

Stockholm 19th December 2011

Towards Integrated Reporting

Far, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the discussion paper *Towards Integrated Reporting*.

Far's overall comments

Far agrees that there is a potential for improvement in corporate reporting, considering the increased globalisation and the complexity in which entities operate and also corresponding market expectations. Far therefore welcomes the IIRC's initiative including the discussion paper, performing the pilot project and developing an exposure draft over Integrated Reporting. Far will be happy to contribute as the project develops.

Far's comments to the specific questions are attached to this letter.

Far

A handwritten signature in blue ink, appearing to read 'Anna-Clara af Ekenstam'.

Anna-Clara af Ekenstam
Chairman Far's section for large entities

A handwritten signature in blue ink, appearing to read 'Dan Brännström'.

Dan Brännström
Secretary General

Appendix

The World has Changed – Reporting Must Too (page 4)

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

Far welcomes the IIRC's initiative to contribute to the debate about actions that would help improve how organizations report the complex process by which they create value. Far believes that there is a great potential for improvement in this area, but also that there are major challenges ahead. Far regards the IIRC's initiative as the start of a journey, which should have as its objective to simplify and harmonise current corporate reporting with a vision to develop one single Integrated Report aimed at replacing the various current corporate reports.

The IIRC's initiative would gain from co-ordinating with other on-going initiatives, for example from the European Commission regarding enhancing corporate social responsibility in European entities and the IAASB's projects regarding disclosures (Discussion Paper *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*).

Integrated Reporting can improve how information is provided to the entities' stakeholders, but it may also improve how management is looking at risks and possibilities within their entities.

(b) Do you agree that this action should be international in scope? Why/why not?

Far agrees. Entities operating on a global market would benefit from an international framework for integrated corporate reporting. Also the entities' investors and other stakeholders will benefit from an international scope of the framework, since the stakeholders are also often global. Far believes that a project like the IIRC's will benefit from a true global approach considering the cultural and behavioural differences associated with the "market for information on performance".

Towards Integrated Reporting (page 6)

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

It must be considered that corporate reporting already is more or less integrated. The degree of integration may depend on existing national reporting requirements and different traditions, depending on what industry and/or region an entity operates in. Therefore, the way towards Integrated Reporting for various organizations will be different depending on where they are today.

Regarding the definition on page 6 which reads:

Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a current whole, and importantly:

- *Shows the connectivity between them; and*
- *Explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.*

Far agrees that the definition largely reflects what Integrated Reporting is about, but Far raises some doubt as to whether the proposed definition really is a definition of the term Integrated Reporting or possibly a description of the process of Integrated Reporting. However, the definition should also reflect that Integrated Reporting needs to present comparability over time and versus other organizations. Several aspects of the definition need to be further explained and one challenge that should not be underestimated will be the development of these explanations. Examples of areas in the definition requiring further explanation:

- How will Integrated Reporting bring together current corporate reporting into a single Integrated Report? Alternatives may be: (i) an annual Integrated Report, (ii) quarterly Integrated Reports or (iii) providing all or part of the information in real time.
- The concept of relevance and reliability, including materiality, is already difficult to define in the current dominating financial reporting frameworks. Application of these concepts is also difficult to apply in preparing financial statements containing both financial and non-financial information. These difficulties are discussed in IAASBs Discussion Paper *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*. A single Integrated Report, containing other information than currently is included in annual financial statements, will require great efforts in developing a concept of materiality adapted to the new situation.
- Furthermore, the current concept of materiality is focused on the need of investors. If Integrated Reporting in the future is to also focus on the needs of other stakeholders, the concept of materiality will face a new situation.

The definition also needs to address how Integrated Reporting ensures that both positive and negative information about an entity is presented as equally balanced, un-biased and honest.

An International Integrated Reporting Framework (page 8)

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

Far supports the initiation of a process to develop a framework for Integrated Reporting. Far looks forward to participating in the coming discussions and to contributing with comments to the future exposure draft.

In order for Integrated Reporting to be successful, Far believes that an unavoidable requirement is that the output is that the Integrated Report is the primary report for the organization. Otherwise, the Integrated Report will be regarded as a new administrative burden. Hence, Far supports the development of a framework which leads to a replacement of the current corporate reports with a single Integrated Report as the central theme of the framework.

A requirement for the success of an Integrated Report as a preparer's primary financial statements is that they may be accompanied by an assurance report from an auditor. A prerequisite for an assurance engagement is that the Integrated Report has been prepared based on the requirements stipulated in the framework. Therefore, Far believes it is necessary for the framework for Integrated Reporting to include a basic foundation allowing performance of professional audit procedures referring to an Integrated Report.



Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/ why not?

Considering the difficulties in defining materiality as discussed above (Q2), Far agrees that the initial focus for Integrated Reporting should be on the needs of the investors.

Far believes that a principles based framework may be applicable for all organizations, regardless of size and industry. More knowledge about that may come out of the Pilot project. To ensure that comprehensive knowledge is gained from the pilots, the composition of pilots should also be comprehensive.

Far believes that an Integrated Report as defined in the Discussion Paper will improve corporate reporting. However, for an organization to prepare a report which meets the requirements in the definition of Integrated Reporting will not necessarily be regarded as a simplification for the organization. Far therefore believes that, initially, only large entities will prepare Integrated Reports. However, that does not mean that the framework should focus only on larger entities.

Depending on the demands from stakeholders for Integrated Reporting, some SMEs may also encounter strong reasons for adopting Integrated Reporting.

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Yes, Far agrees that the concepts for Integrated Reporting, in a principles based framework, are equally applicable to all entities. Hence, Far believes that SMEs, public sector entities and also not for profit organizations would benefit from applying a more integrated form of financial reporting.

Business Model and Value Creation (page 10)

Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/ why not?

- (a) Yes, the business model of the organization should be a central theme in Integrated Reporting.
- (b) As indicated above (Q2), Far agrees with the definition on page 6 in the Discussion Paper, stating for example that “*Integrated Reporting... explains how they [the current separate reporting strands] affect the ability to create and sustain value in the short, medium and long term*”. Hence, Far agrees that all three terms should be central themes for Integrated Reporting. However, too much focus on the future may create a perception that Integrated Reporting is unbalanced in relation to more verifiable historical information and that Integrated Reporting therefore may become discredited.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/ why not?

Far believes that the “capitals” listed on page 11 in the Discussion Paper may be helpful to describe various aspects of an organization and its operation, and is already widely used by many organizations. The pilot program can be expected to bring valuable information on how well the “capitals” contribute to the explanation of how value is created and sustained. However, Far believes that the content of these concepts of capital needs to be further developed to enable preparers and users to understand how they are linked to the entity’s ability to create and sustain value.

Guiding Principles (page 13)

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Far believes that the Guiding Principles on page 13 in the Discussion Paper comprise several of the principles that should be included in a framework covering Integrated Reporting.

Far believes that the guiding principles should include a requirement that management is responsible for values reported in an Integrated Report, prepared by using the Framework, being understandable. A user shall also be able to gain an understanding of how such values have been derived. In developing a framework for Integrated Reporting, the IASB's conceptual framework should be considered regarding structure and terminology. However, it is unclear how IASB's framework will interact with a framework for Integrated Reporting. This needs to be explained in the next steps of the project.

The experiences being gained by the pilots will be very important in deciding whether the guiding principles are useful or not. Far expects that the IIRC will obtain information regarding the knowledge that has been gained by the pilots in the pilot project. Far also wishes to emphasize the importance of being clear on the basic underlying principle of relevance and reliability and the related question of materiality.

Content Elements (page 14)

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

The content elements in an Integrated Report presented on page 12 in the Discussion Paper, are logically derived from the definition of Integrated Reporting. However, Far emphasizes that their appropriateness depends on the final definition and measurement of value. Far also believes that their appropriateness is related to who the financial reports are prepared for and the timeframe for measuring value-creation.

As described on page 7 in the Discussion Paper, an Integrated Report combines the various reports in current corporate reporting (financial statements, management commentary, governance, remuneration and sustainability) into one single report. How the information in current corporate reporting will be allocated to the six content elements of Integrated Reporting is still to be determined.

Also with regard to the content elements, Far expects that the pilot program will bring valuable information on how the content elements work as a foundation for an Integrated Report.

What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policy-makers, regulators and standard-setters – page 23, Other perspectives – page 24)

Q9. From your perspective:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

The benefits that may arise for the Reporting Organization and its Investors depend on how Integrated Reporting develops. Far believes that the potential benefits described on pages 21-22 can be fully realized for both the Reporting Organization and its Investors if and when:

- The Integrated Report is the Organization's primary report substituting all other corporate reports.
- The Integrated Report brings together all information as envisaged in the definition of Integrated Reporting (page 6).
- The Integrated Report reduces the present information volume by removing currently duplicated information.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

Far agrees that the challenges listed on page 21 for the reporting organization, and on page 22 for investors, are challenges that this project will face.

One challenge Far would like to add to the list, is how auditors should provide assurance on Integrated Reporting. The nature and levels of assurance that will be demanded by the market should be evaluated parallel to developing the framework.

(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

Yes, one of the major objectives of Integrated Reporting must be to provide disclosures that are useful for the investor's analysis.

Far expects that the pilot project will provide further insight into whether Integrated Reporting will improve the disclosures or not.

Future Direction (page 25)

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

Yes, Far agrees that the actions described on page 25, should be the next steps undertaken by the IIRC. Far would like to emphasize the importance of clarity and transparency with reference to development of the governance for the IIRC and to publish a comprehensive disclosure regarding the independence and financing of the IIRC.

In addition, Far wishes to add the following important steps:

- Present the knowledge gained in the pilot project, perhaps on an interim basis, to keep up the interest and to be transparent on progress in specific issues.
- Closely liaise with the assurance profession on how an auditor's assurance can be provided on a single Integrated Report.

(b) What priority should be afforded to each action? Why?

Far believes that the challenges with Integrated Reporting are significant and that it will take a considerable time until a framework can be developed and implemented on a global basis. Governance and long-term financing need to be put in place in the beginning of such a project, in order to ensure that the project will have the resources to accomplish the task.



Even though the next steps are not necessarily presented in chronological order, Far believes that the activities around governance should come early.

Q11. Do you have any other comments that you would like the IIRC to consider?

It is important for the project to show transparency in all phases. Far has identified three areas which require further deliberation:

- The conditions under which the pilot programme is conducted should be openly presented. If the IIRC is developing a framework for an Integrated Report with the purpose of replacing the present financial statements, it is unclear how the IIRC will relate to, for example, present standard setters within financial reporting, sustainability reporting and corporate governance codes. Far believes that the IIRC should discuss the step forward in this regard.
- It is important that the IIRC considers whether or not Integrated Reporting is expected to be compulsory or voluntary, and whether the framework shall be applied on a comply or explain basis.
- Far also believes that the rapid development related to e.g. XBRL and various efforts to establish taxonomies for international and local GAAP filing purposes should be included in the IIRC's deliberations. This is particularly important as regards non-financial data.