

29 June 2016

Ms Hilde Bloome,  
FEE,  
Avenue d'Augerghem 22-28,  
B – 1040 Brussels,  
Belgium

Dear Ms Bloome,

### **The Future of Corporate Reporting**

Crowe Horwath International is delighted to present a comment letter on *The Future of Corporate Reporting – creating the dynamics for change*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 130 countries.

In preparing this paper, FEE has made some important observations about corporate reporting. These include the existence of multiple bodies involved in different aspects of the setting of standards or principles for reporting. It is right to draw attention to this. It is also right to call for greater co-ordination between the activities of these bodies and to promote a conversation about the accountancy profession taking a leadership role in co-ordination activities. There is an opportunity to make reporting more efficient and more effective.

However, we are submitting our comment letter in the aftermath of the decision by the United Kingdom to leave the European Union. The EU faces the prospect of the country with the largest capital market leaving. The disruption and uncertainty arising from the departure of the UK means that an initiative such as this will be more difficult to deliver. It is possible that the influence of the EU in leading a conversation about global reporting will diminish.

In continuing a conversation about corporate reporting, we encourage FEE to form partnerships with leading international professional accountancy bodies and other interested stakeholders. This enables the conversation to become global, embracing a wider range of perspectives.

Our detailed comments are presented in the appendix below. We should be pleased to discuss further our comments with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive style with a prominent initial "D" and a long, sweeping tail.

David Chitty  
International Accounting and Audit Director

## Appendix – Responses to Detailed Questions

Question	Response
Q1.1. Which are the steps in the reporting process that assist in ensuring that the stakeholder’s information needs are properly addressed?	A better question is to consider how an entity understands the information needs of its stakeholders. The reporting process then adapts to respond to these needs.
Q1.2. Do you identify any impediments to reach to a broader audience for corporate reporting?	Impediments include: <ul style="list-style-type: none"> <li>• Too much information;</li> <li>• Understanding information;</li> <li>• Irrelevant information;</li> <li>• Information that tries to satisfy too broad an audience, and in doing so, satisfies no one; and</li> <li>• Technological obstacles (but may be that is included in “understanding information”).</li> </ul>
Q1.3. When and how should stakeholders get involved in the reporting process?	Stakeholder involvement should continue to be at appropriate points in the reporting process, such as at shareholder meetings and relevant briefings. Reporting has to follow a due process, involving management and the governance process. Stakeholders should place reliance on an effective governance process supported by external oversight.
Q1.4. Do you agree that two-way communication between companies and their stakeholders is needed to focus reporting on stakeholder needs?	We agree that there should be two-way communication.
Q1.5. How could technology drive and enable changes in the audience of corporate reporting?	Technology enables users to be more selective about the information that they receive and read. Technology can help with filtering and interpreting information.
Q2.1. Do you agree that financial statements have lost, or are losing, some of its relevance?	There are issues that include: <p>Financial statements include information that tries to satisfy too broad an audience, and in doing so, satisfies no one; and</p> <p>There are growing concerns about the “information overload” in financial statements.</p>

<p>Q2.2. If so, which are the key issues resulting in the declining relevance of financial statements?</p>	<p>In this response, we address the reasons why the relevance of traditional financial statements is declining from the perspective of the smaller quoted company.</p> <p>The information contained in traditional financial statements is often not relevant to the stakeholders (and particularly the investors in smaller public companies) because other information about the future prospects of the company, and therefore the ability to create value, is far more important and relevant. For example, for a resources company, commodity prices and information about reserves are key considerations. In the case of a technology startup, information about the development, the bringing to the market, and future development costs are important considerations.</p> <p>Traditional, historic, financial statements do not contain the information that stakeholders need to form a view about the real prospects of the company.</p>
<p>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?</p>	<p>The more important issue here is the presentation of a package of information that is relevant and informative to stakeholders.</p> <p>There are circumstances where traditional financial reporting is of less relevance to stakeholders. It is unlikely that this is the fault of the approach to financial reporting. Instead, this is an acknowledgement of the nature and circumstances of the reporting entity, and the interests of the stakeholders.</p>
<p>Q2.4. How could technology assist in innovation for financial reporting?</p>	<p>Technology offers considerable potential for improving reporting as a whole. For example:</p> <ul style="list-style-type: none"> <li>• From a simple perspective, the ability to more easily navigate the reporting package and refer to the information of interest to the individual stakeholder;</li> <li>• Enabling users to create “reading lists” from the reporting package; and</li> <li>• Moves towards quicker reporting</li> </ul>

	<p>and “real time” reporting.</p>
<p>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?</p>	<p>The key challenges include:</p> <ul style="list-style-type: none"> <li>• Gaining international acceptance for one framework. Unfortunately, the experience with the ambition for US / IFRS full convergence shows that it is difficult to achieve such laudable aims.</li> <li>• Achieving a consensus about the balance between regulatory prescription and flexible “comply or explain”.</li> <li>• Differing governance structures, such as unitary boards and two tier boards (headed by a supervisory board).</li> <li>• Cultural attitudes towards governance, transparency and disclosure.</li> <li>• Ensure NFI reporting is reliable/“robust”, understandable and comparable.</li> </ul>
<p>Q2.6. Which organization – if any – should take the lead in developing an internationally accepted principles-based framework for NFI?</p>	<p>The International Integrated Reporting Council (IIRC) has made significant progress, and appears to have both gained attention and built an influential group of supporters. Therefore, the IIRC should be given the opportunity to take a lead in developing a framework.</p>
<p>Q2.7. What is the appropriate level of authority that those principles should have?</p>	<p>Our preference is for a set of principles of best practice that can be applied in a flexible way. The approach should be to encourage “corporate good behaviour” through making disclosures that are most appropriate to an individual company, rather than taking a prescriptive approach.</p>

<p>Q2.8. What is the best approach to experimentation in the area of NFI? What challenges would constituents be expected to face?</p>	<p>Individual companies should be encouraged to deliver disclosures that they regard as being most appropriate to their individual circumstances. This is the best way to encourage innovation.</p> <p>A flexible approach, encouraging innovation, might appear to be a challenge. However, companies should be aware of the interests and concerns of their stakeholders. This enables the company to prepare reports that reflect these interests and concerns.</p>
<p>Q3.1. Do you agree that the proposed CORE &amp; MORE model could be a way forward for corporate reporting in the future? If not, why not?</p>	<p>We agree that CORE &amp; MORE is a way forward for corporate reporting.</p>
<p>Q3.2. In which ways could the CORE &amp; MORE help addressing the needs of a wider stakeholders' group?</p>	<p>CORE &amp; MORE offers scope for greater flexibility in the presentation of information. This enables different stakeholders to more easily focus on the information that is relevant to their needs and interests. Potentially, companies can use this flexibility to connect with a wider range of stakeholders.</p>
<p>Q3.3. What is the role of technology in developing a CORE &amp; MORE model?</p>	<p>Technology is vital in developing a CORE &amp; MORE model.</p> <p>Technology is, and will continue to, transform how information is presented and delivered. The development of CORE &amp; MORE has to be open to technology solutions and be innovative and imaginative. Paper annual reports are the past. Innovative delivery has to be central to the development of CORE &amp; MORE.</p>
<p>Q3.4. Do you have any thoughts on whether, when and how corporate reporting should be updated?</p>	<p>The updating of corporate reporting is an evolving issue. The pressures for change vary between markets, companies and stakeholders.</p> <p>It is difficult to define "update" or "prescribe" a solution. Therefore, it is best to allow a solution to evolve.</p> <p>We note that the IASB's agenda is shifting to assessing the effective implementation of standards and to education, reflecting an expectation that</p>

	<p>there is going to be a pause in “big standard” setting. The pause in the setting of “big” new standards presents an opportunity for reporting to evolve.</p>
<p>Q3.5. How should policy makers and standard setters address the trade-off between standardisation versus innovation?</p>	<p>Standards should be principles based in both concept and application. There is scope to achieve a balance through maintaining the emphasis on “principles” and avoiding a drag into “rules”. There is particularly a risk that application and interpretation can slip into “rules”.</p> <p>A discussion about the presentation and content of reported information is an opportunity to remind all interested parties of the importance of principles, as this helps limit “standardisation”.</p> <p>Principles in financial reporting are important, but there are clearly boundaries as to how far “innovative” practices can go. However, in other parts of the reporting package there is considerable scope to encourage innovation, within a principles framework, rather than seek a standardised solution. For example, the implementation of the Non-Financial Information Directive is an opportunity to encourage a flexible approach to the presentation of information.</p>
<p>Q3.6. What are the main challenges and the key benefits of a parallel experimentation in the area of corporate reporting?</p>	<p>The challenges associated with experimentation include allocating resources and taking risks. Resources used for experimentation in reporting could be used elsewhere. There are risks, because if the messages presented are not effective then corrective efforts will be required. There are also compliance challenges resulting from experimentation within a regulated framework.</p> <p>There are benefits from experimentation as this allows for different approaches to be tested. It also allows individual companies to seek solutions that they consider to be most appropriate to their own needs.</p> <p>Experimentation is arguably less of a</p>

	<p>challenge in areas where there is no regulation or limited regulation. In these areas there is scope to be experimental and develop individual solutions. Experimentation enables best practices to evolve.</p>
<p>Q4.1. Which obstacles, if any, should policymakers remove to allow for innovation in corporate reporting?</p>	<p>Regulatory frameworks present obstacles to innovation in reporting. Relaxing frameworks to allow for more innovation presents challenges because the frameworks have evolved to meet regulatory objectives, including protection of investors and other stakeholders. In some cases, recent changes have arisen from events such as the Global Financial Crisis and it is difficult to see these changes being reversed.</p> <p>It is difficult to see that existing regulation will be eased to facilitate more innovative approaches to reporting. However, the following could be considered:</p> <ul style="list-style-type: none"> <li>• There is scope to encourage flexibility and innovation with the implementation of new regulation. For example, as noted above, there is a strong case for permitting a flexible approach to the application of the Non-Financial Information Directive; and</li> <li>• There may be opportunities for “parallel” reporting (or “voluntary initiatives”), where alternative reports are prepared using innovative approaches. There are regulatory challenges in taking this approach, but this approach may help new best practices emerge and could influence discussion over the future direction of regulation. Voluntary initiatives such as the Financial Reporting Lab have the potential to influence future agendas.</li> </ul>

<p>Q4.2. Do liability concerns, arising from non-compliance with reporting requirements, form a barrier to innovation?</p>	<p>Liability, whether legal, regulatory or reputational are issues. An innovative approach may mean that reporting requirements are not complied with.</p> <p>In practice, innovation will take place within the boundaries set by regulation, unless there is the possibility of working through parallel or voluntary initiatives. It is good to encourage innovation, but there is also a need to be realistic.</p>
<p>Q4.3. Is the current structure of dialogue between policy makers and corporate reporting constituents effective? If not, how should this be improved?</p>	<p>We shall limit our observations to reporting by small and medium capitalisation entities.</p> <p>There is an impression that the dialogue between policy makers and corporate reporting constituents is often limited to large capitalisation reporters. Small / medium capitalisation reporters have different issues that are not always considered. For example, there is a case for relaxing some formal reporting requirements, and encouraging relevant best-practice reporting solutions, for thinly traded smaller capitalisation entities. Doing this makes equity financing more attractive and lower cost for such entities.</p>
<p>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?</p>	<p>There is a strong case for taking a more co-ordinated approach to the development of reporting requirements. Currently several bodies are involved in the development and issue of standards and reporting requirements. These standards and requirements cover different aspects of reporting. Greater co-ordination would enable the different aspects of reporting to be better co-ordinated.</p> <p>However, it is difficult to see how a co-ordinated approach might be achieved. The paper sees a role for the accountancy profession in achieving this. We would question whether bodies such as IFAC or FEE have the resources and expertise to take the lead. Possibly, several leading professional bodies could work together and establish a cross border initiative.</p>

<p>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?</p>	<p>The Centre for Audit Quality (CAQ) in the United States, and the Audit Quality Forum and Financial Reporting Lab in the United Kingdom are examples of bodies that have brought together different bodies that share a common interest.</p> <p>Something similar could be attempted at a cross border level, if the right leadership could be found. Unfortunately, at the current time it may prove challenging to create a body like this to address reporting issues at the European level.</p>
<p>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?</p>	<p>This proposal is a desirable objective. There may be benefits from having such a group to address reporting needs in the continuing European Union. However, some of the bodies setting standards are global, and the influence and relevance of the European Union in this area will be reduced by the departure of the United Kingdom.</p>
<p>Q4.7. Are there any other suggestions you have for policy makers as to how they can foster innovation in corporate reporting?</p>	<p>We have no further suggestions.</p>