# FEE

## The Future of Corporate Reporting-creating the dynamic for change

## A few views on the FEE document, dated October 2015

**General**

The FEE document on corporate reporting offers interesting reading on an important subject. The document is well written and provides many ideas worth considering in the design of the future of corporate reporting.

It suggests a new reporting model for more timely corporate reporting information to a wider range of stakeholders with different interest in corporate affairs and assumes that current patterns for corporate reporting fail to address all stakeholders´ needs in a comprehensive way. It argues as if the suggested CORE and MORE approach in the document would be necessary for overcoming some of the shortages discussed. However, it does not consider what it would take to make improvements of corporate reporting in other ways. For example, if there is a lack of an overarching structure to obtain a fair understanding of the key elements of a company´s affairs, then the dynamic developments  of technology discussed in the FEE document could be used for providing a on the website a summary of available sources of information with applicable links. This could be achieved without any changes in corporate reporting and through the communication channels that seem to be most appealing for many stakeholders.

Although the document offers many interesting ideas and suggestions, there are some aspects that would have benefited from a more thoughtful approach, e.g. the determination of the problem at hand and the consideration on how to deal with user needs. Also some more careful language on the concepts used would have been welcome.

**What is the problem?**

The notes under this heading are based on the view that any document setting out ideas aiming at a change for improvement should clearly identify the problem at the outset. The document prepared by FEE (hereafter: the FEE document) may not quite succeed in this respect.  It is noted that the FEE document admits that there may not be a common view on what the problems are, let alone how to fix them (Executive summary, page 7), but then it goes on suggesting ideas on how to drive future developments in corporate reporting. *Comment:* If one does not know what the problems are, how would one know that changes of corporate reporting would be the answer?

The following includes examples showing that the FEE document does not distinctly nail down what the problem is.

1. One problem noted in the Foreword is the growing difference between the market capitalisation and net asset value of leading global corporates (page 3 in the FEE document). *Comment:* If this is the problem it seems that something might be considered for the reporting of assets and liabilities, which is not what the FEE document deals with. Besides, financial reporting does not intend and is not able to reflect market capitalisation, see for example the IASB Conceptual Framework, chapter 1, OB7.
2. It is argued that ´the current economic model assumes that companies are not only accountable to capital providers but to a wider stakeholder audience´(page 8). *Comment:* This is a very different problem than the one referred to in p. 1 above.
3. The Executive Summary also mentions the achievement of ´a better depiction of the economic position and performance of entities´ (page 7). *Comment:* This sounds as an implicit suggestion to change, among other things, how assets and liabilities are reported, but that is not what the FEE document is set out to deal with.
4. The Executive Summary also suggests (page 9) that overload of information and detailed disclosures are a problem. *Comment:* If this is true and if it is a major problem, it seems that it should primarily be solved within the boundaries of financial statements rather than through the wide approach of the FEE document.
5. It is also suggested that financial statements are seen as a compliance exercise (page 9) or approached as a checklist approach (page 12). *Comment:* These are assertions, but not backed by the kind of supporting arguments that a document of this nature requires.
6. An additional perceived problem is that financial information can ´no longer represent a complete picture´ (page 9). *Comment:* That is a strange statement, because financial information does not intend to present a complete picture, see for example the IASB Conceptual Framework, chapter 1, OB6.
7. Another statement is the idea that economy has move away from primarily relying on tangible assets to relying also on intangible assets, which are not recognised on the balance sheet (page 9). *Comment:* The reason why some intangible items are not recognised on the balance sheet is that they do not meet the definition of an asset. If that is a problem to be fixed, it should be fixed for financial statements purposes, thus hardly a problem for the FEE document.

**The user issue**

The notes under this heading are based on the view that there may be many users of what is called ´corporate reporting´ and that different users have different needs, although some of the needs may coincide. Arguably it is generally difficult to satisfy different needs through one type of report, because efficient communication will require focus and it is hardly doable to aim at different users and their perceived needs and maintain focus. Nevertheless the FEE document seems to take the position that corporate reporting should address the needs of different stakeholders: ´a wide an general audience in a language aimed at non-specialists´(page 58). *Comment:* It is noted that the Core report is supposed to present ´a fair understanding of the key elements of a company´s affairs´ (page 59), however without referring to the accountability and stewardship issue highlighted in the first sentence of the Executive Summary (page7). Is accountability not an objective of the Core report?

Users are referred to in the FEE document in different ways. Some examples are noted below.

1. It is stated that there is no single report in itself that includes all the information that tells the company´s story. Therefore it is not possible for a user to obtain a comprehensive view of all the separate reports that are produced (page 56). *Comment:* The underlying idea in the FEE document seems to be that it would be useful and doable to produce such a report. However, different users may have different needs. Also within a user group, e.g. financial analysts, there are differences. Buy-side and sell-side analysts often have different needs and there may also be geographic differences. Further, needs may change over time. It remains to be seen how user group differences could be reconciled and put together in a single report in a meaningful way. Redefining what is currently the primary users of financial information and corporate reports would probably dilute any information provided, running the risk of producing less than meaningful information. It would have been welcome to find some indication in the FEE document on how to widen the objective of corporate information and at the same time maintain precision in the information provided and still produce something comprehensive.
2. It is suggested that custom-made reporting would assist users to arrive at informed decisions of their own instead of the company trying to guess or identify what they need (page 19). It is also stated that user needs should be better identified by accepting feedback from stakeholder groups (page 19). *Comment:* It is however not clear on what basis it is asserted that companies are guessing when collecting views of user needs. Applicable academic literature shows efforts of reporting entities to capture the needs of users. Also standard setters have been active in this area through discussions and round-tables. The reference to guess work is therefore hardly justified.
3. It is suggested that the CORE report can be seen as an executive summary of the company´s affairs and that management should have adequate freedom to select the content and format of the information to be included (page 58). *Comment:* It is not clear how this preparer oriented view is reconciled with the consideration of the user needs discussed elsewhere in the FEE document.
4. There is a need for a change in corporate reporting to meet stakeholder needs in an increasingly complex business environment (page 13). *Comment:* It is however argued that the new reporting approach should include information of interest ´in a language aimed at non-specialists´(page 58). It is not explained why an increasingly complex environment would be benefited by a language aimed at non-specialists. Does not complexity sometimes require specialist language?
5. It is stated that there is some confusion over the primacy audience of financial information. IFRS is intended to meet the needs of capital providers and at the same time IFRS should help other users of financial information make economic decisions (page 24). *Comment:* There is no confusion. The IASB Conceptual Framework (and the standards) simply focuses on existing and potential investors and other capital providers. It does so to provide financial information that is useful in making decisions about providing resources to the entity. Financial information is of most importance for its prime audience, i.e. those who provide resources to the company.

**Concepts used**

The comments under this heading are based on the view that concepts used in the FEE document should be either well-known or properly defined. A lack in this respect may make the document unclear and run the risk of creating misunderstanding.

Below some examples are found, showing that concepts are used without supporting definitions.

1. In the Foreword ´the true value drivers´ of current businesses are mentioned. *Comment:* ´True value´ is a vague term and it is not clear what it stands for, nor is it made any attempt to define it (page 3).
2. In the Executive Summary reference is made to keeping pace ´with the developing economic reality´ as if this was a defined concept (page 7). *Comment:* It is not.
3. The Executive Summary also mentions the achievement of ´a better depiction of the economic position and performance of entities´ (page 7). *Comment:* This sounds as an implicit need to change, among other things, how assets and liabilities are reported, but that is not an issue discussed in the FEE document .
4. In the Executive Summary reference is made to the ´current economic model´( page 8). *Comment:* It is not clear what this means.
5. It is stated that corporate reporting currently focuses on capital providers (page 23). *Comment:* That statement seems to confuse ´corporate reporting´ with ´financial reporting´. It is true that financial reporting focuses on capital providers. It is what it should do. It is less true that corporate reporting, as defined (page 14) in the FEE document, has a focus on capital providers. The definition there is ´a mechanism for communication, accountability and stewardship to stakeholders´. Corporate reporting includes and is wider than financial reporting. Further the term stakeholder represents a wider group than capital providers.

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