

# The Nordic Federation of Public Accountants

The International Integrated Reporting Committee  
Att. Professor Mervyn E. King  
Chairman IIRC

[www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)

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## **Re: IIRC Consultation Draft of the International Integrated Reporting <IR> Framework**

The Nordic Federation of Public Accountants (NRF) is pleased to respond to the IIRC invitation to comment on the *Consultation Draft of the International Integrated Reporting <IR> Framework* issued by the IIRC in April, 2013 (“the CD or CD Framework”). NRF refers to, and is responding on behalf of, the recognised accounting bodies in the Nordic region (Denmark, Finland, Iceland, Norway and Sweden). Each accounting body in the region is autonomous and consequently may also chose to respond individually to the CD. The views expressed in this letter do not in any way commit or restrict the positions of any individual member bodies of NRF. However, the views expressed in this letter have been reviewed by NRF’s Member Bodies and are consistent with the views of these Member Bodies, each of which is a separate legal entity.

As an organisation NRF is committed to promoting the consistent application of high quality audit, corporate reporting and accounting practices within the Nordic region, as well as worldwide. We welcome initiatives designed to advance these objectives. Events over the last five years have demonstrated that the quality of financial and other related reporting, as well as of the audit and related auditor reporting, must be at the highest level to meet users expectations.

NRF believes that the global debate on integrated reporting is an important development and a valuable contribution to corporate reporting. NRF therefore supports the initiatives of the IIRC. The financial crisis and its aftermath has shown that corporate reporting, particularly relating to the information provided to capital markets, needs to be re-evaluated and reconsidered. The increasing complexity, diversity and volume of information makes access to relevant information more difficult. This is a cause of increasing frustration for both investors and other users of corporate reporting.

NRF believes that a properly constructed integrated report <IR> will help to clarify and enhance corporate reporting in such a way that it adds value to investors and other stakeholders. The development of a properly designed and globally accepted Framework is an essential step in this direction.

Our responses to the detailed questions in the CD are included as an Appendix to this letter.

## **SUMMARY:**

- (1) NRF supports the market driven approach to the development of a principles based framework for integrated reporting, as reflected in the CD Framework. NRF does not support any move to set detailed rules for <IR>. NRF urges the IIRC to continue to seek broad stakeholder involvement through consultation and work towards expanding its practical experience of the use of <IR> as developed by the IIRC. The Emerging <IR> Database, launched by the IIRC, will be an important tool in this regard.
- (2) NRF notes that the CD Framework refers to independent external assurance as one of the mechanisms to enhance the reliability (CD Section 3E paragraph 3.31) and credibility of information (CD Section 5E paragraph 5.20). The role of the accountancy profession is important to ensure the reliability of reported information. NRF believes that the acceptance and credibility of <IR> can be considerably enhanced through the provision of independent assurance on the reported information. Stakeholders demand reliable information. The independent assurance process can provide assurance on the reliability of the reported information. However, consideration of the level and nature of assurance needs to be studied

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carefully in the light of the information to be provided in <IR> and importantly, in the supporting reports to <IR>. Auditors and accountants are well placed to advance further reflections on these issues.

- (3) NRF notes that the CD Section 1, paragraph 1.18 refers to the interaction of <IR> with other reports and communications. The IIRC needs to further consider how to develop the interconnectivity between <IR> and other essential reports. It is important that <IR> must contribute to better, not more, corporate reporting.
- (4) NRF strongly supports the issuance of a Framework for <IR> by the IIRC but is concerned that a “stand alone” <IR> risks being compromised due to the lack of globally accepted, integrated reporting standards to support the Framework. This will inevitably have an impact on comparability and therefore acceptance of <IR> on a “stand alone” basis by users. This can be mitigated by the provision of links to other reports and the identification of supporting standards to some extent. However, the extent and complexity of the information being reported on will lead to user demands that information in the <IR> is prioritized according to their needs. Careful management by the IIRC will be needed, in connection with the final issuance of the Framework, to manage user expectations.
- (5) Section 3D in the CD refers to Materiality and Conciseness. These are both fundamental guiding principles in successful reporting. Materiality is also of considerable importance when determining conciseness as a guiding principle. NRF believes that acceptance of the materiality concept and determination process in the Framework will be essential for the success of <IR>. Further work is needed to link the “capitals” as defined in the CD (Section 2B paragraph 2.17) with the definition and use of materiality and the impact and relationship of an entity’s capitals with its strategy. The connection between strategy and materiality is emphasized in the CD Section 3D paragraph 3.24 but not developed further in the CD Section 5 or elsewhere, Section 3D paragraph 3.24 of the CD refers to “capitals” when considering whether a matter is material (substantively affects), but does not explicitly link the capitals to the entity’s strategy and business plan and hence to value creation for the stakeholders of the entity. NRF believes that this link should be further developed in the Framework. The identification of relevant capitals in an entity should commence with an evaluation as to whether the employment of these capitals adds value or alternatively, contributes the protection of value in an entity.
- (6) NRF recognizes that the Framework is not designed to provide detailed answers or disclosure rules. Therefore in addition, NRF strongly supports the use of the Pilot Programme to provide input to the further development of the <IR> Framework. A continuation of the Pilot Programme will test the practical applicability of the Framework and also help to identify what information is relevant and realistic to incorporate in the <IR> and that will be of long term use to investors and other stakeholders.
- (7) The Pilot Programme also will help to identify assurance issues. Both auditors and the users of <IR> need to consider what can be subject to an assurance report and at what level such reporting would be desirable.

NRF believes that the issuance of the Consultation Draft of the International <IR> Framework marks a significant milestone in the development of better corporate reporting and urges the IIRC to continue its work. The NRF-members are committed to contribute to the success and necessary development of integrated reporting. NRF is happy to discuss <IR> further with you. Please contact Jens Røder on telephone +45 33691065 or email jr@nrfaccount.com

Yours sincerely,

Jens Røder  
Secretary General  
Nordic Federation of Public Accountants (NRF)

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## APPENDIX (Draft)

### ANSWERS TO THE CONSULTATION QUESTIONS

#### 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.***

NRF agrees with the principles-based requirements and has no suggestions for additions or deletions.

##### *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?***

NRF notes that the CD Section 1, paragraph 1.18 refers to the interaction of <IR> with other reports and communications. The IIRC needs to further consider how to develop the interconnectivity between <IR> and other essential reports. It is important that <IR> must contribute to better, not more, corporate reporting.

NRF strongly supports the issuance of a Framework for <IR> by the IIRC but is concerned that a “stand alone” <IR> risks being compromised due to the lack of globally accepted, integrated reporting standards to support the Framework. This will inevitably have an impact on comparability and therefore acceptance of <IR> on a “stand alone” basis by users. This can be mitigated by the provision of links to other reports and the identification of supporting standards to some extent. However, the extent and complexity of the information being reported on will lead to user demands that information in the <IR> is prioritized according to their needs. Careful management by the IIRC will be needed, in connection with the final issuance of the Framework, to manage user expectations.

***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?***

NRF considers that there are a number of authoritative sources of indicators or measurement methods which have been developed by established reporting standard setters. The Global Reporting Initiative’s “Sustainability Reporting Guidelines” could be a useful reference as would be the International Valuations Standards Council’s technical standards on valuation methods.

##### *Other*

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

**Audience** (Paragraphs 1.6 - 1.8)

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The CD (Paragraph 1.7) indicates that investors and other providers of financial capital are the primary intended report users and that those with a long term view of an entity's continuation and performance are especially likely to benefit from <IR>. In addition to the wider consultation embedded in the CD, NRF urges that end user (investor) input should be actively sought to ensure that these intended users are supportive of the concepts and structure of the proposed Framework.

NRF is supportive of the need to identify investors and other providers of financial capital as the primary intended report users. This will facilitate the process of addressing user needs and priorities when determining disclosure priorities in the <IR>. However, the same disclosures are also likely to address a large portion, if not most, of the information requirements of other report users. NRF therefore suggests that there may be merit in consulting more widely with intended users and seeking to design <IR> disclosure priorities in a way that serves the needs of the widest group of intended report users. The information needs of the primary user group should however, not be compromised.

## 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?**

- a) NRF agrees that this approach reflects the importance of capitals to an entity's existence and its value creation ability and process.
- b) The CD states that entities do not have to include all 6 categories of capitals in the Framework (CD Section 2, paragraphs 2.18-2.20). However, the importance attached to the various capitals may differ between, otherwise comparable, entities in similar industries. As the capitals are suggested as benchmarks in the preparation of the <IR>, there is a risk that the comparability of the <IR> may be compromised where the employment of capitals differs significantly for no given reason.
- c) NRF suggests that qualitative indicators can be employed to explain the use of capitals and the impact on value creation. The CD states in Section 3, paragraph 3.38 that narrative reporting should provide information on capitals that is "consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own value creation story." The Emerging <IR> Database, launched by the IIRC, will be an important tool in this regard.
- d) The CD identifies capitals that should be included in the <IR> Framework but which are not owned or controlled by the entity (CD Section 2, paragraph 2.23). The application of the Framework will be enhanced by the provision of separate guidance on how entities can account for the use of such capitals. This may include the connectivity of various stakeholder interests to the value creation of the entity. Thus Management will need to identify and assess risk and value-drivers for each capital, including those which it does not own or control.

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

### *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 (CD Section 2, paragraph 2.26).

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

NRF agrees with this definition of a business model. The Management of an entity is responsible for its chosen business model and is accountable for its ability to create value.

### *Business model (Section 2C) continued*

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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 (CD Section 2, paragraphs 2.35-2.36).

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

NRF agrees with this definition.

**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)?**

*Other*

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

Value creation (CD Section 2D) has not been the subject of a separate question despite its importance to the <IR> Framework. NRF suggests that the concept of value creation should be further explored in connection with the issuance of the Framework. This should include identification of the drivers, their quantification and allocation in the business model of the reporting entity. This could usefully be done in another related publication. There is already a lot of material that has been issued on this subject. However, there is little consistency, differing methodologies and little practical experience in this area. NRF believes that <IR> comparability and hence acceptability would be enhanced by the provision of more guidance regarding these concepts. Ultimately this would also benefit the ability of assurance providers to provide independent assurance on the outcomes of value creation.

### 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?**

a) NRF conceptually agrees with the definition of materiality in the Framework..

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

Section 3D in the CD refers to Materiality and Conciseness. These are both fundamental guiding principles in successful reporting. Materiality is also of considerable importance when determining conciseness as a guiding principle. NRF believes that acceptance of the materiality concept and determination process in the Framework will be essential for the success of <IR>. Further work is needed to link the "capitals" as defined in the CD (Section 2B paragraph 2.17) with the definition and use of materiality and the impact and relationship of an entity's capitals with its strategy. The connection between strategy and materiality is emphasized in the CD Section 3D paragraph 3.24 but not developed further in the CD Section 5 or elsewhere, Section 3D paragraph 3.24 of the CD refers to "capitals" when considering whether a matter is material (substantively affects), but does not explicitly link the capitals to the entity's strategy and business plan and hence to value creation for the stakeholders of the entity. NRF believes that this link should be further developed in the Framework. The identification of relevant capitals in an entity should commence with an evaluation as to whether the employment of these capitals adds value or alternatively, contributes the protection of value in an entity.

#### *Reliability and completeness (Section 3E)*

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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 need for external assurance**

NRF notes that the Framework refers to independent external assurance as one of the mechanisms to enhance the reliability (CD 3E paragraph 3.31) and credibility of information (CD 5E paragraph 5.20). The role of the accountancy profession is important to ensure the reliability of reported information. NRF believes that <IR> can be enhanced through the provision of independent assurance on the reported information. Stakeholders demand reliable information. The independent assurance process can provide assurance on the reliability of the reported information. Consideration of the level and nature of assurance needs to be studied carefully in the light of the information to be provided in <IR> and importantly, in the supporting reports to <IR>. Auditors and accountants are well placed to advance further reflections on these issues. NRF believes that independent auditors possess the skills and fundamental methodologies necessary to provide appropriate levels of independent assurance on <IR>.

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

## *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).**

## **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?**

NRF considers that such a statement will add value.

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

### *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?**

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NRF believes that more information is needed to determine whether it would be feasible to provide assurance on the integrated report as a whole. However, NRF is strongly motivated to work together with the rest of the accounting and audit profession and with the IIRC, to develop a Framework for <IR> that will facilitate the creation of <IR> containing information that possesses the necessary prerequisites for providing assurance. Additional experience with the use of <IR> will be important in determining whether assurance can cover the whole <IR> or whether assurance should be confined to specific aspects of the <IR>. It is entirely conceivable that the <IR> may be subject to different levels of assurance, depending on the information that is provided.

**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.**

NRF will comment on whether the <IR> Framework provides suitable criteria for an assurance engagement once the Framework itself is developed. The CD itself is still too conceptual to form an opinion on this point.

NRF notes that the audit profession must consider what needs to be done to perform a credible assurance process. In addition to evaluating the control environment, designed to safeguard the integrity of information in the <IR>, the auditor will need to assess own in house and external competencies and skills, as well as the need to employ suitable experts.

## 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).**

NRF acknowledges the reference to the use of XBRL (CD Framework Section 5I, Paragraphs 5.40-41). However, NRF is not convinced that the “value creation story”, which is imbedded in <IR>, is easily captured by technology platforms such as XBRL.

## 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?**

NRF is strongly supportive of the Framework embodied in the CD. While NRF believes that the Framework is appropriate for preparing an integrated report, more practical experience is needed to make the Framework robust enough to be applicable and suitable for global implementation of <IR>.

## 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?**

Explanatory material can be developed on the basis of the experiences gained through the Pilot Projects as well as the creation of suitable databases to store information and examples of best practices regarding <IR>. However, this material should be used for guidance and should not be integrated into the Framework. The following three topics should be given priority:

- a) The concept of value creation
- b) The employment of capitals,
- c) The concept of materiality.

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Further development of the Framework would benefit from more direct user input. While there is considerable preparer input via the Pilot Programme, NRF is missing the same robust input from the intended users of the <IR>. NRF recognizes that the IIRC Technical Task Force includes users (Capital Providers). Perhaps this can be supplemented by input derived from the creation of an independent User Panel or via some other means of getting reliable user input other than through the public consultation process.

## Other

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