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The Future of Corporate Reporting

The Swedish Enterprise Accounting Group (SEAG) has deliberated upon the ideas presented in FEE:s publication The Future of Corporate Reporting. SEAG represents more than 40 large international industrial and commercial groups that are members of the Confederation of Swedish Enterprise. Most of these groups have issued securities that are listed on a regulated market, or similar marketplace, and publish financial statements in accordance with IFRS as well as sustainability reports, either separately or integrated within the annual financial statements.

SEAG welcomes the active participation of FEE in the debate of future corporate reporting and the attempt to distinguish the main issues that such a discussion need to address.
According to the report, the drivers for change of corporate reporting mainly arise from the widening range of stakeholders, technological development, loss of relevance of financial information and lack of a common reporting framework for non-financial information (NFI). We will comment upon these areas separately below. Although we agree with some of the views expressed by FEE regarding the challenges that current corporate reporting are faced with, we are not convinced that an integrated approach – such as the one suggested by FEE – is the right way forward for all reporting entities.

Widened audience for corporate reporting
Regarding the widening range of corporate stakeholders, the FEE report expresses similar views as parties such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). On a European level, responding to the information needs of a wider stakeholder group seem to have been one crucial objective behind the resent changes in the EU Accounting Directive and upcoming legal requirements for certain large entities to report non-financial information, although also other political motives can explain this development. As further explained below, we believe that a discussion regarding a wider stakeholder perspective on corporate reporting must acknowledge that stakeholders will vary depending on the reporting entity. As the identification of stakeholders is entity specific – a corporate reporting approach based on a coherent definition of stakeholders and their needs may be impossible to achieve.

Although SEAG acknowledges the information needs of other stakeholders than investors and other financial market actors, these information needs are of another character and may not

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always mix easily with the objectives and postulates that are the basis for financial information. We believe that the discussion of future corporate reporting need to be aware of the variances in information needs of different stakeholder groups. The quality of financial information directed towards actors on financial markets is largely dependent on coherent and well defined concepts such as reporting entity, capital and performance. The information needs of other stakeholder groups should not interfere with the delineations of such concepts.

Lost relevance of financial information
As pointed out in the FEE report, the growing information content of corporate reports is a recurrent issue. As preparers, we are continuously involved in a discussion of how to delimitate the information content of financial reports, and how to distinguish immaterial information from material. We believe that the move towards more rule based accounting standards and accounting supervision is the key explanatory factor behind the increasing information content of financial reports.

Another issue that the report attempts to address is the lack of timeliness of financial information. It is said that by the time the financial information reaches the market it has lost some of its relevance. We are aware of that the reporting frequency varies in Europe. However, quarterly reporting is required by Swedish market rules for listed companies. Interim reports are typically released approximately 3-6 weeks after the end of the reporting period, and before the full annual report is published, a summary report is provided to the market. Consequently, lack of timeliness is rarely discussed on the Swedish market and it's difficult for us to see how information could be released earlier than is already done – if the quality of the information should be upheld.

The report also discusses the failure of current financial accounting to reflect information on key corporate values as well as off-balance exposures and proposes solutions on how a more relevant and user-friendly corporate report can be structured. It is suggested by FEE that management commentaries should be allowed to be integrated into the financial statements, that notes should be restructured and that KPI's and non-GAAP measures should be presented on a more consistent basis. On an overall level, we believe that the ideas expressed in this section are sound. The quality of financial reports would benefit from more flexibility in terms of how different types of information may be presented. Regarding the issue of off-balance commitments however, we believe that the new international financial reporting standard on leasing, IFRS 16 Leases, will solve a great portion of the concerns that investors previously has expressed over leasing exposures.

Non-financial information (NFI)
It is inevitable that the relevance and need for NFI will vary substantially depending on for example the size, line of business and market impact of the reporting entity. This makes it difficult to mandate one reporting framework that works for all. A large number of Swedish listed companies already prepare annual CSR-reports. The awareness of what type of information that stakeholders require and the responsiveness of the reporting entities to those demands is generally high in the Swedish market. We do not believe that an international set of standards of NFI is a feasible aim and we fear that the present efforts to regulate non-financial information on a European level may obstruct company-stakeholder dialogues that according to our experience evolves well without regulations. Instead, voluntary international common standards in well-defined areas where standardization and comparability of certain key non-financial measures is vital, such as CO2 emissions etc., is according to our view the best way forward to enhance communication between preparers and stakeholders.

Technological development
We share FEEs view that the presentation of corporate information could benefit from many of the technological facilities that are available today. For instance, we believe the possibility of allowing more information that is now required to be published in the annual report, to be presented in the annual report by reference to the company webpage. To organize the web based information by making links from key information to more detailed specifics, is a sensible way to make such a presentation. However, information presented on the web page can be more difficult to assess in validity and accountability terms. This may be a problem from both a preparer and a user perspective. How different pieces of information relates to each other, the date of the information and who is accountable for it may be more difficult to assess if the coherent reporting format of the annual report is abandoned. A future methodology for presenting information on the web has to address these issues.

Is the CORE and MORE approach the right solution to the challenges that faces corporate reporting?
Generally, the ideas presented in the report have similarities with the Integrated Reporting (IR) initiative and the CORE and MORE approach to corporate reporting seem to address the principal issues that the IR is an attempt to resolve. The IR framework was introduced by IFAC only a few years ago and although some companies have started to integrate sustainability information within the financial reports, few entities publish full integrated reports according to the framework. In our view, it would have been beneficial if a more thorough discussion regarding the correspondence between the CORE and MORE approach and other similar initiatives would have been included in the report. We are particularly interested in how the CORE and MORE approach adds to or supplements the IR framework,, as this is not clear when reading the FEE report. This is of particular interest as the IR framework was introduced by an organisation closely related to FEE.

When it comes to the issue on how to restrict the volume of for instance annual reports, the question is whether the CORE and MORE approach actually will provide companies with the right tools needed to screen and select the relevant information over less relevant information. On the contrary, we fear that a framework based on layers of information with different status will create incentives or even force companies to increase rather than decrease the total amount of information provided.

One interesting aspect of the layered CORE and MORE approach is that corporate information could be presented with different frequencies and that information can be partly and independently updated. This idea is appealing as it may allow for greater flexibility for companies as some information can be produced faster and easier than other information. However, we do see a problem as financial information is often interconnected and it may be difficult to interpret data if it is updated with different frequencies and related to different points in time. In addition, the reliability of the information is largely dependent on it being subject to internal control and approval processes as well as external audits. If the information is released on a piecemeal basis, it may be a challenge for reporting entities to organize both the internal control and the external audits efficiently.

The institutional environment for corporate reporting policy
The last section of the report contains a good picture of the institutional setting for new policy and innovation in the corporate reporting area. We agree with FEE's views on how to create

the best environment for innovation and alteration in corporate reporting. The principle based approach and room for preparers to make own judgements and assessments is essential for fostering incentives for experiment and change. As regards the reception of this particular paper in the institutional environment of corporate reporting, we believe it would have been beneficial if FEE had worked more closely with the IASB and allowed the standard setter perspective to be included in the report.

Kind regards,

CONFEDERATION OF SWEDISH ENTERPRISE

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