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Ref: NBA Comments on the IIRC Consultation Draft of the IIRC <IR> Framework

Amsterdam, July 2013

Dear Professor King,

The Nederlandse Beroepsorganisatie van Accountants (NBA) is pleased to have the opportunity to comment on the International Integrated Reporting Council (IIRC)'s Consultation Draft of the International Integrated Reporting Framework ('the Framework'). NBA strongly encourages the IIRC making progress with the Framework.

Business reporting is changing. NBA believes that high quality internal and external business reports is a core for organizations, as organizations depend on the support of their stakeholders on short term and on long term. The Framework shows the pathway towards future integrated business reporting on value creation which is at the heart of an organization's 'license to operate'.

NBA vision on Integrated Reporting includes the development of business best practices in process design, governance, reporting and eventually assurance ; we acknowledge that the development of the IIRC Framework is a major step in this direction.

NBA seeks to provide a broad perspective in this response. For this purpose we have based our comments on feedback received from a variety of stakeholders, i.e. our members (preparers, consultants and assurance providers) and from other non-member stakeholders (preparers, investors and organizations and institutions representing stakeholder groups). The feedback is a result of a member consultation process and a public roundtable debate.

We offer the following suggestions for further consideration to improve the Framework. The response is formatted on the IIRC Consultation Questions.

Yours faithfully,



drs. H.H.H. Wieleman RA
Chair of the Dutch Professional Accountancy Association



D.J. ter Harmsel AA FB
Deputy Chair

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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 welcome the principle-based character of the Framework and we acknowledge that IIRC does not prescribe more detailed standards and codes in this stage of Integrated Reporting development. Process design and reporting best practices will develop over time as organizations use the concepts of this Framework in their own environment and industries, pioneers first.

However, as the Framework offers in this stage a high level conceptual basis, there is a danger of unintended and/or unnecessary divergence in the development of best practices in organizations and industries, which evolution might weaken future comparability of information. **We recommend IIRC to consider additional guidance on the IIRC intentions and positions in the development process of best practices** or even offer more direction towards the use of more commodity indicators that are or will be commonly used.

Another danger is that legislative bodies, national and international, will use the Framework combined with other authoritative sources of indicators as the basis for more rule-based standard and codes, thus preventing the development of real best practices of value creation in organizations and industries in line with the context of the Framework. Usually a rule-based approach leads to more uniformity and binding disclosure requirements. Unintended future rule-based practices might lead to a 'tick the box' attitude and business as usual. **We would like to recommend IIRC to liaise more visibly with international and perhaps national legislative powers to create awareness on the IIRC intentions, the context and concepts of the Framework** and argue that a principle-based character and industry best practice development is preferable in this field and at this stage for the development of the Framework as well.

Furthermore our stakeholders expressed a need for better emphasizing what it means to comply with the principle-based Framework:

- on what elements 'comply or explain' is required in order to be in compliance with the Framework;
- further guidance on transparency on the 'comply or explain' assessments;
- on the materiality considerations; and
- on the 'unless-categories' in paragraph 1.11: unavailability of reliable data, legal prohibitions and competitive harm.

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).

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2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

IIRC aims to complement material and not to duplicate it. Then the question arises how this fits in the integrated approach and with the objective of conciseness. Complementing material may lead to 'add-on' and/or 'combined' reporting instead of Integrated Reporting. NBA does agree with the principle that linkages to other existing reports are appropriate, however the process of preparation of those other existing reports should align with the concept of Integrated Reporting, based on Integrated Thinking to prevent future solo thinking. And furthermore harmonization of existing reporting is necessary; 'creating links' only does not seem to be sufficiently ambitious. An added top memo could be an Integrated Report? SBR-reporting based on XBRL-tools might facilitate new communication methods and offer solutions on this 'jigsaw' challenge. **We recommend IIRC to offer more clarity on the aspect of 'how to say it only once'.**

Our audience expressed that in future practice an Integrated Report based on the Framework intends to replace the Management Report or becomes the new standard of the Management Report. In this approach the concept of integration seems to be denied, as the financial report remains a separate statement. Nevertheless this approach could be a good first step in the evolution towards real Integrated Reporting. **We emphasize that more IIRC guidance is recommended on the intentions in this field, explicitly concerning the role and the future format of the financial report in Integrated Reporting according to the Framework and in the short and long term time frame.**

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?

Again, we welcome the principle-based character of the Framework and we acknowledge that IIRC does not prescribe more detailed standards and codes in this stage of Integrated Reporting development. What investors want to (or ought to) hear will partly be different per industry. Best practices will be developed per industry. We expect 'code development' (perhaps per industry) over time in a later stage. Gradually convergence will grow and the voluntary character will shrink.

Nevertheless our stakeholders expressed a need for further guidance in this field. Existing sources of indicators or measurement methods can be useful in every organization or industry when they cover commodity parameters beyond specific industry parameters. We understand the expressed need as organizations are less experienced in these kinds of concepts than the concepts of financial reporting. Further guidance is recommendable on how relevant existing (and future) indicators or measurement methods are linked with capitals in the Framework, without IIRC making explicit or implicit choices. In fact NBA does therefore not prefer a solution in the way of linkage to an online database with authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, where IIRC might unwillingly suggest to make choices in this field. Nevertheless NBA would support additional IIRC guidance where the obvious comparability opportunity for commodity parameters will be used. **More direction by IIRC in this field is recommended beyond the proposed data base creation.** The IIRC pilot programme may offer more insight and direction for guidance for these issues.

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Other

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

A large part of NBA sources for feedback referred to the IIRC preference for the users of Integrated Reporting to providers of financial capital. In the context of the Framework a broader scope of stakeholder assessment and stakeholder responsiveness would be obvious aligning with the total value creation environment. The group of providers of financial capital is not a homogenous group. NBA foresees a possible segmentation of stakeholders: (1) providers of financial capital, (2) stakeholders in the business or industry chain of operations, and (3) consumers, employees etc. Extended stakeholder involvement for the integrated strategy is something for consideration. Furthermore the 'boundaries in Integrated Reporting' as one of the concepts in the Framework explicitly seems to emphasize a need for a broader scope. **We recommend IIRC to offer more clarity on the positions in this field in the total context of the Framework.**

So far the focus of IIRC is on organizations and industries in the private sector. In the context of the Framework, value creation for public society, **we would wish to recommend IIRC to express an opinion or a view on the obvious need for a similar approach in the public sector and the non-for profit sector**, including the envisaged role for IIRC in this field.

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?

NBA does agree with the approach to the capitals. However, our audience expressed a need for further guidance on the use in practice of capital categories. In the current Framework the capitals might not be mutually exclusive and collectively exhaustive, which is a challenge for comparability of information. In this context more clear definitions of the capital categories might be helpful (e.g. specific questions arise on the categorization of client capital, relationships capital, reputation capital in the Framework).

With reference to our comments earlier in this document we express the need for further guidance on how indicators and measurement methods are linked with the capitals in the Framework and on the extent of required transparency on materiality considerations and 'comply or explain' assessments concerning capital categories. We presume that a prioritization, (e.g. a clear choice between 'need to have' and 'nice to have') is part of the required disclosure.

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

The IIRC has not explicitly expressed an opinion on potential monetizing of non-financial information. Cash flow is still 'key' for the larger part of current users of annual reports and current non-financial information is often referred to as 'future' financial information in this context. Implicitly IIRC seems to support this opinion as IIRC has chosen to limit the audience of Integrated Reporting to providers of financial capital.

We would like to recommend IIRC to express their views more clearly, explicitly in the context of the IIRC intended user approach.

Business model (Section 2C)

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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?

In principle NBA does agree with the definitions in the context of the Framework; the concept of the business model is clarifying and might work in practice. However we acknowledge that the definition and the proposition of value creation might need more IIRC guidance to make the concept more practicable for organizations and industries.

Business model (Section 2C) continued

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?

In principle NBA does agree in the context of IIRC definitions with reference to our comment in Q#7.

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)?

In principle NBA does agree in the context of IIRC definitions with reference to our comment in Q#7.

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?

In the Framework materiality is considered to be determined for the use by primary intended report users. Primary intended users are providers of financial capital. In this approach a materiality assessment considering other relevant stakeholders is not foreseen. We wish to refer further to our comment on this issue under Q#4. We suggest that IIRC will consider the effect of different levels of materiality for different stakeholders and provide further guidance if necessary. Materiality must be assessed and determined for all relevant aspects of the integrated strategy and its scenarios to achieve the value creation objectives.

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

NBA would like to request IIRC also to consider the aspect of materiality in the context of other (existing) reports that are linked to the Integrated Report (see Q#2). If other (existing) reports are or will be part of Integrated Reporting, the basis of these reports lies in the

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context of the Framework; and thus Integrated Thinking, stakeholder assessment and different materiality assessments should be the basis of those other reports as well. In this respect extended stakeholder involvement is recommendable. Additional guidance might be needed in order to clarify the IIRC position in this context.

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?

Reliability and completeness of information must be safeguarded by internal control systems and (corporate) governance processes (like e.g. COSO), monitored by those charged with governance. NBA foresees that current risk assessment and corporate governance practices based on Corporate Governance Codes, are very useful and practicable for non-financial information and Integrated Reporting. We acknowledge that best practices in the field of Integrated Reporting may lead to further development and/or sophistication of such codes.

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

Competitive advantage is an integral part of the business model; therefore we support transparency on competitive positions; usually this kind of information is already (publicly) available (through e.g. analysts calls).

Other

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

NBA does agree with the concept of transparency on competitive positions in the context of the Framework. From the feedback we have learned that organizations nevertheless are reluctant to offer transparency on competitive advantage, or even more on competitive disadvantage. **We request IIRC to consider further guidance on this issue.** In our view organizations are not convinced that this kind of transparency does contribute to long term value creation by the organization itself, also explicitly when transparency would entail disclosure of negative news.

Business decisions are often a result of innovation and creative activity; many entrepreneurs make decisions on the basis of intuition, specifically in an early stage of innovation. The Framework should acknowledge this aspect of doing business.

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).

Connectivity of information is the basis of Integrated Reporting. Not all information might be timely available, which aspect is a challenge for the relevance of Integrated Reporting when it becomes available for users.

Future outlook is an important element in Integrated Reporting. According to the Framework an integrated report should answer questions about challenges and uncertainties the organization is likely to encounter in pursuing its strategy. User insight might require disclosure of management considerations of different scenarios and transparency about the impact on value creation based on market projections of those scenarios and the arguments for the different trade-off decisions. **We request IIRC to consider further guidance**

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on relevant disclosures related to future outlook, also considering the objective of conciseness.

NBA perceives reluctance for transparency by organizations because of liability risks and risks for reputational damage. **We suggest that IIRC provides more clarification on this aspect in the design of the Framework and we request IIRC to consider further guidance on this issue to prevent boilerplate reports based on the Framework.**

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?

NBA does agree with such a statement as governance processes are relevant for strategy implementation and value creation, for which accountability is confirmed in an integrated report. In our comment we have stressed the relevance of the involvement of those charged with governance in Q#13. Their overruling views and opinion are of importance in the context of the Framework.

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

Behavioral aspects within an organization are important for value creation. Behavioral aspects of an organization may be directed or influenced through incentivisation, which element is partly beyond management board control and responsibility. Behavioral aspects within the monitoring responsibility of those charged with governance are relevant to be disclosed in an integrated report.

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?

NBA foresees that the Framework not necessarily should cover the assurance aspect of Integrated Reporting, as the Framework is a reporting framework. IFRSs do not require assurance as part of the concepts similarly. The need for assurance is for (primary) users to decide.

NBA expects that a need for assurance in Integrated Reporting is evident. The reporting and communication structure is leading for the structure of assurance reporting. An explicit answer on Q#19 cannot be submitted at this moment, referring to our comments on the communication structure of Integrated Reporting elsewhere in this document and the status of the Integrated Report. We suggest that IIRC provides more clarity their views on the communication structure and position of Integrated Reporting.

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.

Notwithstanding our position expressed in Q#19, **NBA would encourage IIRC liaise intensively with IAASB in order to safeguard the assurability of Integrated Reporting.** For assurance there is a need for indicators with suitable measurable criteria for completeness,

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relevance, reliability, neutrality and understandability, also for the narratives, for the sake of comparability (probably per industry). This is useful for further development of the Framework and related guidance, as suitable criteria for verification and/or analysis are necessary for reporting purposes as well. When data are not assurable, they probably are not measurable with sufficient precision and therefore not reportable for accountability purposes with sufficient reliability.

With regard to the feasibility of assurance services the following considerations might be useful. Current assurance standards cover audit, review and assurance services. The assurance objective may differ from the reliability of financial, non-financial and integrated data to reliance on internal control and governance processes ('in control statements'). In this respect we confirm our recommendation to intensify, if necessary, the liaisons with IAASB, **but also we recommend liaising with the (primary (intended) users in order to clear the picture on potential assurance needs.** In this regard NBA foresees a need for more direction in the development of assurance services; financial-, non-financial-, operational-, compliance-, performance- behavioral-, and consistency audits are foreseeable.

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).

In connection with Integrated Reporting we wish to mention that specific attention is necessary for future outlook information, for collaboration with multi-disciplinary teams and auditor competence and specific IAASB initiatives on audit quality and auditor reporting, including the discussion on publication of management-letters.

Integrated Thinking is an appropriate proposition for the valuation of organizations. Accountants may contribute to valuation processes and practices based on Integrated Thinking in the future, based on the organization's Integrated Reporting.

XBRL is already widely used for analysis and interpretation of statutory accounts in many parts of the world. In the US, XBRL is the mandatory filing format, in Europe, XBRL is will soon become mandatory. In Asia similar developments take place. No other structured reporting format has this level of adoption. As a result, tooling and processes to ensure the reliability of XBRL document are already in place and widely used, the connectivity of information is enhanced when linked and cross referenced to other information. The most efficient and reliable way of doing so, is by using the same format. XBRL best practices may thus enable Integrated Reporting in a concise way, as desired.

Aligning with developments in SBR (XBRL) the accountancy profession will be able to perform assurance services in a different way compared to the current practices. The proposition of continuous auditing on entry level data will offer opportunities for assurance services in an Integrated Reporting environment.

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?

In relation to the NBA comments elsewhere in this document we recommend IIRC to issue more clarification or guidance on their views in the development of Integrated Reporting on short term, medium term and long term, which information would be very useful for organizations in the transition process.

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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?

With reference to our comments elsewhere in this document, we repeat:

- IIRC views on the principle-based development of indicators and suitable criteria and their linkage with the capitals for implementation;
- IIRC views and clarification on stakeholder assessment, materiality assessment and report and communication structures;

Timeframe expectations for implementation and transition process guidance.

Other

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

In order to make Integrated Reporting a success NBA foresees a need for a change of attitude in the total business environment. Our observations confirm that organizations, investors and providers of financial capital still hold on the short term focus. Current primary users may not yet drive organizations in the right direction towards long term value creation in the context of the Framework. We expect IIRC must continue to perform activities for creating awareness in the broad b

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