ICAEW REPRESENTATION
100/16

The Future of Corporate Reporting

ICAEW welcomes the opportunity to comment on the paper *The Future of Corporate Reporting – Creating the Dynamics for Change* published by the Federation of European Accountants (FEE) on 12 October 2015, a copy of which is available from this link.

This response of 30 June 2016 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

Placing the proposals in context

1. We welcome the publication of FEE's paper, *The Future of Corporate Reporting – Creating the Dynamics for Change*. It addresses issues of major significance for business and the accountancy profession, many of which are complex or controversial, and we commend FEE for its efforts to encourage debate in this area. We believe that the proposals in the paper are important and deserve careful consideration. Accordingly, we have scrutinised the proposals and the supporting arguments in detail and consulted widely with ICAEW expert groups in formulating a detailed response.

2. Many of the issues raised in the FEE paper are, of course, not new. The landmark publication *The Corporate Report* was a major discussion paper issued in July 1975 by the Accounting Standards Steering Committee of ICAEW in association with the other major UK accountancy bodies. The paper (found here) aimed 'to be the starting point for a major review of the users, purposes and methods of modern financial reporting', proposing a number of different and novel ways of presenting financial information, and noted the need for 'legal reporting requirements and accounting practices' to catch up with the growth in the complexity of modern businesses and recent 'technological innovation and change' (paragraph 4.21).

3. Many proposals for new reporting models for business have been put forward since 1975, some of them examined in ICAEW thought leadership reports, particularly *New Reporting Models for Business* (2003) and *Developments in New Reporting Models* (2009). The conclusion of the second of these reports was that much criticism of existing financial reporting practices has been misplaced and that evolutionary change is often preferable to reinventing the reporting model from scratch. We still consider this conclusion to be relevant. However, the development of new models and the debate that their publication stimulates is critical for the advancement over time of theory and practice in this area. Corporate reporting can always be improved, and needs to adapt to the constantly changing environment; ambitious proposals setting out blueprints for change are an integral part of that process. As discussed below, we also recognise that expectations regarding corporate responsibilities – and hence reporting - are now evolving rapidly and that changes in technology will have a significant (if as yet uncertain) impact on accounting and reporting practices.

Our approach to responding

4. We are mainly familiar with the UK reporting regime, and we comment on that basis, while recognising that reactions to the FEE proposals are likely to vary from jurisdiction to jurisdiction depending on local experience, practice and priorities. Practice in the UK seems to be already moving in the direction suggested by the paper – for example, in the strategic report, and in the work of the Financial Reporting Lab of the Financial Reporting Council (FRC) – although with more emphasis on meeting the needs of investors. We welcome this trend, and in our comments we draw attention to where we believe UK practice may be helpful to FEE as it takes this project forward.
5. We believe that it is right that FEE should be looking beyond financial reporting, at corporate reporting as a whole and its future development. In this context the paper rightly highlights that it would be helpful to have more co-ordination of requirements for non-financial reporting. We do, though, have a number of concerns with the paper as it stands, reflecting amongst other things our views on the enduring importance of the annual report and a focus on reporting to investors and other current and potential capital providers (hereafter referred to for simplicity as investors, although we recognise that even this narrower group of stakeholders has a wide variety of objectives and interests).
6. We have set out our concerns in detail below. Our points can no doubt be dealt with as FEE takes the project forward, and ICAEW would be keen to contribute to FEE's further work on the questions addressed by the paper. We believe that it would be helpful for that further work to be based squarely on an evidence-led approach, with a focus on user demand.

Integrated Reporting

7. The FEE report states that the Integrated Reporting Framework is ‘most promising’ and ‘may provide a way forward for the future of corporate reporting’ (page 10). We agree. ICAEW has consistently supported the principle of Integrated Reporting during the development of the IIRC’s Framework, and continue to believe it could act as a catalyst for real improvement in corporate reporting and for the adoption of sustainable business practices. Indeed, we note early research evidence associating high quality integrated reporting with positive economic consequences. However, it is not clear how the approach in the FEE paper would fit with Integrated Reporting, and whether it is meant to be an alternative or adjunct to the important work of the IIRC. As the Framework has attracted substantial global support in recent years, this needs to be clarified at an early stage, as discussed further in paragraph 49 below.

Innovation and experimentation

8. We agree that there should be more innovation and experimentation in corporate reporting. At present, regulation creates barriers to these things because of its detailed requirements on how companies should report. The law can also put up barriers to innovation because of concerns about potential litigation, particularly for forward-looking disclosures. It would be useful to consider whether innovation could be facilitated, without impairing the quality of corporate reporting, if appropriate safe harbour measures were introduced. It also needs to be borne in mind, though, that innovation for its own sake can be unhelpful to users, who prefer a degree of continuity and consistency in reporting. Changes should result in clear improvements designed to meet users’ needs.

9. In the UK, where there is already a considerable amount of innovation, the Financial Reporting Lab is an excellent example of a forum that has been created to foster communication between preparers and users in a benign environment, allowing best practice as well as new ideas to be developed. This may be a helpful blueprint for encouraging further experimentation. At the international level, the Enhanced Disclosure Task Force, which made recommendations on improved disclosures by banks, provides a good example of how progress can be made by bringing together preparers, investors and regulators.

The focus of corporate reporting

10. In our 2013 report, *What should companies be responsible for?*, part of our thought leadership initiative *Dialogue in Corporate Governance: New Challenges*, we argue that ‘there are important benefits from recognising that companies have a full and diverse range of responsibilities’ and that ‘there may be a range of stakeholders beyond shareholders who are as fundamental to business purpose’, while cautioning against ‘disproportionate regulatory interventions’. We recognise that for many companies, reporting to stakeholders other than investors is important; clearly where companies have decided to do this, they should be encouraged to continue to do so. Equally, there are situations in which aspects of a company’s performance that are of particular interest to other stakeholders are also material to investors. These would include situations where, for example, a company’s effects on the environment are critical to the sustainability of its business model. In such cases it is right that reporting for investors should provide the information that is material to them, while providing a link to other reports that meet the needs of other stakeholders.

11. This does not mean, however, that the focus of financial reporting, and the annual report in particular, should move from investors to stakeholders more generally, including ‘society at large’ (page 28), or that the current focus on investors is ‘not sustainable’ (page 55). The welfare and prosperity of a society depend very largely on the efficient allocation of resources and on their efficient management. As discussed below, in the UK at least, the annual report is the cornerstone of the corporate reporting process. It plays a valuable role in supporting investors’ monitoring of managers’ efficiency in the stewardship of corporate resources and in investors’ decisions on how resources should be allocated among competing demands. If this focus is lost, and the annual report is required to meet the information needs of an even wider

variety of stakeholders than it does already, we think that it will make the annual report more diffuse and less useful, to the detriment of society at large.

12. We accept that the trend in society generally is towards greater disclosure by organisations and lower barriers for entry to information, and demand for enhanced access to corporate financial information is likely to continue to grow. Nonetheless, we are wary of the apparent assumption in the paper's discussion on stakeholders that anyone who wants information from or about a company has an inalienable right to it. We fully accept that governments and regulators have a right to require public disclosures by companies, sometimes for the benefit of particular stakeholder groups, where they consider this to be in the public interest. But such requirements are imposed by authorities that have the right to act on behalf of society as a whole and go through due process consultative exercises before requirements are imposed. They are expected to weigh the costs of such requirements against their benefits, a principle we regard as critical in any debate about the future development of corporate reporting. By contrast, individuals or pressure groups may regard themselves as key stakeholders and demand extensive information from companies, but do not speak on behalf of society as a whole and may not take account of the costs that their demands would impose on those expected to meet them.
13. We think that our conclusion in our 1975 report referred to above (paragraph 2.38) still stands: 'Corporate reports cannot satisfy all the imaginable information needs of the public'. Accordingly, in this response we have chosen to comment primarily from the point of view of what will be helpful to investors, rather than to a wider group of stakeholders. Financial and non-financial information aimed primarily at investors may of course be useful for other groups and vice versa. And it may well be appropriate for companies to report separately information aimed primarily at other stakeholders, a question that we discuss below in relation to Core & More.

The annual report's confirmatory role

14. In our view, the paper underrates the importance of the annual report's confirmatory role. It seems to be assumed that reporting is only really useful if it moves stock market prices (ie, it contains surprises). Given the sophistication of modern capital markets and the continuous disclosure requirements that apply in leading jurisdictions, we do not think it is realistic – or even desirable – to set an objective for annual reports to contain more surprises than they do currently.
15. Nor do we think that the accountancy profession or others involved in preparing annual reports should be disappointed by this. The annual report's confirmatory role is a very important one, not a secondary one as the paper suggests (page 40). It disciplines the information that comes out at various times during the year before the annual report, and investors can therefore have more confidence in this information, knowing that they will be able to see later that it is reflected in the annual report and audited financial statements. In fact, if the annual report contains no surprises this should be regarded as a good outcome, as it shows that the market has been kept properly informed.
16. Nor should the annual report be regarded as merely confirming numbers already in the public domain. It contains a lot more data than other channels, useful to analysts, and ensures discipline in clearly delineating standardised (GAAP) presentation and measurement, which is not enforced in other sources. As we say above, in the UK at least, the annual report remains the cornerstone of the corporate reporting process.

Core & More

17. We believe that the Core & More proposal is a valuable and timely contribution to the debate about the future of corporate reporting. However, we do not agree that 'Companies should not produce separate reports for different stakeholder groups' (page 25), and partly for this reason we are not convinced by the Core & More proposal as it currently stands. The information needs of investors and other stakeholders often have much in common and, as discussed above, on some issues information primarily of interest to other stakeholders will also be

material to investors and should be reported to them. But on some issues stakeholders' information needs are diverse and producing separate reports for them can be sensible, as long as the information disclosed and broader messages conveyed are, where relevant, consistent. This is what happens in practice at the moment in the UK, and we believe that it works well.

18. Companies that produce separate reports on, for example, sustainability are usually responding in a way that is appropriate to their particular circumstances and to the pressures exerted on them by those who are interested in their sustainability performance. While consistency of message and an integrated approach to communication is very important, fitting the reporting of these companies into a model designed for the generality of companies, or vice versa, would not be an improvement. It would risk losing the focus on providing information that meets investors' needs. Nor do we do think that it is possible to have 'a single, comprehensive and concise report' (page 28) that addresses the needs of a wide range of stakeholders; it is hard enough to achieve this objective for shareholders and other investors.
19. We would draw FEE's attention to recent instances where mandatory disclosures, not primarily aimed at investors, have **not** been required to be included in the annual report, for example:
    - EU legislation for country-by-country reporting under the Accounting Directive (Directive 2013/34/EU);
    - reports under the Non-Financial Reporting Directive (Directive 2013/34/EU), which permits separate reporting on a company's website of the disclosures required to comply with the Directive; and,
    - in the UK, reports under the Modern Slavery Act.
20. This approach seems to us to be the right one; except where information is material for investors, integrating such disclosures with the annual report - a company's primary report - would be a step backwards.
21. We believe that the Core & More proposal would be more appropriate and have a better chance of success if the CORE were restricted to meeting the information needs of investors, consistent with the approach taken in the strategic report in the UK, which has led to a significant improvement in the quality of non-financial reporting. In any event, if it is decided to take the Core & More proposal forward, we believe that it needs to be developed in much more detail than appears in the paper.

A demand-led approach

22. We believe that it will be essential, if the paper's proposals are to progress, for them to be supported by both preparers and users of corporate reporting. Above all, the proposals should reflect user demand. At the moment it is not clear that the proposals do this, and we recommend that FEE should spend time talking to users and investigating their needs.

Creating the dynamics for change

23. Although the paper's subtitle is 'creating the dynamics for change', this issue is in general discussed only briefly at the end of each chapter. The assumption seems to be (page 16) that international standard setters will take a leading role in putting the proposed changes into effect. This may indeed be the right approach, in due course. But as the proposals affect existing requirements in a large number of countries, there are difficult steps to be agreed before anyone will be in a position to put the paper's recommendations – or any alternative measures – into effect. We suggest below that it would be best to start with an experimental pilot study.

Understanding the potential impact of technology

24. As we discuss in our IT Faculty's October 2015 thought leadership paper *Providing leadership in a digital age*, digital technology is transforming business, economies and societies. Consideration of the medium and longer term impacts of new technologies on business

decision-making and management practice is, however, at an early stage, and is a subject that now requires greater attention from the profession and other constituents. Decisions about the reform of corporate reporting need to reflect these impacts, rather than being taken in isolation. In this connection, in June 2016, ICAEW staff delivered a presentation entitled *New capabilities in big data and analytics* to a meeting of the IFRS Foundation's Advisory Council, which was followed by a first discussion by Council members of the potential impact of technology over time on IFRS standard setting and reporting.

25. ICAEW intends to continue to engage actively in this debate both internationally and in the UK, including through the thought leadership work of our IT Faculty and participation in the project planned on digital reporting at the FRC's Financial Reporting Lab, and we welcome the strong emphasis in the FEE paper on the role of technology in supporting any new corporate reporting framework. However, we think that there needs to be further analysis of the likely impact of digitalisation, which may bring with it risks as well as opportunities in terms of the future use and relevance of financial reporting. That analysis needs to consider both theory and practice in this area and draw on IT expertise to improve understanding of the possible implications for business and reporting of, for example, data analytics and blockchain technology. This should help to ensure that the profession is at least able to frame the appropriate questions that need to be addressed. ICAEW would be happy to contribute to this process, drawing on the expertise of our IT Faculty.

Clear and concise reporting

26. We suggest that care is taken when asserting that financial statements are 'too voluminous' (page 41). Views differ on this, particularly among users. For example, some question whether IFRS 8 segmental reporting provides sufficiently granular information and that at least some users take a contrary view appears from the work of the CFA Institute, eg, *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume* (2013). The FEE paper seems to dismiss such evidence with the comment that 'Some investors are reluctant to accept that some of the information provided today is not useful'.

27. We have consistently supported the FRC's campaign for clear and concise reporting, and we suspect that the materiality principle could be applied more effectively than it is at present, but, although the IASB's proposed Practice Statement should be useful, this is not primarily a problem for standard setters.

28. The quality of financial reporting depends to a significant extent on how much effort companies are willing to put into it. Companies differ in how much importance they attach to their financial reporting and in their willingness to disclose information, and so the quality of their reporting inevitably varies. For many companies, improvement can only be expected if they can see advantages to be gained by putting in the extra effort to communicate more clearly and concisely and to think harder about materiality issues.

29. In taking this debate forward it will be important to talk to companies that are doing corporate reporting well and obtain their input as the ideas in the paper are developed. It would be useful to consider why these companies have been motivated to be 'good reporters', and how far the same factors are likely to motivate other companies.

Corporate governance

30. Future discussion about the future of corporate reporting should take account of how good corporate governance contributes to improvements in corporate reporting. In the UK, for example, it has been found that audit committees have an important role to play in improving the quality of corporate reporting and in helping to ensure that it meets users' needs.

RESPONSES TO SPECIFIC QUESTIONS

A growing audience for corporate reporting

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

31. As indicated above, we believe that the reporting process, especially in terms of the annual report, should focus on investors' information needs, rather than on those of a wider stakeholder group, and we answer the questions on this basis.

32. Preparers should to a large extent be able to rely on the due process of standard setters, regulators and others who set reporting requirements to ensure that corporate reports meet investors' needs, as these needs tend to be similar across different companies. Where investors' information needs are specific to a particular issue arising in a company they should be ascertained through investor briefings and meetings with key investors.

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

33. The paper states that corporate reporting is already reaching a broader audience; this suggests that impediments are not a major problem. Indeed, that is our view. However, corporate reporting has a cost and the wider the range of stakeholders that a company tries to report to, the higher its costs; this sets a limit on how many people's information needs a company can reasonably be expected to meet. Multiple stakeholders with different viewpoints and agendas will also tend to give conflicting signals to preparers as to what information should be presented and how, which would be likely to lead to muddled and confusing reporting.

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

34. We think that it is up to institutional and other shareholders how far they wish to be involved in the reporting process; their preferences vary widely. Where they do wish to be involved, we would expect this to be an ongoing process. Managers are not of course absolved, in the absence of dialogue with investors on this subject, from making judgements about what information will be useful to investors. In most cases, they will not need to be told by investors in order to have a good idea of whether something is useful or not. It should be up to companies to take reasonable steps to ensure that they can determine whether there is a role in the process for wider stakeholder groups.

35. It is important that information disclosed for the benefit of investors or other stakeholders should be reviewed from time to time, as otherwise there will be a tendency for disclosures to accumulate, continuing to be made even when they have ceased to be useful. It is often very difficult to get old disclosures removed, and it would help if FEE could consider what regulatory and other mechanisms would help to make this more straightforward.

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

36. In our view, setting aside the role of companies in preparing their own reports, the main work in ensuring that reporting meets investor needs is done by those who set the requirements, that is to say governments, regulators and standard setters. These all have consultative processes, which should ensure that their requirements do indeed meet investor needs. These processes will often be more reliable than companies' contacts with investors – at results presentations, for example, where investors may well prefer to focus on other issues, thereby giving a misleading impression of the importance they attach to corporate reporting.

37. In any case, we do not think that it is entirely accurate to say that there is only 'one-way communication' with stakeholders (page 19), certainly as far as investors are concerned. Many companies have effective two-way communication with investors, and where this is not the case it may reflect investor preferences. We also think that many companies already have a good idea of their investors' information needs; although some clearly do not, it is not helpful to generalise too much in this context.

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

38. Technology should be an enabler rather than a driver of change. There are complex phenomena at play here, often still evolving and not well understood. For example, corporate information is increasingly accessible to expert systems/artificial intelligence, and changes arising from the use of the internet are making access to markets wider, making investment open to a wider section of society than previously.

39. We note that company websites, at least for most larger listed companies, are already very helpful, and companies could better monitor what information on their websites users are or are not viewing to help in ascertaining user interests. The whole issue of placing of and navigation to disclosures that are required for other public policy reasons is becoming more important as they are taken out of the annual report and put on company websites. As discussed above, we are seeing a trend to require website reporting in the UK on such issues as modern slavery and payment policies, opening up separate questions on frequency of updating, security over data changes and assurance.

Content of corporate reporting

Financial reporting

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

40. We do not agree that financial statements have lost or are losing their relevance. Financial statements continue to be important, primarily through their confirmatory role, but also as a continuing source of information to which investors can subsequently refer over a number of years. None of this is likely to be reflected in stock market price movements. But the reports of the CFA Institute, for example, consistently show that analysts find financial statements useful: see, for example, the findings of CFA UK's 2015 survey of its members, *CFA UK annual survey on Financial Reporting and Analysis*.

41. Financial reporting on its own can never tell the full story for a company. Accordingly, ICAEW has been a strong supporter of efforts at a national, European and international level to improve the quality of narrative reporting by large organisations. In the UK, such efforts have led in recent years to considerable improvement in the quality of narrative reporting. Recognition of the principles of integrated reporting has bolstered this trend. Non-financial reporting should provide useful information on a range of issues including, for example, intangible assets that are not recognised in the accounts. As the importance of unrecognised intangibles has grown in recent decades, this, among other factors, has made non-financial reporting increasingly important as an essential adjunct of financial reporting and investor analysis and valuation. Indeed, it might be useful to distinguish between NFI relevant to investors and NFI relevant only to other groups (pages 46-52).

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

42. We do not accept the premise of this question, but we agree that there has been a growing demand for companies to provide non-financial information (NFI), particularly forward-looking information.

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?

43. We support the IASB's current work programme, including its Disclosure Initiative, which should help to ensure the continuing relevance of financial reporting information. However, innovation may perhaps more easily come from companies rather than from standard setters and policy makers, and we commend the work of the FRC's Financial Reporting Lab in fostering market-led solutions and promoting non-mandatory improvements in disclosure and presentation.

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

44. Experience of the past periods of rapid technological advance suggests that most areas of difficulty in financial reporting are unlikely to be helped simply by changes in technology, but we accept of course that the pace of change is accelerating and is likely only to increase. Indeed, as we discuss in our IT Faculty's October 2015 thought leadership paper *Providing leadership in a digital age*, digital technology is transforming business, economies and societies. Consideration of the medium and longer term impacts of new technologies on business decision-making and management practice is, however, at an early stage, and is a subject that now requires greater attention from the profession and other constituents. Decisions about the reform of corporate reporting need to reflect these impacts, rather than being taken in isolation. In this connection, in June 2016, ICAEW staff delivered a presentation entitled *New capabilities in big data and analytics* to a meeting of the IFRS Foundation's Advisory Council, which was followed by a first discussion by Council members of the potential impact of technology over time on IFRS standard setting and reporting.

45. ICAEW intends to continue to engage actively in this debate both internationally and in the UK, including through the thought leadership work of our IT Faculty and participation in the project planned on digital reporting at the FRC's Financial Reporting Lab, and we welcome the strong emphasis in the FEE paper on the role of technology in supporting any new corporate reporting framework. However, we think that there needs to be further analysis of the likely impact of digitalisation, which may bring with it risks as well as opportunities in terms of the future use and relevance of financial reporting. That analysis needs to draw on IT expertise to improve understanding of the possible implications for business and reporting of, for example, data analytics and blockchain technology. This should help to ensure that the profession is at least able to frame the appropriate questions that need to be addressed. ICAEW would be happy to contribute to this process, drawing on the expertise of our IT Faculty. In the meantime, we have some additional observations on the topic in the light of the discussion in the FEE paper, set out below.

46. New technology opens up a range of possibilities for the dissemination of company data and curated financial information. However, we believe that a single annual report, aimed at investors, will remain crucial, with technology providing the opportunity for broader corporate reporting to take account in innovative ways of the full range of stakeholder information needs. We support the layering of information on websites and in other digital media so that users can drill down to access more detailed information where they wish to, although this is usually just presenting the same information in a different format, such as a spreadsheet, so it can be input into analyst models more easily. This is already done by a number of companies, and could usefully be encouraged now.

47. We also strongly supported moves to develop a regulatory technical standard (RTS) for the development of a European Single Electronic Format (ESEF). We suggested that in the meantime there should be a requirement for publication of annual reports and other periodic reports in searchable PDF format (see ICAEW Rep 09/16), which – while it has limitations – we understand is regarded by sophisticated users as a very valuable tool for analysis.

Non-financial information reporting

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?

48. In our view the key challenges are:
    - identifying the right body to develop such standards or guidance;
    - identifying investors' information needs for NFI;
    - addressing problems of variable quality and reliability in the different sources of NFI (this is partly a reflection of the fact that NFI is a less mature form of reporting); and

- reaching international agreement on what the standards or guidance should say.

49. It is unclear how it is envisaged that existing guidance, notably the Integrated Reporting Framework and the guidelines of the Global Reporting Initiative (GRI), would fit with the FEE proposals. As stated above, the key challenge of how the new approach would fit with the Integrated Reporting Framework, the scope for alignment between that Framework and the concept of Core, should be addressed at an early stage.

50. The concept of NFI in this context is open to interpretation and is still evolving. It may be helpful, as FEE takes its proposals to wider audiences, to emphasise that NFI is very wide in scope – much wider than sustainability or corporate social responsibility reporting, which some may assume is the main object of FEE's initiative.

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

51. We suggest that the International Organization of Securities Commissions (IOSCO) may be best placed to encourage alignment of the many existing initiatives in this area.

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

52. We believe that the principles should be non-mandatory. We suspect that even establishing non-mandatory principles that are generally accepted will be a major task, but it may be possible to enhance their standing in due course depending on the degree of support that can be found for a uniform international approach on this subject.

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

53. We suggest that FEE should talk with the IIRC about their experience of experimenting with pilot studies, which may be a useful way to take forward FEE's proposals.

Core & More – a new approach for corporate reporting

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?

54. We believe that the Core & More proposal is a valuable and timely contribution to the debate about the future of corporate reporting. However, we do not agree that 'Companies should not produce separate reports for different stakeholder groups' (page 25), and partly for this reason we are not convinced by the Core & More proposal as it currently stands. The information needs of investors and other stakeholders often have much in common and, as discussed above, on some issues information primarily of interest to other stakeholders will also be material to investors and should be reported to them. But on some issues stakeholders' information needs are diverse and producing separate reports for them can be sensible, as long as the information disclosed and broader messages conveyed are, where relevant, consistent. This is what happens in practice at the moment in the UK, and we believe that it works well.

55. Companies that produce separate reports on, for example, sustainability are usually responding in a way that is appropriate to their particular circumstances and to the pressures exerted on them by those who are interested in their sustainability performance. While consistency of message and an integrated approach to communication is very important, fitting the reporting of these companies into a model designed for the generality of companies, or vice versa, would not be an improvement. It would risk losing the focus on providing information that meets investors' needs. Nor do we do think that it is possible to have 'a single, comprehensive and concise report' (page 28) that addresses the needs of a wide range of stakeholders; it is hard enough to achieve this objective for shareholders and other investors.

56. We would draw FEE's attention to recent instances where mandatory disclosures, not primarily aimed at investors, have not been required to be included in the annual report, for example:

- EU legislation for country-by-country reporting under the Accounting Directive (Directive 2013/34/EU);
- reports under the Non-Financial Reporting Directive (Directive 2013/34/EU), which permits separate reporting on a company's website of the disclosures required to comply with the Directive; and,
- in the UK, reports under the Modern Slavery Act.

57. This approach seems to us to be the right one; except where information is material for investors, integrating such disclosures with the annual report - a company's primary report - would be a step backwards. There are in fact other disclosures of this type that could usefully be removed from annual reports and dealt with elsewhere, improving clarity and reducing clutter. Indeed, we have recently called on the UK government to undertake a review of the full spectrum of current non-financial reporting requirements for companies with a view to moving further information outside of the annual report. We have also called for a common approach across government departments in this respect and a more consistent approach by companies in presenting such information on their websites (ICAEW Rep 73/16, April 2016). At the same time, a move to digital reporting – perhaps with hyperlinks in the annual report to other reports of particular interest to particular types of stakeholder - could help to ensure that different user needs are catered for appropriately. Interestingly, in this connection, we note that with effect from 1 June 2016 the SEC has permitted relevant US companies to produce a hyperlinked summary of their business and financial information in Form 10-K to enhance the ability of investors and other users to identify and navigate relevant information.

58. We believe that the Core & More proposal would be more appropriate and have a better chance of success if the Core were restricted to meeting the information needs of investors, consistent with the approach taken in the strategic report in the UK, which has led to a significant improvement in the quality of non-financial reporting. In any event, if it is decided to take the Core & More proposal forward, we believe that it needs to be developed in much more detail than appears in the paper.

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

59. Please see our answer to Q3.1 above. We believe that the annual report should be focused on investors' needs. We recognise that some companies need to prepare additional reports that meet the needs of other stakeholders, but at this stage we do not anticipate that this should give rise to fundamental changes in the reporting model for companies generally, which would risk diluting the appropriate focus on investors' information needs.

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

60. Discussion on the role technology should play in the development of corporate reporting is at an early stage. Please see our answer to Q2.4 above.

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

61. Views differ among investors on the need for more frequent updates of corporate reporting information. In the EU, there has been a move away from mandatory requirements for quarterly reporting because of the evidence that it encourages short-termism in managers. However, jurisdictions with sizeable capital markets – including the EU – tend to have requirements for the timely disclosure of price-sensitive information, and this plays an important role in ensuring that significant information is disclosed promptly.

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

62. We do not think that it is possible to give a sensible answer to this question in general terms. Clearly, there is more scope for innovation where co-ordination is non-mandatory, as we suggest it should be at the international level for non-financial information. Where mandatory requirements are concerned, the issue has to be tackled case by case, and policy makers and

standard setters should respond to constituents' views where they indicate that proposals would bear down too heavily on innovation.

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

63. One benefit of experimentation is likely to be that more new ideas are generated than would be possible where everybody has to take a standardised approach to a problem. Another benefit is that evidence can be gathered on whether the innovation is useful before everybody is required to adopt it, rather than afterwards.

64. Challenges obviously arise where there is a wish to experiment in areas that are already the subject of mandatory requirements. There may also be problems in motivating companies to experiment; innovators are always likely to be a minority, especially in a field such as corporate reporting where the financial benefits of improvement may not be obvious. There are also methodological problems: how to determine whether what appear to be useful innovations for one company would be useful for companies generally and, conversely, whether innovations that seem not to work for one company might be useful if they were adopted by all companies, thereby providing comparable information.

65. Concerns about the legal responsibilities and liabilities of management will also loom large. As discussed above, the law can also put up barriers to innovation because of concerns about potential litigation, particularly for forward-looking disclosures. It would be useful for FEE to consider whether innovation could be facilitated, without impairing the quality of corporate reporting, if appropriate safe harbour measures were introduced.

66. Experimentation also involves costs for the preparers that undertake it, and they will need to be convinced that the potential benefits outweigh the costs. Evidence is required to allow identification of where gains can be made by meeting the different information needs of investors and other stakeholders on a cost effective basis.

Approach to policy making and innovation

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

67. In general, as the paper argues, the more requirements are stated as principles rather than as detailed rules, the more likely companies are to innovate. There are also specific obstacles that could usefully be removed. For example, in the UK it is as yet not possible to make public and file accounts with the Registrar of Companies as PDFs; no doubt similar failures to catch up with technological or other changes exist in other jurisdictions.

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

68. Companies are unlikely to innovate if they think that there is a risk they will be punished if they do so. Whether this is a problem depends on the particular innovation contemplated and whether it is possible to make it by providing additional information rather than by non-compliance with existing requirements.

69. It is possible that some NFI measures, because of their subjectivity, could give rise to liability concerns if they are provided to meet requirements. We have already identified the variable quality and reliability of NFI sources as an issue, and it may be that guidance on this subject could do something to allay liability concerns.

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

70. The main corporate reporting policy makers that we engage with are the IASB and the FRC. We believe that in general both bodies respond appropriately to constituents' concerns, although the due process of such bodies is rightly reviewed on a regular basis to ensure that this remains the case.

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?

71. This is a problem at both the national and international levels; even when different national authorities have similar objectives, they are often expressed in different ways, which makes international reporting more difficult for preparers and understanding it more difficult for users. At the national level, there is no obvious solution, since what is needed is a restriction to a single body with the power to require or initiate corporate reporting requirements. Desirable as such a move would be, we do not see any likelihood that it would ever happen.

72. At the international level, the problem is even greater, and although remarkable progress has been made in accepting the authority of IFRS in financial reporting for the consolidated accounts of listed companies, there will clearly be challenges in achieving similar success in coordinating all non-financial reporting requirements internationally. We suggest that there could be a useful role for FEE here.

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?

73. The FRC's Financial Reporting Lab has been successful and we would encourage other countries to adopt something similar. We see no reason why there should not also be Financial Reporting Labs at European level, perhaps under the auspices of the European Financial Reporting Advisory Group (EFRAG), and internationally under the IASB. But we believe that such institutions are most likely to be successful where they are seen as means to improving best practice on a voluntary basis. They are unlikely to get the support they need from interested parties if they are seen as simply a testing ground for further regulation.

74. Where requirements exist, innovation is more likely where the requirements are high-level and supplemented by non-mandatory guidance. A good example from the UK would be the requirements for certain entities to prepare a strategic report, and the way in which these requirements are supported by non-mandatory guidance from the FRC. We do not see why this approach could not be adopted at a European or international level.

75. The FRC's campaign in the UK for clear and concise reporting provides a good model that could usefully be copied elsewhere. And the 'comply or explain' approach developed in the UK – for example in relation to corporate governance requirements – also allows for experimentation. Again, we do not see why this approach could not be adopted more widely at a European or international level.

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?

76. The nature of the proposal (page 76) is not entirely clear, but it seems to be for a permanent EU body to represent the interests of all stakeholders on all corporate reporting issues. It would be possible to set up such a body to discuss issues of interest, which appears to be part of the proposal, but it also seems to be proposed that the body would have powers to coordinate corporate reporting requirements across the EU. This would be a major change, and one which of course is now unlikely to involve the UK.

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

77. We have nothing to add to our previous comments.

OTHER COMMENTS AND DRAFTING ISSUES

Introduction

78. It is not clear why 'smaller financial institutions and insurance undertakings might have different needs than larger ones' (page 14). Their investors have the same information needs and their capital is just as much at risk. Where their operations and business models are

simpler than those of larger institutions, they will by definition not have commensurate complexity in their reporting.

79. The paper lists a range of IT challenges that companies face including ‘custom-made reporting’ and comments that ‘all these challenges should be addressed by the company’ (page 19). Even among investors, users’ information needs vary considerably and we doubt how practical it would be for all of them to be provided with custom-made reporting. The cost of the IT challenges listed seems likely to be high, and it is not clear why companies should be under an obligation to meet them. This needs further thought.

A growing audience for corporate reporting

80. While it would of course be good if everything of importance could be easily understood, we do not think that ‘Communication of corporate information should be easy to understand for all stakeholders’ (page 25) is a stricture that companies will be able to follow. Much reporting by companies is necessarily difficult and complex, even for investors, because aspects of business and business transactions are complex. But obviously preparers should bear in mind the specific audience that they are addressing and do their best to make their reports intelligible to this audience.

81. The FRC’s ‘fair, balanced and understandable’ principle for corporate reporting seems to us to be a good one and has been effective in focusing the minds of management on this question.

Content of corporate reporting

82. While the paper (page 37) urges us to think in terms of screens rather than paper (and PDFs), and this may well be the direction of travel, we do not foresee an imminent abandonment of either paper or PDFs. Indeed, we anticipated a move away from paper-based reporting in our report of 1975, noting that ‘it is likely that new means of communication will become a practical alternative in the future’ (paragraph 5.2), a prediction still only partly realised some 40 years later. One effect of recent developments in IT is that while preparers may well distribute fewer paper reports, the volume of reported information has grown and users may end up printing the reports themselves. Perhaps rather than continuing to focus on the long-predicted demise of paper-based reporting, we should seek to ensure that innovation is not constrained by what would be possible in a paper format if there is a better way to communicate not possible using paper.

83. The paper refers to a lack of key information in financial statements, and specifically mentions non-GAAP adjusted earnings measures and off-balance sheet exposures (page 41). While non-GAAP earnings measures may well appear outside the financial statements, there seems to be no lack of them, and it would be helpful to know what missing information on off-balance sheet exposures FEE has in mind. We also note that the use of non-GAAP measures does not detract from the power of the statutory numbers to be comparable and well-understood. We would agree, however, that best practice is to reconcile non-GAAP adjusted earnings to GAAP earnings in the financial statements.

84. We are not convinced by the suggestion that the IASB’s work is heading in a direction that ‘may not lead to more clarity’ or the claim that ‘more flexibility is needed’ in applying IFRS (page 41). These points need more supporting argument and evidence.

85. We doubt the paper’s assertion that ‘The current distinction between information in financial statements and other information … is not properly justified (page 42).’ In our view the distinction between the financial statements and other disclosures is well understood. We agree that there may be some repetition between the two, but this is usually because topics overlap the two categories and it is helpful to readers to bring together relevant information in each location.

86. The paper suggests that ‘the most important information should be reported first’ in the notes to the accounts (page 43). As FEE is no doubt aware, in respect of non-listed companies this is contrary to Article 15 of the recent Accounting Directive (2013/34/EU), which would therefore have to be amended for countries within the EU. The FEE paper is a reminder that the

development of the revised Accounting Directive was a missed opportunity to create a more principles-based approach in law and thus allow more flexibility.

87. The paper states that 'Accounting standard setters have introduced requirements for more and more information in a standardised format' (page 44). This is not true of the IASB, which does not impose standardised formats; the requirements in IAS 1, *Presentation of Financial Statements*, are high-level.

Non-financial information

88. While we agree that NFI is of great importance and that an international framework for it would be helpful, it needs to be recognised that, because of the diversity of NFI, it will never be possible to have requirements on many of the topics in this area that are as specific as they are for financial reporting.

89. The paper states that NFI is more complex than financial reporting information (page 46). We doubt whether this is correct; perhaps 'more diverse' would be more accurate. It may also be relevant that NFI is less mature than financial reporting.

90. We are not convinced that comparability is a key issue for NFI (page 46). Entity-specific NFI disclosures are most meaningful, particularly when they reflect the way management runs the business and how it judges success or failure.

91. The paper states that 'The concept of materiality is dealt with only briefly by the different frameworks (especially for NFI)' (page 47). We think that this brevity can be overstated, given the substantial work on materiality by the GRI and the IIRC, and the IASB is of course currently preparing a Practice Statement. The paper goes on to explain that the reason materiality is dealt with only briefly is that 'it is not possible to set a quantitative threshold that can be applied across the board'. We agree that this is impossible, and it would be undesirable even if it were possible, but we doubt whether this explains why materiality is not dealt with at length in the frameworks. In any case, materiality will always be a matter of professional judgement, and we would not wish to see this undermined.

92. The paper states that 'Financial information alone can no longer represent a complete picture of a company's value' (page 47). We do not think that it ever could or was intended to. Nor do we agree that market participants are confused by the difference between a company's market capitalisation and the amounts shown in its accounts (page 48). Financial statements report on the past; market capitalisation reflects estimates of the future. Investors understand this. We do not think that investors would like the balance sheet to be nothing more than a series of estimates of the net present value of future payments and receipts.

93. We agree with the paper's comment that 'There is a sprawl of standards and regulation – at times contradicting each other – on various elements of non-financial information' (page 48). How to deal with this at the national level, let alone internationally, is a major challenge.

94. The paper states that 'It is confusing for stakeholders that there is no universal non-financial information reporting framework' (page 49). We do not think that stakeholders are confused, but we agree that it is frustrating for preparers.

Core & More

95. In presenting the Core & More approach, we suggest that more thought should be given to the division between what goes into Core and what goes into More (pages 58-59). At the moment it is not clear how the proposed allocation of items has been made. For example, given the importance that the paper attaches to intangibles, it is surprising that intellectual property is not in the Core.

96. We think that the paper may underestimate the practical difficulties in issuing Core information ahead of the More information that supports it (page 61). For example, it will often be impossible to be confident that Core information is accurate if the More information underlying it has not been finalised. Equally, if one of the advantages of this approach is that users can drill down from Core to More, users are likely to be frustrated if they try to drill down through

the Core and find that the More information is not yet available. Also, as we have stated above, investors' views differ on whether there should be more frequently updated reporting.

97. It is difficult to understand how exactly the dynamic element of Core & More would work (page 63), and we suggest that this should be clarified, with due consideration of the implications for assurance.