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Our ref MV

Contact Mark Vaessen

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Dear Sirs,

Response to Cogito paper: 'The Future of Corporate Reporting'

We appreciate the opportunity to comment on your Cogito paper. We have consulted with, and this letter represents the views of, the KPMG network. The challenge the paper brings to established presumptions over the scope, purpose, and limitations of corporate reporting is both relevant and timely. Our response addresses the key conceptual points raised in the paper, rather than the detailed questions which we believe are better considered at a later stage.

Context for our response

Corporate reporting encompasses far more today than just the financial statements prepared in accordance with IFRS. In fact, it goes much further than the annual report, and includes other regulated reporting in various jurisdictions (eg reports required by securities regulators – management commentaries, remuneration reports, corporate governance reports, and tax transparency reports; and reports required by industry regulators, such as in the financial services, energy and telecommunications sectors) and voluntary reporting, sometimes in accordance with recognised frameworks and sometimes not in accordance with a recognised reporting framework (eg investor presentations).

Accordingly, we have a corporate reporting environment characterised by volume and complexity where the corporate reporting burden is large and at times confusing. In this environment, there is a need for organisations to take a more structured approach to corporate reporting to ensure that their own approach maximises the relevance, consistency and conciseness of what is reported to key audiences, which minimises overall content and duplication and ensures compliance. The concept of 'core and more' lends itself to this approach.

We emphasise the central role that financial reporting plays in supporting the capital markets as a result of the mature financial reporting frameworks that have been developed. Nevertheless, the financial statements cannot present a complete view of business performance and prospects on their own. The growing recognition of this has led to a proliferation of both mandatory and voluntary non-financial reporting regulation and guidance, aimed at meeting a variety of objectives. Some look beyond the scope of an annual report, and some seek to address the needs of an audience other than investors.

It is clear that more is being expected of reporting, but in stepping beyond the annual report and financial statements, new questions need to be asked over who should own and shape the direction and regulation of reporting. An incremental approach to this challenge risks adding to the reporting burden without meeting users' needs, and, worse, potentially undermining the focus of existing reports. Therefore it is right to take a more holistic view of reporting. Not just the information contained in the annual report, but also other communications to investors such as strategy presentations, and information provided for other stakeholders.

We welcome FEE's paper for raising these questions, and the challenge it lays down to those involved in corporate reporting preparation and regulation to expand their horizons beyond the financial statements and annual report. We note that the Corporate Reporting Dialogue provides a potential forum for this.

Key observations

Our key observations are as follows:

- 1) *We agree that there is a growing audience for reporting, but emphasise that reports should, as a matter of priority, be doing more to meet investor needs.*

We believe these two goals are compatible provided that a co-ordinated approach is taken to reporting development that recognises users' common needs, whilst respecting areas of difference. We hope that FEE's paper will act as a catalyst for this, providing an opportunity for better connected development of reporting that ultimately minimises duplication.

- 2) *We welcome the 'Core & More' concept. Applied to the reporting portfolio as a whole, it has the potential to simplify reporting and increase relevance and consistency.*

Companies already produce a multitude of investor and other communications outside their annual reports. In our view, a key benefit of the 'More' concept is the opportunity it provides to bring a more coherent approach to these communications, whether they are prepared on an annual or more timely basis. It must be made clear that 'More' is not a call for greater volume and complexity, but a call for improved clarity about, and navigability to, the detail. The design of a 'More' report will therefore

need to incorporate a clear identification of the relevant stakeholder(s) whose information needs are being addressed.

- 3) *We believe the 'Core' report should remain investor-focused, reflecting investors' position as the primary users of corporate reporting.*

Whilst the information in a 'Core' report will be relevant to other users, it is important that preparers and standard setters approach the 'Core' report with the clarity of purpose provided by focusing on the needs of a single audience. It is essential that the 'Core' report focuses on communicating the 'business story' – the **strategy**, **performance** and **prospects** - in a manner which investors can readily incorporate into their assessments of business stewardship and value (the UK's strategic report being one such example).

- 4) *We agree that the use of technology in corporate reporting should be explored further.*

Technology can enable more innovative reporting solutions and reduce duplication. We emphasise that technological innovation needs to be applied in a way that ensures investors and others can have confidence that they are seeing the full picture even though that may not be in the form of a single written report. Reporting technology can deliver strategic and user alignment, speed, consistency and format benefits.

- 5) *Most importantly, we believe that there is a need to take a more strategic approach to corporate reporting if it is to meet investor and other user needs effectively and efficiently. FEE's paper demonstrates the need for a more wide ranging discussion between regulators, standard setters and report users, including IOSCO and IASB that covers all aspects of a company's reporting portfolio.*

Strategic leadership of reporting is needed if the challenges posed in FEE's paper are to be met. In contrast to financial reporting, we anticipate that principles-based approaches to disclosure will be required in many cases – of which Integrated Reporting is a prominent global example. Therefore a key first question will be how to adapt traditional compliance-based approaches to reporting regulation in order to provide the more directional role needed to meet the questions posed in FEE's paper.

Audience for reporting

We agree that there is a growing audience for reporting that extends beyond shareholders and investors. However, we emphasise that today's corporate reports could also be doing much more to meet investor needs – particularly in supporting their assessment of business strategy, prospects and value. This need is unique to equity investors, and differs from the stewardship questions that will typically be relevant to a much broader range of stakeholders (including investors). It is of fundamental importance that efforts to extend reporting to meet other stakeholder needs do not undermine the continued efforts to improve its relevance to investors.

Many companies are already responding to the information needs of other stakeholders. Regulators and standard setters are responding, too. By recognising this wider audience, FEE's paper provides an opportunity to step-back from individual disclosure initiatives to ensure that reporting addresses different needs in a co-ordinated way without loss of clarity or duplication. In some areas there will be a significant overlap between audience needs – for example, business model and strategy disclosures – whereas in others, needs may vary. For example, different KPI disclosures may be needed to address different user perspectives.

We emphasise that clarity over user needs is particularly important in the context of principles-based reporting frameworks. Careful consideration of reporting materiality for different user groups will be essential if reporting is to support user decision-making in a clear and concise manner

Structured approach to corporate reporting

There is a need for organisations to take a more structured approach to corporate reporting to ensure that their own approach maximises the relevance and consistency of what is reported to key audiences and minimises overall content and duplication.

We favour organisations taking a structured approach to determining **what** the organisation reports, to **who**, **when**, in what **format**, and **why**, in order to **tell the business story** most effectively and efficiently to investors and other key stakeholders. We favour a clear definition of the organisation's corporate reporting portfolio, nomination of the flagship corporate report within that portfolio, and easy to use navigation to the various 'subsidiary' and 'special purpose' reports that make up the remainder of the corporate reporting portfolio. We favour a corporate reporting approach that defines a reporting process, team and systems that can effectively and efficiently deliver this corporate reporting portfolio.

The concept of 'Core and More' lends itself to this concept.

Core and More

In our view the 'Core & More' concept provides the basis for a logical structure for a company's reporting portfolio, offering an opportunity to reduce reporting and regulatory duplication whilst better connecting reports to user needs. To achieve this, care needs to be taken in developing the concept. 'More' should not be assumed to mean incremental content when users' needs may be met by repackaging existing report content.

We also see benefits in bringing reporting governance processes that have traditionally focused on the financial statements to the full reporting portfolio, including investor presentations and stakeholder-focused reports and announcements. The annual report

is widely valued for the confirmatory role that it provides for other more timely communications. We envisage that this need will remain, and should be extended to other information reported by companies throughout the year.

We note that models for 'Core' reports already exist, for example in the form of the UK's Strategic Report, Germany's GAS20 and the IIRC's Integrated Reporting Framework, all of which place a strong emphasis on communicating business strategy and performance against that strategy to investors. We expect that the development of the 'Core' concept would best start with an assessment of existing regulation and guidance.

Use of technology

We agree that technology is a key enabler for 'Core & More', particularly as it could allow multiple reports to be driven from a single consistent data-set and create better possibilities for linkage between different pieces of information. Where appropriate, this could support more frequent or even live reporting of strategically important information, though we would expect that users would continue to want periodic reports that provide confirmatory support for more frequently produced data.

We expect that report users will be concerned to ensure that they are seeing 'the whole story' if reporting evolves away from the single-document model provided by an annual report. Investors in particular have emphasised the value they place on having a single, bounded document that provides a complete set of material information. We don't believe that this should be an obstacle to the introduction of technological innovation, provided care is taken to ensure that users can still easily access a complete set of material disclosures.

We would be pleased to discuss the above points further with you if that would be helpful. Please contact Matt Chapman on +44 207 311 3236 if you would like to do so.

Yours faithfully

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