



Digital Future

A framework for future digital reporting

May 2017

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What is the Lab?

The Financial Reporting Lab (the Lab) was set up by the Financial Reporting Council to improve the effectiveness of corporate reporting in the UK.

This report is the first of a series of outputs on the Digital Future which will be released throughout 2017.

The Lab's reports are designed to generate debate and highlight what is or might be (in the future) good reporting practice. We believe that many of the lessons are widely applicable but companies should take into account the views of their own stakeholders, the complexity of their own business and structure, materiality, the dynamics of the sector and the standards and additional requirements in place at the time.

Our reports and further information on the Lab's activities can be found on the FRC's website:

www.frc.org.uk/financial-reporting-lab

Do you have suggestions to share?

The Lab encourages readers of this report to provide comments on its content and presentation. As far as possible, comments will be taken into account in shaping future projects. The Lab can be contacted via email at:

FinancialReportingLab@frc.org.uk

Introduction

Technology has the power to significantly change the way that companies communicate with investors and other stakeholders, improving both the usability and timeliness of what is reported and providing new opportunities to engage.

However, the use of technology in corporate reporting is not meeting its full potential.

This under-performance is not new and was one of the findings from the Financial Reporting Lab's 2015 report (***Digital Present***). In the report, the Lab considered the optimal way for companies to use digital media to communicate with investors and sought to understand which mediums investors found the most useful and why. The report showed that, while many of the mediums used for reporting under-delivered, PDF encapsulated a series of beneficial features and attributes. The report concluded that if new mediums and technologies are to be successful they should focus on providing benefits that match or exceed those that investors currently receive.

The Lab's ***Digital Future*** takes forward the core findings from ***Digital Present***. The project is designed to identify what benefits the new mediums and technologies should offer, consider which technologies might do this and how companies can make the most of the digital opportunity.

This report presents the first in a series of findings from the ***Digital Future*** Project.



<http://frc.org.uk/lab/reports>

The Digital Future: Our approach

There are two ways to investigate how technology can be optimised to create a corporate reporting system that works for preparers, investors, and others. Either think first about the various technologies available and what they offer or reflect on the desired outcome and then consider how technology might help to achieve this.

The Lab’s Digital Future project takes the second approach. The Lab asked preparers, investors, and others what they wanted from a future digitally enabled system of corporate reporting. Their responses have been used to construct a framework of characteristics; ‘the future digital reporting framework’. This report presents the framework.

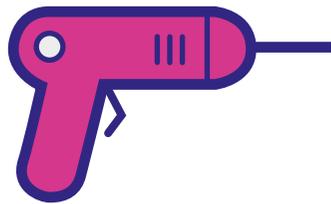
The next stage of the project will assess various reporting technologies and initiatives against this framework. This will enable the consideration of how they might work together to meet the needs of preparers and users.

What do you want
from a digitally
enabled system of
corporate reporting?



The three stages of reporting

Through the Lab’s discussions with participants, three broad stages in the process of corporate reporting were identified. These three stages are used within this report as a basis to frame the characteristics identified as being those essential for future digital reporting.



Production



Distribution



Consumption

Production – This stage is focused on the collation, amalgamation, packaging, and presentation of underlying financial and non-financial information from within a company or organisation with the express intention that it will be released externally. Production characteristics were of most interest to companies and those supporting them.

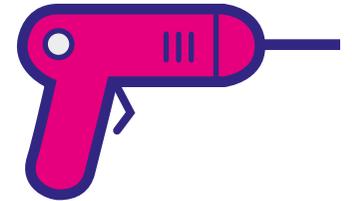
Distribution – This stage is focused on the dissemination of the packaged information, both to meet regulatory requirements (e.g. National Storage Mechanism) and to communicate with external stakeholders. Distribution characteristics are of interest to both companies and those consuming the information.

Consumption – This stage is focused on the analysis and use of the distributed, packaged information. Consumption characteristics are of most interest to those utilising the information. These characteristics might attach equally to any individual piece of data, disclosure or document being used.

Characteristics of Future Digital Reporting



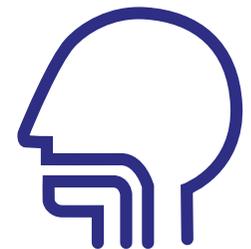
Production



Distribution



Consumption



Production characteristics

If future digital reporting is to be successful it would meet the following characteristics (in production):

Cost-efficient



It cannot be out-of-line with the costs for current reporting or with the benefits it provides to users.

Compatible



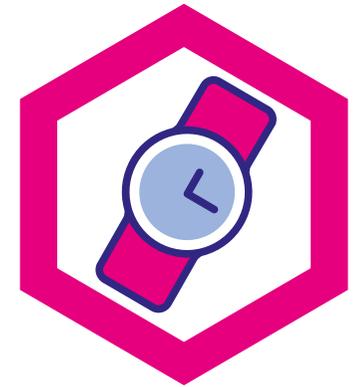
It needs to be compatible with current reporting systems, support multiple reporting requirements or remove the need for them through multiple use or reuse of data.

Easy



It needs to be easy for companies to produce. The need for specific technical skills or tools should be kept to a minimum.

Timely



Companies and users would highly value a medium that improves timeliness. As such, it must facilitate more timely production, or as a minimum, not extend timelines.

Distribution characteristics

If future digital reporting is to be successful it would meet the following characteristics (in distribution):

Free



It can both guarantee free access to company level information and provide peer, industry or national data sets in an easy to use format.

Compliant



It needs to support the compliant distribution and storage of regulated information.

Prompt



It should lead to the timely distribution of information and signal its release (for both regular and ad hoc communications).

Accessible



It must be easy to find and access, providing the ability to locate individual data points, disclosures and documents at a company or industry level.

Consumption characteristics - Contextual

Users and other stakeholders regularly identify the context of reported information as essential to their understanding of that information. The current financial reporting system is anchored around the creation and filing of specific documents (e.g. the Annual Report, Half-year Report). These documents and the frameworks that underpin their creation are well understood by the market. This provides context for those preparing the documents (e.g. the concept of 'materiality' or 'fair, balanced and understandable') allowing them to make decisions about the documents' contents. It also provides context for those using the document, giving them an understanding of the nature and value of the information contained within them and the level of assurance provided.

Future digital reporting should continue to provide this valuable context at a document level. It could also go beyond the current system by embedding the context at the level of individual pieces of data or disclosures. The contextual information considered useful by the project participants include:

- 1) Report type and boundary of reported information - e.g. Annual Report, Sustainability Report;
- 2) Period covered and release date/version (where applicable);
- 3) External accounting or other reporting framework used - e.g. IFRS, US GAAP, Sustainability framework;
- 4) Internal accounting or other frameworks – e.g. accounting policy and materiality;
- 5) If the data has been assured or audited;
- 6) Link to note or other relevant explanations and details; and
- 7) Its link to other information about the company.



Consumption characteristics - Usable

Users and preparers expect that the information presented under any future reporting framework is usable. For this to be the case they identify some sub-characteristics that need to be present. These include:

Up-loadable – Users identify the ability to upload or link information into reports and models as important. This desire relates not only to individual documents but also to individual pieces of data. Some also express a desire for information or data to retain its link/connection to the original underlying source.

Universal – Successful digital reporting should be widely used by preparers across sectors and markets. A solution which was not ubiquitous or missed significant elements of the market or disclosures would limit the cost-effectiveness of adoption and the desire of participants to utilise the resulting information.

Searchable – Ensuring searchability or navigability is very relevant to users. Users look for specific pieces of information within or across a company or companies' corporate reporting. Successful reporting, therefore, should allow and enhance the ability of users to search for relevant information.

Intuitive – Reports need to be easy to consume and require limited technical or specialist skills. This is particularly important if information is designed to be useful to a broad stakeholder group.



Usable

Consumption characteristics - Credible

An area of interest to both users and preparers is the ability to ensure that documents and other communications made can be trusted as being secure and authentic. For future digital reporting to be successful it needs to embody the following attributes:

Be immutable/secure – Corporate reporting information is designed to be a permanent record of the financial position and performance of a company at a specific point in time. It is important to users and preparers that they can access information as it was originally reported (even if subsequently changed).

Communicate assurance – Users place a higher value on reporting that has some level of assurance on it, be that internal assurance (e.g. sign-off from executives) or external assurance (e.g. audit opinion). However, it is often difficult to assess what level of assurance is associated with a specific item of information, especially when viewing data that lies outside of the annual report. Digital reporting has the potential to enhance the communication of assurance, both its level and nature, to more clearly allow users to understand the reliability of the information.

Guarantee its authenticity – Both users and preparers value the ability to confirm that the information (either as a whole package or a single data point) – is actually authored by the company (or others where relevant e.g. auditors). Digital reporting should support the communication of, or guarantee the authenticity of, the information delivered.



Consumption characteristics - Engaging

A characteristic identified by preparers and by those serving them is the desire that any future system of digital reporting should facilitate the ability of companies to engage with their audience.

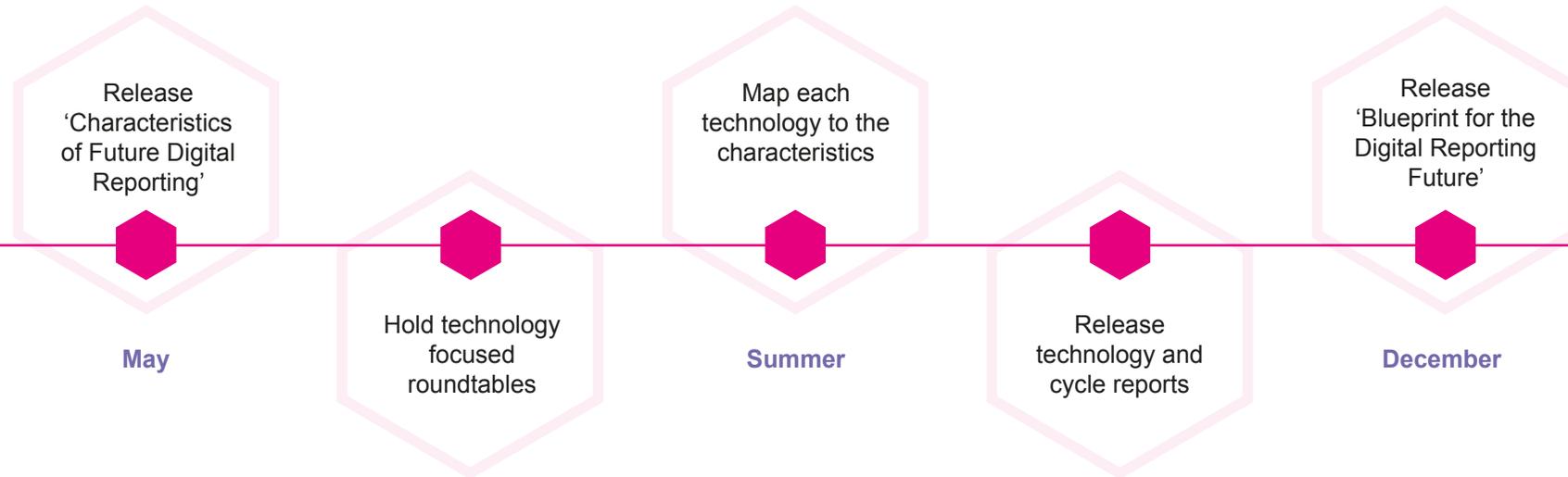
Modern financial reporting has a relatively high level of designed content; this reflects the desire of preparers to 'tell their story' in 'their style'. Companies spend time designing their corporate report to reflect their own narrative, structure and brand image; they consider that this is an important element of their communication with users.

Preparers believe that digital reporting should support their ability to customise their communication and provide ways of enhancing engagement. However, this should be balanced by investors' desire for standardisation of usable content. Much of the promise of a technology-enabled future (e.g. Artificial Intelligence and Big Data) relies on a level of standardisation to allow comparison. Therefore, a technology which allowed standardised consumption and utilisation but allowed a significant freedom to communicate and engage should be welcomed by both preparers and users.



Engaging

Next steps



This report lays out the framework of characteristics for future digital reporting. The next step is to consider how future technologies might meet these needs (either as is or through further development).

The scope of the project is expected to cover the following technologies: Virtual Reality, Augmented Reality, Blockchain, XBRL and other tagging techniques, Video, and other digital media.

If you are a technology expert or have strong views on, or experience of, how technology might be used for corporate reporting and have time to attend (on a pro-bono basis) a tech-focused round table, the Lab would welcome hearing from you. Please contact financialreportinglab@frc.org.uk

Project process and participation

The framework for future digital reporting has been developed by the Lab based upon the outreach performed during the project. During the project we surveyed 93 individuals from 14 different countries, interviewed in detail more than 30 companies, investors, and other stakeholders and sought views at roundtables, events, and company and investor forums.

We would like to thank all those who have contributed to this first phase of the project and look forward to further interaction throughout the project.



The terms 'investors', 'stakeholders' and 'users' are used in this report as shorthand to refer to the investment and reporting community participants, which includes a range of individuals in their capacity as investors, analysts, data users, service providers or preparers of corporate information.

The report expresses the amalgamation of the thoughts, views, and opinions expressed during the project. The participants do not represent a statistical sample and results cannot be extrapolated to reflect views of a wider population.

Lab project reports

The Lab's project reports provide practical suggestions on reporting from our work with the corporate and investment communities.

Each of the following reports suggests reporting that is focused on meeting the needs of the investment community for consideration by companies.

Thematic:

-  Digital Present
-  Towards Clear & Concise Reporting
-  Disclosure of dividends – policy and practice

Governance:

-  Reporting of Audit Committees
-  A single figure for remuneration
-  Reporting of pay and performance

Financial Reporting:

-  Accounting Policies and integration of related financial information
-  Business Model Reporting
-  Debt terms and maturity tables
-  Net debt reconciliations
-  Operating and investing cash flows
-  Presentation of market risks disclosures

Case Studies:

-  William Hill plc – accounting policies
-  WM Morrisons plc - Supplier relationships and emergent issue reporting

Reports and information about the Lab can be found at:

<https://www.frc.org.uk/Lab>

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