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THE FUTURE OF CORPORATE REPORTING

Contribution to the Financial Reporting Council's discussion document published in October 2020, **by Robert Cole** on behalf of Bettercopy.

Summary

The Financial Reporting Council is pulling no punches. At present, it says, corporate reports are "fragmented and sometimes incoherent"; that "tweaks are unlikely to address valid concerns"; and that a "radical overhaul" may be required.

In short, I add these observations to the consultation process:

- the FRC is charting a course well-suited to high-quality corporate reporting;
- business and public interest reports should be subject to content audits and a non-financial equivalent of fiduciary duty;
- the FRC should oblige companies to declare an annual public interest dividend;
- standards should be principles-based;
- inertia arising from ingrained executive assumptions, and perceived satisfaction with the status quo, is likely to be the primary obstacle to implementation;
- some proposals may overstate current inadequacies in some respects;
- technically expert writers should be represented on any future steering committee or successor body to the projects' Advisory Group.

Before adding to the outline above, allow me to introduce myself as a professional writer with 30 years' experience as a journalist working primarily in financial, business and investment markets. I have worked for The Times, The Evening Standard and at Reuters Breakingviews. I edited the Tempus investment column in The Times for nine years. I have broadcast experience. I led the Finance Specialism at the City University School of Journalism in most academic years between 1995 and 2015.

Though much improved over recent decades, corporate reports can be perfunctory, circuitous, self-congratulatory, and, or adjuncts of marketing. They are sometimes written as if for the authors. They should be written for the readers. There is too much jargon.

It is a good idea to split the non-financial elements of reports and redefine the content in terms of 'business' and 'public interest'. It is important to focus stakeholder attention on strategy, methods and hoped-for outcomes. The FRC is right to prioritise materiality, brevity and balance.

That said, the FRC also writes of the need to prepare documents that are "stakeholder-neutral". Some may argue that neutrality runs counter to corporate imperatives around inspiration, commitment and innovation, and existing obligations in the Companies Act and elsewhere. Balance, the term deployed elsewhere, may be a better expression.

'Public interest' content – ground now described, in something of a muddle, as ESG or CSR and diversity, sustainability and responsibility – is excellent. It is easy to see how a public interest report could draw together separate strands of policies, strategies, historical achievements and corporate good intentions.

It could go further in the interests of focus, accountability and comparability. Corporates could be obliged to declare a public interest dividend: a precise and concise record of achievements, if there are any, in the year under review. Eventually, it may be possible to express the net benefits – or net costs – in financial terms. With time and additional research, public interest dividends could give a measure of return on environmental and social capital enjoyed.

Usefully, the FRC recognises the digital opportunities to broaden access and heighten the impact of stakeholder communication. In practice, however, the near-infinite nature of online possibilities means discipline is essential. I suggest the FRC pursues a model that combines highest-impact online content with comprehensive detail behind links to PDF or similar documents. There is, meanwhile, an on-going role for hard copy.

Executive and non-executive directors may need reminding that reports exist to present an accurate and clear account of corporate purpose, policy and practice for all stakeholders including themselves. Reform may require boards to review their own ingrained assumptions and instincts.

Inertia, meanwhile, may impede progress even among those who declare support for overhaul. At the opposite extreme, reform could be strangled in heaps of explanation, justification and objection.

Reports often include simple grammatical mistakes: for instance, treating 'company' as a plural not singular noun is commonplace. In this regard, there is room for greater emphasis.

It is, of course, necessary to address the policing of standards. In doing so, the quality of outcomes should be assessed alongside quantifiable progress. A dashboard approach could be combined well with a formal content audit process. Thought should be given to the introduction of a non-financial equivalent to fiduciary duty: an 'extra-fiduciary' duty, perhaps.

The FRC standards should be principles-based, not rules-based. Ideally, the new rubric would be written to encourage enthusiasm. The FRC may see it is sensible to give market participants the scope to find their own paths.

There is a risk, meanwhile, that the FRC exaggerates the need for general change. Standards certainly vary and many reports leave much to be desired. Many more, however, require review rather than reformation. I would also cite Diageo, the drinks company, as an example of a company which already has high-quality reporting standards.

One final point, there was a surprising gap on the project's Advisory Group: writers. Sure, as a writer I would say this, wouldn't I? But since narrative efficiency and storytelling are identified objectives, writers – expert and experienced non-fiction writers – should have a seat at the table.

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