



**The Ministry of Finance of Republic of Indonesia
Secretariat General**

Accountant and Appraiser Supervisory Center

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Subject : Comments on International <IR> Framework

18 July 2013

Professor Mervyn King

Chairman, the International Integrated Reporting Council
29 Lincoln's Inn Fields,
London, WC2A 3EE,
United Kingdom

Dear Professor King,

I am writing further to our meeting with Mr. Jonathan Labrey, the IIRC's Communication Director at our office on 10 June 2013. Please allow us in this occasion to firstly express our appreciation to the IIRC for both the visit and the opportunity to offer our views on your '*Consultation Draft of the International Integrated Reporting Framework*'.

We certainly welcome your efforts of compiling a international framework of integrated reporting, which we believe is an important step towards achieving sustainable economic model. In principle, we believe the Framework has in principle included most important concepts. However, there are some areas in which we would like to offer some insights. Our comments revolve around these central points:

1. the Framework should also develop sustainable indicators/measurement methods;
2. the definition of social/relationship capital should include the actual stakeholders, not just relationship with them.
3. a more detailed and persuading elaboration of value creation as "the heart of <IR>".
4. general comments on enforcement and implementation/dissemination of <IR>.

Our more elaborated comments, presented in the format specified by the IIRC, is attached to this letter. Should you need further clarification, please do not hesitate to contact us through Mr Yudi Irmawan who can be reached at yudi.irmawan@depkeu.go.id.

Thank you for your kind cooperation and attention.

Head of Center,

Langgeng Subur
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Cc:
Secretary General of Ministry of Finance

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.

First and foremost, as a regulator of the accountancy profession, we welcome the integrated reporting initiative. Our comments revolve around these central points:

1. The Framework should also develop sustainable indicators/measurement methods;
2. The definition of social/relationship capital should include the actual stakeholders, not just relationship with them.
3. A more detailed and persuading elaboration of value creation as "the heart of <IR>" .
4. General comments on enforcement and implementation/dissemination of <IR>.

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.*

No further comments

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 general, we agree with the paragraphs. However, the Framework should be more ambitious in relation with indicators and measurement methods. Instead of simply complementing or referring to existing materials set by other institutions, the Framework (and the IIRC) should also encourage development, inventions, innovations, and formulations of indicators and or measurement methods which promote better communication of sustainable business/economic models.

Given that the primary audience of <IR> is "providers of Financial capital", the Framework should, for example, promote research and development of alternative accounting equation that reflect participative economic model or an accounting method that is able to present in the financial statement the financial value of reforestation.

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?*

- Global Reporting Initiative,
- Business excellence frameworks from around the world (see. e.g. Pojasek, 2009, available at <http://isites.harvard.edu/fs/docs/icb.topic746473.files/Supplemental%20Reading%20Folder/Sustainability%20Reports%20Final.pdf>)

Other

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

None

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?

Yes, it has taken an all-inclusive approach. A minor comment for the human capital is that in its current formulation, the definition/elaboration still gives impression that only high-skill competencies/capabilities are considered as human capital. We think the Framework should avoid this and also recognized that even low-ranked employees are human capital to the organizations.

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

Clear enough

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 but why the Framework define social/relationship capital only to the extent of how organizations relate to their society/stockholders? Why does the Framework not counted society and/or the immediate community of an organization as its social capital?

Given the definition of 'Outcome' in Para. 2.35, is the Framework adopts the view any positive consequence a business brings to the organisation's relationship with its stakeholder will always bring positive consequence to the wider society/community?

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?*

Please refer to Question 7 above.

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 further comments.

Other

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

While We agree that "[v]alue creation, therefore, lies at the heart of <IR>" (Section 2D, Para. 2.37), we also think that the Framework does not adequately portray the statement. In addition, the Framework seems to focus on the value the organisations bring to itself (or the financial capital providers) and has not deliberated on what values the organizations brought to the holders of the organisations' social license to operation (i.e. society and their immediate community).

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?*

No, we believe that the public should also be a primary user of the report, especially for public funded organisations and those with cross-societal and global environmental impacts (such as multinational corporations).

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

No further 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?

External independent examination offer the highest level of assurance on the report's reliability. However, as in our previous comments, this should not be burdensome to the organisations.

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

No further comments.

Other

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

None

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).

No further comments.

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?

Yes, the person responsible for assuring the reliability, robustness and relevance of the report should be clearly identifiable.

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

No further 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?

The assurance should be given to the report as a whole. Examining only a particular part of the report is against the notion of integrated report. In keeping with the spirit of sustainable business mode, the assurance must state how the business of the reporter has impacted all of its surrounding.

Who conduct the assurance and how the assurance is conducted should also be discussed as many organizations has to engage at least one type of assurance (i.e. financial audit).

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.

No further comments.

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 further 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?*

Conceptually, <IR> is an excellent starting point towards bringing sustainability concerns as one of the foundation of business operation and not just tools of achieving social legitimacy. The obstacle we view ahead is how <IR> will be enforced, given financial reporting is also (or always) in the process of transformation of standards.

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?*

1. Value creation (what counted as value to whom and how to measure value, if possible)
2. Materiality
3. Outcomes

Other

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

In addition to the above points some general comments on the Framework are as follows:

1. The Framework should envision how it will be enforced, especially at global level given the transborder operations of multinational corporations. We believe it is not sufficient for the Framework to rely on voluntary implementation of nations/corporations.
2. While the developing world may receive benefits from <IR> implementation, the difficulty and cost of implementing and disseminating <IR> concepts should also be taken into consideration. Especially as currently most countries are still grasping to get hold onto major changes in global accounting standards (i.e. IFRS).