



Auditores

Hilde Blomme
Deputy CEO
FEE
Avenue d'Auderghem, 22-28/8
B-1040 Brussels
Email:hildeblomme@fee.be

Madrid, 2 November, 2016

Re: Future of Corporate Reporting- creating the dynamics for change

Dear Hilde,

The ICJCE – Instituto de Censores Jurados de Cuentas de España is pleased to provide you with some comments to FEE Cogito Paper: ***The Future of Corporate Reporting - creating the dynamics for change.***

The ICJCE welcomes this document addressing one of the most challenging topics that the accountancy profession and all stakeholders of corporate information will face in the coming years. The accountancy profession has to lead this debate to make the information provided by companies more understandable, useful and reliable.

In order to make sure that the ICJCE comments on this document reflect the views of the Spanish profession opinion, in July 2016 we organised a roundtable during the *Forum of the auditor*, an annual event organised in Sitges where Mark Vaessen, Jorge Herreros (FEE Vice-President and ICJCE representative to FEE Accounting WP) and Stefan Mundorf (ICJCE representative to FEE Corporate Reporting Policy Group) participated. During the session, Mark Vaessen made a summary of the document and Stefan Mundorf provided the audience with his views from the audit profession perspective. Eduardo Manso, from the Spanish stock exchange regulator CNMV, was also invited, but a personal unforeseen event prevented him to be there although he sent a message supporting FEE document and the debate. At the end of the session we had the opportunity of exchanging views with the audience, auditors and future auditors, and gather some insight on the opinion, which, on the other hand, was quite shared among the audience.

Main messages from the audience included:

- Financial information has lost part of its relevance.
- The most significant threats to the relevance of the financial information include complexity, volume and usefulness of historical information.
- Non-financial information is crucial for investment decision although rather than general some of the audience considered this significance more related to a long-term investment horizon.



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- The audience of Corporate Reporting in the future will tend to be the society as a whole although answers in favour of other options, especially the capital providers as the primary users, also have a good support.
- Finally, regarding the best means to publish a corporate report the options with a greater support where:
 - Dedicated website with tools for tailoring the format, content and detail of the information (pull information)
 - Pdf on a website.

In the following pages we analyse these answers.

Do you agree that the financial statements have lost, or are losing some of its relevance? In this case, which are the main reasons?

Yes, we agree that the financial statements have lost some of its relevance.

Financial information is losing part of its relevance due to two main reasons:

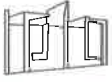
- Complexity
- Volume
- Usefulness of historical information

We would also like to add the timeliness of the financial information as another reason for the financial statements to lose its relevance. Nature, complexity and delivering time of financial information do not meet users' needs.

As Eduardo Manso said in his speech, the challenge is to extend the current scope of the information that investors receive, however it should also be organised in a logical way, making clear what should be the minimum required information and avoiding inconsistencies and duplicities, for instance, between the Management Report and the Financial Statements.

Corporate reports should include financial and non-financial information and the challenge is to organise such volume of information in a way that is easy to manage by users. There are some points to consider in this regard, materiality and relevance of the information and the timeliness of the information as well. To address this last issue, continuous audit is one of the solutions that the profession can offer to assist preparers in changing their ways of financial reporting.

The above proposals are challenging for auditors, and some analysis should be performed in advance. There is still amongst users of financial statements some lack of knowledge about what an audit is, so explaining and defining how comfort can be given on processes and projections or what an opinion on the system of internal control implies, and what the user of an audit should expect, is a very relevant issue to address by the profession.



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How important is Non-Financial Information (NFI) in the context of investment decision?

Non-financial information is crucial for investment decision although more specially for a long-term investment horizon.

All stakeholders would like to see a report depending on their interests. Non-financial information, understood as all information related to the company different from the financial information, is extremely wide, including indicators of risk, sustainability, social, environmental and of other nature.

Is the company using children workforce? How do the company control CO2 emissions? Have they moved their factories to non-environmentally committed countries? There are a lot of questions that different groups may wish to see answered before taking not only decisions to invest but to purchase or consume. These decisions may affect, in a long term horizon, the value of a company.

In this regard, the ICJCE considers that a common international framework for NFI is needed in order to help companies to prepare such information and users to understand the basis of its preparation. This framework should be flexible enough to let companies design their own reports based on the stakeholders to whom they wish to address the information.

Who will be the audience of the Corporate reports in the future?

In the opinion of our constituents the audience is growing rapidly and tends to be the Society as a whole, although capital providers still remain as the most relevant group. Companies' performance does not only affect investors, lenders and other creditors, but also to employees, suppliers, clients and their families, NGO interested in human and social rights or in environmental issues, local tax authorities and, by extension, the society as a whole.

Which is the best means to publish a corporate report?

The ICJCE considers that today the publication of the corporate report at least in a pdf document posted on a website is still necessary. The generational change has not concluded yet and, although we are already in the digital era, some of the users are reluctant to use IT tools to gather the information they need.

We nevertheless acknowledge that young generations may prefer accessing to a dedicated website on which users can gather the information with the format and content most useful for their own purpose. That means a need for better and safer tools, to avoid manipulation of the information.



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In this regard, auditors also have a challenge here since an audit report expresses an opinion on the financial statements as a whole, while users may have the perception or otherwise expect to obtain the same or a comparable level of assurance for individual data considered separately

We hope that these comments are useful for your purposes.

Should you have any question or if you need further information, please do not hesitate to contact Adela Vila at avila@icjce.es.

Yours sincerely,

José M. Bové
Vicepresident
Instituto de Censores Jurados de Cuentas de España