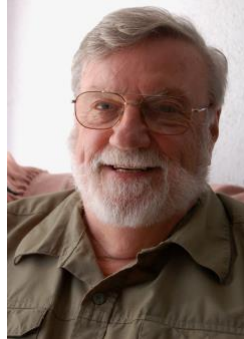


Adapting Corporate Reporting to the Information Age

By Gerald Trites, FCPA, FCA, CISA

A 1999 survey showed that many of the companies listed on Canadian and American stock exchanges did not yet have a website. And, of those that did, only about 50% included financial information, which often was quite sketchy and incomplete.



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These were the main findings of a research study commissioned by the Canadian Institute of Chartered Accountants on *The Impact of Technology on Financial and Business Reporting*.¹ The aim of the survey was to learn the extent to which listed companies were offering financial reporting on what was then called the World Wide Web. The survey encompassed 370 companies drawn from the 10,000 companies listed on the Toronto Stock Exchange, the New York Stock Exchange and Nasdaq.

A lot has changed in the 20 years since that survey in 1999. Now, all listed companies have websites. Almost all of them include comprehensive financial information on those websites – often under the heading of “Investor Relations” or simply “Investors” or “Investor Information” – and this disclosure is widely acknowledged as a (perhaps the) major source of information for corporate stakeholders. The websites don’t replace the traditional information, like financial statements, MD&A and news releases; rather, they incorporate this information in a different communications vehicle.

But one very important thing has not changed. We as accountants have not yet broken out of the paper paradigm way of thinking. It’s amazing when you think about it – that this is still the case after 20 years – but the evidence is conclusive.

The Old Feeds The New

The content of websites is still based on a variety of paper reports – financial statements, annual reports, MD&A, President’s Report, etc. At one time, people would receive these reports in the mail, open them at their desk or kitchen table and read them from cover to cover, making notes along the way and then following up on any unanswered questions. If they wanted to compare a particular item, say sales revenue in the income statement, to what another report might say, such as the MD&A, they would make a note of the item, look it up in the MD&A and then read about it there, again making notes as necessary.

In the age of technology, people are less likely to read this way. More often, they will read in a non-linear fashion, following particular items and ideas across the various reports, using hyperlinks and search engines. In the age of technology, information should be presented so as to facilitate this approach.

Most corporate websites usually present their content using the PDF Format, which was designed to preserve the format and content of paper reports. They are intended to be read in the same way as paper reports were always read. They can accommodate hyperlinks, but there is very little hyperlinking of information in practice.

There is also very little presentation of interactive data, i.e., data in HTML, XBRL, or other markup languages. Only sometimes are the financial statements presented in these languages. Some use HTML. And XBRL is required by the US Securities and Exchange Commission. But, again, when the information is presented, it is usually based on the same format as the old paper reports. The emphasis is on the individual reports, not on the data or information they actually contain.

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To further aggravate the situation, very few companies have adopted Integrated Reporting. At present, companies typically present financial reports and ESG (Environmental, Social and Governance) reports separately. In addition, the governance reports and, sometimes, the social

reports are presented separately from the environmental reports.

The International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard setters, the accounting profession and various non-governmental organizations (NGOs) has been promoting the idea of Integrated Reporting (IR) for many years. They have made a lot of progress, but IR is still not generally accepted. IR involves combining the financial and ESG reports into one report. It also means that the information in those reports would be presented in such a way that all aspects of a particular item or issue can be quickly absorbed by the readers. As the IIRC puts it, “an integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.”²

Website Presentation

In *The Future of Corporate Reporting – Creating the Dynamics for Change*,³ a study published by The Federation of European Accountants, makes the following point:

“The corporate reporting of the future should take full account of changes in technology. Developments in the model for future corporate reporting should be flexible and able to adapt

to changes in technology which affect the way people interact with an entity and which significantly affect the delivery of the information itself.”⁴

Taking full advantage of technology means, in part, moving away from the paper paradigm way of thinking, using the features offered by technology. With websites, those features include interactivity, hyperlinking, multimedia, availability and the ability to report on a real-time basis. Of course, technology extends beyond websites. Most listed companies make some use of social media, although this varies widely in terms of the coverage of information and the specific social media outlets used. All the same, companies have been experimenting with social media. Companies have also been experimenting with the use of apps for conveying their financial and business information.

Apps are used primarily in tablets and smartphones, and are downloaded and installed on the user’s device. They are very powerful in terms of the information they can provide. Examples of available apps are those offered by Walmart, Shell, Bank of Montreal and Canadian Tire. All present a wide variety of investor-related information, often similar to that available on their websites.

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“Most people would agree that technology has changed their way of working and living significantly. Current developments in technology and social media already bring an unprecedented level of immediacy and sharing of information. Accessibility of corporate reporting has extended to stakeholders well beyond the investment community that represents its historical target. Information published on websites and through other digital means is instantly available to global audiences.”⁵

Core & More

The Future of Corporate Reporting – Creating the Dynamics for Change suggested a new approach to corporate reporting, called CORE & MORE. This approach is based on a “building block” or a “layered” approach. Financial reporting, according to this new model could, have two distinct parts: a CORE Report and MORE additional information provided and referenced from the CORE report to the supplementary layers of reporting.⁶

In concept, the CORE & MORE approach is quite simple. The CORE Report could be, for example, a short summary of the major events during a reporting period, along with the key performance indicators. That would give a reader an instant picture of the company’s financial and business status at a very high level. Most companies already provide a summary like this on

their Investor Relations webpage, under a heading such as “Highlights” or “Key Performance Indicators,” although they do not use it as a CORE Report.

The MORE reports would come up through hyperlinks to the items in the CORE Report. For example, one key indicator would likely be Net Income, which would be in the CORE Report and hyperlinked to the MORE reports, which might include, say, the income statement and/or the operating results section of the MD&A. Or there could be all kinds of variations on this structure. The point is that the pyramid would start at a high-level report and then progress down to more and more detailed reports, perhaps even to basic data levels, although this is seldom done at present.

The presentation of the CORE Report need not be restricted to the website. It could be placed in social media, complete with hyperlinks, thus making the report more available to the readership. Or it could be the core of an app that would be installed on a mobile device.

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A follow-up paper, published by Accountancy Europe in 2017, documented the responses of various people and organizations. There was general support for the report and the CORE & MORE concept, although the point was made that “the CORE & MORE concept should be clarified, redefined, and further fine-tuned and explained how it relates to integrated reporting.”

This perceived need for clarification came out of the sweeping nature of the “future” report and the application of the CORE & MORE concept. Along with the basic concept, *The Future of Corporate Reporting* stated that traditional financial statements were becoming less important, that non-financial information was becoming more important and needed to be included in the CORE & MORE reports, as should the ESG reports usually given as separate reports.

Of course, this raises a number of issues. It also points to the need for companies to experiment to come up with the best reporting approach. And it points to the clear need for the standards-setting bodies to step up.

Reporting in the Future



Accountancy Europe’s follow-up paper contained the following conclusion: “Respondents and participants anticipate that corporate reporting will, amongst other things, be web-based in the future; meaning that we expect to gradually move away from the traditional paper/PDF format. Technology can enhance both the preparation and presentation of reports. Innovation could, for instance, result

in a better overview of the information (structured reporting) and greater user-friendliness. Technology as such can be both a driver and enabler of change in corporate reporting.”⁷

In a speech delivered at an Accountancy Europe event in Brussels in 2017,⁸ the chair of the International Accounting Standards Board, Hans Hoogervorst, offered a response to the CORE & MORE reports.

While pointing out that traditional financial statements remain a crucial element of corporate reporting, because of their confirmatory role, nevertheless he acknowledged the need for change. In particular, he pointed to demands for more detail, more subheadings and more data. He also referred to the growing use of the IFRS Taxonomy by regulators and intermediaries. This fact he correctly identified as evidence of the changing manner in which financial statements are being consumed. This goes back to the point that people do not read them sequentially any more but, rather, use them as a vehicle for exploring particular items of interest.

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On the broader issues of corporate reporting outside of the financial statements, such as the role of non-financial information and ESG reporting, Mr. Hoogervorst acknowledged the importance of integrated reporting and the Integrated Reporting Framework as promulgated by the IIRC. That framework provides guidance on content but leaves

a good bit of flexibility in how the Integrated Report is actually compiled. It does not provide answers on how to prepare CORE & MORE reports. Nevertheless, the idea of integrated reports has gained considerable traction and has been used by numerous companies around the world.

With regard to ESG reporting, Mr Hoogervorst stated that: “The CORE & MORE report rightly notes that the world of sustainability reporting does not provide the same kind of global comparability that exists in the world of financial reporting. The report calls for ‘decisive leadership’ to establish an international standard-setter and even poses the question if the IASB as renowned international standard-setter should provide at least part of that leadership.”⁹

He added that: “That ideal world is still far away, I am afraid. In the meantime we will have to make the best of the imperfect world of corporate reporting. The IASB is ready to adapt to the changing world of corporate reporting by increasing the communication effectiveness of the financial statements, facilitating electronic consumption of financial data and by promoting integrated reporting. I hope my contribution of today has made clear what the IASB can and cannot do to create a bit more clarity in this imperfect world.”¹⁰

Some companies have experimented with the CORE & MORE approach, including ABN AMBRO Bank of Amsterdam. The Netherlands is a leader in electronic reporting. Tjeerd Krumpelman, Head of Advisory, Reporting & Engagement for the bank, in replying to a question as to what attracted the bank to CORE & MORE, said the following:

“We saw 3 things increasing: the number of regulatory requirements we had to comply with, the interest level in NFI, or pre-financial indicators as I like to call them from different stakeholder groups beyond investors, which then led to our integrated annual report’s volume to rise to over 450 pages.

“We needed a targeted approach to more concisely tell our story and address the interests from different stakeholder groups. We like CORE & MORE because it gives the freedom to tell our true story: who we are and how we create value for stakeholders. It also allows us to do so in a concise, clear and understandable way and in less than 100 pages.”¹¹

Mr Krumpelman pointed to two key issues in the current model of corporate reporting – the size of the reports and the ability to tell a company’s own story independently of regulatory requirements.

Massimo Romano, Head of Group Integrated Reporting for Generali, an insurance company based in Trieste, Italy, hit the nail on the head. “CORE & MORE fits in our aim for simpler, faster, and smarter corporate reporting: easier to manage, more effective

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in delivering and applying integrated thinking. It is really powerful to focus on the value creation story and the strategic information to connect the dots between reports, disclosing specific detailed information and break down siloes.”¹²

Also, Mr Romano went on to encourage: “. . . connecting the CORE & MORE concept to other relevant initiatives such as aligning it with the IASB’s work on a management commentary framework.”¹³

These commentators recognize that, if the aim is to provide understanding among corporate stakeholders, presenting simpler, shorter reports is the way to go. They also recognize that the standard setters should begin work on the disclosure and content standards for CORE & MORE reports. Also, these reports need to be audited, which means the profession should develop appropriate auditing standards and techniques for these reports.

Restructuring the corporate reporting model along these lines is a big job. But it is slowly happening because of the growth of reporting on the web. Gradually, hyperlinks and interactive data are growing in their use, and investors are relying on the information provided. It becomes a question of whether the accounting and auditing profession wants to have some control over the standards around the new form of reporting, or whether it is happy to watch them develop in an *ad hoc* way over the next several years.

¹ Gerald Trites, *The Impact of Technology on Financial and Business Reporting* (Toronto: Canadian Institute of Chartered Accountants, August, 1999).

² <http://integratedreporting.org>

³ *The Future of Corporate Reporting – Creating the Dynamics for Change* (Brussels: Accountancy Europe, 2016).

⁴ *Ibid*, p. 17.

⁵ *Ibid*.

⁶ *Ibid*, p. 58.

⁷ Follow-up paper:-*The Future of Corporate Reporting* (Brussels: Accountancy Europe, March 2017), p. 5.

⁸ <https://www.ifrs.org/news-and-events/2017/09/iasb-chairmans-speech-the-times-the-are-achangin/>

⁹ *Ibid*.

¹⁰ *Ibid*.

¹¹ *CORE & MORE in Practice Testimonials* (Brussels: Accountancy Europe, 2017).

¹² *Ibid*.

¹³ *Ibid*.