

The Nordic Federation of Public Accountants

The International Integrated Reporting Committee

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

The Nordic Federation of Public Accountants (NRF) is pleased to comment on the Discussion Paper issued by the IIRC on the 12th September, 2011 entitled, *Towards Integrated Reporting – Communicating Value in the 21st Century* ("DP"). 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 choose to respond individually to this DP. 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 and welcomes initiatives designed to advance these objectives and to encourage greater participation by more recognised accountants and accounting firms in the public company assurance market. The recent crisis has demonstrated that the quality of financial and other related reporting, as well as of the audit and related reporting, by the auditor must be at the highest level to meet market expectations.

NRF believes that the global debate on integrated reporting is both timely and relevant and therefore supports the initiatives of the IIRC in this regard. The financial crisis and its aftermath has shown that corporate reporting, particularly relating to the information provided to capital markets, needs to be reevaluated and reconsidered. This process must recognize the changes in the nature of information demanded as well as the global interconnectability that exists between markets today. The increasing complexity and volume of information makes access to relevant information more difficult. This is a cause of frustration for both users as well as preparers of corporate reporting. NRF believes that the integrated report, if properly constructed, can help to clarify and enhance global reporting in such a way that it adds value to investors and other stakeholders.

Our responses to the Consultation Questions in the DP are included as an Appendix to our letter.

SUMMARY:

- (1) NRF supports the initiative taken by the IIRC to take a fresh look at corporate reporting. There is a growing concern that the contents of the annual financial reports, as well as other forms of corporate reporting such as CSR and environmental reporting, are increasingly providing redundant and irrelevant information which no longer reflect user needs. There is a real risk that the growing complexity of accounting standards, combined with increasing demands of regulators, will obscure essential information in the midst of largely irrelevant reporting. Investors and other stakeholders are looking for a well structured, complete and reliable overview of financial and other relevant performance. In addition the impact of social and environmental factors, risks and dependencies should be explained, as should the key factors which are critical to the organisation when responding to new challenges.
- (2) It is important that the agreed structure and contents of the integrated report are broadly agreed in a global context. This is because many of the issues, such as an organisation's environmental impact, are global in nature and therefore need to be addressed in a global context. It is also important that the IIRC is global in outlook so that it can continue to act as a forum for developing and advancing a global framework for integrated reporting.

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- (3) NRF believes that European bodies and institutions can play a positive and important role in the development of integrated reporting and can support the advancements in this area. NRF therefore encourages the IIRC to continue its global outreach to stakeholders and facilitate a discussion with all relevant stakeholders.
- (4) The role of the accountancy profession is important to ensure the reliability of the information reported. NRF believes that integrated reporting can be enhanced through the provision of independent assurance on the reported information. Stakeholders demand reliable information. The 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 carefully in the light of the information to be provided in the integrated report and in those reports which will support the integrated report. NRF believes that auditors are well placed to advance the reflection on these issues.
- (5) At this stage it remains unclear how integrated reporting will impact existing corporate reporting. It appears, at least in the short term, that the integrated report is not designed to replace existing reports such as financial statements, governance and remuneration statements, corporate social responsibility and environmental reporting. However, NRF is concerned that, failing a comprehensive and thorough review of the whole area of corporate reporting, there is a risk that the integrated report will simply become another layer of reporting on top of what many see as an overload of irrelevant and redundant information.
- (6) The success of integrated reporting will depend on whether this will bring the different key matters in other reports together. A sustainable and consistent global approach will need to be developed in consultation with reporting entities, standard-setters and other stakeholders. This should take into account how integrated reporting will impact on existing corporate reporting. We believe that existing reporting such as financial reporting and sustainability reporting will be part of the basis for Integrated Reporting.
- (7) NRF strongly believes that integrating reporting should be designed to simplify the current reporting regime. Duplication of information and administrative effort must be minimised. It is therefore necessary to prioritise and assess how elements in the current reporting requirements can be replaced.
- (8) NRF agrees that the initial focus should be on larger companies and the needs of investors. However, any framework should be equally applicable to all organisations, irrespective of their size and sector. It is important for the success of the initiative for IIRC to consider how this can best be achieved in a pragmatic way.
- (9) A principles-based framework for reporting can contribute to the comparability of reported information. However, NRF strongly believes that further steps will be needed to ensure consistent application of common standards, to support and work towards common presentation and reporting requirements.
- (10) In addition, NRF strongly supports the use of the pilot programme to provide input to the further development of the integrated reporting framework. This programme will test the practical applicability of the proposals from the start, and also help to identify what information is relevant and realistic to incorporate in an integrated report that will be of long term use to investors and other stakeholders.
- (11) In addition, the pilot programme should help to identify assurance issues. Both auditors and the users of integrated reporting need to consider what can be subject to assurance reporting and at what level such reporting would be desirable.

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- (12) The IIRC is already an important global contributor towards innovation in the area of corporate reporting. Higher visibility and public accountability in a global arena will lead to increasing stakeholder demands for greater transparency and a robust governance structure. NRF looks forward to contributing to the development of proposals for the current and future governance arrangements of the IIRC in connection with integrated reporting.

NRF believes, in conclusion, that further dialogue and debate is needed involving all stakeholders, including investors and others interested in corporate reporting and auditing. This includes preparers, standard setters, the audit profession and regulators. The IIRC should play a leading role in initiating such a global debate, involving as many stakeholders as possible. NRF will be pleased to contribute further to this debate.

NRF would be happy to discuss our views further with you. Please contact Jens Røder on telephone +45 33691065 or email jr@nrfaccount.com

Yours sincerely,



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Secretary General
Nordic Federation of Public Accountants

APPENDIX

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

- (13) Yes, NRF believes that action, designed to improve corporate information in order to provide a balanced, comprehensive and reliable view of an entity's performance as well as of societal impacts and interdependencies is both timely and necessary. NRF supports the IIRC in taking up this issue.
- (14) We believe that this DP is a good start, but only a start, of a process that is designed to improve and enhance the quality and relevance of the existing corporate reporting regime. NRF encourages this development and will continue to take part in a debate designed with this objective in mind.
- (15) Many of the Nordic countries already have standards and legislation in place regarding reporting on the environmental impact of entities as well as on corporate social responsibility (CSR). Governments and regulators play an important role in this area and NRF will continue to support national initiatives in the Nordic region to advance these forms of reporting. NRF will support and encourage regulators and government initiatives in the area of integrated reporting as a supplement and possibly in time, as a replacement to existing forms of reporting.
- (16) Clear principles and standards based on these principles are needed to define the reporting that is required. Requirements to facilitate compliance with those standards and principles in a practical and consistent manner must be flexible enough to allow companies to tailor the reporting to their circumstances. Furthermore, NRF urges that integrated reporting should be designed to simplify the current reporting regime. It is important that integrated reporting does not end up simply duplicating existing information, adding to complexity and in the process, creating more administration for preparers. The existing elements in the current reporting requirements need to be carefully considered and removed or replaced if they do not contribute to better integrated information.
- (17) Additional reporting requirements risk creating additional administrative burdens. It is therefore important that additional information requirements are of tangible benefit to preparers as well as users such as investors and also desirable in a broader societal context.
- (18) It remains unclear to us whether integrated reporting will be designed to replace existing reports (for instance financial statements, CSR and environmental reporting) or whether the purpose is simply to identify and bring the different key elements in other reports together. At this stage it appears that no clear position has been formulated in this regard. NRF urges that a vision should be developed in consultation with involved stakeholders, including reporting entities, users, standard-setters and regulators, to determine how integrated reporting will impact on existing corporate reporting and its evolution.
- (19) Care must be taken to avoid the creation of any new expectation gaps.

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

- (20) Yes, because the issues (e.g. environment, social needs and responsibilities and use of resources) are global in nature and therefore need to be addressed internationally. An international approach will also greatly facilitate the development and implementation of a global framework for integrated reporting, supplemented by relevant global principles based standards. NRF is supportive of such an initiative as this would supplement existing global standard setting in other associated areas such as accounting (IFRS) and auditing and assurance (ISAs).

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- (21) A global approach will respond to the needs of investors and stakeholders and will enhance comparability. It will facilitate the creation of a level playing field for entities competing globally for capital and resources. It will be more effective in driving much needed behavioural change on markets and in society.

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

- (22) NRF believes that the proposed definition describes the objective of the process of integrated reporting but does not define integrated reporting itself. Perhaps, at this stage it is not possible to go further. NRF suggests that further clarification is needed in several areas. This clarification may emerge as a result of further work in connection with the Pilot Programme. However issues such as a consistent identification of the material to be included (materiality needs to be put in context), a better identification of users of integrated reporting and their information needs and a prioritisation of information to be included need to be considered. These issues are difficult even in terms of conventional reporting and resolving them should not be underestimated as they are key to the success of integrated reporting.
- (23) There is, as already mentioned, a considerable risk of simply creating more and not better information. Users want concise, comparable and clear/simple information - not complex and obscure information.
- (24) Integrated Reporting is stated as to provide "a clear and concise representation of how an organisation demonstrates stewardship". However, it is unclear regarding to whom stewardship is meant to be shown. NRF believes, as already stated, that there is a need to develop definitions for the key concepts underlying integrated reporting. This includes stewardship.

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

- (25) A reporting framework for integrated reporting would ensure a consistent platform on which to identify and use consistent and properly designed principles. The development and maintenance of such a framework would require involvement from a broad array of stakeholders. NRF strongly supports this approach and will be happy to continue to take part in a debate to further this approach. NRF strongly urges that a framework for integrated reporting should be principles based and conceptual in nature. The creation of a more rigid framework risks locking reporting entities into a reporting structure that will not recognise the individuality of enterprises and hence will not add real value over conventional reporting for investors and other users.

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?

- (26) NRF agrees that the initial focus should be on larger companies and the needs of investors. However, any framework should be designed from the outset to be flexible enough so that it can be equally applicable to all organisations, irrespective of their size and sector. It is important for the success of the initiative for IIRC to consider how this can best be achieved in a pragmatic way.
- (27) 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.
- (28) NRF believes that the concepts underlying integrated reporting should apply to small and medium enterprises as well. In addition, there is nothing to hinder the adoption of integrated reporting by other sectors such as the public sector and not-for-profit organisations.

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?

- (29) Basically NRF believes that there are advantages to be gained from aligning the model for integrated reporting to information that management requires for decision-making to the extent possible. However, the extent to which this is achievable and desirable can better be assessed when the model for integrated reporting evolves further. It is possible that the Pilot Programme may shed further light on this.

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

- (30) The concept is useful but needs more work. Conceptually there are benefits in identifying different accumulated values inherent in an entity. The challenge is to translate these "capitals" into consistent and accurate messaging without resorting to the use of descriptions that are difficult to understand. More importantly, these capitals must be translatable into value propositions for the business that users can identify and accept if they are to be credible. There will be many practical considerations that will need to be addressed, including measurement.

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?

- (31) The identification of Guiding Principles is clearly of fundamental importance if integrated reporting is to succeed. Such principles are also essential in developing a framework for integrated reporting, as already mentioned.
- (32) The need to have reliable, comparable and consistent information should be stated as a separate Guiding Principle.
- (33) The issue of defining materiality in integrated reporting needs to be dealt with as is the need to report faithfully on positive as well as negative issues. These issues should be addressed in connection with developing a common framework for integrated reporting. It would be helpful to define materiality by developing a common understanding of what is material in qualitative as well as quantitative terms. The Pilot Programme will go a long way in flushing out these issues and aid a clarification process.
- (34) Work needs to be done on the comparability of information, the identification of common standards as well as a framework for presentation and reporting. These standards should be principles based and need to be developed and agreed by the stakeholders involved.

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?

- (35) This question can better be answered after the results of the Pilot Programme have been evaluated.

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?

- (36) As noted in paragraph 18 above, it is not clear whether the Integrated Report will replace existing reports or will act as a form of "umbrella report" bringing together the key elements of other corporate reporting. As already stated NRF believes that it is important for the success of integrated reporting that the end result is simple, comprehensive and adds value to those who use the information provided. The harmonisation of approaches and reduction of complexity will be a benefit of integrated reporting but NRF believes that there is still a long way to go before these desirable objectives are within reach.
- (37) 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).
- (38) If the Integrated Report becomes the primary report, the provision of some form of independent assurance on the information reported will be essential to respond to stakeholders' demands for reliable information and increase confidence in the reporting model as well as the contents.
- (39) The provision of independent assurance on the Integrated Report requires new assurance standards and more comprehensive reporting mechanisms. The current audit methodology already requires that the auditor obtains a thorough understanding of some of the most significant aspects surrounding the information that is likely to be included in the Integrated Report. Auditors often use the work of experts in providing assurance on various subject matters. Therefore, NRF believes that auditors are well placed to develop the necessary methodology and reporting for providing independent assurance on integrated reports.

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?

- (40) NRF supports the use of the Pilot Programme to provide input to the further development of an integrated reporting framework. The knowledge and information gained from this will provide the impetus for identifying the next steps to be taken.
- (41) NRF looks forward with anticipation on the IIRC report on the outcome of the Pilot Programme. This should form the basis for further consultation and debate. It is important that the results of the Pilot Programme are subject to transparent reporting and open consultation. The Exposure Draft of an International Integrated Reporting Framework will be a critical step.
- (42) NRF suggests that IIRC should report on the feedback received on this Discussion Paper together with the output of the Pilot Programme. While it is important in the interests of transparency that the responses to the DP are made public, NRF would also welcome the preparation and publication of a feedback statement by IIRC. Further consultation should then take place prior to developing a framework for integrated reporting.
- (43) In order to keep impetus a timetable should be developed and agreed with stakeholders for the continuing work programme.

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- (44) At some stage the governance of the IIRC should be considered. However, this will depend very much on its future role. The IIRC is already an important global contributor towards innovation in the area of corporate reporting. Higher visibility and accountability will lead to increasing stakeholder demands for greater transparency and a robust governance structure. NRF looks forward to contributing to the development of proposals for the current and future governance arrangements of the IIRC and Integrated Reporting

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

- (45) A common understanding of the terminology and definitions for the key concepts underlying integrated reporting is needed. This could cover governance, risk, stewardship and materiality to name a few. In addition, value needs to be defined in the context of integrated reporting. The concept of value is defined in financial reporting and at least in part in environmental reporting. A consideration of the integrated report should address this issue.
- (46) NRF believes that the application of integrated reporting should be voluntary as a first step. Mandatory requirements can be considered at a later stage and by other stakeholders such as regulatory authorities and governments.