Federation of European Accountants

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Dear Mr. Kriz,

**FEE – The Future of Corporate Reporting (the FEE paper)**

We read this document with interest and feel it will achieve its purpose of stimulating reflection and debate on corporate reporting and the forms it can take. We are also grateful to FEE for coming to present the FEE paper to our members.

We are responding as bodies representing preparers of financial reporting. The questions asked in the document are detailed and in many instances can be replied to only on a company-by-company basis. In this letter we intend to reply only in general terms by providing a summary of the reflections of our members.

Our principal comments inspired by the FEE paper are the following:

1. The report should be seen as a stimulus to companies to develop innovative ways of providing useful information to stakeholders while facilitating their access to, and comprehension of, the information as far as is possible within the confines of the regulatory frameworks in which they operate;

2. We are not convinced that a reporting system driven by data-processing tools will result in the most efficient solution to the perceived problem, and think that the preparation of targeted reports for different specific uses is likely to provide a better balance between cost and usefulness. What is important is that the company focus on the specific user's requirements for information and tailor the report to them. Data-processing tools may be of some help once the information has been defined;

3. There should be a recognition by all stakeholders that there is a trade-off between accelerated and frequent reporting on the one hand and reliability on the other, and there needs to be clarity about who should suffer the consequences when risks are taken (that is, a re-examination of liability and litigation);

4. The report should in no circumstances be seen as a request for a further mandatory stand-alone report to impose on companies. On the contrary, the report should be seen by legislators, standard setters and regulators as a spur to examine critically their existing requirements, with the aim of harmonising reporting requirements between legislators, standard setters and regulators and eliminating excessive volumes of information, and to challenge their use of financial statements as convenient vehicle to catch all the disparate information they think is required – one of the principal causes of reporting overload for both users and preparers;

5. In particular, European legislators should consider whether their current and projected reporting requirements improve, or detract from, the ability of European companies to be competitive in the face of international competition.

Our more detailed comments are set out in the appendix below.

Please do not hesitate to contact us if there are any matters for which you would like more information.

Yours sincerely

| ACTEO | AFEP | MEDEF |
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| Patrice MARTEAU<br>Chairman | François SOULMAGNON<br>Director General | Agnès LEPINAY<br>Director of economic and financial affairs |

***APPENDIX***

***Reduction of the reporting burden for preparers and users***

In our view, the central subject of the document is really that of how to improve Corporate Communication between the entity and other interested parties by rationalising Corporate Reporting, which generally forms a major part of such communication. In this context, Corporate Reporting is understood to be the reporting of financial and non-financial information by entities governed by legislation, standards, regulatory requirements etc. While we applaud the initiative taken by FEE to stimulate reflection and debate, we think that it is important that the purpose of the document should be limited to a reflection about how to organise and present information in such a way that the user can more easily find the relevant information he needs than is the case at present.

The role of the legislator, standard setter and regulator in this area should be restricted to that of removing barriers to better presentation by eliminating the mandatory inclusion of detail which is irrelevant or immaterial and thus currently hinders clear understanding of the information presented. Such barriers also include the requirement for the same or ostensibly similar information in different types of report. FEE's initiative should not be regarded by legislators, standard setters or regulators as a "road-map" towards mandatory corporate reporting in the future nor should it be transformed into a form of "best-practice" by regulators or others. It is the individual company which is best-placed to identify the optimal form and content of its communication in view of the sectors it operates in, its competitors and the expectations of the interested parties it deals with. We would expect the form and content of corporate communication to evolve gradually through the leadership of innovative companies and their consequential impact on other companies wishing to compete with them.

Additionally, our members who operate in sectors with global competition note that their competitors based in jurisdictions outside the European Union generally have much fewer requirements for mandatory reporting imposed on them by the standard setters, the legislator or the regulator. In some cases, information is required but may be provided on a confidential basis to the relevant body. The burden of mandatory public reporting in Europe is perceived as placing European companies at a competitive disadvantage compared with their direct international competitors. We think that a thorough critical study of this area would lead to a more "level playing field" and a significant reduction in the cost of collating and publishing data for European companies.

***The problem is largely the volume and relevance of current financial information requirements***

Chapter 2 of the FEE paper provides an inventory of current regulatory and non-regulatory initiatives that are driving corporate reporting. This non-exhaustive list, when considered in conjunction with the existing mandatory requirements that are not listed, illustrates very well the plethora of mandatory or recommended reporting that companies have to understand and address for their reporting. The difficulties this volume of requirements causes for entities are aggravated by the growing tendency of governmental and non-governmental organisations to identify financial statements as the vehicle of choice for the collection of additional data of varying types. This latter phenomenon has contributed to the expansion of corporate reporting in recent years, or will contribute to it in the near future through the initiatives listed, thus making it even more difficult for individual stake-holders to identify the information they require in the resulting "one-size-fits-all" reporting package.

***The proposed possible solution***

The proposal made in the FEE paper is to develop a "single comprehensive report that summarises corporate affairs" – the CORE report. This is described as an overarching report or executive summary which will allow stakeholders to obtain a fair understanding of the key elements of a company's affairs, its key financial results and additional information which is relevant and material for shareholders. The CORE report would be supported by a series of other layers of more detailed reporting to allow stakeholders to find the information they require by using online navigation tools.

The FEE paper suggests the CORE report could include the following: The Company's mission and vision • Business model and strategy • Main corporate objectives, including key business and financial transactions • Main risks and risk mitigation activities • Key aspects of corporate governance, including internal controls • Key financial statements or extracts thereof, KPIs and analysis of financial and nonfinancial information • Forecasts and key future plans • Auditor's report.

We think that most of these areas are included in the annual financial reports and related management analysis/reports published today by most listed companies, with perhaps the most notable exception being the area of forecasts where companies are understandably cautious about providing information. The current reports also include detailed disclosures to the financial statements, corporate governance and risk management reporting and internal controls. We agree, therefore, with the idea that a significant enhancement of the communication of these matters to stakeholders could be achieved by an improvement in the presentation and ergonomics of the access to this information.

However, while it is possible to reallocate information as suggested in the CORE & MORE approach within the confines of the companies' investor websites, the regulator generally requires that the corporate financial report and certain ancillary reports be filed as a single package with the regulator. Although regulators may rationalise and harmonise the information contained in this package, it is difficult to envisage the regulators' abandoning the requirement to file certain reporting packages with them. The CORE & MORE information approach represents a separate set of information sorted in a different way from the regulatory package. We think that it is unlikely that regulators will accept CORE & MORE approaches for their reference documents since it will, amongst other things, lead to a lack of comparability across entities, and indeed we would agree with their reluctance to do so for that reason.

The CORE & MORE approach is therefore more appropriate for the individual company's investor website and the company should therefore be allowed the flexibility to be innovative in this domain. We therefore fully agree with the statement that the company's decision about what information should be highlighted in the summary Core report and what should be included in other reports requires a trade-off to be made between standardisation and flexibility, and that the latter should be preferred.

The CORE/MORE solution is based on the premise that tools are, or will be, available to both the company as provider and the stakeholder as user of the data to store the data in such a way that it may be identified and retrieved easily. While such tools may soon be available, we think that this approach will impose a further administrative burden on the company, since it must first identify the information that particular types of users will require (as it does today when preparing a specific report) and then store it in such a way that the relevant type of user will be able to reach it through the relevant part of the CORE report in which the company has inserted suitable signposts (or clearly labelled links). For his part, the user must have a clear idea of the specific information that is relevant to his particular interest and then follow the links down from the summary report to the detail. There is no certainty that all the data the particular user requires will be in one single place in the detailed layer of the reports.

Additionally, we think that to use internet research tools to access this information can be an unreliable process, since information taken out of its context can be misleading. An example of this is the information required of French companies about directors' remuneration. There is a number of legal texts which all require information which is very similar but not identical. Information required by the different texts includes

- The amounts actually paid in year N including the bonus in respect of N-1;
- The amounts recognised in the accounts of year N in the statutory and/or consolidated financial statements in accordance with the relevant GAAP;
- The amounts of expense including the charges under IFRS 2 (thus including unrealised gains).

This situation creates confusion and, at best, an impression of inconsistency or, at worst, a suspicion that a deliberate attempt has been made to make the information opaque, whereas in fact it is the different underlying requirements that result in different information.

We are not convinced that the CORE/MORE approach would actually provide a more efficient route for the user to gain access to his data than at present, and we believe that the workload for the company will be increased compared to the preparation of specific targeted reports for each of the reports imposed today.

We think that it is difficult to eliminate individual, targeted, user-specific reports since these provide a tailor-made response to a specific need for information on the part of a specific user, and often have to comply with specific requirements for form and content. The preparation of a specific individual report offers the advantage of enabling the user to find all his data in one place while enabling the company to focus on the user's expected requirements and providing in a structured form the data it thinks will respond to the requirements. In these circumstances, the duplication of information across different reports may not be an obstacle to its usefulness but rather a tool which facilitates the user's task.

Having said that, we would reiterate for the sake of clarity that we are not in favour of the proliferation of new individual reports. Any expansion of reporting topics beyond what is in place today must be subjected to a rigourous process of challenge and evidence-based justification. As stated above, we think that the current situation is one of information overload for the user and burden for the preparer.

The preparation of specific reports for a target group of users does assume, as the FEE paper states, that the needs of a particular target group are homogeneous. This comment is made in the paper apparently as a criticism, but we think that, on the contrary, it is essential to make an assumption of this sort in order to pinpoint the information required and thereby avoid an inefficient process of providing voluminous data of little use to the majority of users. The aim is to achieve the right balance between the identified or perceived needs of users and the efficient delivery of relevant information. We think that generally, the most efficient approach will be for the entity to identify the needs of the group through consultation with a sample of users and then to prepare information accordingly. We do not believe that the alternative approach, which would probably involve providing a large amount of data and leaving the user to find the data he requires is necessarily a better approach. This could result in a burden for the user, who must ensure that the data he uses actually represents what he assumes it represents, and then for the preparer, who not only has to ensure that the significance of the data is very clear, but also may still have to spend time ensuring that the user has not misunderstood the data he has collated and made an inappropriate analysis of it. A similar approach was mooted some years ago for the income statement under IFRS and rejected by many constituents at the time.

***Timeliness versus reliability***

At the top of page 41 the FEE paper states that for investors the timeliness of financial information is key, and that users seem to be prepared to take risks and rely on incomplete and even unreliable financial information, if it is produced on a timely basis. Although we recognise that companies are under pressure to reduce the time taken to provide key financial information after the period end, we are surprised to learn that some users are willing to risk relying on unreliable financial information. Any information provided by companies which may influence the share price must be available equally to all interested users simultaneously, including those who are not willing to take the risk referred to. The information provided by the company is assumed to be sufficiently reliable, even when unaudited, and there is therefore a legal and/or reputational risk for companies in providing data which turns out to be incorrect. Some companies do publish early trading statements and earnings releases, but they strive to ensure that the risk that unaudited earnings releases or periodic financial statements (other than the annual report) turn out to be erroneous is minimised.

Clearly, if users are prepared to take risks and rely on potentially unreliable information, there must be a recognition by the users and the legislator that the risk is solely that of the user, provided that the provider has exercised an acceptable level of due diligence in preparing the information. In the absence of such an environment, we would not expect companies to take risks in compromising the reliability of the information to satisfy the request for earlier reporting.

***Conclusion***

In conclusion, the FEE paper provides a great deal of food for thought for companies in the area of their communication with their stakeholders. We think that it is likely that companies' approaches to communication with its stakeholders will evolve over time through the effect of market forces. We would, however, be very cautious about encouraging legislators and similar bodies to undertake any initiatives in this area, other than to challenge their existing reporting requirements and to consider whether these can be reduced.