

International Integrated Reporting Council – IIRC
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Your ref.:
Our ref.:

Response to Consultation Draft of the International Integrated Reporting Framework

On April 16 2013, the International Integrated Reporting Council (IIRC) launched a public consultation process in conjunction with the release of the *Consultation Draft of the International Integrated Reporting Framework* (the Draft Framework, hereafter).¹ According to the IIRC, the aim of the consultation process was to solicit feedback from stakeholders, including investors. It is expected to release a final version of the framework in December 2013.

This statement identifies NBIM’s response to the Draft Framework. It illustrates the importance that NBIM places on working with peer investors to develop market standards and practices that improve corporate transparency. NBIM is a member of the Global Peer Exchange Network and the International Corporate Governance Network (ICGN). We wish to recognize the work that these investor networks have done in the area of integrated reporting.

This statement reflects the general views expressed by NBIM as a member of the IIRC Pilot Programme’s Investor Network. It also builds on views in a letter submitted by NBIM – together with the Dutch pension fund APG and the California Public Employees' Retirement System (CalPERS) - on December 15 2011 in response to a request by the IIRC for feedback on the Discussion Paper “Towards Integrated Reporting – Communicating Value in the 21st Century”.²

NBIM’s response to the Draft Framework,

- 1. We believe the Draft Framework can help facilitate improvements in the quality and influence of corporate reporting, and the functioning of capital markets.** If embedded in international reporting and accounting standards and practices, the guidance provided in the Draft Framework can help investors and other stakeholders gain a fuller understanding of a company’s business model, underlying strategy, and conditions for value-creation in the short- medium, and long-term. It has the potential to

¹ More information about the IIRC, including the Draft Framework, can be found here, <http://www.theiirc.org/>

² The joint statement made by APG, CalPERS, and NBIM on December 15 2011 can be found here, <http://www.nbim.no/en/Investments/ownership-strategies/hearing-submissions/>

improve the reporting of information that is material to a company's value – such as risks related to changes in natural capital - that cannot be easily discerned from financial accounts. In turn, the increased transparency would be supportive of well-functioning, legitimate and effective markets, and provide benefits to providers of financial capital and other stakeholders.

2. **We strongly support the Draft Framework's identification of financial capital providers as the primary audience of Integrated Reports** (paragraph 1.6). We believe this is a prerequisite for integrated reporting to influence investment analysis and decisions. This specific guidance helps companies identify the purpose of integrated reporting and how to prepare an integrated report. We also support the Draft Framework's statement that 'information is only included in an Integrated Report when it is of practical use to the intended report users' (paragraph 4.16). This reinforces our view that Integrated Reporting is focused on improving the quality and conciseness of corporate reporting. An Integrated Report should be scoped to the interests and expectations of its primary audience, and thereby address the knowledge reader accustomed to reading annual reports and accounts, rather than an uninitiated audience. Notwithstanding this purpose, we believe most of what will be reported in an Integrated Report directed at investors would also be of interest to other stakeholders. Conversely, we believe an Integrated Report not directed at a specific audience will likely be of less value to all stakeholders, including investors.
3. **We believe the Draft Framework should explicitly recognize the primacy of financial capital in driving investment analysis and decisions.** The concept of 'the capitals' (paragraphs 2.12-25) is helpful in illustrating the broad sources of value that may underpin the financial performance of companies. We agree that other forms of capital – manufactured, intellectual, human, social and relationship, and natural – can have a significant effect on the ability of a company to sustain value over time (paragraph 2.12), and this should be reflected in Integrated Reports. But the Draft Framework should recognize that investors ultimately look for a satisfactory return on their financial capital. Different forms of capital are not completely fungible. We agree that the primary reason for including the capitals model in the Draft Framework is to provide guidance on scoping, and provide a theoretical underpinning to the concept of integrated reporting (paragraph 2.19). In other paragraphs, the Draft Framework seemingly presents value creation as an aggregate value of all of the capitals, which in our view is unworkable (paragraph 2.12). It is unrealistic to expect investors to accept unsatisfactory returns on their financial capital in exchange for positive returns on other forms of capitals, as the Draft Framework seems to suggest (paragraph 2.16). In turn, we recommend that guidance on value (paragraph 2.13), and guidance on performance reporting (paragraph 4.27), is revised accordingly.
4. **We believe the Draft Framework should more strongly emphasize the importance of board involvement and external assurance.** The concept of Integrated Reporting should serve to strengthen the accountability relationship that exists between boards and shareholders. Boards of directors are responsible for the establishment of a strategy and


policies securing business practices that are consistent with sustainable development, and communicating all matters material to the understanding of how a company creates and sustains value. Therefore, overseeing an Integrated Report, and the integrated reporting process more broadly, would naturally fall within the scope of Board responsibilities. We would recommend that the Draft Framework encourages those charged with governance to provide a statement of compliance with the integrated reporting framework. In our view, this should be mandatory. Board involvement also encourages coherence and cross-referencing between Integrated Reports and annual reports and financial accounts. With regards to quality, the influence of integrated reporting on capital markets is likely to increase if information is viewed by providers of financial capital as reliable, credible, and complete. Therefore, we suggest that the Draft Framework identifies as best practice that the external auditor performs a consistency check for the Integrated Report. External assurance, and other mechanisms employed to ensure reliability, should be described in the report, as the Draft Framework suggests (paragraphs 3.32).

- 5. We believe that the Draft Framework should more explicitly provide strategic direction to companies and organizations that can help embed integrated reporting in capital markets.** The Draft Framework sets out in great detail *what* Integrated Reporting is. We would strongly encourage the IIRC to ensure that the final document serves as a genuine guidance document for the *how* of integrated reporting to assist preparers. For example, preparers would benefit from guidance on the use of standardized quantitative metrics to support integrated reporting. While we agree that qualitative narrative explanation is helpful and necessary (paragraph 2.24), we recommend that the Draft Framework more strongly suggests that qualitative information should be supplemented by rigorous quantitative metrics, where appropriate. This would allow companies, investors, and other stakeholders to more easily analyse and compare information across integrated reports, and over time. Although it is not within IIRC's mandate to develop metrics, the Draft Framework should elevate the reference to metrics to the level of a principle (paragraph 1.19). It should also provide general direction to relevant standard-setting organizations and industry bodies to develop metrics and key performance indicators (KPIs) suitable for use in Integrated Reports.

Yours Sincerely,



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