



Professor Mervyn E. King  
International Integrated Reporting  
Committee (IIRC)

By email: [dpresponses@theiirc.org](mailto:dpresponses@theiirc.org)

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Ref.: IRTF/PRJ/LFU/IDS

Dear Professor King,

**Re: IIRC Discussion Paper “Towards Integrated Reporting” – Communicating Value in the 21st Century**

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the IIRC Discussion Paper “Towards Integrated Reporting” – Communicating Value in the 21<sup>st</sup> Century (the “Discussion Paper”). Our responses to the Consultation Questions in the Discussion Paper are included as an Appendix to this letter. Our main messages are summarised as follows:

**Action is needed** - We agree that the time has come to streamline and improve corporate information based on what is needed to provide a balanced, complete and reliable view of performance as well as of organisations’ impacts and interdependencies. This movement is necessary not only to fulfil the investors’ needs but also to give all stakeholders a better view of an organisation’s situation, impact and future. Integrated reporting emphasises also the importance of some of the key factors which are critical in responding to the new challenges<sup>1</sup>. The IIRC needs to move fast because its proposal seems to create such an expectation that we need to reach a common understanding of what is ahead of us.

**International approach for integrated reporting** - In our view, there is a need for an international body to serve as a forum developing and advancing the international framework which can be reported on. The value of an integrated reporting framework is its widespread use all over the world. Globalisation has resulted in the internationalisation of supply chains in many sectors. Moreover, most of the issues at stake (for instance financial crisis, climate change, child labour) are global in nature and therefore need to be addressed internationally.

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<sup>1</sup> As noted in the FEE response to the European Commission public consultation on disclosure of non-financial information by companies, see the FEE Comment Letter at:  
[http://www.fee.be/publications/default.asp?content\\_ref=1344&library\\_ref=4](http://www.fee.be/publications/default.asp?content_ref=1344&library_ref=4).

In 2010 FEE also issued a Factsheet on Integrated Reporting available for downloading at:  
<http://www.fee.be/fileupload/upload/Integrated%20Reporting%20January%2020112712011491010.pdf>.

**European Institutions have an important role** to facilitate and encourage a holistic approach and to support the advancements in this area. FEE is committed to following up on the work of the European Commission and international organisations to contribute to the discussion with all relevant stakeholders. We encourage the IIRC to continue to engage in this debate.

**The accountancy profession and FEE can be instrumental in contributing to the reliability of the information reported** - The provision of independent assurance on the information reported is a key factor that the IIRC ought to consider in responding to stakeholders' demands for reliable information. Whether and what level of assurance would be needed should be market driven. However, in our view the accountancy profession has a role to play in developing the approach and standards which would be needed. The assurance process, including consideration of the levels and nature of assurance will have to be studied carefully, in parallel to the development of integrated reporting, as opposed to being an "afterthought". In our opinion, the auditing profession is well placed to advance the reflection on this matter and to provide assurance services should they be desired.

**A vision needs to be developed of how integrated reporting will impact existing corporate reporting** - On the long-term, it remains unclear to us whether integrated reporting will replace existing reports (for instance Financial Statements, Governance and Remuneration, Sustainability, Management Commentary) or it will bring the different key matters of other reports together in one report. A vision will need to be developed in consultation with reporting entities, standard-setters and the stakeholders' community, taking into account how integrated reporting will impact existing corporate reporting and its evolutions. We believe that existing reporting such as financial reporting and sustainability reporting will be part of the basis for Integrated Reporting.

Irrespective of this outcome, we strongly believe that **integrated reporting should be designed to simplify and harmonise the current reporting regime**. Cumulative reporting, duplication and administrative burdens have to be minimised. It is therefore necessary to prioritise and assess how elements in the current reporting requirements can be replaced.

**A framework should be equally applicable to all organisations**, irrespective of their size and sector and we recommend the IIRC to consider how this can be best achieved - We understand the initial focus on larger companies and the needs of investors as a first step; it is a pragmatic approach to develop better corporate reporting. At the same time, the IIRC should encourage smaller entities and all sectors to test the applicability of the proposals and develop them further as identified. This would ensure that issues specific to them are identified and adequately addressed.

**A principles-based framework for reporting will normally contribute to the comparability** of the information reported. However, we acknowledge that further steps will be needed to ensure consistent application of common standards, to support and work towards common presentation and reporting requirements.

**Next steps** - FEE supports the use of the Pilot Programme to provide input to the development of a reporting framework. This will test the practical applicability of the proposals from the start, and also enable the identification of assurance issues, including the feasibility for obtaining assurance and at what level.

When discussing the direction in which reporting needs to evolve, consideration needs to be given to how and whether to make the best use of technology.

**Governance** - Ensuring appropriate governance of the IIRC will be an important element in the development process and in the next steps towards the creation of a framework and its adoption. We look forward to contributing to the forthcoming public consultation of the IIRC on its Governance.

For further information on this letter, please contact Leyre Fuertes, Project Manager from the FEE Secretariat, on +32 2 285 40 76 or via email at [leyre.fuertes@fee.be](mailto:leyre.fuertes@fee.be).

Yours sincerely,

A handwritten signature in grey ink, appearing to read 'Philip Johnson', with a long horizontal stroke extending to the right.

Philip Johnson  
President

## The World has Changed – Reporting Must Too

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

- (1) Yes, we agree that the time has come to streamline and improve corporate information based on what is needed to provide a balanced, comprehensive and reliable view of performance as well as of organisations’ impacts and interdependencies. This movement is necessary not only to fulfil the investors’ needs but also to give all stakeholders a better view of an organisation’s situation, impact and future. The IIRC needs to move fast because its proposal seems to create such an expectation that we need to reach a common understanding of what is ahead of us.
- (2) The accountancy profession and FEE are committed to these objectives and can play an instrumental role in enhancing the reliability of the information reported. We refer to our comments in paragraphs 40-48.
- (3) In our view, the Discussion Paper represents the start of a journey aimed at enhancing the quality and relevance of the existing corporate reporting regime. In the course of this journey, it will probably be necessary to develop more compelling arguments to persuade businesses and investors of the benefits of integrated reporting. However, we encourage this approach and believe that it should be treated jointly with other relevant developments having similar objectives.
- (4) For instance, the European Commission’s new strategy on Corporate Social Responsibility (CSR) as part of a package of measures on responsible business highlights that integrated financial and non-financial reporting represents an important goal for the medium and long-term. We welcome the EC’s commitment to follow with interest the work of the IIRC. In this Communication, it is also noted that there are a number of international frameworks for the disclosure of social and environmental information, including the Global Reporting Initiative (GRI).
- (5) In order to ensure a level playing field, as announced in the Single Market Act, the EC will present a legislative proposal on the transparency of the social and environmental information provided by companies in all sectors. We welcome the impact assessment of possible options for this proposal including a competitiveness proofing and SMEs test, that is currently ongoing; as all impact assessments, it should be robust, comprehensive and independent.
- (6) Governments and regulators have an important role to support the advancements in this area. Therefore, in Europe, we believe it should be the role of the European Institutions to facilitate and encourage a holistic approach. FEE will be following up on the work of the EC and international organisations to contribute to the discussion with all relevant stakeholders and is committed to further supporting the developments around CSR, including sustainability reporting and integrated reporting. We encourage the IIRC to continue to engage in this debate.
- (7) Clear principles are needed to define the reporting that is required. Requirements to facilitate compliance with those principles in a practical and consistent manner must be flexible enough to allow companies to tailor the reporting to their circumstances and to avoid “boiler-plate” reporting.

- (8) On the long-term, it remains unclear to us whether integrated reporting will replace existing reports (for instance Financial Statements, Governance and Remuneration, Sustainability, Management Commentary) or it will bring the different key matters of other reports together in one report. A vision will need to be developed in consultation with reporting entities, standard-setters and the stakeholders' community, taking into account how integrated reporting will impact existing corporate reporting and its evolutions. We believe that existing reporting such as financial reporting and sustainability reporting will be part of the basis for Integrated Reporting.
- (9) Irrespective of this outcome, we strongly believe that integrated reporting should be designed to simplify and harmonise the current reporting regime. Cumulative reporting, duplication and administrative burdens have to be minimised. It is therefore necessary to prioritise and assess how elements in the current reporting requirements can be replaced.
- (10) Care must be taken to avoid the creation of any new expectation gaps. In particular, greater clarity would be helpful as to what is meant by “value-creation”, including how this concept applies to the public sector and not-for-profit organisations.

Q1. (b) Do you agree that this action should be international in scope? Why/why not?

- (11) FEE is a long standing supporter of high-quality principles-based global standards including for reporting, auditing and ethics. We are also in support of a global approach for the development of a framework for integrated reporting.
- (12) A global approach is more likely to respond to the needs of investors and stakeholders who are global. It enhances comparability. It is also prone to safeguarding a level playing field for organisations competing globally for capital and resources. It will be more effective in driving much needed behavioural change on markets and in society.
- (13) Globalisation has resulted in the internationalisation of supply chains (including distribution, financing) in many sectors. Moreover, most of the issues at stake (for instance financial crisis, climate change, child labour) are global in nature and therefore need to be addressed internationally.
- (14) There is a need for an international body to serve as a forum developing and advancing the international framework which can be reported on and allow for providing some level of assurance. Acceptance of global principles will need support at a local level, and so the framework will need to be articulated in a way that appeals across diverse cultures. The value of an integrated reporting framework is its widespread use all over the world.

## Towards Integrated Reporting

### Integrated Reporting Defined

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

- (15) In our view, the proposed definition describes the objective of the process of integrated reporting and does not define integrated reporting itself. The following aspects of the definition need further clarification:
- We understand that relevant information is only included if material. However, further clarification is needed regarding to whom this information is directed in order to determine relevance and therefore materiality.

- In addition, “material” can be interpreted differently, for instance, material to assess performance in time, material to the core business of the organisations, or material in terms of meeting social or environmental goals. Hence the context of materiality should be further explained. We refer to our comments in paragraph 31 on the importance to define materiality further especially in the case of non-financial information.
- Integrated Reporting is stated as to provide “a clear and concise representation of how an organisation demonstrates stewardship”. To whom is stewardship shown? We refer to our comments in paragraph 57 on the need to develop definitions at least for the key concepts underlying integrated reporting, including stewardship.
- The issue of comparability also needs to be addressed. Investors are a diverse group and may not always have similar information needs. Hopefully the Pilot Programme will provide further clarification on these issues.

## An International Integrated Reporting Framework

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

- (16) A reporting framework would ensure a consistent platform on which to build principles in a co-ordinated and coherent way. The development and maintenance of such a framework would require involvement from a broad array of stakeholders. However, and subject to our comment below, the framework set out at pages 12-15 of the Discussion Paper provides a good basis for further work. Whether we will finally support the proposed International Integrated Reporting Framework will depend on its final version and details.
- (17) We also refer to our comments in paragraphs 8-10 on the need for the IIRC to develop a vision of how integrated reporting will impact existing corporate reporting in consultation with reporting entities, standard-setters and the stakeholders’ community, as well as to avoid the creation of any new expectation gaps.

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?

(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?

- (18) We believe that a framework of relevant concepts should be equally applicable to all organisations irrespective of their size and sector. We understand the initial focus on reporting by larger companies and the needs of investors as a first step; it is a pragmatic approach to develop better corporate reporting. At the same time, the IIRC should encourage smaller entities and all sectors to test the applicability of the proposals and develop them further as identified. This would ensure that issues specific to them are identified and adequately addressed.
- (19) We also believe that many small-and medium-sized entities may be drawn into integrated reporting by market forces once the larger entities include the impacts of their entire supply chain in their integrated reports.

- (20) We agree that the concepts underlying integrated reporting should equally apply to small and medium enterprises and also the public sector and non-for-profit organisations and we recommend the IIRC to consider how this can be best achieved. Indeed, integrated reporting may initially have more appeal for stakeholders of public sector and not-for-profit organisations.
- (21) While the underlying concepts should be equally applicable to all organisations, in the current socio-political environment further reporting requirements are likely to be seen as an additional administrative burden, and therefore un-desirable. As a result, it is essential that any additional information requirements are seen to be of tangible benefit to both business owners and to a wider cross-section of society (such as customers, consumers, financiers and suppliers). The reporting requirements based on the common underlying concepts may therefore differ from one organisation to another based on their size, complexity and need for specific transparency in the relevant areas that integrated reporting is to cover.
- (22) As envisaged under the proposed definition of integrated reporting, investors and other stakeholders should be considered. In order to accommodate, to the extent possible, the needs of many different stakeholder groups, we agree that the long-term responsible investors’ needs should be given initial consideration. Such an approach, if properly directed, is likely to cover the main needs of other stakeholders while a reverse approach would not achieve as much.

### **Business Model and Value Creation**

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?

- (23) If integrated reporting is better aligned to information that management requires for decision-making (with integration of relevant and material financial data and non-financial information about an organisation’s performance), it will be critical to a meaningful assessment of an organisation’s long-term viability, business model and strategy. As noted above, the concept of value-creation needs to be clarified, and this will assist reporting organisations in providing the information necessary for such an assessment.
- (24) Under the current reporting, where the emphasis is predominantly on financial performance, an organisation could very well only provide a partial picture without the link to relevant information (e.g. information about elements of their supply chain being subject to unethical or lower standards such as misuse of labour, use of banned chemicals, etc). Integrated reporting should address any tendency to limit disclosure of information to that which is of immediate benefit to the organisation.
- (25) Integrated reporting should be comprehensive and balanced: it should not turn into a mere communication exercise or be used to promote the perception that an organisation policies or products are environmental friendly and hide negative information. Should integrated reporting be perceived as “greenwashing” or compliance, it would become counterproductive and ruin a critical opportunity to realise the potential of reporting as a driver of behavioural change.
- (26) The right balance should be struck between reporting relevant information about the future and ensuring there is appropriate reporting on the past as key feature of accountability. Statements about the future are difficult to forecast and to be provided assurance upon; this will exacerbate the risk that integrated reporting will be unbalanced and become discredited.

### Resources and relationships or “capitals”

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

- (27) The concept is useful in getting people to think but there are practical considerations that should be addressed. We note that some of the “capitals” will be easier to translate into how organisations use them and impact on them (e.g. “Financial capital”) than others (e.g. “Natural capital”, “Human capital”).
- (28) It would be helpful to develop further the thinking behind the concept of capitals. Further deliberations and consultation will be necessary to develop practical guidance for organisations on how to capture the use and impact of such “capitals”. For instance, how to translate the concept into what needs to be measured and how to achieve that measurement, including consideration as to whether “resource” may be a more appropriate term than “capital”. It will be important for reports to explain the links between the various capitals and value-creation.

### The Building Blocks - Guiding Principles

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?

- (29) The identification of Guiding Principles should be at the core of the creation of a clear principles-based reporting framework. It would be helpful to emphasise that the Guiding Principles identified are meant to build the framework for reporting.
- (30) The fact that information needs to be comparable and comprehensive should be further emphasised as a separate Guiding Principle and not just as criteria within the Guiding Principle of reliability of information.
- (31) It would be helpful to define materiality by developing a common understanding of what is material both qualitatively and quantitatively. Doing so could ensure or encourage reporting organisations to identify and report negative issues as faithfully as positive ones. This is important, although challenging, especially in the case of non-financial information. In our view, this issue should be addressed while developing the framework for Integrated Reporting. Organisations would then be able to apply this common guidance on materiality to ensure that the information reported is comparable while remaining based on their specific circumstances. We also refer to our comments in paragraph 15 on the need to clarify to whom the information is directed in order to determine relevance and therefore materiality.
- (32) We believe that it is important that the information reported provides an understanding of how the values reported have been derived.
- (33) The Pilot Programme (possibly with input from smaller-and medium-sized entities, public sector bodies and not-for-profit organisations) should help to identify potential impediments/issues for clarification. These should be addressed to ensure the practical and consistent application of the Guiding Principles, including any related assurance issues.



- (34) A principles-based framework for reporting can contribute to the comparability of the information reported. However, we acknowledge that further steps will be needed to ensure consistent application of common standards, to support and work towards common presentation and reporting requirements. Regarding sustainability reporting for instance, there is a need for more advanced standards for reporting information as FEE already emphasised in the response to the Global Reporting Initiative on their first public comment period in the development process of the G4 Sustainability Reporting Guidelines. Such standards are yet to be developed and agreed by the stakeholders involved.
- (35) More stress needs to be placed on reliability, especially where this can be supported by some form of third party assurance. Without this, there is a danger that too much of integrated reporting will be unsubstantiated statements, which would damage its credibility.

### The Building Blocks - Content Elements

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?

- (36) The appropriateness of the Content Elements depends on (i) how value is defined and measured, (ii) who companies are reporting to and (iii) the timeframe on which value is to be defined (short, mid, long term). See also the comments above in our response to Question 5 and Question 7.

## What Will Integrated Reporting Mean for Me?

Q9. From your perspective as a key stakeholder:

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

### Harmonisation of approaches and reduced “red tape”

- (37) As noted in paragraphs 8-10, it remains unclear to us whether integrated reporting will replace existing reports or will bring the different key matters in other reports together. Irrespective of this outcome, we strongly believe that integrated reporting should be designed to simplify and harmonise the current reporting regime. Therefore, we agree that the harmonisation of approaches and reduced “red tape” should be a clear benefit of integrated reporting but it is also a challenge.

### Cost internalisation

- (38) There is a need for a debate on the most appropriate approach to account for “externalities”, generic risks and significant impacts (e.g. damage caused by carbon emissions). It needs to be recognised that externalities include benefits as well as costs.
- (39) We refer also to our comments in paragraph 34 where we acknowledge that further steps are needed to ensure consistent application of common standards, to support and work towards common presentation and reporting requirements.

### Assurance providers

- (40) Some form of assurance on Integrated Reporting could be essential in increasing users' confidence in the corporate governance information and more generally non-financial information.
- (41) It will be necessary to consider the extent of public demand for the provision of independent assurance in respect of part or all of the information reported. Stakeholders' demands for reliable information need to be borne in mind in debating this issue, certainly from the initial stages. Whether and what level of assurance would be needed should be market driven. In this respect, in our view the accountancy profession has a role to play in developing the approach and standards which would be needed.
- (42) The assurance process, including consideration of the levels and nature of assurance will have to be studied carefully, in parallel to the development of integrated reporting, as opposed to being an “afterthought”.
- (43) In order to support assurance on integrated reporting, we agree that there is a need first for more advanced standards of reporting and reporting mechanisms.
- (44) It is also worth noting that assurance engagements can take different forms ranging from a reasonable assurance engagement, resulting in a positive form of conclusion (i.e. “In our opinion, ...is so”) to a limited assurance engagement (i.e. “Based on our work, we are not aware of anything that suggests that...is not so”).
- (45) The auditing profession is well placed to provide assurance services should they be desired. As a profession, we have developed extensive audit knowledge and experience, which is not limited to audits but also review reports, agreed-upon procedures reports and other types of assurance, on historical figures, but also on the risk systems and the valuation process and fair value of assets.
- (46) The provision of such assurance services already requires that the auditor obtains a thorough understanding of the most significant aspects surrounding some of the information that would be likely included in an integrated report. For example, gaining an understanding of an entity's business, its risks and its interdependencies with the external environment. Auditors are also, where appropriate, already using the work of experts in providing assurance on various subject matters.
- (47) Non-financial information will be an important component of integrated reporting. When discussing how assurance can be given on matters that are financial and non-financial, as well as other information, the FEE “Discussion Paper for Auditor's Role regarding Providing Assurance on Corporate Governance Statements” might be helpful, as it explains the different levels of potential auditor involvement with different types of disclosures, as well as FEE's views as to the potential maximum involvement of the auditor. This paper provides also an explanation of an assurance engagement and some examples of how auditors might report on their involvement<sup>2</sup>.

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<sup>2</sup> The FEE Discussion Paper on the Auditor's Role regarding providing Assurance on Corporate Governance Statements is available at: [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=1167](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1167).

- (48) In the debate about the role auditors can play in non-financial information, we refer for example to a paper of NIVRA, the Royal Dutch Institute of Registered Accountants. This publication “Counting more than only Euros” contains a definition of non-financial information, a picture of the development phases of non-financial information and the role the auditor can play in each development phase from creating awareness towards providing assurance<sup>3</sup>.

## Future Direction

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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?

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

- (49) FEE supports the use of the Pilot Programme to provide input to the development of a reporting framework. This will test the practical applicability of the proposals from the start, and also enable the identification of assurance issues, including the feasibility for obtaining assurance and at what level.
- (50) It will be important to share the knowledge and the lessons learnt from the Pilot Programme. Therefore, we believe that one of the important next steps for the IIRC would be to report on the outcome of the Pilot Programme; to optimise consultation, it may be necessary to do this in two steps by providing an interim report to which stakeholders could react and a final report to share the lessons learnt during the Pilot Programme and the interim consultation and stimulate the debate.
- (51) It is also necessary to provide stakeholders with a clear indication and updated overview of the expected timeline through a transparent work program.
- (52) As integrated reporting advances, the future role of the IIRC will become more important and will have a greater global focus. This will require further development of the IIRC’s governance and future outreach. More robust procedures to address issues such as accountability, inclusiveness, geographic and cultural diversity and comprehensive stakeholders’ representation will be essential.
- (53) The Exposure Draft of an International Integrated Reporting Framework will be a critical step. We believe that the IIRC should find means of reporting on the feedback received on the Discussion Paper and demonstrate how this input is built into the Exposure Draft together with the output of the Pilot Programme. Therefore a feedback statement would be welcomed. We do not think that an exposure draft should be issued until the Pilot Programme has been completed, so that its findings can be incorporated in the document.

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<sup>3</sup> The discussion paper can be found at:  
[https://www.nba.nl/Documents/Publicaties-downloads/Counting\\_more\\_than\\_only\\_euros.pdf](https://www.nba.nl/Documents/Publicaties-downloads/Counting_more_than_only_euros.pdf).

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

#### **Frequency of reporting / Use of technology**

- (54) The IIRC should consider the frequency of reporting, i.e. should it be a “one date” report vs. “more” frequent reports being made available.
- (55) How/whether to make best use of technology (e.g. such as XBRL) is also a question that needs to be considered.
- (56) The question surrounding public demand for assurance to be provided will also need to be considered in the light of how integrated reporting evolves with the use of technology, for instance if integrated reporting incorporates relevant information which is only further detailed and available online.

#### **Common understanding of the terminology**

- (57) It might be helpful to call for a common understanding of the terminology that is used and for this to develop definitions at least for the key concepts underlying integrated reporting, for example, governance, risk, stewardship as well as already noted materiality and how to define and measure value.

#### **Mandatory vs. voluntary**

- (58) Further thought will need to be given as to whether (and when) integrated reporting should result in mandatory requirements or voluntary. At this point in time, in our view, integrated reporting should represent a voluntary approach. However, before considering whether integrated reporting should become mandatory (or not), policymakers and regulators have a key role to play to support its development, encourage its up-take and facilitate its application.