**Comments on the FRC's future of corporate reporting**
[Matter of Principles: The Future of Corporate Reporting. Discussion Paper. October 2020]

# Comments from Professor Krish Bhaskar and Rod Sellers OBE FCA.

It may be relevant to note that our 3rd book in the series of disruption in financial reporting and auditing, entitled "*Disruption in Financial Reporting: a post-pandemic view of the future of Corporate Reporting*", is due to be published by Routledge in February 2021 and does include references to this FRC discussion paper

**FRC Critique 1: Different stakeholders converge on the same information**
The FRC notes that the current framework for reporting focuses on the information needs of the primary users (often just the investment community) and the provision of information through a single document: the annual report. The FRC and we think this is now history.

FRC's one set of principles advocated in the FRC proposals[1] seems sensible and laudable. These principles and the surrounding FRC proposed framework appear difficult to implement in practice and seems rather less transparent when applied to a specific business. Nevertheless most of the FRC observations we would agree with. There is one finding that our empirical research cannot verify and perhaps even the FRC's analysis is logically inconsistent. This concerns the objectives of reporting.

The FRC believes that the objective of an individual network report should drive its content. This is a move away from the distinction between different user groups and their needs. We cannot agree. Different groups of users require different pieces of data to satisfy their curiosity or search (as in an encyclopaedia rather than a novel [using the FRC analogy]). The FRC evidence suggests that "shareholder and other stakeholder expectations converge on many issues and that all users' needs are best served by structuring reporting around the purposes for which they seek information from a company"[2]. We think this assertion, survey-driven or assumption is mistaken.

The FRC considered a range of corporate reporting user groups and noted that the information needs of different user groups are not exclusive, and in many cases significantly overlap. We disagree. Our empirical evidence and experience could not support this conclusion – there is no convergence. The FRC also found that trying to establish distinguishing lines between different types of stakeholders and their information needs was unhelpful. Again we disagree. Logically it does not make sense either. In their survey of financial reportin, the reason for low engagement with reporting items was for the most part "The information is not relevant to me". To provide a common sense reply, think about how many non-professional investors look through the detail of the remuneration report?

However, the FRC in the same report acknowledges multiple objectives by proposing a corporate reporting model that acknowledges and provides for different communication objectives, including the FRC's proposal for a new Public Interest Report.

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[1] FRC, The future of corporate reporting: A matter of principle, FRC Discussion paper, *FRC News*, 8 October 2020.
Available at:
https://www.frc.org.uk/getattachment/cf85af97-4bd2-4780-a1ec-dc03b6b91fbf/Future-of-Corporate-Reporting-FINAL.pdf
Accessed: October 2020.
[2] Ibid. Page 4 Column 2.

**FRC Critique 2: Other comments**

The FRC postulated three central reports (financial statements, business report, and public interest report) plus four supporting reports (supporting detail, special purpose report, standing data, and other periodic reports). We agree with the overall approach (which accords with the main proposals in our book) but have certain reservations that are set out in the individual numbered questions below:

- Core and More. The FRC is arguing for three central reports and four ad-hoc reports. We think this is too restricted. There should be an opportunity to have one CORE report – broken down into the three sections as per the FRC suggestions and then to produce a number of supporting (the MORE) reports. This follows our approach in *Disruption in Financial Reporting: a post-pandemic view of the future of corporate reporting*.
- Implementation: A significant concern is the major increase in information to be published and the difficulty in assessing the value added for users compared with the cost to the company of gathering and presenting the information. Therefore we would propose that certain sections, especially the public interest report, are scaled back from your current proposal ( see below ). We think that size should not be the major determinate of whether this is included but the length or volume of such a report could provide proportionality.
- Non-financial information: The FRC highlight the need for "relevant, reliable, comparable and balanced information"[3] in the non-financial information section, which is laudable but, we believe, difficult to achieve. By its nature, non-financial information often involves high degrees of subjective views that cannot (always) be "audited" with the same rigour as financial information. Indeed, by promoting these sections as equivalent to the financial information, they bestow an unworthy image of the factual basis for the statements. We accept, however, that Tech companies may be valued on the basis of number of subscriptions or users.
- Regulatory standards for non-financial reporting: We believe regulatory standards are feasible for specific internal outcomes e.g. gender pay gap, length of credit taken from suppliers, modern slavery etc. However, for a multinational companies operating in a complex world of different cultures, geography and product markets, it may be meaningless to attempt to quantify what are, at best, averages – but averaging "apples and pears" is worthless. Perhaps separate meaningful reports for material subsections of the organisation would be better, although we respect that this goes against our previous plea to reduce the quantum of information to be published in the main or CORE reports.
- Obligations in respect of the public interest: These can be overall expressions of a board's objectives but it may be difficult to substantiate that these fine sounding statements are rigorously applied at grass root levels
- Public Interest Report and the suggested content: Here we tend to prefer the more restrictive proposals from Brydon. If a company attempts to produce a Public Interest Report, it should be a standalone document giving the board's view of the external impacts of its operations. And the users can apply their own judgement on the value of the statements – otherwise we may find companies need to employ an army of "expert" consultants to vouch for the board statements, a further expensive exercise with doubtful benefits.
- Another problem with quantifying external impacts is how far down the line from direct to indirect impacts should be referred to e.g. an oil company may be able to quantify the

[3] Op. Cit, FRC, The future of corporate reporting, Page 25. Column 4.

direct effects of an oil spillage in its exploration arm but it would be impossible to assess its external impacts from customers several stages down the line whose petrol driven cars produce emissions contributing to climate change, environment, and public health

We trust you find the above comments are helpful as you fine-tune the FRC report. Please contact us if you would like further explanation of our views.

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