

28th July 2016

Mr. Olivier Boutellis-Taft
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By E-mail: pantelis.pavlou@fee.be

Re.: The Future of Corporate Reporting – creating the dynamics for change

Dear Olivier

We welcome the Federation's initiative in advancing what we agree is a necessary discussion on how corporate reporting needs to evolve, although we believe the paper does not yet provide a consistent view: we would like to ask the Federation to consider the length of the paper and the possibility of eliminating duplications within the four chapters.

The IDW welcomes the idea of core and more reports. We believe that the International Integrated Reporting Council (IIRC) with its International Integrated Reporting Framework has already provided a framework for the core report. We support the idea of having an integrated report as a primary source of information, perhaps for all stakeholders of a company, supplemented by more detailed information being made available in additional, underlying reports. To frame the discussion, such reports might be differentiated in the first instance in performance-based reports (especially management reports and remuneration reports) and transparency reports (for example reporting against the Global Goals, country-by-country-reporting, diversity reporting, parts of corporate governance reporting).

We agree with the statement "the annual report is gradually becoming the destination of choice for new reporting requirements, at times irrespective of the materiality of the reporting topic." (p. 26). We recommend the Federation stress this point to leading standard setters, regulators etc. and urge them to re-focus reporting requirements on the primary purpose of a particular report as well as user needs. Therefore it would be helpful if the paper provided an overview of current reporting requirements, report purposes and users: overall the paper is un-

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clear as to how the term “corporate reporting” is defined. The paper doesn't adequately differentiate between financial statements according to IFRS, the EU Accounting Directive, management reporting, sustainability reporting, integrated reporting etc. In this context, it would be helpful if the Federation were to evaluate the status quo of corporate reporting first, analysing mandatory and voluntary reporting according to purpose, intended users and how far current requirements and enforcement policies ensure the respective purposes and intended users' reasonable expectations can be met. Such an exercise could also identify shortcomings. As a starting point, the paper should differentiate between the financial statements, management report and sustainability report and their respective purposes, users and content. In our view, this would be more important than just briefly addressing the respective standard setters for each of these reporting vehicles.

We also recommend a clearer differentiation be made between financial and non-financial information. For instance, whilst management reports include a lot of “non-financial information”, nobody would question the financial relevance of much of this information, e.g. information on market share, research and development, business model, strategy etc.

We believe the value of the current reporting model is not sufficiently taken into account. Despite some weaknesses and shortcomings, the current reporting model does fulfil at least some of its functions, especially with regards to company law. Apart from this, we strongly support asking whether the current reporting model sufficiently fulfils its functions within the economy, whether it measures / values the right things and whether it provides sufficient transparency. A discussion on the functions of corporate reporting would be helpful. Overall, we believe the paper does not take sufficient account of the legal frameworks governing current corporate reporting practices. We would also like to ask the Federation to assess whether the notion of “experimentation” is over-emphasized in the paper. Experimentation seems to be necessary only where management does not sufficiently know the company, its stakeholders, its operating environment and how its operations are likely to develop in the future. Unwillingness to use corporate reporting as a communication tool beyond a mere compliance exercise might also be a barrier to improved transparency.

The paper states that companies “guess” stakeholders' information needs (p. 19). We believe that materiality determination can be improved, especially with regards to voluntary reporting, e.g. sustainability reporting. But we would like to ask the Federation to include the role of standard setters in this discussion, as report content is defined by standard setters in order to fulfil the particu-

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lar report's purpose and meet user needs – if anybody can be said to “guess” user needs, this is perhaps the standard setter rather than individual companies.

Moreover, we do not believe that mere interest by stakeholders is sufficient to make companies report certain issues (p. 25): indeed it is essential that the concept of materiality be emphasized in this regard.

The ongoing digital transformation is likely to increase the importance of intangible assets further. We suggest the paper include a discussion on how to advance accounting provisions to ensure that financial statements do not lose their relevance. Moreover, financial statements do not generally reflect the external impact of the company on its environment, as these – naturally – do not lead to expenses and income, although such factors are increasingly important in understanding a company's value creation.

To enable financial reporting to regain and enhance its relevance, it is important to strike a balance between over-standardization through explicit reporting requirements and under-standardization through largely principles-based frameworks. On the one hand, highly standardized frameworks lead preparers to adopt a checklist mentality, which facilitates monitoring by regulators. On the other hand, too little standardization leads to frameworks not providing sufficient suitable criteria needed for preparation and assurance purposes.

The paper provides a good overview of developments in reporting technology, especially as to how these developments can help provide information to stakeholders and how to engage with stakeholders. We suggest this information be concentrated in one chapter, instead of being spread throughout the paper. The Federation might also add that due to increased transparency, companies are increasingly losing control over the information available to their stakeholders, as other communication channels emerge: for instance, information on ethical breaches can now be spread around the world within a few moments.

We believe new technology can help companies to evolve their reporting from a minimalistic compliance-based approach to providing useful well thought through information: we envisage that web-based reporting might lead to a large pool of information, so that it might not always be clear to users whether a certain piece of information forms part of the notes to the company's financial statements, its management report or a sustainability report – this would be helpful for stakeholders, allowing them to obtain the information they deem relevant. The risk is that users may then find it difficult to assess whether information has been subject to external independent assurance or not. This might widen the expectations gap. It might also negatively impact the perceived value of assurance.

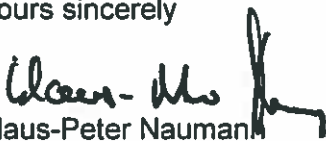
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To assess the key challenges in making non-financial information a topic for executive directors, it might be helpful to evaluate why financial information is an issue for executive directors and how far mandatory reporting requirements, enforcement and liability issues play into this.

Any developments in regulations governing corporate reporting should be driven by the respective users. The auditing profession should contribute based on its extensive technical knowledge and vision as to how to move this debate forward. Accounting and reporting requirements that lead to high-quality information for users are crucial for the auditing profession, because if corporate reporting loses relevance, so will assurance on these reports. However, the auditing profession should not be seen as the main interested party, but as a facilitator.

We trust our comments will be useful in taking the discussion forward, and look forward to working with the Federation in this regard. The IDW will be taking the discussion forward in Germany: we will be hosting a Congress on the Future of Corporate Reporting on 29 November 2016 in Berlin and we look forward to the Federation's contribution.

Yours sincerely



Klaus-Peter Nauman