

Federation of European Accountants  
M. Petr Kriz, FEE President  
M. Olivier Boutellis-Taft, FEE Chief Executive  
Avenue d'Auderghem 22-28/8  
B-1040 Brussels

Paris, 12th July 2016

Ref: DLE.MCP.CBA.20160451

Re : FEE Paper « The Future of Corporate Reporting – Creating the dynamics for change ».

Dear Petr and Olivier,

1. The CNCC (Compagnie Nationale des Commissaires aux Comptes) and the CSOEC (Conseil Supérieur de l'Ordre des Experts-Comptables) are pleased to provide their views on the FEE Paper « The Future of Corporate Reporting – Creating the dynamics for change ». The CNCC and the CSOEC believe that it is important that the accountancy profession supports this initiative, which is welcomed to stimulate the debate on the future of corporate reporting. We believe that currently information provided by listed companies does not enable to get a holistic view of a company and that it is necessary to achieve a better depiction of the business model, the economic position and performance of a company, and how it creates value. So we encourage all parties with an interest in corporate reporting to join and participate in the discussions and the experimentation to shape the future of corporate reporting.
2. We first wish to share our general views with you concerning the future of corporate reporting, followed by our detailed views on the ideas and proposals developed by FEE in the 4 areas, presented in the appendix to this letter.
3. In order to prepare our response, we reached out different stakeholders, including representatives of French listed companies, the French securities' regulator, the French accounting standard-setter and users to get their input on the different topics raised in the FEE paper. The results of the discussions have been taken into account in drawing up our response.
4. Firstly, we agree that the stakeholder audience for corporate reporting is continuously growing and diversifying with additional needs of information of diverse nature, both financial and non-financial. Certain stakeholders' information needs are currently addressed by a variety of local or European regulation but more often they consist in a pileup of regulations, resulting in various and voluminous information produced by an entity, without having been structured in a cohesive manner.
5. In addition, the voluminous information provided by listed companies to fulfill their legal obligations does not have the same level of relevance for all stakeholders, who have different profiles and

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financial and economic background, and does not necessarily address new groups of stakeholders' needs. So we believe that there is a need to make an effort of education when publishing information and to hierarchize the information disclosed.

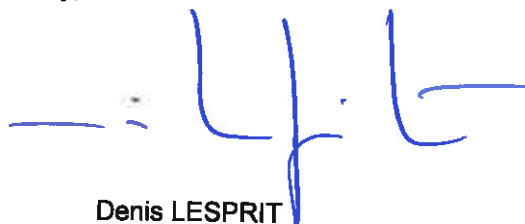
6. We also believe that financial statements remain relevant and represent a "central pillar" of any corporate reporting, to which all the stakeholders can refer because financial statements are prepared in accordance with well-known accounting rules and are audited, which enables comparability and reliability of information. They should remain a key part of corporate reporting.
7. But we also believe that financial information as included in the financial statements could be improved because it is difficult to understand and it is too voluminous. The information disclosed needs to be hierarchized. Also, some other financial and non-financial information disclosed in other reports (such as in the management's or CSR's reports) are very important and need reading at the same time as financial information to get a complete picture of the corporate affairs of a company and its value creation.
8. In addition, we observe that companies themselves may not have a holistic view of all information produced at their level because the non-financial information is not necessarily produced by those in charge of financial reporting, and it is not necessarily reconciled or interconnected with the financial information. The lack of both a global framework for corporate reporting and interconnection between the different departments producing information for the reporting entity does not help.
9. Despite various actions and initiatives trying to establish a framework for non-financial information, it seems that none of those initiatives has yet taken the lead. So we identify the need for an international independent organization to ultimately emerge, bringing together all the stakeholders interested in non-financial information, so as to take the lead in developing an internationally accepted principles-based reporting framework for non-financial information. This organization would have to be international because we think that it is critical to maintain a global level-playing field for listed companies.
10. Finally as regards the content of corporate reporting, we think that the real challenge is to strike the proper balance between the need of transparency and relevance versus the risk of an overload of corporate information and detailed disclosures, which ultimately could become detrimental to the companies by requiring them providing information up to a level that would put at risk some of their competitive advantage.
11. We agree that currently, one single, stand-alone report cannot address the needs of all stakeholders and that financial statements alone cannot present a comprehensive picture of the company's affairs, nor can non-financial information reporting depict company's financial performance, position and return to investors and other capital providers.
12. We support the proposed CORE & MORE model and think that it could be an appropriate way forward for corporate reporting in the future; its content should be defined by hierarchizing information that would be provided either in the CORE or in the MORE according to principles set in a reporting framework.
13. At a company's level, we think that the development of the CORE & MORE report should involve the different interested departments of a company (communication, investor relationship, marketing, sustainability, accounting and financial, etc...) under the supervision of the managing direction (CEO).

14. As we think that experimentation by companies is critical to enable companies to assess the costs and benefits of this approach, we would recommend that the FEE paper tries to develop a practical illustration of the CORE & MORE approach, which would demonstrate its usefulness and stimulate companies' and others' interest to experiment to investigate further approach. It is important avoiding that the production of an additional report by companies during the experimental phase be perceived as an additional costly burden.
15. Beyond the work that FEE may continue doing on the subject of corporate reporting, we believe that an international independent coordinating organization in charge of developing an internationally accepted principles-based reporting framework for corporate reporting, bringing together all the interested parties, is necessary. This body could oversee the work carried out by the bodies in charge of producing requirements or guidelines for financial and non-financial information respectively. As we explained above, it is important to have a holistic view of corporate reporting and the same is true for those in charge of establishing the more detailed requirements and/or guidelines for the various aspects of corporate reporting.
16. At this stage, we are not taking a view on which body would best be placed to take such responsibilities. A further analysis of all the initiatives that are already going on (such as IFRS by the IASCF, <IR> by the IIRC, Corporate Reporting Dialogue (CRD), GRI, etc.) and the bodies in charge of those would need to be considered to see whether any could take the lead, or whether a brand new organization would need to be created.
17. Finally we agree that technology will undoubtedly play an important role in the evolution of corporate reporting in the future, both as a driver and enabler for change as it provides a new way of communication and a system of treatment of the big data. Although technology is a real opportunity to facilitate access to information of all kinds and to communicate with all the stakeholders on a timely basis, we also believe that the growing use of technology could involve some risks and limits that should be analyzed and addressed in the development of future corporate reporting.

You will find below in the appendix to this letter our detailed views on the ideas and proposals developed by FEE in the 4 areas.

We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

Yours sincerely,



Denis LESPRI  
President of the CNCC



Philippe ARRAOU  
President of the CSOEC

## Appendix

### Chapter 1 - A growing audience for corporate reporting

#### A growing and diversified audience with additional needs of diverse nature

1. We agree that the stakeholder audience for corporate reporting is growing as well as interest in the activities of corporates of all kinds. This growing audience is also more and more diversified with additional needs of information of diverse nature, both financial and non-financial. Indeed the impact of multinational companies in global economies has given rise to a keener interest in their activities from a wide range of stakeholders. For example, some parties with limited access to certain information such as non-governmental organizations (NGO) are more and more interested in different aspects of companies' corporate affairs including ethics and CSR information. This point has been confirmed by the stakeholders we met.
2. Currently, stakeholders' information needs are addressed by local or European regulation. In France, as well as in the European Union (EU), there are many regulations requiring financial information (FI) and non-financial information (NFI) (for example environmental and social and employee information) in the annual report, as well as outside the annual report, such as in the management report or in the country-by-country reporting<sup>1</sup>. Most of French listed companies are also required to prepare an annual registration document (the "*Document de Référence*" - DDR) by the French securities' regulator, the Autorité des Marchés Financiers (AMF), which includes a description of the company's organization, business, risks, corporate governance, financial position, earnings and prospects. The EU has also adopted requirements for reporting in annual reports of most large companies on various non-financial reporting topics, including respect of human rights, anti-bribery and corruption matters and diversity policies. All these regulations usually consist in a pileup of regulations, resulting in various and voluminous information, which have not been developed and structured in a cohesive manner.
3. In addition, all the voluminous information provided by listed companies to fulfill their legal obligations does not have the same level of relevance for all stakeholders. Taking into account this growing audience and the diversity of the users of information, with different profiles and financial and economic background, there is a need to make an effort of education when publishing information. Taking into account this piling up and the granularity of the information provided, we identify the need to hierarchize the information disclosed, paying more attention to its materiality for the reporting entity.
4. In order to achieve this objective, we suggest that a first step would be to involve all parties that have an interest in corporate reporting including corporates, standard-setters, auditors, chartered accountants, regulators, users and other interested parties to define a reporting framework that provides the principles for a filtering and ordering of information to be provided, which could be based, for example, on a consensus of what the real users' needs of information are.

<sup>1</sup>The 2013/34/EU Accounting Directive requires from large undertakings and public interest entities operating in the forestry and extractive industries the disclosure of any payment (or series of payments) to governments totaling €100,000 or more in a financial year. Such payments include taxation, royalties and, in certain circumstances, dividends. Country-by-country reporting requirements were introduced for credit institutions in the Capital Requirements Directive. Extending the scope of these requirements is currently being considered, either through amendments to the Shareholder Rights Directive, or through the Commission's Tax Transparency Package.

## Chapter 2 – Content of corporate reporting

### Financial reporting

#### Financial statements as a “central pillar” of corporate reporting...

5. In our outreach, we have heard from some French listed companies and we believe that financial statements remain a reference as regards standardized, comparable and reliable financial information. They represent a “central pillar” to which all the stakeholders can refer because financial statements are prepared in accordance with well-known accounting rules and are audited. So we are convinced that financial statements should remain a key element of corporate reporting.
6. But we also believe that financial statements could be improved because :
  - they are difficult to understand and too voluminous ;
  - the information disclosed needs to be hierarchized ;
  - other financial and non-financial information are necessary to understand and to have a complete picture of corporate affairs.

#### But difficult to understand and too voluminous...

7. We have noted that financial statements are difficult to understand on a stand-alone basis because they are too voluminous (too much regulated information required), complex (they use tailored terminology required by IFRS, for example, in IFRS 9 the term “financial assets as subsequently measured at amortized costs” usually refer to consumer loans, which is a concept more understandable) and need to be explained in the company’s business context.

#### Need for information disclosed to be hierarchized...

8. We have noted that some initiatives related to disclosure requirements are taken by accounting standard setters (IASB in its “Disclosure initiative project”), regulators (ESMA and AMF in France – refer to § 9), think-tanks (for example in France the *Institut Messine* report “*Is the excess of financial information detrimental to financial information?*”<sup>2</sup>) and by listed companies, to make financial statements more understandable, transparent and relevant. It is important to encourage these initiatives and to stop the process of accumulation of regulated information.
9. The French regulator AMF published in July 2015 a “Guide to the relevance, consistency and readability of financial statements”<sup>3</sup>. This guide provides listed companies with tips to improve the relevance, the consistency and the readability of their financial statements. Each tip is illustrated by examples of good practice. AMF has translated its guide into English to encourage similar initiatives across European countries. Some French listed companies applied the guide for the first time in their 2015 consolidated financial statements and this has been welcomed.

<sup>2</sup> <http://institutmessine.fr/wp-content/uploads/2015/06/Publication-du-Rapport-de-l'Institut-Messine—Lexcès-d'information-financière-nuit-il-à-l'information-financière1.pdf>

<sup>3</sup> [http://www.amf-france.org/en\\_US/Publications/Guides/Professionnels.html?isSearch=true&xtrmc=guide-annexe&lastSearchPage=http%3A%2F%2Fwww.amf-france.org%2FmagnoliaPublic%2Famf%2Fen\\_US%2FResultat-de-recherche.html%3FTEXT%3Dguide%26%2343%3Bannexe%26LANGUAGE%3Dfr%26valid\\_recherche%3DValider%26isSearch%3Dtrue%26simpleSearch%3Dtrue%26langSwitch%3Dtrue&docVersion=1.0&docId=workspace%3A%2F%2FSpacesStore%2F867e30e0-807f-437c-af31-ee2686d81c4e&xtrc=1](http://www.amf-france.org/en_US/Publications/Guides/Professionnels.html?isSearch=true&xtrmc=guide-annexe&lastSearchPage=http%3A%2F%2Fwww.amf-france.org%2FmagnoliaPublic%2Famf%2Fen_US%2FResultat-de-recherche.html%3FTEXT%3Dguide%26%2343%3Bannexe%26LANGUAGE%3Dfr%26valid_recherche%3DValider%26isSearch%3Dtrue%26simpleSearch%3Dtrue%26langSwitch%3Dtrue&docVersion=1.0&docId=workspace%3A%2F%2FSpacesStore%2F867e30e0-807f-437c-af31-ee2686d81c4e&xtrc=1)

### **And need for other financial and non-financial information to understand and to have a complete picture of corporate affairs**

10. But we have also noted that other financial information placed outside the financial statements (for example: earnings announcements, budgets,...) is becoming key for stakeholders and that non-financial information is also necessary to have a complete picture of corporate affairs, taking into account the diversity of stakeholders and of their growing needs. The financial statements should be used with other information to understand the development, the corporate performance, the position, the business model, the risks and strategy of a company. Interconnection between financial information and non-financial information is essential to make all the information provided understandable and accessible.

### **Non-financial information reporting**

#### **Non-financial information key to have a complete picture of corporate affairs**

11. As indicated in §10 above, we believe that non-financial information is very important and necessary to have a complete picture of corporate affairs and value of a company. Stakeholders need both quantitative and qualitative non-financial information about corporate governance including internal controls, business model and strategy, main risks, markets, social and environmental responsibilities, and cash-flows and earnings forecasts of the company, to assess the value it can create in the long term.
12. But we have noted that the situation is different across countries and industries depending on national rules and legislation. In fact countries are not at the same stage of development as regards non-financial information reporting requirements and practices (for example in France, regulation has required large companies as well as listed companies to provide information on their social and environmental responsibilities since 2012, giving them experience in the matter). The risk is that national legislative initiatives add to the administrative burden of companies without necessarily addressing the needs of stakeholders, and sometimes result in differences across jurisdictions. We think that it is critical to maintain a global level-playing field for listed companies (for example the country-by-country reporting requirement in France is being implemented in a way beyond the requirements of the Directive 2014/95/EU<sup>4 5</sup>).
13. In addition companies may not have a holistic view at their level because we observe that the non-financial information provided often is not reconciled or interconnected with the financial information, due to a lack of a global framework and links between the different departments within the company that produce the various required reportings.

#### **Need for an international independent organization in charge of non-financial information reporting framework**

14. We have noted the various initiatives, including at a European and global level, which have emerged trying to establish frameworks, requirements and/or guidelines for reporting non-financial information. However, unlike for financial reporting where the IFRS Foundation/IASB have succeeded in their recognition as the undisputed leader in international financial reporting

<sup>4</sup> The new French finance law for 2016 adopted the new OECD country-by-country reporting obligations relating to Action 13 of the OECD's Base Erosion and Profit Shifting (BEPS) initiatives (article 223 quinquies C of the French Tax Code).

<sup>5</sup> Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups published in the EU Official Journal on 15 November 2014, which amends Directive 2013/34/EU on the annual financial statements, consolidated statements and related reports of certain types of undertakings.

standard-setting, none of such organizations have confirmed such a role so far. We would like to see that happening for non-financial reporting as well.

15. We propose that an international, not just European, independent organization be set up and take the lead in developing an internationally accepted principles-based reporting framework for non-financial information. We think that if additional non-financial information were required, it would be more acceptable if it was required on an international basis. Most listed companies operate globally and it is important that the reporting requirements be the same for all.
16. At this stage, we think that it is not the role of IFRS Foundation/IASB to develop a reporting framework for NFI because it is not in its objectives as defined in the preface to IFRS Standards<sup>6</sup>. Instead, we recommend that all the stakeholders interested in NFI cooperate, join in an organization and engage in the process of developing the NFI reporting framework. This organization could be modelled on the IFRS Foundation/IASB organization and functioning.
17. As regards the content of non-financial information, we think that the real challenge is to strike the proper balance between the need of transparency and relevance versus the risk of overload disclosure and the risk of divulgation of sensitive information detrimental to the companies making them lose competitive advantage.

### Chapter 3 – Core and more – a new approach for corporate reporting

#### The CORE & MORE report: a relevant way forward for corporate reporting

18. We support the proposed CORE & MORE model and think that it could be an interesting way forward for corporate reporting in the future. In fact we agree that currently, one single, stand-alone report cannot address the needs of all stakeholders and that financial statements alone cannot present a comprehensive picture of the company's affairs, nor can non-financial information reporting depict the financial performance of a company.
19. We believe that the content of the CORE & MORE report should be defined by hierarchizing information that would be provided either in the CORE or in the MORE, making clear what is CORE and what is MORE, and what are the boundaries between CORE & MORE. It should be drawn-up according to principles set in a reporting framework to be created.
20. Building a reporting framework for corporate reporting should be achieved in coordination with all the interested parties brought together in an international independent coordinating organization in charge of developing an internationally accepted principles-based reporting framework for corporate reporting. For more details on the proposed new organization refer to § 25-27.
21. At company level we think that the development of the CORE & MORE report should involve the different interested departments of a company (communication, investor relationship, marketing, sustainability, accounting and financial, etc...) under the supervision of the managing direction (CEO). The CEO should make the link between the different departments involved, so as to make sure that the appropriate connection is made between FI and NFI. We think that the support of the accounting and financial department is necessary to provide their process, knowledge and experience in the production of financial reporting.

<sup>6</sup> The objectives of the IASB are :

- To develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. [...]

### **Updating the CORE & MORE reports on a continuing and permanent basis only with reliable information**

22. The CORE & MORE approach enables an update of the CORE & MORE reports independently based on the nature of the information in order for the information to be as timely and relevant as possible. However the timeliness of updating should be defined taking into account the reliability of the information, which should prevail over the timing of publication.
23. We think that an entity's corporate reporting (CORE & MORE reports as proposed by FEE) should be updated on a continuing and permanent basis to reflect up-to-date information (for example required information, such as profit warnings, should be published when necessary). However, the regulated information required by local or European legislation with specified publication dates should be updated only at specified time intervals (for example the annual financial statements). In any case, updated information part of corporate reporting should not lead to publish unaudited and/or unreliable information. Similarly it should not lead to publish information produced by a company not complying with the due process of the company's publication.
24. We do not express an opinion on the possible ways for updating the information in CORE and MORE reports, as developed by FEE (dynamic, periodic and ad hoc elements). We think that this should be explored more thoroughly in the future.

## **Chapter 4 – Approach to policy making and innovation**

### **Policy making: a new international body in charge of corporate reporting**

25. Similarly to our views expressed above relating to the need for an international organization taking the lead for dealing with reporting non-financial information, we believe that an international independent coordinating organization (the body) should be established that would be in charge of developing a principles-based framework for corporate reporting. We indicated above that corporate reporting gives a holistic view of an entity. The same should be true for the international organization that would be in charge of standard-setting or providing guidelines for corporate reporting. In our view, an overarching body would be needed to oversee and coordinate the work of those bodies in charge of producing guidelines and/or requirements in the fields of financial and non-financial reporting, particularly if the CORE and MORE approach as suggested by FEE is implemented. That body would be in charge of determining what should be in the CORE report, with the involvement of the other bodies in charge of financial and non-financial reporting, who would continue to be active in determining what should be in the MORE reports. This would enable ensuring that the information requested by the various stakeholders is dealt with in an appropriate and coordinated way.
26. We consider it important that this body needs to be accepted at a global level so as to set a level-playing field reference for all listed companies. The structure of this body could be similar to the IFRS Foundation/IASB organization, with the IFRS Foundation/IASB being involved in that body. It is also important that it be supported by the political level and all interested parties.
27. However, we acknowledge that, sometimes, following a global initiative may not always meet the local requirements and needs. We note that if the international body in charge of corporate reporting that we propose would not address some critical requests of some jurisdictions for certain information to be provided by companies, the CORE and MORE approach allows for MORE reports to be asked by those jurisdictions. Still, the possible lack of consistency between the pre-eminence of local objectives and the objectives of the corporate reporting model proposed should be addressed.



### **Innovation: need for experimentation**

28. We are in favor of innovation and experimentation that could enable the development of models and best practices. The first objective of the new body in charge of corporate reporting could be to gather all the initiatives that have already been developed (such as <IR>, Corporate Reporting Dialogue (CRD),...), to share best practices amongst its members and to coordinate thoughts.
29. But it should be kept in mind that this could result in the production of an additional report by companies during the experimental phase that could be perceived as an additional costly burden if companies do not identify additional benefits and think that they would be required to divulgate sensitive information.
30. As we think that experimentation by companies is critical to enable companies to assess the costs and benefits of this approach, we would recommend that FEE develops a practical example of a CORE & MORE report which can prove its usefulness and stimulate companies' interest to experiment the approach. For example FEE could start working from the registration document (as required by the Prospectus Regulation) and transform it in a corporate report to illustrate the differences of presentation, volume of information provided, relevance of information, etc... or make a benchmark to define practically what should be in the CORE & MORE report.
31. Consequently we agree with the proposal for a group of key stakeholders, including preparers, users, enforcers, regulators, standard setters, auditors, chartered accountants and policy makers, to assist in identifying the main challenges and the key benefits from new innovative proposals for the corporate reporting of the future because we think that no solution can be implemented successfully unless companies as well as key stakeholders can clearly see benefits from applying the new proposed corporate reporting approach.
32. Finally we think that quite a long period of experimentation is necessary at different levels to develop and implement a new corporate reporting and that the regulatory community should engage in supporting the discussions to go further in the development of corporate reporting but without regulating so far.
33. We have noted that IIRC has developed a framework which introduces the concept of <Integrated Reporting>, which brings together capital allocation and corporate behaviour for the wider goal of financial stability and sustainable development through the cycle of integrated thinking and reporting. However, in our view, this initiative may lack some of the coordination and interconnection needed between FI and NFI as we contemplate it for the future corporate reporting. Other existing reporting experience could also be taken into account such as CRD initiative. So we think that the IIRC initiative could be an interesting starting point to go further in the development of corporate reporting.

### **Role of technology: key in the development of corporate reporting**

34. We agree that technology is a driver and enabler for change as it allows not only access to corporate reporting to a wider stakeholder audience, but it also drives changes in policies and legislation designed to keep pace with the needs of the modern financial markets and assists in presenting corporate reporting in a more interactive and reader-friendly way.
35. We believe that technology provides a new way of communication enabling the development of both the communication of the content of information and the use of the content of information disclosed (for calculation, storage, selection of data, etc...).

36. Although technology is a real opportunity to facilitate access to information of all kinds and to communicate with all the stakeholders on a timely basis, we also believe that the use of technology could involve some risks related to:
- the reliability of the information disclosed;
  - the level and scope of assurance that could be provided on the non-financial information and the global corporate reporting (audit, faithful representation,...);
  - the responsibility of companies on the information disclosed.

We think that all the risks and limits involved by the growing use of technology should be analyzed and addressed in the development of future corporate reporting.

### Other comment

37. Finally we have noted that SMEs have not been taken into account in developing this paper and we understand that there will be a future discussion on SMEs and that FEE should be involved.