

## 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](http://www.theiirc.org)).

### Comments should be submitted by Monday 15<sup>th</sup>, July 2013.

Name:

Email:

Stakeholder group:

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

Organization name:

Industry sector:

Geographical region:

### 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.

Novo Nordisk welcomes the <IR> framework and remains a strong supporter of the initiative. In particular we commend the robustness of the process through which the consultation draft has materialised and the rigour with which the consultation is carried out.

We commend the consultation draft for setting a clear direction, being well written and well structured. It sets an example for how an integrated report should be used to communicate key messages: compact, concise and clear.

Yet, we also note a number of issues still unresolved in the consultation draft, most likely as a result of the inclusive multi-stakeholder process, which we trust will be incorporated into the Framework. Three key points to emphasise:

- The Framework as it currently stands is quite conceptual and may not be intuitively understood by report preparers and users
- The Framework does not come across as reducing complexity – it introduces no less

than 6 guiding principles, 7 content elements, 6 capitals and 3 time horizons.

- The illustrative models are too complex. As an example, figure 3 has no less than 29 distinct, interrelated elements
- The business model definition and illustration are too theoretical and does not mention customers and their needs, which, in our view, is the foundation for any business model.

Moreover, we encourage the IIRC to address, as the next barriers, two key issues: The need for developing a proper standard for integrated reporting – relating to the narrative parts as well as the performance reporting and metrics – and the need for developing integrated assurance. As long as imbalances exist between the parts that are intended to be 'integrated', integration will continue to be defined as assimilation. To arrive at true integration we have to fundamentally rethink the notion of corporate reporting, without prejudice, and with sufficient courage to challenge conventional thinking, yet remain focused on the fact that the end result must be practically applicable across borders.

The ambition to improve corporate reporting by challenging and altering current practices is bold, yet necessary. We acknowledge that the draft framework seeks to address many of the barriers to introducing a new paradigm to corporate reporting and proposes ways to overcome them. We recognise that while the <IR> framework will not, and should not in and of itself provide all of the answers, but encourage the IIRC to continue to take the lead in setting direction and facilitating convergence around the idea of integrated reporting as 'an idea whose time has come.' We note with satisfaction the proliferation of initiatives intended to address the inadequacies of current reporting practices, yet also caution that what we need is not more reporting, but better reporting. We trust that the <IR> framework will catalyse the needed change and that the pieces of the puzzle will eventually come together, in the same collaborative fashion as has guided the development towards this consultation framework. We congratulate a job well done, and will continue to support the efforts through the next decisive phases.

## 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.*

3.13: The strength of a principles-based approach is the fact that principles are few and clearly defined, yet allow some room for interpretation. The principle of stakeholder responsiveness, while essential in nature, is one for which we recommend that more guidance is provided on how to apply in practice. Elements of the existing AA1000 framework may be helpful inspiration. Moreover, reporting on the quality of an organization's relationships with various stakeholders is not easily objectively assessed and opinions could vary significantly internally and externally. Therefore some form of independent assurance would be needed.

3.30: Definition of what constitutes a 'material error' should be further elaborated, to ensure appropriate assessment..

4.5, point 4: Assessing and reporting on the nature and particularly the magnitude of the trade-offs that influence value creation over time is difficult. Are we talking reporting on 'hard' numbers or is it qualitative information and how does this tie with future outlook/future orientation?

4.5, point 5: The introduction of multiple capitals is a strength, yet it is still unclear how reporting on the capitals is envisaged to play out. The document is not consistent here. Based on what is written previously, the capitals are not to be mentioned as such in the <IR> and there is flexibility built into that line of thought, meaning the capitals can be defined/named by each company as they deem fit. This collides with what is written in 4.5, in which it says that a report preparer has to state in its <IR> why capitals are omitted, if that is the case. In our view, the multiple capitals thinking should be part of the process of preparing what to report and how, but this process would not need to be included in the actual report. Keeping in mind the conciseness of an <IR> we would encourage that there be less 'process' content and more focus on performance and position for the future.

4.27: Similar issue as above and complications derived from having to tie performance directly/explicitly to the capitals in the report.

### ***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?*

We acknowledge that companies will need to – or choose to – have a suite of reports aimed at specific requirements or stakeholder needs. Yet, we maintain that ultimately the aim must be better reporting, not more reporting. If the <IR> is positioned as an add-on we will have failed on this mission. Something has to go.

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?*

The CDP and SASB each bring qualities from their process of identifying robust disclosures and will be helpful references. Likewise we envisage that the UN Global Compact's principles-based approach will develop in a direction that makes it compatible with <IR> in the same fashion as GRI does. And existing frameworks for financial reporting, notably IFRS will have to be referenced.

### ***Other***

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

No additional comments.

## 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?*

As stated above, we support the multiple capitals approach, but still find it unclear how to actually apply and actively use the capitals in a reporting context. As an analytical exercise it has clear merits, whereas attempting to quantify with numbers and 'currencies' remains challenging. 2.19 contradicts 4.5, which makes it unclear what to do in practice.

Moreover, it is unclear where the actual product/service offered by a company fits into the multiple capitals concept. We encourage including products/services, which are an essential part of the value proposition for a company.

The word 'capital' is controversial. Most business people, reporters and providers of funding already have a very clear and well-established understanding of 'capital'. While we understand the purpose of verbally tying all six capitals to value creation, we foresee that trying to change the meaning of a well-established word will create unnecessary confusion and push-back from some of the key stakeholders.

Figure 3 on page 11 is very 'busy' with a total of 29 different and interrelated elements. It makes it hard to comprehend and it seems very overwhelming. We suggest a much more simplified version, alternatively split into more than one figure.

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

No additional comments.

### ***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?*

While we can agree to the thinking behind the definition we find that it is not intuitively a definition that people in business will relate to: .

- It does not mention customers/users and their needs, which is the foundation for any business model.
- It focuses too much on input and output/outcomes and too little on the business activities that drive the value. In our view the activities should be at the core of the business model.
- To make it more tangible and easy to understand, we suggest replacing 'outputs' with products and services. That would make it clearer how to distinguish between 'output' and 'outcomes'.

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?*

We agree with the definition, but suggest it is broken down/explained more clearly by direct and indirect outcomes in the framework. It is to some extent covered in 2.36, but could benefit from being drawn up more explicitly.

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)?*

No additional comments.

### **Other**

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

No additional comments.

## **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?*

We fully support this definition of materiality which is easy to understand, communicate and apply. It should be considered, though, whether the 'medium term' makes it overly complicated. We recommend to only include medium term when material, and otherwise just apply short and long term.

This comment applies throughout the consultation draft which could be simplified and strengthened by only referring to short and long term. If an organisation finds it material to have three or more time horizons they can choose so, but it should up to the individual organisation to define what is relevant for them depending on the nature of their business.

Importantly, definitions of materiality must converge. At present, a company may have to apply multiple different, definitions of materiality in their reporting, sometimes even within one report. This is confusing to report users and hampers assurance.

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

The focus on value destruction should be enhanced. The lack of appropriate costs on externalities could lead companies to not report on what are actually material issues. Megatrends, like climate change or water scarcity should be considered by report preparers as well.

**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?

Internal control procedures need to be established and documented to ensure a high level of data quality aligned with that of financial reporting to the extent possible. No standards currently exist, but we are aware that the Committee of Sponsoring Organizations (COSO) is working on fleshing this out more and commend this initiative. Having a high level of data quality is vital in order to make informed decisions. Moreover, it will reduce the need to restate. External assurance is also an important part of this.

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

While the <IR> focuses on principles and concepts, notably with an emphasis on the narrative part of a report, supporting data and assurance should not be neglected.

An <IR> should contain an overview of performance data, for instance in the form of a statement(s) to help the report user better understand the company's position. Accounting policies for material data presented in a statement format should be included.

**Other**

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

**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).

No additional comments.

## 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?*

Yes, this would, in our view, be imperative. The format could be a simple addition to current management statements as defined in financial reporting.

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

No additional comments.

### ***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?*

We recommend report preparers to include assurance. An assurance statement needs to clearly state the scope of work performed and must include mention of any material errors/weaknesses discovered in the process. Notably, current assurance standards will need to adapt to accommodate <IR>.

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.*

No additional comments.

### ***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).*

No additional comments.

## 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?*

As stated in our introductory remarks we find that the framework has come very far way and is an excellent piece of work with an appropriate direction, clarity on the guiding principles and useful content elements.

We believe the framework would benefit from further simplification in its use of notions and models (especially figure 3) and a closer link to the language that businesses and providers of financial capital – being the primary intended users - are using today.

Finally, we encourage more experimentation towards developing clear, concise and compact reports that will actually be used. What we do not want is to end up overwhelming report preparers, nor adding to the reporting fatigue by those for whom it is intended to be a useful instrument to assess how companies create value.

## 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?*

In addition to the background papers already developed, we would welcome support on:

- 1) Data quality
- 2) Future outlook

## Other

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

No additional comments.