



Response to Financial Reporting Council (FRC): Future of Corporate Reporting Discussion Paper

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INTRODUCTION

ICAS welcomes the opportunity to comment on the FRC's Future of Corporate Reporting Discussion Paper.

Our CA qualification is internationally recognised and respected. We are a professional body of over 22,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to Anne Adrain, Head of Sustainability and Reporting, ICAS.

SECTION 1 - GENERAL COMMENTS

1. FRC proposals as part of the ongoing debate

We welcome the opportunity to respond to the FRC Future of Corporate Reporting Discussion Paper. We support the need for such an initiative and believe that the proposals represent a very helpful piece of thought leadership on the principles and attributes that might form the basis of a new network of corporate reports. This is particularly important now at a time when increasing emphasis and focus is being placed on non-financial information by investors, regulators, and other stakeholders. This shift in focus reflects the increasing expectations of key stakeholders that corporate reporting needs to serve, and be trusted and valued by, a multi-stakeholder audience, beyond merely investors and providers of financial capital.

Therefore, we support, and welcome, some of the proposals in the discussion paper, particularly the multi-stakeholder focus, although we recognise that this approach is not without its challenges.

2. Erosion of public trust

The issue of public trust is not considered in any level of detail in the new proposed reporting model. This is an unfortunate omission given the issues that led to some of the high-profile and well publicised reviews into the UK audit market, many of which were based on the information produced in corporate reports and were not limited to the audit function. It would have been useful if this issue had been considered further by the FRC including how corporate reporting might play its part in enhancing public trust in the corporate ecosystem, which should not be left entirely to the role of audit and assurance.

There is a growing need to re-establish trust in the corporate ecosystem, of which corporate reporting is a key component, and to ensure that it continues to meet the public interest.

We believe that the overall objective should be a more transparent, balanced, valued and honest system of corporate reporting and, in order to achieve this, we would suggest the addition of two further principles: accountability and public interest.

3. A new model that reflects the dynamic corporate environment

We regard the FRC proposals as an attempt to structure and rationalise the existing model to meet increasing multi-stakeholder expectations. However, further consideration of a number of issues is required in order to move the discussion forward and set the foundation for a corporate reporting system that is fit for purpose in today's dynamic environment and to address the current and likely future information needs and priorities of all users and stakeholders whose requirements and priorities may be different. For example, how the corporate reporting model fits into the wider flow, and use, of information and how technological advances will disrupt the traditional model and support a more dynamic information framework.

ICAS has, over many years, produced thought leadership on how the corporate reporting model might evolve to reflect the needs of an increasing number and breadth of key stakeholders and in response to developments in technology. A recent example of ICAS thought leadership in this area was produced in 2018 entitled: [‘Restoring trust and relevance for the future of corporate reporting’](#). This report was based primarily on the views expressed by investors and analysts as users of corporate reports.

We recognise that some of the FRC proposals are aligned with the vision set out in that ICAS report, but, in many respects, the ICAS report went further than what the FRC is proposing; for example, on matters such as technology and the frequency of reporting. We believe that there is scope, and perhaps some stakeholder demand, for the development of a more innovative and disruptive solution to the existing model and our response seeks to contribute to that debate.

4. Need for alignment with other developments

It is important that the FRC continues to engage in other global developments in non-financial reporting to ensure that the UK is fully aligned with international developments and initiatives. There has been a great deal of activity in this space in recent months and this is expected to continue and intensify in the future.

It is also important that FRC proposals fit with the wider regulatory reform agenda, including the recommendations from the Brydon review into the Future of Audit, therefore further clarity will be needed in this respect.

5. ICAS observations on the proposed FRC model

Whilst we recognise that the proposals represent a helpful contribution to the debate around the future of corporate reporting, we believe that the FRC could have taken the opportunity to rethink the existing model and stimulate greater debate around the creation of a more disruptive and future-proof corporate reporting model. We have set out below the areas where we believe the proposals could have gone further.

a. Over-reliance on the existing corporate reporting model

The ICAS report referred to in our introduction challenged the traditional format of the annual report, much of which is prescribed by statute and therefore may constrain experimentation with more user-friendly and accessible ways of reporting. This is likely to become more of an issue as technology allows for more varied and better ways of providing information and enhancing access to different investors and other stakeholders. Some of this communication may be two-way, or interactive to some degree, such that users will be able to focus on what is important for them without being overwhelmed by huge volumes of less relevant information.

The FRC proposals seem to be rooted in the existing model and it has been observed that the three main network reports: the Financial Statements, the Business Report and the Public Interest Report may not be dissimilar to the existing model, with the Strategic Report as the new Business Report and the Sustainability Report as the Public Interest Report.

We are concerned about an assumption that necessarily relies upon the annual report, or its replacement, as the means of communication with stakeholders. We believe that there should be an underlying assumption that a corporate report provides one, but not necessarily the only, effective means of communication with stakeholders, but that this should not be the main driver of an improved corporate reporting environment which is more aligned with current technology and information requirements. The proposals seem to disregard the widely reported criticism of the current model and we would have welcomed a more disruptive and imaginative approach.

Consequently, the future of corporate reporting, and its assurance, which is not dealt with explicitly in the FRC Paper, appears largely to be premised on the presumption that the existing system and structures within what might be described as ‘the current corporate reporting eco-system’ represent the optimal solution and will continue to do so for the foreseeable future. In our view, this does not take into any sufficient account the widescale and fundamental disruption, as a result of technological change, that a wide range of information-based industries are already experiencing and which are more than likely to affect the corporate reporting environment going forward, and, indeed, will need to be allowed to affect it if that environment is to remain relevant and trusted.

However, the annual report, or its replacement, is only one element of the corporate reporting ecosystem. There are other unregulated elements within this ecosystem which are also important and relevant to stakeholders, therefore there may be a need for greater regulation over this area in the interests of accountability and transparency. Care will be required, however, to ensure that any additional regulatory requirement does not, as far as possible, impose such a further burden on UK companies that they lose their competitive advantage.

b. What are the drivers of good corporate reporting?

Reporting needs to evolve to enable a more coherent assessment of how directors have discharged their duties in delivering value to a broader range of stakeholders. Whilst we recognise that investors use a wide variety of sources in their investment models, there remains a need for a publicly available report, perhaps updated on a periodic basis, as part of a new corporate reporting model to demonstrate accountability to investors and other users.

The FRC paper does not address the incentives or the conflicts that exist for preparers in the corporate reporting system across a range of stakeholders with differing expectations and priorities. Governance is not referred to anywhere in the paper which is a key element of the corporate reporting ecosystem. We would welcome greater consideration of whether there might be a role for regulation in this respect, not merely as a constraint or control but more positively as a catalyst for greater transparency and accountability. As stated in our introduction, we would suggest that accountability should be included as an additional principle in the proposed model and that greater consideration should be given to how to incentivise companies to adopt the suggested principles; for example, through more explicit linkage of proactive transparent and comprehensive high quality reporting with the objectives of effective and responsible corporate governance and risk management.

The ICAS 2018 report was informed by the experience of users including investors and analysts whose focus, when reviewing annual reports, is understanding the risks to which an organisation is exposed. We would suggest that a future corporate reporting model should reflect to a greater extent the need for sufficient transparency and clarity about the risks, both in financial and non-financial terms, that an organisation might face. Alternatively, the introduction of a safe harbour provision for directors as part of their responsibilities under Section 172 of the Companies Act might encourage greater transparency in corporate reports.

c. Use of technology

There is a lack of innovative ideas or imaginative solutions in the technology section. This is somewhat surprising given that the Financial Reporting Lab of the FRC recently issued a report on the use of video in reporting, yet there is no reference to this medium as a possible communications tool in the report which appears to be rooted in the existing model and convention.

The use of AI, Robotics and Blockchain Advances in technology are having a profound effect on the way that information is produced, transmitted and consumed, therefore the FRC proposals should reflect that corporate reporting might utilise some of these technological advances in the very near future.

Similarly, greater use of infographics and visuals could have been referenced as an alternative or integral means of reporting. The use of technology should be seen not only as a delivery mechanism to transmit existing information (for example, video) but also an opening to an incremental range of media offering far greater and wider forms of information with benefits for the quality and nature of content as well as the processing, analysis and utilisation of data (for example, suitability of data for analytics, benchmarking, data-mining and so on).

The ICAS 2018 report acknowledged that, in the information age, annual (or periodic) reports of some kind remain a key communication tool for companies. It highlighted that, with the proliferation of data sources, it is more important than ever that there is a central, credible source of information that can be relied upon. It suggested that a performance report could be produced which would include annual and periodic reports, including a single page infographic as the lead communication, including the top ten key performance indicators, including non-financial performance indicators. This suggestion could be explored further by the FRC.

We would have welcomed greater discussion around the frequency and timeliness of reporting and the use of technology to provide more up to date, dynamic information about an organisation's activities and performance, one of the areas identified as lacking in the survey that was conducted by the FRC as part of this project.

6. Areas for further clarification

We believe that the following areas will need further consideration and clarification as the project evolves.

a. How will Public Interest be defined?

IFAC defines the public interest as: '....the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy'.

The ICAS Code of Ethics states: 'Acting in the public interest involves having regard to the legitimate interests of clients, government, financial institutions, employers, employees, investors, the business and financial community and others who rely upon the objectivity and integrity of the accounting profession to support the propriety and orderly functioning of commerce'.

It is not clear what the FRC intends when it refers to public interest and whether the approach sits within any of the existing definitions. With the ongoing debate around the purpose of business and emerging trends in stakeholder reporting, it is likely that there will inevitably be tension between the Business Report and the Public Interest Report unless there is a clear and distinct definition of public interest in this context.

We would suggest that the impact on wider society and the environment should be reflected in the definition of the public interest. Although we recognise that this may be more significant for certain industries and sectors, it will encourage all entities to consider their social license to operate.

b. Assurance

The paper does not provide much detail on the extent to which the network of reports should be subject to audit or assurance, other than the reference to the financial statements being audited. The interaction of the new reporting model with the Brydon Review is set out on page 16, and states that the new model is aligned with the Brydon multi-level assurance recommendation. However, the level of assurance that might be expected or possible for the component reports is not considered. Whilst we understand that it is right for the Future of Assurance to sit within the remit of the Brydon Review group, the new reporting model needs to be based on a framework:

- i. That is capable of being assured;
- ii. In which the extent of assurance provided is appropriate and at the right level at both the network and component levels to ensure consistency and balance across the network of reports; and
- iii. Where users understand the level of assurance obtained to avoid the risk of widening the expectations gap.

The inclusion of more detail on the above points would be helpful.

c. Materiality

Whilst it is encouraging that the FRC is moving away from a reference to the accounting standards as the sole basis for the determination of materiality, we believe that using the communication objective as a basis for determining materiality will be a challenge. More clarity is also needed around the anticipated interaction between the different materiality levels in the constituent reports, based on the needs of a diverse range of stakeholders, and that determined at the network level. This is an area where some pilot testing could prove useful.

SECTION 2

ICAS responses to specific questions

Question 1

What are your views on our proposals as a whole? Are there elements that you prefer over others?

Response 1

Overall, we welcome the FRC proposals as a very helpful piece of thought leadership on the principles and attributes that might form the basis of a new network of corporate reports.

Our specific observations on the proposals are listed below:

- We are encouraged by the identification of principles and attributes that might form the basis of a new network of corporate reports. It is right and necessary to take a holistic view of corporate reporting, across both financial and non-financial elements, and to incorporate new or increasingly important areas of information requirements by stakeholders.
- The concept of stakeholder accountability is very much welcomed. We agree that the principles proposed, with our suggestion of the addition of 'accountability' as a further principle, are a positive step forward in increasing the trust and relevance of corporate reporting.
- We acknowledge the attempt to structure and rationalise the existing model but would suggest that in the future there may be some scope for the development of a more innovative solution to the existing model. This is particularly relevant in the current environment as stakeholder expectations will have changed since the pandemic and this should be reflected in the evolving reporting landscape.
- We welcome the introduction of the concept of public interest however this will need to be clearly defined in this context in order that any potential conflict of interest is avoided.
- We are concerned that there may be some tension between what is included in the Business Report and the content of the Public Interest Report. We believe that the Business Report should also be in the public interest. The addition of public interest as a further principle is something that we would support.
- We welcome the references to SDGs, intangibles, public interest and other areas, although we believe that these topics will require significantly more focus than is currently suggested.
- The proposed shift from a single materiality basis is a welcome one although we acknowledge that this does present some challenges.
- Recognising the important contribution of the FRC Paper in identifying the principles and attributes that should underlie a future corporate reporting model, we believe that significantly more work is required on the actual design and execution frameworks, including the opportunities available through enhanced technology, in order to articulate a deliverable and credible future corporate reporting model that will regain trust and value in the eyes of users and stakeholders.
- We question whether some of the assumptions made, for example the presumption that the current corporate reporting eco-system is the optimal solution and should be maintained, albeit with amended and clarified focus, in any future model. Given the scale of criticism and challenge of the current model, and what stakeholders have suggested are fundamental shortcomings and weaknesses such that reform is considered necessary to rebuild trust, value and relevance, we question whether a thought leadership piece should be prepared to take a more fundamental and wide-ranging 'blank sheet of paper' to develop new ideas and potential visions, before reducing those to the level of the less disruptive, more immediately deliverable and more easily adopted practical compromises.

Implementation

Question 2

What do you see as the key practical challenges of implementing our proposals? Do you have any suggestions on how these could be overcome? What do you see as the costs and benefits of the new model?

Response 2

We have listed below the key practical challenges we have identified in implementing the proposals:

- **Materiality** - As we have highlighted in our response to Question 1, the new materiality model may present some challenges. More clarity is needed around the anticipated interaction between the different materiality levels in the component reports, based on the needs of a diverse range of stakeholders, and that determined at the network level. This is an area where some pilot testing could prove useful. A further challenge with the materiality model may be how to deal with trade-offs between different stakeholder groups.
- **Comparability** - The concept of public interest will need a clear definition in the interests of comparability. The absence of any clear definition may result in some tension between what is included in the Public Interest Report and what is included in the Business Report. The Public Interest report is a multi-stakeholder report and the Business Report is an investor focussed report. However, we believe that there will be overlap between the two. Who decides what is in the public interest? If it is management then there may be conflicts if what is in the public interest is not in their own interest. Our suggestion that consideration be given to making the public interest a specific principle would help to clarify this point.
- **Oversight and assurance** - The placement of the information is also a consideration for regulatory requirements and clarification is needed around what information will need to be audited and what will not. Different levels of assurance may be needed for different reports. This is likely to require an exercise in the education of stakeholders on the different levels of assurance available, and their limitations, otherwise the expectation gap will increase. There also will be a need for some level of oversight over the whole network of reports.
- **Internal challenges** - On a more practical level there may be some internal challenges around the availability of resources and time to compile additional reports to meet existing tight regulatory deadlines. Internal systems may also need to be altered particularly those required to gather non-financial information and data. A new mindset may also be required for a new model, such as integrated thinking, which will take time to embed.
- **Connectivity of component reports** - There may be a challenge for organisations in creating connectivity between the different component reports and avoiding discrepancies and overlaps.
- **Boundaries of reporting** - Users may face challenges in knowing where the boundaries of information stop and at what point further inquiry is required. This is particularly relevant as more information is now available online and on a company's website.

Despite all of these challenges, there might be an opportunity for the UK to shift the dial on a new model of corporate reporting at a global level as many UK companies also operate at an international level and some uniformity in reporting will be necessary.

Objective-driven

Question 3

Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

Response 3

We believe that this question appears to have two parts:

- (1) Should corporate reporting address multiple stakeholders?
- (2) Is a network of multiple objective-driven reports the best way to achieve this?

In response to part (1), we agree that corporate reporting should focus on a wider group of stakeholders through multiple objective-driven reports.

In response to part (2), this proposal is more open to challenge. We can see merit in focusing on multiple stakeholders and how this might be achieved through multiple reports. However, evidence from emerging trends in reporting around the stakeholder agenda would imply a risk of significant overlap in content between the two reports. Creating a network of reports also risks a greater volume, fragmentation and complexity of information provided unless approached in the right mindset.

As a provocation, a single large corporate report could satisfy different stakeholders without running the same risks of repetition, duplication, inconsistency and incoherence between elements that are created by moving to a network of reports. The ICAS proposal of a 'standing-data' strategy report, and a separate but linked performance report of current reported performance as well as changes and updates to the standing-data, both of which would address numerous stakeholders, could represent an alternative to the network proposed by the FRC and would help with the challenges of excessive volume and redundant information.

One set of principles

Question 4

Do you consider the set of principles (system level attributes, report level attributes and content communication principles) in section 2 would be helpful in improving the quality of corporate reporting today and in the future?

Response 4

It is not clear why the report level attributes should be distinct from the system level attributes of accessibility, connectivity, consistency and transparency as they feel applicable for both. It might have been better to identify and recommend one set of core or fundamental attributes that are applicable to the entire reporting system and that should also apply at the individual report level. We would also note that Fair, Balanced and Understandable and True and Fair are more akin to bases of preparation as opposed to attributes - True and Fair is enshrined in company law.

The principles of connectivity and consistency need further consideration in order that users can ensure connectivity and consistency between the different reports. At the same time, there is a need to ensure that there is no duplication of content within the individual reports resulting in an unnecessary increase in the size of the reports.

Whilst we consider the set of principles and attributes to be helpful, we would highlight that the concept of accountability should also be included within the list of principles to emphasise the importance of how preparers approach reporting in a transparent manner as well as what they report. Also, as noted in our responses to questions 1 and 2, we would suggest that consideration should also be given to introducing a further principle of public interest.

The overall objective should be more transparent, balanced and honest reporting and we believe that our suggestion of introducing the two further principles of accountability and public interest will serve that objective.

Reporting network

Question 5

Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

Response 5

We agree with the importance of relevance and accessibility of information and, in principle, that the proposals could improve the accessibility of information across the reporting network. However, we have concerns around how connectivity will be achieved across the network of reports. Some examples of how this will work in practice would be helpful.

It is, however, also important that each report stands alone whilst maintaining connectivity and consistency throughout the reporting network.

While not directly covered in the paper we believe there will also be a need for some level of assurance over the network of reports, not just the individual components, in order to provide meaningful comfort to users over the coherence, consistency and balance across the different reports.

Materiality

Question 6

We are proposing that there should no longer be a single test for materiality that is based on accounting standards but instead materiality will be dependent on the objective of a report. Do you agree with this approach, please explain why?

Response 6

With the growing demand for more information from a wider group of stakeholders it is appropriate that the concept of materiality is revisited, challenged and determined appropriate for any future reporting model. At the same time, in debating materiality, we also believe it is important to determine to whom directors are responsible when reporting as this is a critical piece of the materiality puzzle.

We therefore welcome this addition to the materiality debate with the proposal to shift from a single test for materiality although we acknowledge that this will present some significant challenges in its implementation at a practical level to ensure that the reports are 'fair, balanced and understandable'. We would suggest that some pilot testing of this specific proposal would be helpful.

On the topic of responsibility and accountability, each report will have a different purpose, and possibly a different audience, therefore more than one level of materiality may be required. Different reports may also have different concepts of value, for example the Financial Statements and the Public Interest Report. As a result, there is a need for greater clarity on how materiality will be defined in each of the individual reports, and at the network level, to ensure consistency and transparency and provide clarification around who determines the objectives of each report. The information reported should be relevant, future-proof and capable of being assured.

On the subject of assurance, when considering the network of reports, we do not believe it would be possible to assure the network report without there also being implications for component reports. It may therefore be necessary to have two lenses to both materiality and assurance at both the network and component levels.

Non-financial reporting

Question 7

Do you believe that there is a need for regulatory standards for non-financial reporting? If so, what do you consider the scope of the information that should be covered by these standards?

Response 7

We believe that there is a need for regulatory standards for non-financial reporting. This is already underway and subject to consultation and development both at a European and a global level. We welcome the moves towards greater global harmonisation in non-financial reporting and encourage the FRC to engage in constructive dialogue and collaboration with all the key global players in this debate to ensure that any proposals are aligned with the global direction.

Across all the proposals, however, there will need to be a proportionate balance struck for smaller entities and an approach that is relevant and appropriate to the specific sector.

In terms of the scope of this information, we believe that this should serve the multi-stakeholder audience and should not be limited to investors and other market participants. Momentum is already building around the development of global standards on climate change but ultimately standards should cover all of the key elements of 'ESG'.

The qualitative basis of 'fair, balanced and understandable' and the onus it places on auditors with a 'reinforced public interest' responsibility and accountability is something we would welcome in respect of non-financial reporting. There might need to be some element of completeness or comprehensiveness introduced alongside those characteristics.

We welcome the references to intangibles in the FRC paper, particularly as research has highlighted that the majority of a company's value is represented by intangibles. However, references to intangibles are expected to be included in both the Business Report and in the notes to the Financial Statements highlighting the need for connectivity between the component reports.

With regard to reporting on the SDGs and other sustainability measures, some of the existing and developing frameworks and initiatives could be built upon to provide the required consistency, transparency and accountability. We would highlight some of the earlier work by ICAS and others on how to report against the SDGs, aligned with the value creation process within the Integrated Reporting <IR>Framework.

https://www.icas.com/_data/assets/pdf_file/0010/336475/SDGs-and-the-integrated-report_full17.pdf

https://www.icas.com/_data/assets/pdf_file/0007/531709/ICAS5045_SDGD_Recommendations_A4_22pp_AW3-1.pdf

The challenge will then become one of adoption and enforcement.

Question 8

Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?

Response 8

It is not clear what is intended by the reference to public interest or whether this sits within any of the existing definitions. As stated in our earlier responses, the lack of any clear definition in this context may result in some tension between what is included in the Public Interest Report and what is included in the Business Report. Subject to some clarity in this area, we believe that the provision of information by organisations on how they view their obligations in respect of the public interest would be useful.

Question 9

Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?

Response 9

We wonder whether public interest should be a thematic focus across a number of the component reports (for example, the Business Report, the Financial Statements, standing data and so on) as opposed to trying to distinguish specific aspects of the public interest to be gathered together into a single component report. We would note that, as part of a number of recent regulatory developments, there has been a positive response to the inclusion of 'ESG' data and reporting of how stakeholders have been taken into account in decision-making in Annual Reports. While there is no doubt the quality and integration of disclosures needs to improve, companies need to be given time to develop their disclosures further before determining whether a separate report is required. We would therefore suggest that the public interest may be served by more transparent appropriate reporting in the existing reporting model and would highlight that there may be a risk of inconsistent messaging or weighting of messaging by the separation of public interest matters into a single report.

Further, we question in what way the Public Interest Report will differ from the existing Sustainability Report and whether it reflects the other recent developments in non-financial reporting.

The first step should therefore be to agree and define the public interest and then consider the purpose of, and audience for, the Public Interest Report.

Technology

Question 10

Do you see any other ways that current and new technology could be used to facilitate the proposed model, and support the system level attributes of corporate reporting identified in section 2?

Response 10

We would have welcomed greater discussion around the many significant transformative opportunities afforded by current technology, both in terms of the breadth and volume of information able to be processed by stakeholders and in the efficiency of information production. These appear to be largely excluded from the current paper with the result being that it largely addresses a technological status quo rather than providing thought leadership about the opportunities for transformative change.

Advances in technology are having a profound effect on the way that information is produced, transmitted and consumed therefore we would encourage further consideration of how corporate reporting might utilise some of these technological advances in the future. Therefore, we would have welcomed reference to the possibility of greater use of technology and other media, such as infographics and visualisation, video, self-serve data extraction and analytics, and social media, as alternative means or integral elements of a future system of corporate reporting.

A recent report by ICAS, The Impact of Technology on the Profession, https://www.icas.com/_data/assets/pdf_file/0009/555849/The-Impact-of-Technology-on-the-profession.pdf highlighted that considerable work is already taking place on RPA (Robotic Process Automation), the benefits of which are positively correlated to the level of standardised transactions within organisations, with an expected impact over the next 2 to 5 years. We therefore believe that any discussion of the future of reporting should consider the impact technological advances might have.

The use of technology as part of the future of corporate reporting also needs to comply with the regulatory requirements. There may be a need for some form of regulation over the use of technology and the reliability and authenticity of the data being used.

Proportionality**Question 11**

Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

Response 11

In principle, we believe that the proposals are reasonable and could be scalable to organisations of different sizes, on the basis that they reflect conceptual 'principles' and 'attributes'. This is on the proviso that the actual expectations of the level of detail in each report do not become overly prescriptive making them unnecessarily costly for smaller and less complex organisations to implement. A further barrier to the ability of smaller entities to implement the proposals is the amount of work that may be involved in preparing the various reports and the amount of oversight, governance and assurance required to ensure they meet their objectives and avoid clutter and duplication.

Large multinational listed entities are often extremely complex and therefore the benefits of adopting the proposals might outweigh the potential costs of doing so. However, the benefits associated with the adoption of the new reporting model by smaller listed entities may not justify the related costs. Therefore, we would support the option being available to smaller entities, if jurisdictional regulations or supply chain relationships require it, but we would not support any mandatory requirement being introduced. A comply or explain exemption may also be needed.

Other**Question 12**

What other areas do you see being necessary or relevant to the development of a model for corporate reporting that is fit for the future?

Response 12

Set out below are a number of other areas, not mentioned above, that we believe need further consideration to help ensure the development of a reporting model that will be fit for the future:

- Stakeholder interests - how preparers are motivated to serve the interests of stakeholders as a primary reference point as opposed to fulfilling their own necessary and inevitable objectives.
- Information framework – how corporate reporting might fit within a wider framework of information that stakeholders might access and analyse on company plans, activities and performance.
- Board oversight and responsibilities – how corporate reporting fits within the wider corporate governance framework, with important implications for the role of the Board and its responsibilities and accountability for the quality of reporting. These could be developed further.
- Fit for the future - given the unavoidable challenge of designing a model that is fit for the future, without knowing what the priorities for information will be in the future and without being able to predict the full potential of technology and other mechanisms to satisfy those priorities, a future model has to be agile and flexible such that it can take account of new requirements and capabilities as and when they arise. Designing in that agility and balancing it against the presumption of a relatively fixed eco-system and regulatory structure such as is assumed by the proposals, is challenging but necessary. The FRC should give some consideration to how that flexibility and adaptability might be brought in at the outset.
- Forward-looking orientation - companies are increasingly being encouraged to adopt a longer-term view, but the current model requires short-term thinking at the expense of longer-term value creation for investors and society. This potential conflict and tension should be addressed in any new corporate reporting model.
- Intangibles - the treatment and recognition of intangibles needs to be more pervasive across the FRC proposals in line with the initiatives underway within EFRAG and the European Commission. ICAS is currently funding two research projects on intangibles demonstrating the increasing importance and relevance of this issue.