



Response to FEE Discussion Paper – The Future of Corporate Reporting

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INTRODUCTION

ICAS welcomes the opportunity to comment on FEE's Cogito paper: The Future of Corporate Reporting – creating the dynamics for change.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Corporate Reporting Committee has considered the consultation paper and I am pleased to forward their comments.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy and Secretary to the Corporate Reporting Committee.

GENERAL COMMENTS

We welcome FEE's paper which we see as an important and timely contribution to the international corporate reporting debate. ICAS supports FEE's aim of raising debate and encouraging innovation in this area. We have campaigned for improvements to corporate reporting for many years, and in particular have promoted the concept of a short-form annual report, as proposed in 'Making Corporate Reports Readable' (2010). We therefore welcome the 'CORE and MORE' approach as a further development of this model.

The FEE paper contains a thorough and comprehensive analysis of the key issues surrounding corporate reporting and as such provides a useful snapshot of the current state of play in terms of problems in reporting, potential solutions and the various initiatives in this field.

We strongly support the central concept of 'core and more' which we believe will help bring clarity to corporate reporting and could form the basis for the development of a more integrated reporting model. In the UK, the introduction of the strategic report has been an important development, providing a coherent structure for narrative reporting, albeit still as part of the longer annual report. For a core report to be capable of application in the UK, we believe that it would need to become the central element of a company's preliminary announcement.

The following key areas must be considered in order to develop further the CORE and MORE approach:

- Consideration of the boundary of the CORE report and ensuring that this is appropriately defined. This is key in ensuring that the report contains a coherent narrative and enabling users to understand the level(s) of assurance relating to different types of information.
- The application of materiality to the CORE report, including how this interacts with the boundary of the report and the definition of stakeholders.
- Definition of stakeholders – using a broad definition of stakeholders may mean that it is difficult to apply materiality to the CORE report, as there could be many different perceptions of what is material. ICAS believes that investors should be considered the primary user group, therefore the requirements for the CORE report should be considered chiefly from their perspective.

RESPONSE TO THE CONSULTATION QUESTIONS

Q1.1. Which are the steps in the reporting process that assist in ensuring that the stakeholder's information needs are properly addressed?

Response:

There are formal processes which ensure that stakeholders' information needs are met, such as various consultative approaches implemented by governments, regulators and standard-setters. These provide the opportunity for stakeholders to engage on required and recommended reporting practice. On a more informal basis, companies will engage with investors and other stakeholders via meetings, presentations etc. which enable stakeholders to provide feedback.

Q1.2. Do you identify any impediments to reach to a broader audience for corporate reporting?

Response

The main barriers to reaching a broader audience for corporate reporting are:

- the risk that reporting becomes excessively complex and voluminous in attempting to meet the needs of diverse stakeholder groups;
- there may be a need for frequent change to the content of reporting due to changing stakeholder priorities. Economic circumstances may also be fast changing (e.g. as a result of risks from disruptive technologies or climate change etc.), making it more difficult for companies to understand and respond to information needs than in a more stable environment;
- different stakeholder groups have different levels of knowledge and expertise which may make determining the appropriate level of complexity more challenging;
- there may be problems in engaging with certain stakeholder groups at an early stage in the setting of reporting requirements;
- the information needs of various stakeholder groups may not be well-articulated.

Q1.3. When and how should stakeholders get involved in the reporting process?

Response

Please refer to our response to question 1.1 above.

Q1.4. Do you agree that two-way communication between companies and their stakeholders is needed to focus reporting on stakeholder needs?

Response

We agree that two-way communication is a model to aim for, however some of the barriers mentioned in response to question 1.2 above may impede the effectiveness of this process. It may be difficult for companies to engage in meaningful two-way communication with a wide variety of stakeholders – we believe the focus should be on investors as the primary user group.

Q1.5. How could technology drive and enable changes in the audience of corporate reporting?

Response

Technology has clearly been hugely important in the growth of the audience for corporate reporting, as it has made information more readily accessible and more easily searchable. As the paper notes, this creates opportunities as it enables companies to communicate in innovative ways and allows them to understand better stakeholder needs. It also presents challenges as the use of social media etc. makes it harder for companies to control their own narrative. As technology develops, stakeholders' desire for a clear boundary to reports and assurance over the contents may need to be balanced against the ability to provide more timely information on demand. A combination of different reporting methods may be desirable in order to achieve these different aims.

Q2.1. Do you agree that financial statements have lost, or are losing, some of its relevance?

Q2.2. If so, which are the key issues resulting in the declining relevance of financial statements?

Response

It is inevitable that financial statements should lose some relevance in relative but not absolute terms, as more alternative sources of information become available. That said, surveys of investors continue to find that the annual report is one of the main sources of information used, and that the financial statements are valued because they are prepared on a consistent basis and are independently verified.

Financial statements are often used for their confirmatory value, which can give investors more confidence in the information included in other communications. Annual reports may be used more by potential investors or small investors than by investors who hold a larger stake and are likely to have more direct access to management. In addition, the annual report may be used more frequently by investors in smaller listed companies, where there may be fewer alternative sources of information.

There is now a wider range of information demanded by stakeholders, therefore the financial statements are part of a broader reporting model than in the past. Changes in technology and business models mean that an increasing proportion of an entity's value drivers are intangible, and not recognised in the financial statements.

Q2.3. What are the key steps that should be taken by standard setters and policy makers to foster innovation and enable financial reporting to regain and enhance its relevance?

Response

There are elements of IFRS which require improvement, including: completion of the conceptual framework project, performance reporting/financial statement presentation, disclosure. ICAS also believes that it is important that the IASB participates in the wider corporate reporting debate, to ensure that the role of financial reporting is maintained. One of the key issues in the future improvement of corporate reporting is better integration of financial and non-financial information, therefore it is vital that IASB participates in this dialogue.

In the UK, the FRC's Financial Reporting Lab is one example of how financial reporting innovation can be fostered, by bringing together preparers, investors and auditors to develop best practice.

Q2.4. How could technology assist in innovation for financial reporting?

Response

Technology can assist innovation in financial reporting, for example, by allowing layered reporting, permitting users to drill down to find more detail of interest to them. It could also enable more frequent, or even real-time reporting. It is important that technology is viewed as the means of delivering information more efficiently, rather than being considered to be an end in itself.

It is also important to consider the potential impact on long-term thinking of more frequent reporting. The recent removal of the requirement for quarterly reporting was driven by the concern that it was unhelpful for encouraging long-term investment.

Q2.5. Which are the key challenges in developing an international set of standards and/or guidance for NFI that can be applied across the board?

Q2.6. Which organisation - if any - should take the lead in developing an internationally accepted principles-based framework for NFI?

Q2.7. What is the appropriate level of authority that those principles should have?

Response

The main challenge in developing international set of standards for NFI is the sheer diversity of topics and types of business that these would need to cover. As the paper notes, there are many different bodies issuing guidance in this area, each with expertise in a specific area, therefore it is difficult to identify who would be in a position to lead an overarching framework. Currently there is not an obvious candidate for this role, however as noted above, we believe it is vital that the IASB is involved, with the IIRC and its Corporate Reporting Dialogue also having an important role.

Any framework would require to be based on high-level principles to ensure that it is flexible enough to be applied across different jurisdictions and types of business.

Q2.8. What is the best approach to experimentation in the area of NFI? What challenges would constituents be expected to face?

Response

As we note above, the FRC Financial Reporting Lab is one model of experimentation in corporate reporting that could be used more widely. The key challenge is that companies already devote significant time and expense to external reporting – any experimentation would be additional to this.

Q3.1. Do you agree that the proposed CORE & MORE model could be a way forward for corporate reporting in the future? If not, why not?

Q3.2. In which ways could the CORE & MORE help in addressing the needs of a wider stakeholders' group?

Response

We strongly support the concept of CORE & MORE as a way forward for corporate reporting in the future. We see this as a development of the short form report that ICAS proposed in 'Making Corporate Reports Readable' and it should serve to improve communication between a company and its stakeholders. The proposed model could make it easier for users to find the information they require, whilst also providing a concise summary of the key issues. At ICAS, we believe that the CORE report should be targeted towards the needs of investors as the primary user group.

Q3.3. What is the role of technology in developing a CORE & MORE model?

Response

Technology can assist in the ability to 'drill-down' and access more detailed information, and in the navigation around the various reports. It can assist in making the reporting model more dynamic, both in terms of how users access information in the first place, and possibly also in terms of how the information is presented.

Q3.4. Do you have any thoughts on whether, when and how corporate reporting should be updated?

Response

One of the key qualities of financial statements that users currently value is the fact that once published, the information cannot be changed. Therefore we believe that the core report should not be updated frequently in order to retain this confirmatory value.

Q3.5. How should policy makers and standard setters address the trade-off between standardisation versus innovation?

Q3.6. What are the main challenges and the key benefits of a parallel experimentation in the area of corporate reporting?

Response

As the report notes, standardisation tends to restrict innovation and can prevent companies from fully explaining their business model. A principles-based approach is necessary to enable companies to present entity-specific information.

Q4.1. Which obstacles, if any, should policymakers remove to allow for innovation in corporate reporting?

Q4.2. Do liability concerns, arising from non-compliance with reporting requirements, form a barrier to innovation?

Response

There are not necessarily specific obstacles to innovation in corporate reporting, apart from liability concerns which may make companies reluctant to provide forward-looking information. One of the main constraints on innovation is the fact that corporate reporting requirements come from a variety of different sources, therefore requirements build up in an ad hoc way, resulting in duplication and lack of a clear overall structure.

Q4.3. Is the current structure of dialogue between policy makers and corporate reporting constituents effective? If not, how should this be improved?

Q4.4. What other mechanisms are needed to ensure requirements can adapt over time to achieve better coordination and consistency between different pieces of legislation?

Response

We think that the dialogue between individual policy makers and constituents is largely effective, the problem lies in the lack of a single body co-ordinating corporate reporting.

Q4.5. Do you have any examples of policies that enable innovation from your country? Should these examples be replicated at a European or an international level?

Response

In the UK, there have been a number of useful developments in corporate reporting in recent years including the strategic report, Fair, Balanced and Understandable requirement, and viability statements. We believe these have and will have a positive impact on the quality of corporate reports.

Q4.6. Do you agree with the proposal for a group to assist in identifying the main challenges and the key benefits from new innovative proposals for the corporate reporting of the future?

Response

We agree with this proposal.

Q4.7. Are there any other suggestions you have for policymakers as to how they can foster innovation in corporate reporting?

Response

We have no further comments.