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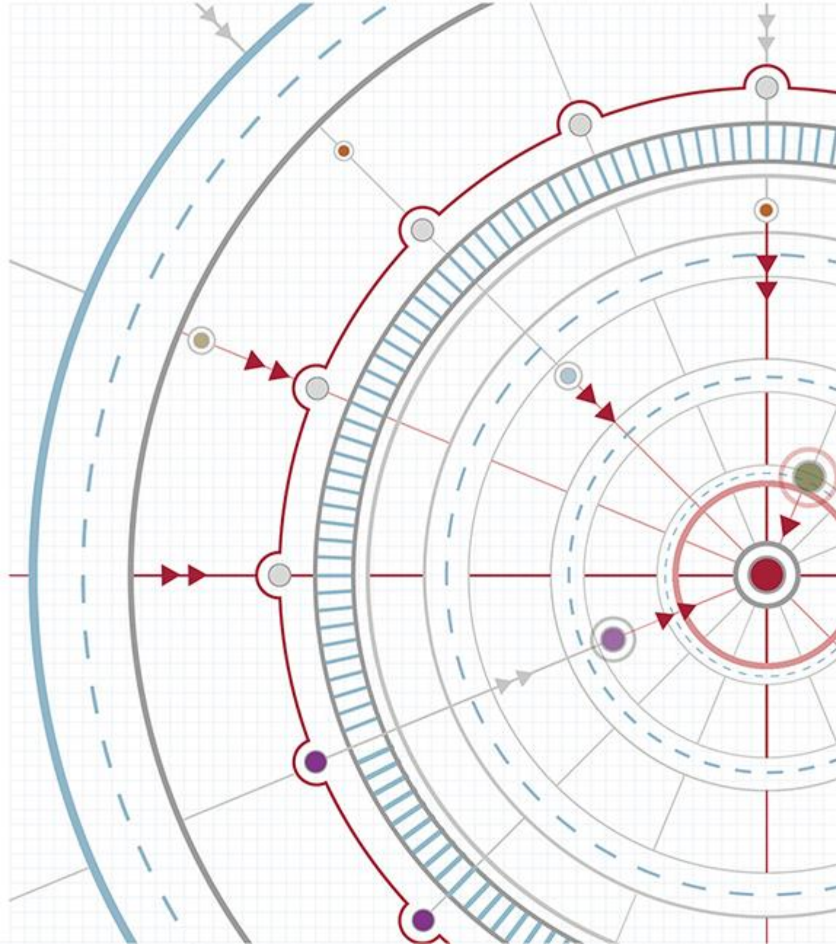

Wider corporate reporting and the International Accounting Standards Board

David Loweth

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not necessarily those of the International Accounting Standards Board (the Board)
or IFRS Foundation.

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Wider corporate reporting: summary of presentation

- This presentation covers:
  - Background and context of the staff work on wider corporate reporting (WCR).
  - Overview of the staff work to date and evidence of the growing support for WCR and its benefits.
  - Implications for the work of the International Accounting Standards Board (the Board): including reference to discussions with the Board and others that have taken place since March 2017.
  - Summary of staff's rationale and proposals that the Board should take onto its agenda a project to update and revise the *Management Commentary* Practice Statement (MCPS).
  - Questions.

Wider corporate reporting: background and context

- Role of the Board was examined as part of the IFRS Foundation Trustees' latest review of structure and effectiveness (2015-16).
- Trustees' Request for Views (RFV) in July 2015 set out view that Board's current approach of co-ordination and co-operation with other bodies active in this arena – such as the International Integrated Reporting Council (IIRC) and the Corporate Reporting Dialogue (CRD) - should continue.
- Large majority of respondents agreed with this current strategy.
- Trustees reaffirmed Foundation's strategy towards wider corporate reporting: Board should play an active role, but not be at the forefront of leading developments in areas outside the traditional boundaries of financial reporting.
- Trustees also agreed to dedicate a modest amount of staff resource to this area to monitor developments and to develop a study of what the future role of the Board should be.
- Outcome of Trustees' review noted in Board's Agenda Consultation Feedback Statement November 2016.

Wider corporate reporting: staff work to date

- Initial research of extensive literature, which has revealed:
  - as anticipated, a confusing myriad of frameworks, standards, goals and codes, but equally
  - growing support for companies to report on a broader range of factors than purely financial ones, from a range of stakeholders – investors, regulatory community, accounting profession, academia.
- Monitoring developments in the field, including the work of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD). View is that TCFD recommendations relate more to narrative reporting, such as in management commentary.
- Enhanced contacts with bodies such as the IIRC, the CRD and the Sustainability Accounting Standards Board (SASB).
- Initial work undertaken on mapping the provisions of the IIRC's 2013 Integrated Reporting (<IR>) Framework with the Board's 2010 *Management Commentary* Practice Statement (MCPS).
- Papers presented to the Board at its March 2017 meeting (initial survey of the wider corporate reporting landscape) (Agenda Paper 28A for that meeting).
- Presentation to Advisory Council April 2017 (Agenda Paper 9 for that meeting).
- Presentation to Accounting Standards Advisory Forum (ASAF) July 2017 (Agenda Paper 9 for that meeting).

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Wider corporate reporting: evidence of benefits

- Growing evidence that companies with robust sustainability practices and reporting deliver improved economic performance.
- Oxford University and Arabesque Partners 2015 meta-study of 200 studies reported that 88 per cent of relevant sources reviewed found that companies with robust sustainability practices demonstrate better operational performance.
- Study revealed similar positive results relating to cost of capital and share price performance.
- 2015 review of over 2,000 empirical studies by Deutsche Asset Wealth Management and University of Hamburg revealed that the business case for ESG investing is “empirically very well founded”.
- Initial study of integrated reporting quality in South Africa by Mary Barth and others revealed positive associations in relation to stock liquidity, firm value and expected cash flows. A number of academic papers reveal similar positive findings, but some others are less positive about <IR>, in particular taking the view that it should be more about reporting to all stakeholders on sustainability in the wider sense rather than reporting to investors on business sustainability and value-creation.

Implications for the Board's work: general

- Staff view on the basis of the research to date is that wider corporate reporting is gaining in prominence and importance and important that the Board is across such developments and plays more of an active role in them.
- That does **not** mean that the Board should involve itself in developing IFRS Standards on integrated/sustainability/other wider reporting issues.
- But Board should set out a view on how it sees its Standards fitting with wider reporting issues that focus on long-term value creation.

Implications for the Board's work: options

- At its March 2017 meeting, the Board tentatively decided to play a more active role in this area and considered a number of options (Agenda Paper 28B). Outcome reported to the Advisory Council.
- Main option presented to the Board was a proposal to revise and update the MCPS. In March, the Board asked the staff to do further exploratory work before considering whether or not to take on any such project. Board acknowledges that it was not included in the Board's Work Plan following the latest Agenda Consultation.
- Advisory Council (April 2017) expressed some caution and agreed that further work needed before any consideration of such a project.
- Discussions also held with the Accounting Standards Advisory Forum (ASAF) (July) and the International Forum of Accounting Standard-Setters (IFASS) at its September meeting.
- Discussions have revealed a range of views as to whether the Board should take on such a project.

Implications for the Board’s work: use and influence of the MCPS

- Some question whether this would be worthwhile. MCPS non-mandatory. Only found a small number of companies that explicitly assert compliance: HSBC, SAP, KazTransOil.
- **But** MCPS has been an influence in development of other frameworks and guidance, including <IR> Framework (2013), CDSB Framework (2012), German GAS 20 (2012), Malaysian SOP 3 (2013), UK FRC Strategic Report guidance (2014). Referenced in Australian ASIC OFR Guide (2013).
- MCPS used as a benchmark in academic literature assessing quality of companies’ narrative reporting.
- As Eumedion said in 2011: “We hope that Management Commentary will gain more acceptance globally as we see great merit in its use as a fundamental document for any integrated reporting framework”.
- Given the many developments that have taken place since 2010, staff view is that there is merit in revising and updating the MCPS. Possibility raised by Board Chairman Hans Hoogervorst in his comments to the IIRC Council in April 2017 and his speech to Accountancy Europe in September 2017.

Implications for the Board’s work: calls for action

- Growing number of calls highlight problems with the current confusing WCR landscape, in particular:
  - the lack of a generally accepted framework and standards for WCR (the terminology differs, with many using the term Non-Financial Reporting, NFR); and
  - the lack of alignment and integration between NFR and financial reporting.
- Also increasing calls for companies to report much more on value creation for the long-term, with a need - for example – for broader performance information in order to support the alignment of business models and strategy with longer-term aspects of performance.
- Some bodies call on the Board to take action, for example:
  - Accountancy Europe conclusions from future of corporate reporting event September 2017: “The IASB does currently not feel equipped to put the non-financial information reporting on its agenda. But if the IASB does not take this forward, who will? Feedback from the event indicated that stakeholders felt that the IASB was perhaps too prudent in its approach towards the corporate reporting agenda”.
  - also ICAEW, United Nations Environment Programme (UNEP), ACCA, the EU High-Level Experts Group (HLEG) on Sustainable Finance, and the IIRC.

Implications for the Board's work: the Board's role in other financial reporting

- The Board developed the MCPS on the basis that management commentary lies within the boundaries of financial reporting, meeting the definition of 'other financial reporting' in the *Preface to IFRSs* (paragraph 7).
- That brings management commentary within the scope of the *Conceptual Framework for Financial Reporting.*
- There is no precise definition of other financial reporting, but staff view it as encompassing information on information that is material to investors on:
  - a company's business model, strategy and operating environment for long-term value creation;
  - non-GAAP financial performance measures;
  - 'pre-financial' information – ie that non-financial information that addresses matters relevant to an understanding of the future financial performance and position of the company; and
  - forward-looking information.
- We see all of the above as coming within management commentary.

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Implications for the Board's work: context for taking on the MCPS update and revision

- In response to calls for the Board to take leadership in the area of other financial reporting to address the proliferation of WCR standards that do not necessarily align with the investor/financial reporting focus of the MCPS.
- Such calls reflect a market expectation that the Board is the body that is best placed to address the link between 'narrow' and 'other' financial reporting. The Board is well-placed to ensure a good fit and connectivity between financial reports and wider, non-financial information, and to ensure integrity and discipline in the way that financial figures are reported in management commentary.
- There are developments in the consumption of financial and non-financial information that may be expected to result in increased focus being placed on management commentaries.
- The 2010 MCPS was an important influence on developments in WCR at a national and global level, and there is now an opportunity to incorporate relevant subsequent developments back into the MCPS, whilst also addressing identified gaps and implementation challenges (such as those identified by the IIRC).
- Would assist in bringing some clarity to a confused landscape.

Implications for the Board's work: summary case for taking on the MCPS update and revision

- In order to remain relevant, the MCPS needs to be updated to reflect the many developments that have taken place since 2010, in particular to refer to and emphasise the importance of value creation over time.
- Updating the MCPS would answer the calls from those for the Board to play a more active role in WCR, in particular to further articulate what is covered in other financial reporting, to create a good fit between 'narrow' and other financial reporting, and to stress its importance.
- Continuing to take a principles-based, framework approach to the MCPS will allow it to be used in conjunction with other frameworks and codes and to build on the best practices currently available.
- Continuing the MCPS as a non-mandatory pronouncement reduces the risk of creating conflicts with other frameworks and codes and can give the Board scope to work with others (such as securities regulators and/or National Standard-Setters) to encourage more formal adoption at jurisdictional levels.

Implications for the Board's work: updating the MCPS

- As an indication, any update would need to look at areas such as the following;
  - Purpose – focus on value creation;
  - Reporting on a company's business model;
  - Greater emphasis on integration, connectivity and linkage;
  - Explicit reference to a broader range of resources (capitals in <IR> terminology), including those related to environmental and social aspects;
  - Updating what is said about materiality to reflect the Board's work in revising the *Conceptual Framework* and Practice Statement 2 *Making Materiality Judgements*.
- Staff view is that revising and updating the MCPS to reflect such developments could be seen as to aiding better communication by companies, even though it is non-mandatory.
- As well as an update on WCR developments (Agenda Paper 28B), the Board will discuss an agenda proposal to revise and update the MCPS at its November meeting (Agenda Paper 28A). Among other things, the staff believe:
  - that taking on such a project would help to address a deficiency in financial reporting;
  - it is a pervasive issue of importance to users and which affects all entities;
  - it would fit well with the 'Better Communication in Financial Reporting' key theme of the Board's current Work Plan.

Implications for the Board's work: questions for EFRAG Board

- Do you agree with the conclusion that wider corporate reporting is growing in prominence and importance and, as such, the Board should consider playing a more active role in this area?
- What are your thoughts on the staff proposal that the Board should take on a project to revise and update the MCPS? Do you have any comments and suggestions on areas that should be covered?
- Any other views, comments or suggestions?

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