up to the organization to determine the information that best explains its value story over time.

Some useful references on the capitals:

1. Value Reporting Foundation (International Integrated Reporting Council), released in 2013, Capitals background paper for <IR>

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[2] Section 5 General Reporting Guidance, *International <IR> Framework (2021)*
[3] Paragraph 4.20, *International <IR> Framework (2021)*

2. Natural Capital Coalition (2016) **Natural Capital Protocol**
3. Sasol Ltd (2013) **Six capitals video**

(This FAQ has been updated for references to the *International <IR> Framework (2021))*

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