

Digital reporting – Update on the discussion held at the EAA symposium Cover Note

Objective

- 1 The objective of this meeting is to inform EFRAG FR TEG members on the main messages from the discussions at the EFRAG symposium on digital reporting at the EAA annual conference held on 13 May in Bergen.

Background

- 2 In its comment letter in response to the IASB Agenda Consultation, EFRAG
- 3 *has recommended that the IASB better considers the effect of technology in standard setting in several of its recent comment letters. Developments are taking place rapidly with ESEF and other forms of digital reporting. Digitalisation of reporting information could be considered to be part of the assessment of IFRS Standards.*
- 4 noted that *“To a certain extent we may say that the use of technology is so pervasive in financial reporting that the technological usability of a given information (from the users’ side) and the complexity of incorporating a new datapoint into the existing financial reporting systems (from the preparers’ side) may already be considered as relevant aspects in assessing the impacts of proposed new standards or amendments. As such, a technical discussion on how to better structure this assessment would support to better incorporate the digitalisation angle in the IASB due process and, in general, in standard setting.”*
- 5 EFRAG has not included a project in digital reporting as a separate project in its proactive research agenda, however, the topic will be monitored for possible developments in the future.
- 6 As a step to initiate the discussion on the implications of digital reporting, EFRAG organised a symposium on digital reporting at the EAA annual conference on 13 May 2022 in Bergen.
- 7 The 90-minute symposium was introduced by Saskia Slomp (EFRAG CEO) and a recorded presentation by EFRAG FR TEG Chairwoman Chiara Del Prete. Thereafter, a panel discussion occurred involving Annalisa Prencipe (EAA President, Full Professor Department of Accounting Bocconi University), Tommaso Fabi (Technical Director Italian Standard Setter OIC, EFRAG FR TEG member), Nicklas Grip (former EFRAG FR TEG Vice-Chair, Senior Vice President, Head of Regulatory Strategies at Group Finance, Svenska Handelsbanken), Kai Morten Hagen (Technical Director Norwegian Institute of Public Accountants, Board member of IAASB and vice-chair of Auditing and Assurance Policy Group of Accountancy Europe) and Teodor Svein Nilsen (financial analyst, SpareBank1 Market). At the end of the discussion, Annalisa Prencipe opened the floor for questions from the audience. The session was well attended.
- 8 The following questions were discussed:

9 What are the implications of the digitalisation of corporate reporting based on your experience?

Having noted that the digitalisation of corporate reporting will be disruptive for users and the market and that it will require some additional time to learn to use it, most respondents were positive on the implications. Noted advantages include (a) reducing the time required for consuming new data/numbers, (b) an increase in data comparability across companies, (c) users will be able to take and shuffle the information they want, (d) corporate reporting will be more relevant for users and more future-oriented, and (e) accessibility of data will be easier than is the case today where the entities can present their financial statements in any way they want. However, digitalisation is not expected to change the way the principles will be applied but the standard setter cannot ignore it and has to set and continue to update the standards. From a standard-setter perspective, the technology is neutral.

10 Will presenting information in a company-specific manner become more difficult?

There was a concern that this might be the case. It is important for entities to be able to tell the story of their unique underlying business models and how the entities adapt when the surrounding environment changes. Digitalisation and standard form may put away the pressure from having certain fixed structures of the income statement and balance sheet if everything is tagged properly. The tagging may be helpful by allowing the flexibility the entity needs. Regarding the tagging system, it is important to allow extension at an industry instead of company level. Differences across different industries or business models may be acceptable.

11 Are there issues to consider for the digitalisation of sustainability reporting different to financial reporting?

Financial reporting looks at what's already happened while sustainability reporting is more future-oriented and more narrative in nature. In order to digitalise information, standardisation is needed. Sustainability reporting standardisation is challenging; one of the important aspects to consider is that the two forms of reporting have to tell "the same story" and they have to be linked together. It is very challenging to define the industry standards for sustainability reporting to make it comparable across different jurisdictions. Sustainability reporting is more important than in the past because users are increasingly concerned about this information. Two main points have been highlighted: (i) including some sustainability data or information in a table is a positive digitalisation impact; and (ii) to have trustworthy data, we need to be comfortable that the same data definitions are used across the companies within the same industry.

12 How will the role of regulators and EFRAG be affected by digital reporting?

That information is required to be relevant, comparable, understandable and reliable applies about when delivered in a digital or printed format. As such not much will change. Taxonomies, such as XBRL, have to be aligned with the accounting standards and require a continuous dialogue with the standard setter. Sometimes relevant and comparable information cannot be digitalised adequately and easily by technology. Is it still comparable and useful for the users? There is the risk that too much detailed data may limit the access to the data by private users. In addition, if the information will become not flexible thus should lead to lower comparability.

13 From the audience the following questions were raised and commented upon by the podium:

14 Are the standard setters really technology-neutral especially considering the impact of the taxonomy, which lead to a new standard wording and project teams? And will they be able to not think about how they are looking at the taxonomy in a digital environment?

Standards define the rules to measure, evaluate, account for, present and disclose data but not how to deliver it to the final users. It does not mean that the standard setter should not consider the external environment evolution, but it only has an impact on its approach instead of standards requirement themselves. Digitalisation will only change the way to present information but not the core basis of how the entities prepare their financial statements. Standard setters will only consider the evolution and needs of the users. In sustainability reporting, one has the advantage that the standards' development can take into consideration the current digital possibilities.

15 What is your experience with your local taxonomy? What about the electronic format that is difficult to access by the end users?

In Sweden, taxonomy works very well for small entities with a simple business model. As the size and the complexity of the business model increase, the tagging problems also increase. Financial institutions need a lot of flexibility and extensions to make their information comparable, suitable and consistent. In Italy, especially among the unlisted company, there are a lot of companies that still have to present their financial statements in pdf if they want to customise their schemes instead of using the standard form in XBRL. This reduces information comparability.

16 The final question from Annalisa Prence to the podium was: What questions/issues would you like academics to provide evidence on?

- It should be interesting to know the extent and timing of the impact on the share price when a company presents its periodic digital reporting compared to when it presents a traditional one.
- Explore if the quality of conforming data has better predictive power than individually adjusted data in identifying high performance in different sectors.
- We need more research to understand if digital reporting will address users' needs or if it will raise additional questions when they will have access to more information.
- Do you think that reporting digitalisation will have an impact on the cost of capital?
- How will digitalisation change the way companies' performance within and across industries is measured?

17 Annalisa Prence thanked the participants and concluded that there will be a lot of research opportunities and work to do in this field.

Questions for EFRAG FR TEG members

- 18 Do EFRAG FR TEG members have questions regarding the update provided?
- 19 Do EFRAG FR TEG members have observations and recommendations to EFRAG Secretariat regarding work on digital reporting?