

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:

Email:

Stakeholder group:

If replying on behalf of an Organization please complete the following:

Organization name:

Industry sector:

Geographical region:

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

FAR welcomes the IIRC's initiative to improve the usefulness of corporate reporting globally. FAR also recognizes the need for a Framework as a necessary means to efficiently achieve such an improvement. Considering that the Framework is principles-based, FAR believes that good illustrative examples may be necessary in order to guide the preparers. FAR expects that good examples can be obtained from the pilot project or elsewhere.

FAR also wishes to emphasize the importance of reliability of an integrated report. Reliability requires in FAR's opinion that "Those charged with governance" clearly demonstrate their responsibility for the integrated report and that external assurance can be provided.

An Integrated Report as described in the Framework has, in FAR's opinion, many similarities with a management administration report (EU: Annual Report). In some countries, for example Sweden, the management administration report is part of the statutory audit of the annual financial statements, and experiences gained from auditing management administration reports may be considered when the assurance approach to

an Integrated Report is developed.

Another important contribution in this area is the IASB's Conceptual Framework for Financial Reporting Framework supported by the practice note "Management Commentary". FAR believes there is a need for the IIRC to address the IASB's framework and how the IIRC's International Framework for Integrated Reporting relates to the IASB's standards and other guidance. FAR also believes there is a need to address how the IIRC looks upon the future relation between the Framework for Integrated reporting and IFRS in general.

In order for the Integrated reporting Framework to develop, which is necessary, a sustainable organization responsible for the Framework is imperative. The authority of the Framework would therefore benefit from information on how the IIRC, or other organization, can ensure the continuity of the Framework including a high standard for the due process and how necessary resources to finance the work will be raised.

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.*

FAR has reviewed the six principles-based requirements in chapter 3. At present, FAR sees no principles that should be added or eliminated. However, as integrated reporting gradually develops, it is most likely that the definitions of principles will also need to be revised. Another possible requirement could be a harmonization of the principles in the Integrated Reporting Framework with principles set by other standard setters, primarily the IASB.

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, the IIRC anticipates that the Integrated Report will be a stand-alone report prepared annually in line with the statutory financial reporting cycle. The IIRC also anticipates that other reports will be prepared for compliance purpose. FAR agrees that the Integrated report should be stand-alone, prepared annually and be the entity's primary report. However, other reports may continue to be required by authorities and prepared by the entities for compliance purposes. If such reports become extensive, the resources allocated to an integrated report may be restricted, and negatively affect the quality of the Integrated Report.

FAR believes that a key factor for the success of the Integrated Report is that it covers the needs of information for all stakeholders. If stakeholders continue to demand separate financial statements, sustainability reports etc., the interest in preparing an

Integrated Report may suffer.

FAR has also noted that the Framework, in several paragraphs, discusses the relation between the Integrated Report and other reports an entity may publish. FAR recommends the IIRC to be clear about whether it is expected that reports other than the Integrated Report will be demanded by stakeholders. Paragraph 3.50, for example, discusses how the Integrated Report shall relate to a separate Sustainability Report. Does the IIRC anticipate a future demand from stakeholders of, for example, a separate Sustainability Report?

FAR is sceptical to the statement in paragraph 1.20 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, and the ability to create value in the short, medium and long term and on providers of financial capital as the primary audience”. FAR believes that this paragraph should be reviewed in order to recognize that there are already reports prepared that are more or less based on the principles in the Framework, even though they are not Integrated Reports as defined in the Framework.

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?*

In FAR’s opinion references should be made to at least

- the UN Global Compact
- the Global Reporting Initiative (GRI), Sustainability Reporting Guidelines, version G4
- the G4 Green House Gas Protocol and
- the OECD Guidelines for Multinational Enterprises

Other

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

No other comments.

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?*

FAR believes that the six categories of capital adequately describe the “resources and relationships” that are input in a business model. However, FAR is not convinced of the benefits of disclosing the reasons a preparer has given for concluding that one or several capitals have been considered immaterial. Such disclosures may become too lengthy and therefore be seen as too much information. It would be helpful to share the experiences gained in the pilot project regarding how preparers have dealt with the capitals.

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

No other comments.

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, FAR agrees with the definition in paragraph 2.26, "An organization's business model is its chosen system of inputs and outcomes that aims to create value over the, medium and long term".

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?

FAR agrees with the definition of Outcome. However, it might be difficult for users of the Framework to separate the term "outcome from Output" due to the similarity in everyday language. FAR recommends the IIRC to include examples of the two terms in the Framework. The discussion in the background paper on the business model could be viewed as a reference material.

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)?

No other comments.

Other

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

No other comments.

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 approach to materiality consists of 1) a definition of materiality, 2) a description of the materiality determination process and 3) a requirement to disclose material matters but also to disclose the materiality determination process.

FAR agrees with how materiality is defined in the Framework, and also how the process to determine materiality is described. FAR has noted in the Materiality Background Paper for <IR> in paragraph 15 that the identification of relevant matters, the first phase in this process, is not a sub-set of materiality. FAR agrees in principle with that statement, but it should be noted that in a recurring assignment the identification of relevant matters will be highly influenced with what was considered to be material matters the previous year.

Regarding what disclosures the integrated report shall contain, it is obvious that only material matters shall be disclosed as stated in paragraph 3.28 of the Framework. However, FAR is sceptical about including a disclosure on the materiality determination process, other than on a very high level. To be able to evaluate the possibility of disclosing this process in a meaningful way, FAR would recommend the IIRC to share the information gained from the pilot project and how well the participating preparers have succeeded with providing useful disclosures.

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

No other comments.

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?

FAR agrees that the examples mentioned in paragraph 3.31 such as the reporting systems, stakeholder's engagement and external assurance are important components to demonstrate reliability. FAR is also concerned that the responsible body (preferably those charged with governance) for the Integrated Report must express its responsibility in the report by signing it. This matter is further discussed in FAR's response to question 17.

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

No other comments.

Other

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

FAR believes, as stated in the key points and in the response to question 17, that it must be possible to obtain external assurance over an integrated report. FAR therefore recommends that the IIRC works closely together with the IAASB in order to establish prerequisites for alternative assurance services. FAR believes that a requirement of verifiable information is included in the guiding principle of "Reliability and completeness" in chapter 3E but could be made clearer.

The Framework states that the ability to create value shall be disclosed in the short, medium and long term. FAR is not convinced that this primary user group, i.e. financial capital providers, is necessarily interested in all three terms. FAR encourages the IIRC to

consider including a discussion on the convincing reasons for why an integrated report must include all three terms.

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).*

FAR has noted that the content elements are described as fundamentally linked to each other, not mutually exclusive and not intended to come in a pre-set order in the Integrated Report. The remark made in the Framework (paragraph 4.5) that the preparers should regard the elements as questions that should be answered while considering the guiding principles, rather than as a fixed structure, is important. This remark deserves to be even more emphasized in 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?*

FAR's response is based on the tradition of taking responsibility for financial statements in Sweden. Swedish law requires that financial statements are signed by the managing director and by all members of the Board. In addition, for companies listed on a regulated market, those who sign the financial statements must explicitly declare that the financial statements are prepared in accordance with the relevant financial reporting framework. If the Integrated Report is to become the primary corporate report, FAR sees no reason that the responsibility of Management and the Board for the Integrated Report shall be demonstrated less clearly. In summary, FAR agrees that those charged with governance should recognize their responsibility by including a statement acknowledging their responsibility, at least for companies listed on a regulated market. If only verifiable information was allowed to be disclosed in an integrated report, those charged with governance may be more comfortable agreeing on this responsibility.

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

No other comments.

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?

FAR recognizes that Integrated Reporting is in an early phase, and that it might 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 developed assurance standards for Integrated Reports either.

If only certain aspects of the Integrated Report are to be covered by the assurance engagement, it is necessary that the Framework clearly defines these aspects. Considering that the Framework in section 4 states that the Content Elements are not intended to serve as a standard structure for an Integrated Report, it may be difficult to scope out certain aspects of the Integrated Report consistently. Considering the concept of an integrated report, i.e. that it is a stand-alone report with integrated information, it could be argued that it is not possible to provide assurance over anything other than the complete Integrated Report.

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.

As stated in FAR's response to question 19, Integrated Reporting is in an early phase, and it might be too early to determine whether the Framework provides criteria for an Integrated Report that is suitable in an assurance engagement. In the IAASB's framework for assurance engagements, suitable criteria shall exhibit five different characteristics. FAR believes at this early stage, that especially the characteristic of Completeness needs further deliberation.

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).

No other comments.

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?*

FAR believes that the framework has the potential to provide important contributions to corporate reporting by bringing together different reporting streams in a condensed form, based on the proposed guidelines and content elements. The presentation of the six categories of capitals, the presentation of the six categories of guiding principles and the presentation of the seven categories of elements that an integrated report shall contain are valuable. All these aspects are strictly principles-based and preparers will most probably meet significant challenges preparing an integrated report that complies with all these aspects. Even though it will be very challenging for preparers, FAR believes that by applying this first version of the Framework, preparers will within a few years be in a better position to articulate what further guidance is required to improve the integrated report and its ability to inform the users about an entity's ability to create value.

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?*

As stated in the response to question 22, FAR believes that after a few years use of the framework, preparers will be in a better position to determine what further guidance is required within the framework or as explanatory material. FAR recommends that the IIRC publicly states its intention to, within a few years, evaluate the progress of integrated reporting and to determine and discuss what additional guidance is required.

Other

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

No other comments