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FEE - "The Future of Corporate Reporting – creating the dynamics for change"

Dear Madam/Sirs,
First of all, FSR – danske revisorer (FSR – Danish Auditors) would like to express great recognition of the discussion paper published by FEE on the future of corporate reporting.

It is very much appreciated that FEE takes the initiative and opens a debate on such an important issue. FSR – danske revisorer has – based on FEE's discussion paper – also initiated debates on this issue. We have brought up the future of corporate reporting for discussion at two meetings, one in November 2015 under the auspices of the Danish Accounting Forum and the other one in April 2016 - a roundtable for selected stakeholders from larger Danish companies, analysts, creditors, public authorities, academics and the auditing profession.

We are preparing a publication which focuses on some of the themes covered by FEE's discussion paper, and which imparts opinions on the corporate reporting from various stakeholders, including opinions and conclusive remarks from FSR – danske revisorer. In this connection, we have had some good bilateral dialogues with several relevant interest groups on the questions mentioned in FEE's discussion paper. The publication is to be issued in Danish as well as in English, and we will send it to you when it is ready.

Our response and comments below are mainly based on discussions among the members of FSR – danske revisorer's Regnskabstekniske Udvalg (The Danish Accounting Standards Committee) and CSR-udvalget (The Committee on CSR-Reporting and Assurance), debates with external stakeholders and the interviews that we have conducted in connection with the publication.

Our primary messages to FEE in relation to the discussion paper are:

1.
Technology will change future reporting compared to today and will improve reporting by making it more accessible, dynamic, interactive and coherent. These years and in the years to come, huge changes are taking place in trade and industry owing to digitisation of processes and products, often referred to as the fourth industrial revolution. This leaves an urgent need to develop corporate reporting, both the way in which companies report and what they report on. So

far, corporate reporting has focused on historical accounting information. But in times of radical change, reporting should to a higher degree reflect these huge changes in trade and industry and should, therefore, be more forward-looking so that companies make themselves more worthy to be invested in.

2.
The IFRS standards have contributed to a joint global accounting language, and this has undoubtedly had a useful effect on the financial markets globally and in Europe, not least for large listed companies which have obtained better access to the global capital markets.

However, the development with severe changes due to digitisation happens at a pace in which traditional accounting and the accounting legislation and standards, which today stipulate the framework and especially detailed rules, cannot keep track. For instance, we often hear criticism that current standards and accounting legislation focus too much on tangible assets and historical transactions instead of informing about the company's intangible assets and digital resources, strategies, plans and future prospects.

3.
The companies' external environment expects that companies are more transparent about their role and activities.

In a world where information floats more freely, stakeholders will to a higher degree themselves be able to piece together a picture of the company based on information from many different sources and on various platforms.

This technological development will not render corporate reporting superfluous. On the contrary, the changes will require increased attention in the companies as they have to consider and decide what is material and relevant in the corporate reporting and take control of the information flow.

The company's management is best suited to assess what is material and relevant.

4.
At the same time, there still needs to be an overall framework – i.e. a bottom level and associated principles – which all companies have to comply with in order to secure a structure so that information is comparable and easily accessible. Moreover, the companies' rights and duties to determine materiality and relevance in the individual company must not take place to the detriment of the reliability of the information that is reported in new ways. It is important to secure trust and credibility in the information submitted. The requirements

concerning external validation will change but the need to secure trust and credibility will still play a crucial role.

In the future, companies should carefully observe which parts of corporate reporting users read. It is no longer enough to regard the reporting as a compliance exercise where a company may just use a boiler-plate approach such as a standardised annual report model.

The group of stakeholders that are interested in the actions, developments and the communication of the large companies is increasing. This does not necessarily mean that they are interested in corporate reporting. It seems that the users of corporate reporting are getting more and more sophisticated in relation to the financial and non-financial information they are requiring – digitisation has resulted in much more transparency about the companies, which has let to much more insight. We also see higher demands from the companies' surroundings for increased transparency about the company's values from a social perspective in the light of a growing understanding that society's resources, which companies make use of, are very limited.

The development of future reporting will determine whether the corporate reporting will meet this development or whether it will be left to general communication from the companies and a more informal dialogue with stakeholders.

5.
Corporate reporting is undertaking a rapid development. Especially in recent years, there have been added requirements in relation to non-financial reporting. Many companies choose to release separate financial and non-financial reporting. At the same time, several large, global groups begin to prepare integrated reporting. Several international organisations have good suggestions concerning the framework of future corporate reporting. One suggestion, which FEE's discussion paper refers to, is the excellent framework for integrated reporting published by IIRC. Companies can use this framework as their starting point on a voluntary basis. Based on the increased interest in the companies' ethical behavior, we also find it relevant for large companies to include the elements which appear from an integrated report in the corporate reporting.

6.
We regard the principles in the CORE & MORE model as a good model on how large companies should report, and we would suggest that it is further developed with clear principles concerning contents, assessment of materiality, comparability, reliability and updates etc.

Principles for contents should cover the financial as well as non-financial information and these kinds of information should not be regarded so separate as today.

The development of the CORE & MORE model should take place in close interaction between companies, public accountants and users of corporate reporting while a number of companies are simultaneously experimenting with the model in practice. The experiments should be encouraged by legislators and standard setters and could take place through a joint European platform, which our Institute would willingly support.

7.
We support the need for a legislative or standard issuing body which looks at the overall corporate reporting. It could for instance be a joint international body under the IASB or a joint body under existing bodies such as the IASB and IIRC, which will issue principles for the overall corporate reporting no matter whether the information is financial or non-financial.

We believe that legislators and standard setters should make room for experiments, but at the same time, it has to be ensured that companies are not burdened with parallel reporting requirements in order to meet what is legally required reporting requirements. We suggest a joint European effort where selected companies are allowed to experiment based on a set of principles, and that the experience gained is collected and used as input for the further development of the future reporting of large companies.

8.
We support the establishment of an advisory committee with representatives from companies, users and public accountants and would like to contribute by appointing relevant Danish representatives.

Scope, key working definitions and terminology

Corporate reporting defined
Even though it is not a part of the questions asked in the FEE-report, we have discussed the term "Reporting" which FEE's discussion paper attempts to define on page 15.

We find it positive that the FEE discussion paper initially tries to delimit the understanding of corporate reporting. However, we find that FEE should perhaps provide an even more specific definition as it is quite central to the discussions about future corporate reporting.

We believe that future corporate reporting will contain both historical, forward-looking, financial and non-financial information, be dynamic, interactive and coherent and will consist of both statutory and voluntary reporting subject to a form of principles for the reported information in order to secure that it is fair, comparable, relevant, material and reliable. Thus, we generally agree with the definition of corporate reporting which FEE presents. However, it is crucial to the future debate and development of the reporting that the definition is clear.
We believe that reporting should be understood in a wider sense than what people normally perceive and in relation to what legislators and standard setters have normally understood by "reporting". It would be useful to have a clear definition of when the reporting ends and when ordinary communication, branding and marketing begins.

At the same time, we also find that companies should ensure synergy between corporate reporting and other communication.

A definition of the term "reporting" should be incorporated in the CORE & MORE concept and the term can then be better developed and exemplified. In that connection, it would be appropriate also to describe the possibilities for the reporting companies in relation to using the reporting to secure trust, credibility, reliability and transparency and the importance or limitations of these factors for the definition.

There may also be a time perspective – both retrospective and prospective information is according to the definition a part of the term reporting, which we agree on. We also agree that it is reporting no matter whether the information is published at fixed intervals or whether the updates have a more irregular frequency. This may, however, be important for the definition of reporting versus more informal communication as reporting – as we know it today – is to a large extent retrospective and based on fixed periods such as the financial year.

Reporting will typically be effected by referring explicitly or implicitly to a financial reporting framework – statutory, standard or the company's own criteria (voluntariness).

As part of the objective of "Smart Government", ideas have, moreover, been put forward in Denmark that the public sector should reduce the companies' burdens in connection with reporting by letting the authorities "absorb" the requested information from existing channels instead of demanding that the companies *report* this information. It should be considered whether this type of retrieval of information should also be part of the term corporate reporting. In that case, the management of the company may not need to prepare a specific report, for instance once a year. That would imply a fundamental change of the term "reporting", which – as we see it – would involve several problems. For instance, it would then have to be secured that the company's management assesses and approves the system which is going to produce the requested information about the company, and that the system is verified.

All these aspects could with advantage be incorporated in the definition of "reporting".

Growing audience for corporate reporting
We have discussed with Danish stakeholders whether it is correct that there is a growing audience in relation to information about the company, i.e. that more and more people want to know more and more.

In recent years, demands have been incorporated in the Danish accounting legislation – most of which are also to be found in the European accounting directive – on reporting about payments to authorities (country-by-country reporting), disclosure requirements concerning good corporate governance, the companies' corporate social responsibility and on composition by gender in the managements of the companies. These are examples of the assumption that there is a growing audience for corporate reporting and that it is not only the shareholders' own interests in information about profit and possibilities of dividend that are considered in connection with corporate reporting.

It should, however, be noted that Danish companies have during the meetings arranged by FSR – danske revisorer suggested that the development is rather characterised by the fact that the users of corporate reporting have become more sophisticated. The number of users that actually read through the entire annual report is not necessarily growing.

But it is questionable whether stakeholders will also in future seek relevant information in the financial reporting of the companies.

It is assumed that the increasing demand arises from i.a. the technological development and especially the larger amount of information and transparency created via the Internet. The increasing use of alternative media may reflect that in many cases users demand information without paying attention to whether the information comes from financial reporting or from general communication on for instance social media.

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?
The management of a company discusses and decides on goals and the contents of the reporting in order to address legislative requirements, standards as well as stakeholders' information needs.

It is hardly realistic that the company's reporting can meet the various information needs of all stakeholders.

At the same time, we believe that companies will to a larger extent keep up with which parts of the corporate reporting users read, for instance at the company's website. We also believe that companies to a larger degree analyse and define who the users are and that they seek feedback from their users as users have become more sophisticated in their wishes and may have more different backgrounds than was previously the case. Naturally, the reporting has to meet the requirements stated in legislation and standards, but it is no longer enough just to look at the reporting as a compliance exercise where a company can use a boiler-plate approach.

The various stages of the reporting process have not been carefully described coherently in FEE's report. The preparers of financial statements will undoubtedly receive input from the users on their information needs down the line. This will take place by means of continuous day-to-day contact with the users, at investor meetings and capital market days and through enquiries from financial analysts. There may also be a formal dialogue especially about shareholders' wishes for the financial reporting at the annual general meeting. It is, however, important to keep in mind that shareholders are not the only stakeholders.

The management of a company should assess the relevance and materiality based on input from stakeholders.

Companies increasingly regard the corporate reporting as an important part of the companies' total communication, and therefore companies seek input for the reporting process through many channels.

Users should be involved as early as possible in the reporting process so that these inputs can contribute in the best possible way to the total reporting which the process results in.

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

Yes, we have observed several impediments to reach to a broader audience. These include:

- Regulatory environment

There is hardly any doubt that for instance the regulatory environment impedes the possibility to reach to a broader audience. Many players in the financial reporting process regard financial reporting as a pure "compliance" exercise and not as an activity which is in itself very productive for the company.
Moreover, we refer to our answer below to Q 4.2.

- The accounting standards

The accounting standards of today are quite complex. This implies that the annual reports are very extensive and contain both material and less material information. Moreover, there may be competitive conditions in some fields and in some geographically defined markets. This may result in the companies being reluctant to give more information for instance about expected future investments.

By submitting information that does not fully comply with current legislative requirements and standards, the different players in the reporting process risk being criticised by enforcers, being charged with a disciplinary liability and with liability for damages caused by additional (non-statutory) information.

- Various interests

We also see a challenge in a comprehensive joint annual report directed at all users as these users have various interests. Therefore, some people find that companies should release different reports to different users. However, this implies that it will be difficult for the users to obtain a full and coherent picture of the companies.

The users have various interests. We thus agree with FEE on the following statement (on page 29):

”Separate reporting to each, or each type of, stakeholder group is not a realistic approach. Nor can a single ‘general purpose’ report realistically meet all the needs of all stakeholders”.

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

Owing to the technological development, stakeholders can more easily get involved on an on-going basis to inform the materiality determination process undertaken by the management of the reporting entity.

Whereas corporate reporting was previously addressed to the shareholders who perhaps only took part in the annual general meetings and therefore had an annual contact to management, a gradual change has taken place so that the corporate reporting is more continuously directed at potential investors, creditors and other stakeholders.

Companies should be attentive to and analyse what kind of information their stakeholders request, even though the information in question exceeds the minimum requirements in current accounting legislation and standards.

The social media and other forms of technological possibilities may be used as a platform for both reportings and for feedback from the users.

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

Yes, we assume that users are involved more and earlier in the process and that they are willing to give feedback to the companies. We see examples that the corporate reporting is turning into a more interactive product of more value to the users.

As there is today a wider group of users and a broader interest in non-financial matters as well, it is far more complex to meet the needs of all users. One cannot just assume that all users are just interested in knowing the amount of profit and how much dividend will be distributed. Therefore, it is necessary that the company weighs the various interests and decides on a common denominator concerning the need for relevant and material information. When all comes to all, the company's management is best equipped – and has the duty – to assess what is material and relevant.

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

We imagine that technology can assist the companies in their preparation of better reporting which will be more accessible, interactive and dynamic.

The internet, the possibilities of Big Data analysis, mobile communication and the social media are playing an increasing role. More people have access to corporate reporting through these channels.

The companies' internal financial management procedures and management's reporting are also affected. Through technology, all transactions are contained in the same system as both recipient and sender are in the system, and the transaction is documented in both places and in the same way. Thus, financial management procedures and management's reporting become more automated and efficient.

In Denmark, there is now free access via the Internet to the financial statements of all public limited companies and private limited companies which have been submitted to Erhvervsstyrelsen (The Danish Business Authority). We have experienced that the annual reports of Danish companies, which are freely available, are very often downloaded by external users. The free access has increased demand significantly.

As part of the objective of Smart Government, ideas have, moreover, (as previously mentioned) been put forward in Denmark as to whether the companies' burdens in connection with reporting could be reduced if authorities could by using the new technological solutions "absorb" the requested information from existing channels instead of demanding reporting.
Please also see our answer to Q 2.4 below.

Content of corporate reporting

Q2.1. Do you agree that financial statements have lost, or are losing, some of their relevance?
As a stand-alone reporting mechanism for a broader stakeholder audience yes. For a more narrow group of stakeholders being providers of financial capital they are still relevant, but need to be supplemented by additional information to get a broader view on the company and its prospects.

We understand the assertion that financial statements have lost, or are losing, some of their relevance. This is at any rate the case when financial statements are compared with the amount of other information about the companies. However, we find that the annual report is still important to many users and often the most important information. We agree that reporting could be improved if other types of information were included and if the report could be published at an earlier date. Moreover, it would be an advantage if the annual report contained more information about the company's strategy, business model and other information, which may consolidate the expectations of the future.

The Financial statements are essential when it comes to describing historical results. This is important as any projection and outlook – and interim financial reports during the year – are based on the historical financial statements. However, forward-looking information and understanding of the environment in which the company is operating will be central in connection with the projections. Especially in the light of the changeable business environment which companies are experiencing, sometimes referred to as the fourth industrial revolution, where the future will probably be very different from the historical development.

Several surveys show that the annual report is still the most important source of information for professional investors, private investors, share analysts and banks. We refer to:

- ”Værdien af årsrapporten”. Copenhagen Business School and PwC (2011) (The value of the annual report)
- "Brugen af årsrapporter for mindre virksomheder. Analyse udarbejdet af DAMVAD for Erhvervsstyrelsen" (2014). (The use of annual reports for smaller companies. Analysis prepared by DAMVAD for The Danish Business Authority (2014))

We have also learned from Finansrådet (The Danish Bankers Association) and from financial analysts that the statutory audited annual report has certainly not lost its importance. The banks need good and updated documentation in the form of accounting information about the value of customer commitments according to requirements from the financial supervisory authority.

Today, many stakeholders have access to information from many sources. In addition, the financial statements are sometimes published too late. Users wish to have updated information and more information about future prospects/financial targets.

It is important that users constantly regard financial reporting as relevant and useful reading.

If, as was originally the case, the financial statements contain only income statement, a balance sheet and information about dividend (distribution of net profit), the financial statements are not very relevant for the broader group of users. Today and in future, society is/will be characterised by scarcity of resources. Both physical and intellectual resources. Today and in future, commercial enterprises play/will play an important role for society and have to "answer for" the use of resources and for the output not only in relation to the owners but also in relation to society in a broader sense.

Professional analysis plays a more important role and such analysis demands more and more detailed information from the companies. Other users will focus on what is relevant and important. There is often criticism that the annual reports have become too extensive and too complex, not least because of many requirements for disclosure in the notes and information on accounting policies in areas that are not necessarily that relevant in a given company. It may e.g. be disclosure in the notes on financial instruments and on share-based payments where the information is perhaps only of significant importance for the users in case of few companies. We also hear that annual reports contain pictures of products (advertisements), which is irrelevant to most users.

As each user is different, each of them is interested in different parts of the corporate reporting. Thereby, there is a risk that a comprehensive report may not meet the wishes of all stakeholders who will, therefore, seek other ways to find information and to affect the companies' decisions than through a "one-way communication" such as the typical financial statements of today. Therefore, we find that corporate reporting should be seen in a broader perspective.

Financial statements should be supplemented by a management's review in which management specifically accounts for business models, strategies and forward-looking information. The budget figures should to a higher degree be reported – and conditions and risks in relation to future prospects should be accounted for.

Please also see our answer above to Q 1.2.

Q2.2. ***If so, which are the key issues resulting in the declining relevance of financial statements?***
As mentioned, we generally think that financial statements are still of significant relevance to the companies' stakeholders.

However, today, users request more information than what appears from a traditional annual report. The users have become more sophisticated. Besides, the users require faster and more forward-looking information. The earnings announcements, which companies publish today, are released shortly after the end of the financial year and are undoubtedly very useful. However, earnings announcements and the full financial statements do not give the complete picture which users require, for instance of expected forward development and of the companies' interaction with surroundings.

The forward-looking information on performance that is increasingly being demanded concerns both financial and non-financial information and not least correlations, both mega trends and other circumstances, which affect development in future. Forward-looking information should also contain information about the prerequisites on which the information is based.

We often hear that financial statements are too focused on tangible assets and that they attach too small a focus on intangibles and digital resources which are often not recognised; however, they are very important within a modern company.

Likewise, information on the broader social effects of the company's production and use of resources is often required. Some companies that have to meet this request prepared environmental reports or a triple bottom line.

In this connection, it should be noted that there may be reasons regarding competition exposure why companies tend to limit the information in their financial reporting. Moreover, a lot of the information such as budgetary information is typically an internal management tool and thus not information that can just be published as part of external corporate reporting.

Moreover, we refer to our answer to Q 4.2 below.

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?***
The first step is to regard reporting in a new way and to view it as more than just pure financial reporting. It is not about optimising what already exists but about identifying and developing another formula.

Standard setters and companies have a huge task ahead of them to renew financial reporting. We would like to draw attention to the fact that IASB is about to complete a new Conceptual Framework for Financial Reporting. This may create the basis of more modern reporting. For instance, a broader definition of the elements of the annual report is used so that companies might be expected to recognise more assets and liabilities. However, the new Conceptual Framework will hardly involve a major revolution of the companies' financial reporting.

Thus, we believe that it takes more than just another Conceptual Framework.

One option is to re-design the financial reporting so that it can be read by various users. Standard setters and policy makers must pave the way for this change. Nevertheless, at the same time, reporting must be relevant and reliable.

We would prefer that the notes to the financial statements are structured in such a way that the most significant notes are stated at first – preferably in groups according to topic. EU's accounting directive prescribes a sequence of the notes which corresponds with the sequence of the equivalent items in the financial statements. This is not in harmony with the principle that the most important notes in the company in question should be placed more conspicuously - before the less important notes.

Q2.4. ***How could technology assist in innovation for financial reporting?***
The new technology has paved the way for a number of possibilities.

We imagine that technology can assist the companies in connection with designing better financial reporting which is more accessible, interactive and dynamic. For instance, technology can:

- Help understand the users' needs for information (what do they search for/use)
- Help with the presentation of information and demonstrate correlations between various types of information
- Provide faster corporate reporting.

Some technologies are also getting better and more intelligent. For instance, search engines. If you have an accounting or tax related question, advanced search engines can in future perform a search in the various auditing companies' guidance books, accounting policies from other companies in the same industry and in IASB's guidelines and – based on the achieved information – conclude what is best practice in the area.

There are also a various tools that can keep track of which pages of the annual report that are most read.

We see examples of Big Data and new technology, such as accounting data in "the cloud", contributing to opening up for better communication and distribution of financial information both for the individual company and at an aggregate level. Technology makes it possible for many stakeholders – independently of time and place – to get fast and easy access to the companies' financial reporting.

New technology is an obvious opportunity for the companies to present and distribute accounting information in more user-friendly ways and for structured reporting such as XBRL.

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?*
One of the key challenges is that NFI is often treated separately and not in connection with financial information.

International organisations have already prepared guiding material on NFI. Several years ago, Denmark introduced a requirement for CSR-reporting. In Denmark, we accept – as an alternative to fulfilling national requirements – future reports in accordance with the UN Global Compact, UN's principles for responsible investments and GRI with a view to fulfilling requirements on CSR-reporting. The European Commission also works actively on the subject and considers publishing a guidance.

There are many different types of NFI, and it is difficult to reach an agreement on the contents and on who should issue the rules. It may also be difficult to procure funding for such an international standard setter.

It will take some time before the existing guidelines on NFI from international organisations will be regarded as generally accepted all over the world in the same way as we accept certain predefined financial information in the annual report. It is a challenge to issue internationally acknowledged standards as there are various wishes, various occupational structures and cultural backgrounds in different parts of the world and various organisations working on the subject that do not necessarily have the same priorities.

The newly established global forum Corporate Reporting Dialogue may be a way forward. However, we are unsure whether this is the proper forum, and it may be inexpedient to have many parallel fora within the international corporate reporting community.

We support the need for a rule issuing body which covers the total corporate reporting. It could for instance be a joint international body under IASB or a joint body under existing bodies such as the IASB and IIRC, which issue principles for the total corporate reporting no matter whether it concerns financial or non-financial information.

We would also like to draw attention to the fact that the FEE discussion paper describes ”non-financial information reporting” as a concluding part of chapter 2 on ”Content of corporate reporting”. We agree that financial information alone can no longer represent a complete picture of a company’s value (cf. page 47). Therefore, we would have liked to see that the FEE paper had sought to integrate financial information and non-financial information much more instead of considering it as a kind of extra / silo-based reporting.

Q2.6. *Which organisation – if any – should take the lead in developing an internationally accepted principles-based framework for NFI?*
We understand that the IASB is presently reticent to take lead in this area. Perhaps this is due to limited resources and competences in the present Board. But we would prefer that FEE, EFRAG and other influential players exert pressure so that the IASB can develop and can thereby take on the role – or alternatively – that a new consultative body among players in different parts of the world will be established with a view to issuing principles for the total corporate reporting.

It is important that all stakeholders are actively part of such a body and that good funding has been secured.

Much could speak in favour of one and the same organisation being the acknowledged standard setter for all corporate reporting as this reporting should be regarded as a whole (holistically and integrated). We should seek to avoid that there is a sprawl of standards and regulations on various elements of NFI and we should avoid that these contradict each other (cf. page 48).

Q2.7. ***What is the appropriate level of authority that those principles should have?***
It may take time before international principles on corporate reporting become more or less authoritative through voluntariness.

Attempts should be made to develop principles for NFI as part of principles for corporate reporting as a whole. Otherwise, it cannot be expected that they will be acknowledged and have impact in practice. At European level, it would probably be natural that the European Commission and/or a skilled and broadly assembled body à la EFRAG endorses such principles or takes the initiative to establish European rules on corporate reporting as a whole.

Q2.8. ***What is the best approach to experimentation in the area of NFI? What challenges would constituents be expected to face?***
We support that the approach must be principles-based so that general practice can be developed through experiments, good examples and peer pressure.

In order to facilitate comparison between similar entities, standardised KPIs could be used for the most important indicators. Generally, the key to better NFI in the future is to find a way to measure it in a way that can be validated.

Valuable exchange of experience can be achieved through experiments. In Denmark, we have successfully introduced yearly annual report awards and CSR awards which encourage companies to improve their reporting both concerning traditional accounting technical subjects and concerning NFI-reporting. In recent years, many people have attended these arrangements which give professionals and other stakeholders the possibility to network and exchange experience.

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?***
Yes, we see CORE & MORE as a good and relevant principle for future reporting. We find that there is a need to develop principles to assess contents, including relevance, materiality, updates etc.

As part of this development it is central to allow experiments, and it must be avoided that the result is just double reporting and thus just an increased burden of financial reporting for the companies.

We believe that the model is best suited in listed companies and generally in large companies. The company has to decide – in dialogue with stakeholders and through experiments – what to report as CORE and MORE respectively. CORE is broader than "just" the present earning announcements to shareholders. It covers all or different interest groups.

If financial account users have to relate to various reports, they may find it difficult to get a complete and coherent picture of the companies. Therefore, FSR – danske revisorer agrees that comprehensive reporting such as CORE & MORE would be advantageous.

It is important to define clearly the stakeholder group(s) that should benefit from the information provided.

It might be useful to involve stakeholders in a dialogue on what they regard as CORE and MORE respectively.

It would also be useful to have a debate with primary stakeholders in order to settle which contents is material – including whether focus is the "from inside and out" perspective (what does the company think that stakeholders should know?), or the "outside and in" perspective (what do stakeholders think that the company should inform them of)? Or whether both perspectives should be in focus (two-way communication) in the model suggested by FEE.

CORE could, for example, be designed as a brief integrated report in accordance with the IIRC Framework. Since the IIRC does not stipulate which format to use, the two approaches might be regarded as complementary.

MORE can perhaps replace a number of disclosures in the notes and supplementary statements/reports such as a report on corporate governance, a report on corporate social responsibility and a report on under-represented gender in the management. Moreover, budget information could be part of the MORE-reporting. This could contribute to reducing disclosure overload in the central report (CORE).

We agree that the European Union and the national governments could contribute by allowing that companies prepare CORE & MORE-reporting, which will only be available on the Internet, without additionally having to prepare a traditional annual report in pdf and XBRL-format. This should be possible in order to avoid that CORE & MORE will just result in further bureaucracy for the companies.

Q3.2. *In which ways could the CORE & MORE help addressing the needs of a wider stakeholders' group?*
CORE & MORE can contribute to securing relevant information to a wider stakeholders' group by including relevant information - both financial and NFI - in

both CORE and MORE and by having the most relevant and material of all elements in CORE and with elaborations in MORE.

It is positive if CORE & MORE will induce companies to report more contemporarily and continuously in future. There will be a legitimate expectation that new technological possibilities are used so that reporting will take place faster. This has to be done while at the same time taking into consideration that the quality of the reporting has to be secured and the reporting validated.

Q3.3. *What is the role of technology in developing a CORE & MORE model?*
It is important in connection with the development of CORE & MORE because it will make it easier to secure a connection and to move around in the various parts compared to using ordinary documents.

The Internet, Big Data, structuring of data in for instance XBRL, mobile communication and the social media are important factors.

We also refer to our answer to Q1.5 above.

Q3.4. *Do you have any thoughts on whether, when and how corporate reporting should be updated?*
The participants in the annual general meeting of a company has to relate to and approve one document as being the company's official report and financial statements for a given financial year. However, this does not prevent the company from publishing updated information during the year. Today, listed companies use stock market announcements as information channel during the year. Perhaps, it would be an advantage to take this into account when defining the CORE & MORE model.

The frequency of updates should – in addition to the requirements that appear from legislation and from stock markets – be up to the company, based on a current evaluation of stakeholders' needs.

There may be a need for financial reporting to take place more and more frequently and rapidly in future in order for corporate reporting to remain relevant to users.

During debate meetings with Danish companies we have learned that companies point out that some information does not even need to be updated or published every single year, such as information on the company's corporate governance system or information on a multi-annual strategy. Thus, parts of the reporting could take place more rarely.

In the future, there will be many changes – for instance concerning the possibilities of extracting information from corporate reports - and it may be expected that stakeholders will contribute to defining how often financial reporting should be updated. Should users be able to collect information online when they need it? Differently for various types of information (regularly for some, and for instance only occasionally for others whenever there is any news). It may for instance be useful to update going concern data frequently if the company is in crisis and the annual report thus cannot conclude as to whether the company can continue its operations, for instance due to ongoing negotiations about renewal of credits.

Relevance also implies an independent external verification of the corporate reporting whereas the management is responsible that the company establishes systems that secure punctual, relevant and reliable reporting.

There will be a larger need to incorporate preventive rather than detecting supervision of the companies' systems.

It is relevant not only to focus on the speed at which information is shared, but also on the possibility of segmenting data in new ways which can give another type of insight than the way information is shared today while at the same time securing quality/reliability.

When financial reporting is provided online on websites, it is important that the user can see which information has been audited/verified and by whom and the level of assurance with which the auditor's work has been performed. We would like FEE to continue the work on how this could be done in practice.

Q3.5. *How should policy makers and standard setters address the trade-off between standardisation versus innovation?*
Policy makers and other decision-makers should enter into a dialogue and listen to recommendations to develop and improve corporate reporting.

Legislators, supervisory authorities and standard setters should allow experiments with new forms of reporting as an alternative to the present rules of law and standards which are often seen as restraining and a hindrance to innovative development.

We find it problematic if policy making ways so heavily that there is no room for innovation, cf. the figure on page 72.

We are familiar with the fact that the IASB has initiated a Disclosure Initiative and has so far made some changes to IAS 1 - Presentation of Financial Statements. This is a small but relevant step forward.

Q3.6. ***What are the main challenges and the key benefits of a parallel experimentation in the area of corporate reporting?***
It may be an advantage for everyone if there is room for innovation within a certain framework so that companies are not limited by the present, very detailed rules and standards.

On the other hand, it would be a disadvantage if - owing to too much room for experiments – very different practices for corporate reporting are developed so that it may become impossible to compare the corporate reporting of the companies. If companies – including the ones that take advantage of the possibility to/obtain permission to experiment – do not publish more or less the same information, it may create uncertainty about the reliability of the corporate reporting. In this connection, the principles of corporate reporting are relevant.

Approach to policy making and innovation

Q4.1. ***Which obstacles, if any, should policymakers remove to allow for innovation in corporate reporting?***
It is important to break the vicious circle.

This can be done by creating increased attention with all participants – and then by reaching agreement among the participants – on the need to renew financial reporting.

These years we see more positive tendencies to break the vicious circle, including a modernisation of the IASB Framework, Disclosure Initiative, better structure of the notes and renewal of the auditor's report, cf. changed standards from the IAASB.

Moreover, we refer to our answer to Q3.5 above.

Q4.2. ***Do liability concerns, arising from non-compliance with reporting requirements, form a barrier to innovation?***
Yes, liability concerns play a major role and counteract the willingness of experimenting.

We refer to a report prepared in Denmark: ”Better Business Reporting. A study into the barriers to improvements in annual reporting” from Copenhagen Business School, Department of Accounting and Auditing, and KPMG (now EY) in Copenhagen[1].

[1] KPMG in Copenhagen (now a part of EY) and Copenhagen Business School: ”Better Business Reporting. A study into the barriers to improvements in annual reporting” (2012).

The report concludes that there are several external and internal barriers in the companies, which keep the preparers of financial statements from carrying through improvements in their annual reports. These barriers include a defensive compliance environment, lack of feedback from users and the fact that the preparation of the annual report has a tendency to be a standardised annually repeated exercise, which can in itself be protracted and challenging. The report has the following recommendations:

- soften the defensive reporting environment
- create better feedback environment
- make the process more receptive to change and innovation.

Q4.3. ***Is the current structure of dialogue between policy makers and corporate reporting constituents effective? If not, how should this be improved?***
No. Legislators at for instance European level are not sufficiently interested – and too sporadically - in the usefulness of corporate reporting at a wider social level. It is important that for instance the European Commission plays a more active role.

The individual company is, however, also itself largely responsible for testing ways of improving corporate reporting, including securing a dialogue with the financial statement users, and for following and participating in the debate on a better reporting. There is hardly any doubt that it requires an increased use of resources but when all comes to all we presume that it will be a useful effort which is valuable not only to the users but also to the companies themselves.

As suggested by FEE, we support the establishment of a group, which can counsel and inspire the European Commission and governments. This group should have participants from relevant interest groups such as companies, public accountants, analysts, other user groups and authorities. We would like to contribute by identifying relevant stakeholders.

Furthermore, we refer to our answer to Q4.6 below.

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?***
The legislative process should be more dynamic so that companies do not risk being "stuck" in old views of how reporting should take place. At the same time, there should be better coordination between legislators, enforcers and standard setters. It is important to avoid new requirements concerning corporate reporting drip by drip and it is important that all parties see corporate reporting as a

whole. We are aware that there are today cooperative fora internationally and at European level under the auspices of the IFRS Foundation and EFRAG. Steps have also been taken to establish international cooperative fora between the financial and the non-financial reporting (Global Reporting Dialogue). These initiatives are positive.

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?***
In Denmark, there is a good dialogue between preparers of financial statements, public accountants and authorities. Erhvervsstyrelsen (The Danish Business Authority) and Finanstilsynet (the Financial Supervisory Authority) have also emphasised "materiality" as an important factor and have, thus, also encouraged the companies to avoid insignificant boiler-plate reporting. Through the annual report award and the CSR award, we have the opportunity to affect corporate reporting behavior in a positive direction. We could see a point in replicating such initiatives at European or more 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?***
Yes, and participants should include companies which have in recent years been working with new approaches – including companies which have been working with IR.

It may undoubtedly be difficult – or impossible – for the individual company to oppose current legal requirements and standards concerning the contents of the reporting and how reporting should be performed. Therefore, the debate about future reporting should take place jointly between companies, authorities, public accountants and other stakeholders.

Therefore, we support the establishment of an advisory committee with representatives from companies, users and accountants, and we would like to contribute by appointing relevant Danish representatives.

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

You could allow a group under European auspices to experiment (see our remarks above). Otherwise, we have no comments.

Kind regards,

Brian Wessel
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