



**ACCOUNTANCY
EUROPE.**

CORE & MORE

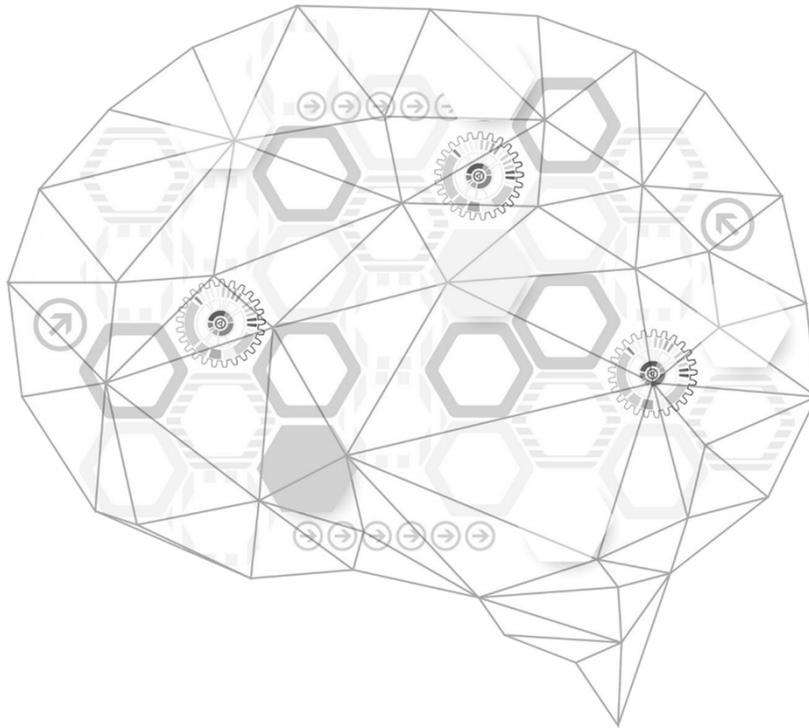
An opportunity for smarter
corporate reporting

September 2017

COGITO.



Cogito: I think
Accountancy Europe's
thought-leadership series



COGITO

This document is part of the *Cogito* series, a selection of thought-provoking publications by Accountancy Europe.

Cogito (i.e. *I think*) is set up to provide new ideas for the European accountancy profession. With this series, we aim to enhance innovation and our contribution to business and society.

This publication aims to stimulate debate; the views expressed thus do not reflect the official positions of Accountancy Europe or any of its 50 member bodies.

HIGHLIGHTS

This paper elaborates on the Core & More concept that Accountancy Europe introduced in our thought-leadership paper *The Future of Corporate Reporting – creating the dynamics for change (2015)*. Stakeholders' responded positively to this idea and asked us to further explain the Core & More concept.

Core & More aims to present corporate reporting in a smarter way, organising financial and non-financial information based on the interests of users. Information relevant for a wide range of stakeholders would be in the Core report, and supplementary details for a more limited audience would form the More reports.

This paper develops the concept further and provides ideas on what information could be presented in each of the pillars. We explore how technology might support the Core & More concept, especially in the context of an online report. The paper also addresses the relationship between Core & More and the Integrated Reporting initiative, as well as the need to foster innovation.

This paper is part of Accountancy Europe's contributions to improving corporate reporting. Please see our other efforts on <https://www.accountancyeurope.eu/tag/future-corporate-reporting/>.

EXECUTIVE SUMMARY

In an era of fast technological change and information overload, corporate reporting must be agile and evolve to remain relevant. Decision makers increasingly rely on information other than an organisation's corporate reports, such as the annual report. Most significantly, traditional siloed reporting no longer meets the expectations of users.

The Core & More concept encourages corporate reporting in a smarter way and for a wider stakeholder audience. At its heart, Core & More is a presentation concept aimed at organising different strands of reporting in a structured yet connected manner.

The Core report would be an 'executive report' focusing on the most relevant and material information about the company, directed towards the widest of audiences. The More reports would capture more detailed and supplementary information, some of which may be intended for specific audiences. Most of the Core, together with selected More reports or parts thereof, would likely comply with the legal reporting requirements as currently fulfilled by the annual report.

Although the Core & More concept does not seek to define the content of corporate reporting, some ideas are put forward in this paper. The Core report could include: key financial and non-financial figures, prospects, and risks. Examples of topics covered in More reports might be: detailed financial statements, sustainability information, and employee-related information.

Stakeholders already expect a move towards online reporting. In a digital report, links and technology will help readers navigate to what matters most to them. A user seeking further details on a topic presented in the Core could easily access the relevant More report thanks to a simple hyperlink. Taking things further, the executive summary in the Core report could be accompanied by a dashboard based on the user's preferences.

Innovation and experimentation will be key to further developing corporate reporting. Therefore, a balance would have to be struck between guiding principles and flexibility for management to determine how best to report on their organisation. Presentation concepts such as Core & More should also be introduced on a voluntary basis to facilitate adoption.

Policy makers, regulators, and standard setters also have a role to play. Removing barriers and encouraging of experimentation will be necessary. Innovation could also be fostered through the exchange of best practices via an EU level Corporate Reporting Lab, similar to the United Kingdom's Financial Reporting Lab.

The Integrated Reporting initiative is the most promising initiative in place which helps connect financial and non-financial information reporting. We encourage the International Integrated Reporting Council (IIRC) to continue to fine-tune the framework.

Accountancy Europe has also issued a *Call for action: Enhance the coordination of non-financial information initiatives and frameworks*⁴. The current proliferation of initiatives around the globe creates a challenge for those coping with the topic. We therefore believe that leadership is necessary to develop a single principles-based reporting framework.

INTRODUCTION

We live in a fast-changing world. Technological innovation, increased globalisation, and climate change are likely to even accelerate the pace of change. To capture the true value drivers of current businesses, corporate reporting must be agile enough to keep up with emerging business models and changes in society. Maintaining the status quo would mean moving backwards.

If corporate reporting does not evolve, it risks losing its relevance for decision making by stakeholders, who increasingly rely on other information sources. As a result, organisations might lose control over reporting, and users may be provided with less reliable information.

The accounting profession is committed to developing thought leadership on improved corporate reporting. This paper focuses on the Core & More concept, which encourages the reporting of corporate information in a smarter way.

The Core & More concept was launched by Accountancy Europe in its 2015 Cogito paper *The Future of Corporate Reporting – creating the dynamics for change*¹. The idea was welcomed by the corporate reporting community. For example, the International Accounting Standards Board (IASB) referred to Core & More in the context of its *Wider corporate reporting* initiative². Stakeholders requested further elaboration and clarification of the Core & More concept³. We committed to providing this in our March 2017 follow-up paper.

The Core & More concept consists of two elements, which are explained in more detail in the next section:

- a **‘Core’ report**, an executive summary of the most relevant and material information
- **‘More’ reports** where additional detailed information is provided

In addition, the paper addresses the following topics:

- technology, as both a driver and enabler of change, which will significantly contribute to achieve the concept’s objectives
- the relationship between the Integrated Reporting initiative and the Core & More concept
- our *Call for action: Enhance the coordination of non-financial information initiatives and frameworks*
- potential initiatives to foster experimentation and innovation in corporate reporting

Corporate reporting must evolve to maintain its relevance for decision making by stakeholders, who increasingly rely on other sources.

Core & More encourages the reporting of corporate information in a smarter way.

Core report: summary of the most relevant and material information

More reports: additional detailed information

¹ Accountancy Europe (previously FEE), (2015), *The Future of Corporate Reporting – creating the dynamics for change*, [https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper - TheFutureofCorporateReporting.pdf](https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_TheFutureofCorporateReporting.pdf)

² IASB, (2017), *Wider corporate reporting: An initial survey of the landscape and implications for the Board*, <http://www.ifrs.org/-/media/feature/meetings/2017/march/iasb/wider-corporate-reporting/ap28a-wcr.pdf>

³ Accountancy Europe, (2016), *List of responses for the Cogito paper – The Future of Corporate Reporting*, <https://www.accountancyeurope.eu/publications/list-of-responses-for-the-cogito-paper-the-future-of-corporate-reporting/>

Accountancy Europe recognises that auditability of Core & More reports is an important point of attention. Also, the technological angle – online reporting – might add to the auditing complexity. Auditability is not covered in this publication, but may be within the scope of a future paper involving the assurance community.

CORE & MORE – AN OUTLINE

Core & More is essentially a presentation concept which aims to organise the different strands of reporting in a more connected, logical, and structured way.

The Core report would be an ‘executive report’ focussing on the most relevant and material information about the company. It is aimed at a stakeholder audience wider than investors. This overarching report will provide a holistic picture of the reporting organisation.

More detailed and supplementary information is envisaged to be captured in the More reports, which would have more specific audiences. These could be: full financial statements, full corporate governance reports, detailed sustainability information, country-by-country tax reporting, etc.

The concept envisages a digital report, where links from the Core report to the More reports would allow stakeholders to easily access detailed information. For instance, key aspects of corporate governance might be covered in the Core report, which would include a link to the More report for further details. In turn, More reports might refer back to the Core report.

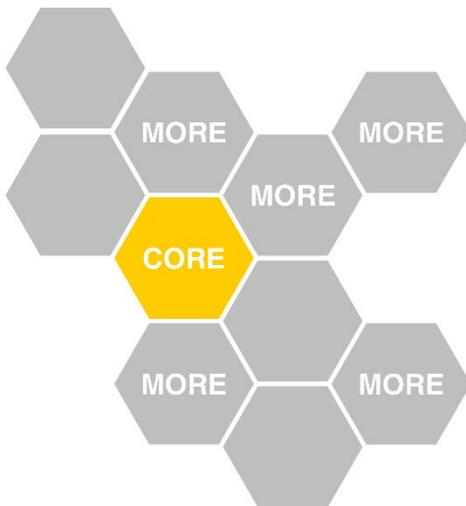
CORE & MORE – DIGGING DEEPER

THE CONCEPT

Traditional siloed (i.e. standalone) reporting no longer seems to be meeting stakeholders’ expectations. This is due to the increasing importance of non-financial information, a sense of information overload, and time constraints.

Entities might try to address the needs of a diverse stakeholder audience by producing different reports. However, they sometimes have overlapping scope and content. In addition, reports are usually disconnected and inconsistent with each other. This can result in confusion for stakeholders, who might not be able to find the information that they are looking for, or it may not be evident to them how detailed reporting links to the company’s overall strategy or business model.

Stakeholders have suggested that the traditional patchwork of standalone, disconnected reports lacks a clear overview and coherent structure (e.g. disconnected financial statements, strategic and management reports, country-by-country reporting and environmental, social and governance reporting).



A digital report with links from the Core report to the More reports would allow stakeholders to easily access detailed information.

The Core & More concept could help entities effectively communicate towards demanding and widening stakeholder groups. It could also promote the cohesiveness of different reporting streams because it will link related information in a logical and understandable manner. The concept allows the organisation to communicate information it currently reports on in a more effective way.

With Core & More, entities would communicate information they are already reporting on more effectively through 'smarter' presentation. Related information will be linked in a logical and understandable way.

A smarter, more connected, presentation of corporate reports is the essence of the Core & More concept. The concept does not aim to define the content of corporate reporting, but we have provided some content-related suggestions below.

The Core & More concept aims to organize information based on its importance for users. What is regarded as relevant for a wide range of stakeholders would be presented in the Core report. Supplementary information, or information that is targeted towards specific stakeholder groups, would find its home in the More reports.

There is an increasing need for a reader-friendly overarching report covering the most essential financial and non-financial information. This would ultimately be the **Core report**. A good understanding of the Core information would help readers comprehend the context in which they should interpret the More reports.

The Core report might be a summary of what is currently reflected in the management report or, for example, the United Kingdom's strategic report. It would include the most relevant and material information. Narrative reporting, complemented with tables, graphs, video, could depict a holistic picture of the organisation – the key objective of the Core report. These visual representations might contribute to an easier reading of the Core report.

The Core report would include the information needed to obtain a fair understanding of the key elements of the organisation's affairs. The Core report might cover the following topics:

The Core report would provide a fair understanding of the key elements of the entity's affairs.

- business model and strategy
- key figures of the financial statements (i.e. not the primary financial statements nor the full set of disclosures) and analysis
- key information on non-financial information matters (i.e. key environmental, social, and governance performance indicators, as well as key operating performance metrics) and analysis
- key prospects
- main risks and related risk mitigation strategies
- key aspects of corporate governance

The **More reports** would serve as additional layers to the Core report. Details on the following topics might be addressed in the More reports:

The More reports would be reserved for details on specific topics, information targeted to a certain audience, or to comply with reporting requirements.

- risk management reporting and internal controls
- corporate governance
- primary financial statements with detailed financial statement disclosures

- sustainability information, for example:
 - climate and environment
 - diversity policies and practices
 - human rights
 - social responsibility
- intangible assets (beyond those recognised in the financial statements)
- tax reporting, including country-by-country reporting
- employee-related information and remuneration reports

UNDERLYING PRINCIPLES OF THE CORE REPORT

The right balance between flexibility and guiding principles will allow for innovation whilst maintaining comparability between entities.

Management should have the flexibility to determine the format of the **Core report** while applying some guiding principles. This approach would stimulate innovation. It also allows entities to convey their key messages while taking into account the wider stakeholder group.

Some guiding principles regarding the Core report would help achieve qualitative corporate reporting together with comparability amongst entities.

The following principles could help entities communicate better through the Core report:

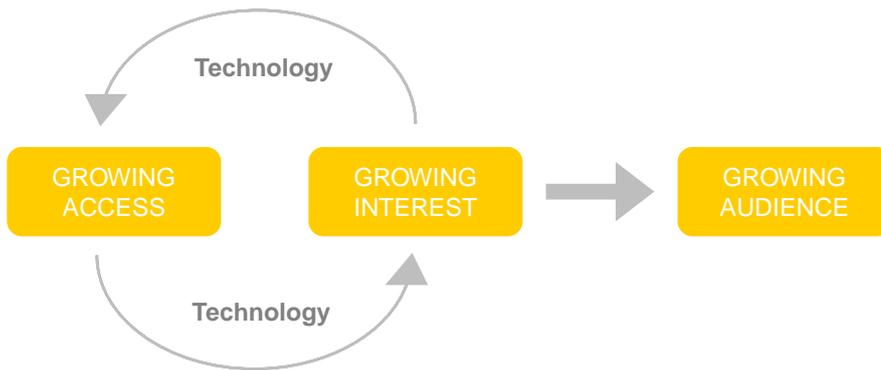
- clear (i.e. easy to understand)
- a fair and balanced view (i.e. good and bad news)
- organisation-specific
- material and relevant
- consistent and comparable
- reliable, verifiable, and reasonably measurable (especially relating to non-financial information)
- use of diverse formats to report enabled by technology (e.g. narrative reporting, tables, graphs, etc.)
- linked to related (more detailed) information in the More reports

USERS OF CORPORATE REPORTING

Core reports would have to meet the needs of a wider stakeholder audience, not just the investor community.

We believe that the **Core report** would meet the needs of a wider stakeholder group, going beyond the investor community. The broader perspective and the long-term impact of entities' activities on society, both covered in the Core pillar, likely concern a wider audience.

Entities might also be encouraged to disclose the audience of their Core report and explain the reasoning behind their selection. The growing, more sophisticated stakeholder group might speak up in case of a narrow audience selection for the Core report. An overly restricted audience might be a missed opportunity for the organisation to effectively communicate, which is likely to result in less valuable reporting.



We recognise that determining materiality, relevance, and reporting principles might prove to be more challenging when considering a wider audience. Materiality and relevance of information is different when looking to a consumer compared to an investor. So far, these concepts have only been developed from an investor's point of view. When providing information for a wider stakeholder group, it seems important that management cites who the expected users are, as well as how relevance and materiality have been determined.

More reports are designed to meet the needs of specific stakeholders for whom they were initially intended. They may not be relevant for all stakeholders. However, certain More reports might be of interest to more than one stakeholder group.

We encourage further experimentation which would consider these two different audiences.

LEGAL AND REGULATORY REPORTING REQUIREMENTS

The Core pillar would not usually meet all legal reporting requirements. More reports could therefore provide information intended to comply with requirements imposed by laws and/or regulators. Most of the Core, together with selected More reports or parts thereof, would likely comply with the legal reporting requirements as currently fulfilled by the annual report. This avoids the need for an additional layer of compliance reporting.

The concept would aim at reporting relevant organisation-specific financial and non-financial information instead of voluminous and boilerplate reporting. Users would benefit from higher quality and more concise corporate reporting.

Accountancy Europe urges regulators and policy makers and other stakeholders to take initiatives to simplify and streamline the current rigid reporting environment. It is also necessary to reduce the reporting burden for companies. The feedback we received³ indicates that many preparers perceive this burden as excessive.

The removal of barriers to innovation and the coordinated efforts by all key stakeholders, including policy makers and regulators, would help foster innovation in corporate reporting. Improved coordination between the different parties could lead to the right balance between policies, regulation, and innovation. Additionally, it would be beneficial if governments and enforcers encourage, or at least accommodate, companies wishing to experiment with new reporting concepts.

Materiality and relevance of information is different from the perspective of a consumer compared to an investor.

Policy makers, regulators, and standard setters must accommodate and foster innovation.

We call on regulators to take initiatives to simplify and streamline the current reporting environment in order to reduce the excessive burden on companies.

TECHNOLOGY

SUPPORTING THE CORE & MORE CONCEPT

Technological developments provide many interesting new opportunities to further improve corporate reporting. In a digital report, readers would be able to access more detailed information by simply clicking on a link instead of browsing the voluminous disclosures in a paper format.

Some stakeholders anticipate that online corporate reporting will become the 'new normal'.

Some preparers, investors, legislators and other parties anticipate that online corporate reporting will become the 'new normal' in the future. We indeed expect to move away from the traditional paper/PDF reporting format.

State of the art online reporting could offer major advantages for corporate reporting, such as:

- being easily accessible and more user driven
- combining screen view with more interactive presentation by using other media (audio, video, visualisations, etc.)
- facilitating analysis by users
- allowing extensive cross referencing
- tracking which information is consulted and which data is disregarded
- supporting automatic reporting, structured electronic data (e.g. XBRL, inline XBRL, IFRS Taxonomy, etc.)

Technology would be key in organizing the Core and More reports. Stakeholders would be able to navigate swiftly through the different layers of information via online navigation tools. However, it is sometimes challenging to locate certain information on an organisation's website. Adherence to web layout principles would therefore make the report more user friendly and assist readers in comparing information between different reporting entities.

The **Core report** could comprise the executive summary, prepared by management according to the principles, together with a dashboard, which would provide a quick overview. The dashboard might be customisable by the individual user. Stakeholders could identify information from the More reports which is most important to them to automatically populate the dashboard.

The **More reports** could use the following features enabled by technology:

- videos, graphs, or other visualisations instead of text
- links to explanations or further information
- the use of several layers within the More reports, such as:
 - the management report could have as a next layer: links to full reports on corporate governance, corporate social responsibility information, etc. as required by national law
 - the primary financial statements could have as a next layer: the related notes with sub-layers if needed
- pop-up screens to provide accounting policies or even breakdowns of numbers in the primary financial statements from the More pillar



OTHER TECHNOLOGICAL CONSIDERATIONS

We came across some technology related ideas linked to the preparation and presentation of corporate reporting, which might significantly change corporate reporting of the future. For example:

- Reporting could (partially) be based on ‘data warehouse’ technology allowing users to access the raw information directly. Users would then use this data to create their own analyses or reports. Companies might also store the data in the cloud, enabling users to collect the information directly from the cloud according to their needs.
- Users could access corporate reporting via applications (apps) on mobile phones or tablets. This presents new challenges for companies to find an appropriate way to present and prioritize the information (considering the smaller screens) and to provide suitable functionalities for mobile devices.

Technology is expected to significantly change the preparation and presentation of corporate reporting going forward. Accountancy Europe will further research the impacts of technology on corporate reporting in the future as noted in our follow-up paper dated March 2017.

The technological evolution in the corporate reporting environment will also create challenges for the audit profession. The profession needs to monitor these developments very closely and adapt accordingly in order to remain relevant in a constantly changing environment.

We believe it is important that the IIRC actively engages with stakeholders to learn, further develop, and fine-tune the Integrated Reporting framework.

The Integrated Reporting initiative has helped generate global acceptance of value driven reporting. It promises to improve interconnectivity between financial and non-financial information reporting.

We call for decisive leadership to achieve greater standardisation regarding non-financial information reporting, and to eventually develop a robust global principles-based framework.

CORE & MORE AND INTEGRATED REPORTING

The International Integrated Reporting Council (IIRC) and Accountancy Europe share the same long-term goal of evolving from financial reporting to state of the art corporate reporting by also embracing the non-financial information agenda. We agree that the future direction of travel for corporate reporting should be a more holistic and coherent reporting concept. This approach would probably lead to better informed decision making.

Core & More mainly aims to improve the presentation of corporate information, i.e. organise the different strands of reporting in a more connected, logical, and structured way. The Integrated Reporting initiative, on the other hand, focuses on the content of corporate reporting.

The Integrated Reporting initiative has been a major catalyst over recent years to achieve global acceptance of value driven reporting. The initiative makes use of interconnected financial and non-financial information. It covers the six capitals to communicate a clear, concise, and integrated story that will explain how an organisation's resources are creating value. The multi-capital approach aims to encourage better corporate reporting. The Integrated Reporting framework is the most promising initiative in place to improve interconnectivity between financial and non-financial information reporting.

In line with societal evolutions, Accountancy Europe believes that corporate reporting of the future should be addressed to a wider stakeholder audience. Value creation for society at large might even be a necessary condition to increase capital providers' value in the long run. Integrated Reporting, on the other hand, is still mainly focusing on the capital providers.

Accountancy Europe encourages the IIRC to continue pursuing this valuable initiative. We believe it is important that the IIRC actively engages with stakeholders to learn, further develop, and fine-tune the Integrated Reporting framework. Accountancy Europe can be a constructive partner in this journey.

NEED FOR COORDINATION OF NON-FINANCIAL INFORMATION INITIATIVES

Accountancy Europe observes the significant proliferation of initiatives and frameworks around non-financial information reporting, which makes it challenging for those involved to cope with this topic. Therefore, in our *Call for action: Enhance the coordination of non-financial information initiatives and frameworks*⁴, we call for decisive leadership to achieve greater standardisation, and to eventually develop a robust global principles-based reporting framework.

⁴ Accountancy Europe, (2017), *Call for action: Enhance the coordination of non-financial information initiatives and frameworks*, <https://www.accountancyeurope.eu/publications/call-for-action-nfi-frameworks/>

This framework would ensure a high level of quality and discipline in non-financial information reporting. The principles underpinning the framework should be comparable to those currently existing regarding financial reporting, namely the IFRS Standards. Such a framework would promote consistency among preparers and provide investors with comparable information across different reporting entities.

The IASB is a globally recognised standard setter which has credibility in capital markets around the globe resulting from high quality deliverables, strong governance, and a clear mandate. A more prominent role in broader corporate reporting would allow the IASB to stay at the forefront of corporate reporting developments and to maintain the relevance of its Standards. We therefore encourage the IASB to play a more active role in wider corporate reporting, as it is currently contemplating. A revision and update of the IFRS Practice Statement *Management Commentary*, reflecting recent evolutions, could be a positive step in this direction.

It would be valuable if regulators would express their support or would provide a mandate to the IASB, the Corporate Reporting Dialogue, or other bodies to develop a global corporate reporting framework.

FOSTERING EXPERIMENTATION AND INNOVATION

We have recently seen many interesting innovation proposals across Europe concerning corporate reporting, for example:

- ordering and grouping of notes based on relevance and materiality
- embedding hyperlinks in annual reports to certain additional information on a publicly available website, instead of repeating the information in the report itself (e.g. common accounting policies, certain detailed sustainability reporting, etc.)

Experimentation in the market over time would be instrumental to develop new concepts. To facilitate adoption, new concepts should be introduced on a voluntary basis, at least initially.

A Corporate Reporting Lab at EU level, similar to the Financial Reporting Lab in the United Kingdom (UK), is likely to help foster experimentation and innovation in the corporate reporting arena.

The Financial Reporting Lab in the UK aims to help market participants innovate and improve corporate reporting primarily by bringing together preparers and investors. A safe environment, a collaborative approach, and testing examples to identify best practices contribute to the Lab's success. It is a powerful instrument which facilitates discussions amongst stakeholders as opposed to issuing additional regulation.

A key question is whether such a Corporate Reporting Lab at EU level would be viable considering the different national environments, especially regarding requirements for management reports and non-financial information reporting. Such an initiative should obviously also find an institutional home base at EU level (i.e. an EU institution). The link between the Financial Reporting Lab and the UK regulator (the Financial Reporting Council) seems to have contributed to the Lab's success.

An EU level Corporate Reporting Lab could help foster experimentation and innovation, as well as facilitate the exchange of best practices.

Accountancy Europe would support such an experiment. The process may start by selecting a reporting topic for experimentation (e.g. a Core & More inspired concept). Preparers, auditors, users, governments, and enforcers from different countries would then be invited to meet and explore new ways forward. We know that many experiments take place in different EU countries which would be beneficial to replicate in other environments. An EU Lab could support such efforts and facilitate the sharing of best practices between EU countries.

ENDNOTES

We hope this paper provided more clarity on the Core & More concept.

Based on the inspiring discussions in the context of this paper, we think that the scope of what should be covered in corporate reporting (versus other communication/reporting channels) is a topic worth exploring in greater detail.

The amount of recent stakeholder initiatives indicates that the future of corporate reporting is a subject worth pursuing further. The accounting profession contributes to improving corporate reporting. All other involved parties – preparers, users, standard setters, policy makers, regulators, etc. – should also endeavour to take further steps to foster innovation in the corporate reporting scene.



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