



International Integrated Reporting Council
(IIRC)

www.theiirc.org/consultationdraft2013

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Consultation Draft of the International <IR> Framework Integrated Reporting

Representing preparers' point of view, the Swedish Enterprise Accounting Group (SEAG) welcomes the opportunity to comment on the Consultation Draft.

General Comments

We are very pleased to get the opportunity to give our feedback on the proposed Framework. We are supportive of the initiative. The initiative is in line with the current global debate, i.e. to focus on sustainability, care of the society and environment. We view this initiative as a possible way forward. We believe that information published in the annual reports, generally in the non-financial part and in sustainability reports for Swedish larger listed enterprises, to a significant extent already is in line with the suggested Framework. If this initiative would become globally accepted we therefore believe that there may be a more significant impact on the reporting for enterprises in other countries than in Sweden.

We support the IR Framework as a means of achieving a global standard of high quality integrated company reporting. Having said that, the draft needs to be developed further before a high quality Framework for Integrated Reporting is in place. The way the draft Framework is written today is not enhancing the possibility that this initiative will have the global break-through the IIRC is hoping for.

A general comment is that we believe that this Framework would benefit from being well structured and thoroughly prepared before being pushed out to the public in a rush. We believe that the Framework should be more clearly principles-based with separate guidance and illustrative examples. Good examples could be obtained from the pilot project or elsewhere. It is stated in the draft that disclosures should be given if any information is not disclosed. Our concern is that this will create a report full of non-information.

We have also read the draft Framework with a focus on compliance issues, i.e. the possibility to deliver accurate information in accordance with what is requested. We see significant compliance issues due to the way the proposed Framework is written. E.g. definitions are vague and reporting structures are not completely defined. As a representative for accountants for Swedish listed enterprises we might have a slightly

different view on the draft Framework compared to other interested parties and we therefore offer our help and comments on your way to further develop a Framework.

In order for the Integrated Reporting Framework to develop, it is very important that a sustainable organization can take long-term responsibility for the Framework. The authority of the Framework would therefore benefit from information of how the IIRC, or any other organization, can ensure the continuity of the Framework, including setting a standard for due process and how necessary resources to finance the work will be raised over the long run.

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.*

We believe the IIRC should clearly state whether its purpose is to primarily integrate existing information with some additions or that new separate reports should be created based on the Framework. This is not clear from the draft. Our strong recommendation is to focus on integration and improving underlying information, for example CSR when and if needed. Otherwise Integrated Reporting might become a parallel report to current reports which will add costs with low related information value. This could also cause confusion for users of different reports.

One of the current major issues regarding financial reporting for listed companies is the need to decrease the amount of disclosures. There is a generally accepted view that only relevant information should be given in order to avoid an information overload and thereby increasing the usefulness of information and reducing the reporting burden for preparers.

The draft Framework states that data should be reliable otherwise it should be omitted; information must be given of what data is omitted and the reason thereto. Information asked for in the Framework is not applicable for all organizations and reliable data cannot always be provided. A requirement to give the reasons for omitting information and data could therefore lead to a report full of non-informative disclosures. This should be avoided. The development regarding disclosures in financial reporting could serve as a guideline also for the Framework on Integrated Reporting.

We also recommend co-ordination with the IASB Disclosure Project as well as with organizations that develop CSR Reporting. It is essential for both users and preparers that information is not duplicated but instead structured and aligned so that Integrated Reporting, CSR and IFRS based disclosures together form one information package.

As regards the six principles, we see no principles that should be added or eliminated.

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?*

In paragraph 1.18 it is stated that a stand-alone Integrated Report will be prepared annually but at the same time organizations may provide additional reports and communications. From reading the draft Framework it is difficult to understand the frequency of the report. Is it once a year, quarterly or a constant update of the information?

Further, it is difficult to foresee the extent of reporting with the current description. We believe that the requirement for a single set of reports, the Integrated Reports, is not the way forward. If the Integrated Report is presented as a separate report in addition to current reports required by other regulations, the Integrated Report will increase the reporting burden for entities and add yet another report.

We understand that the aim of the draft is to have one Integrated Report. However, it is stated in paragraph 1.18: "Organizations may provide additional reports and communications (e.g., financial statements and sustainability reports) for compliance purposes or to satisfy the particular information needs of a range of stakeholders. The Integrated Report may include links to these other reports and communications." Adding to this, paragraph 3.50 describes how the Integrated Report should relate to a separate sustainability report. Does the IIRC anticipate a future demand from stakeholders of e.g. a separate sustainability report if an Integrated Report is published and if so, what would the then the value be of an Integrated Report? By those statements it does not seem like the aim is to get one Integrated Report and the message is therefore contradictory.

In paragraph 1.20 it is said that an Integrated Report differs from other reports due to its combined emphasis on "conciseness, strategic focus and future orientation, the connectivity of information, the capitals, the business model, the ability to create value in the short, medium and long term and on providers of financial capital as the primary audience". We believe that this paragraph should be reformulated in order to recognize that there are currently reports prepared that to a large extent are based on the principles in the Framework, even though they are not labeled Integrated Reports.

To conclude, we believe that a key factor for success of the Integrated Report concept is that it covers the needs of information for its primary stakeholders. If stakeholders will continue to demand separate financial statements, sustainability reports etc., the interest to prepare an Integrated Report may suffer. We therefore believe that focus in a Framework should not be on producing a single Integrated Report, but instead on the integrated thinking process as we believe this is value creating in itself.

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?*

N/A.

Other

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

The Framework would benefit from being divided into two sections. One with the actual principles (now written in bold) plus strict requirements and another section with all the text that motivates or explains the principles. As the Framework is currently written there is a lot of text that seem to build up argumentation for the principles and requirements, which make the Framework difficult to read and sometimes quite repetitive.

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?*

The chosen capitals are relevant but the definitions of them are too broad. There are currently already definitions of some of the capitals within IFRS. We believe that the definitions should be the same; otherwise this will be yet another cause for similar or overlapping information which should be avoided.

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

N/A.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

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

Yes.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

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

Yes, we agree with the definition of Outcome. However, it may be difficult for both preparers and users of the Framework to separate the term Outcome from Output due to the similarity in everyday language. We recommend the IIRC to elaborate the descriptions of Output vs. Outcome and preferably include illustrative examples of the two terms.

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)?*

N/A.

Other

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

N/A.

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?*

The definition of materiality has been debated within the application of IFRS for a number of years. The main difficulty is that materiality is subjective and applied in specific individual situations/transactions.

We believe there is a risk that disclosures of materiality may be washed out, i.e. to have a very general meaning to avoid meaningless details. We note that in paragraph 5.13 there is a reference to paragraph 4.5 that seems to be non-existing in the draft.

Further on, another problem with the draft Framework on Integrated Reporting is that there is no definition of “matter”. It seems like it could be something that “happens” or should it be seen as a KPI/measurement? Is there a relation to share-price sensitive “matters”? It is also not clear how many such “matters” there could be.

Our understanding of the draft Framework is that it indicates a high threshold for materiality, i.e. that a “matter” will impact the strategy, the business model, or have substantial effects on the capitals, and/or the assessment on how to create value. This is however not clear and this issue therefore needs to be developed further.

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

We object to having to disclose the materiality determination process.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. *How should the reliability of an Integrated Report be demonstrated?*

We agree that the reporting systems, stakeholders' engagement and external assurance are important components to demonstrate reliability. However, we believe that the concept of Integrated Reporting needs to be more defined before assurance should be applicable.

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

N/A.

Other

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

N/A.

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).*

The section on future outlook seems to be, at least partly, an overlap of IFRS requirements regarding risks. It is unfortunate to have separate regulations or principles governing the same issue. The discussion (requirements?) on future projections is somewhat naive as listed companies have severe limitations in what they can say about the future and especially when it comes to financial projections. It should be entirely up to each public company to publish forward looking information in line with the legal requirements that exists for the particular market place where the company is listed.

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?*

We believe that it is not suitable for a Framework on Integrated Reporting to regulate the responsibility for the report since this is a governance issue. It is important to recognize that entities are working under different legal frameworks. Legal responsibilities for reports from an entity are dependent on the law in a jurisdiction.

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

N/A.

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?

Integrated Reporting is in an early phase, as stated in our response to question 13 in Section 3E. Therefore we consider it to be too early to determine a reasonable scope for an assurance engagement over an Integrated Report. As stated in paragraph 5.21, the Framework for Integrated Reporting does not provide any protocols for performing assurance engagements. International standard setters have not yet developed any assurance standards for Integrated Reports.

External assurance of an Integrated Report as drafted in the Framework would be complicated and would require development of adjusted audit methods and also significant delimitations of the scope of the audit.

In our view an entity could be able to obtain external assurance over an Integrated Report but such assurance should only cover verifiable information. External assurance will add value to those parts that are firm financial or quantified data. However, as the current suggestion is to include links to other reports and communications this will be part of data that can be adjusted for Integrated Reporting purposes. It will therefore be difficult to get an external assurance on all information provide in an Integrated Report.

Further on, we believe that forward looking information stating that something will occur or not occur is not suitable information for assurance.

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.

N/A.

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).

N/A.

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?

The Framework states the ability to create value shall be disclosed in the short term, medium and long term. We are not convinced that the stated primary user group, i.e. financial capital

providers, necessarily is interested in all three terms. We therefore ask the IIRC to explain the reason for an Integrated Report to focus on all three terms.

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?

N/A.

Other

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

N/A.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

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