



Continuous and periodic reporting requirements have been in place for decades, and in some cases for more than a century. *What* information is required to be provided to shareholders or public authorities, *how* it is provided and how *frequently* it is provided has evolved over time – influenced by, among other things, financial failures and scandals, changing social expectations and new technologies.

Some commentators and organisations are asking whether evolution in reporting requirements is enough, or whether it is time for a more fundamental rethink about corporate reporting, particularly our reliance on an annual report with annual financial statements.

There is now a broader range of stakeholders and broader information needs. Technology is also changing how information is disseminated and consumed. The question we need to consider is how all of these changes will, or should, affect corporate reporting.

In this publication we set out our view of the future of corporate reporting.

*Thinking allowed* is a series that focuses on issues related to corporate reporting, whilst also providing insights and thought provoking commentary on a broad range of everyday matters that affect those preparing general purpose financial reports.

# Contents

Overview	1
Corporate reporting today	2
Periodic reports	2
Trust and reputation	2
A changing landscape	4
Are annual reports becoming irrelevant?	4
Technology	6
The future	8
More and continuous information	8
An annual report – the company's story	10
Future-proofing	14
Other issues	16
The public-private information balance	16
Frequency of reporting – interim reports	16
Summary reports	17
Summary	18



# Overview

The annual report has been a cornerstone of corporate reporting for more than a century. During that time many things have changed. The structure of the economy has moved from an industrial base to one driven more by technology and information. Social expectations have changed. What might have been considered to be acceptable behaviour 50 years ago is simply unacceptable today. And technology has changed. The internet and social media have revolutionised how information is shared. Our ability to access and process data has been transformed. We should expect other disruptive technologies to emerge.

In spite of those changes, we think that a periodic report that provides a summary of the business “as a whole” will continue to be a cornerstone of corporate reporting to investors. We think investors will continue to want, and need, management to provide a periodic summary of their business. That report is management’s opportunity to tell their story, within a framework of widely accepted high quality standards.

Having said that, what should be included in such a report and how it is presented or delivered needs to evolve with this changing landscape. Investors need information on a broader range of matters and they want to be able to access the report on a variety of, primarily, electronic, platforms and be able to reshape the data using analytical tools.

Investors are also blessed, or swamped, with data about companies from a myriad of sources. The accounting profession needs to take a lead in helping investors filter through the noise of the growing masses of data to get the right signals, by providing assurance and developing standards for broader and more dynamic information.

Innovation in corporate reporting needs to be led by demand. The information we help provide should be what stakeholders need and want. However, being demand led does not mean that you have to wait for investors to ask for particular information. Demand also comes from the creation of high quality products.

The accounting profession needs to take a lead in helping investors filter through the noise of the growing masses of data to get the right signals, by providing assurance and developing standards for broader and more dynamic information.

# Corporate reporting today

Corporate reporting has at its foundation the need to keep its current, and sometimes potential, shareholders informed about the company, and about the actions of those to whom they have entrusted the responsibility of managing it.

Much securities law is designed to ensure that investors receive financial and other significant information concerning securities being offered for public sale and to prevent deceit, misrepresentations, and other fraud in the sale of securities. As the second of IOSCO's principles states, securities law is designed to enhance investor protection and promote investor confidence in the integrity of securities markets.

In simple terms, investors should have information about the risks and opportunities of a business that is fair and honest so that they can make informed decisions on the basis of that information.

Most jurisdictions or stock exchanges have continuous disclosure requirements, to ensure that companies keep investors informed in a timely manner. They also have periodic reporting requirements, at least annually and often for interim periods.<sup>1</sup>

## Periodic reports

Annual reports have been an important part of the public information provided by listed entities for a long time.

The purpose of these reports is to provide information to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Annual reports also allow those responsible for running the business to present their assessment of the risks and opportunities the business has faced, and is facing.

Financial statements prepared in accordance with a widely adopted set of high quality financial reporting requirements, such as IFRS, are an important part of a periodic report. Financial reporting standards are designed to shape the information that businesses present to the providers of capital to an entity, when those providers do not have direct access to information from inside the entity.

The credibility of information is important, and the assurance function is key to this. A feature that differentiates annual reports from most continuous information is the assurance steps the annual report passes through.

## Trust and reputation

There is a clear relationship between trust and reputation and value. Corporate reporting is the link between a company and its investors. Investors use this information to help them assess whether they trust an organisation enough to put their capital at risk, by investing in it.

A company can enhance or damage its reputation value through the way it behaves, but also by how it reports. In a survey of 85 investors, 80 per cent said that their perception of the quality of a company's reporting impacts their perception of the quality of its management; and 63 per cent said that disclosure in an annual report about strategy, risks and opportunities and other value drivers can have a direct impact on a company's cost of capital.<sup>2</sup>

Trust requires transparency and accountability. Being able to articulate your strategy and business model, as well as link metrics to them, is critical to an organisation to build trust.

**Deloitte: A Directors' Guide to Integrated Reporting**

The directors and management of a company are its stewards. Corporate reporting is key to providing stakeholders with the information they need to hold boards to account. The reputation of the company is directly affected by how the company and its management act and how faithful its reporting is about those actions.

At best, reputation contributes £1 in every £2 of market cap; at worst, it is 'destroying' £1 of value in £7. FTSE 100 companies are, on average, leaving £490m on the table by companies not addressing reputation sufficiently.<sup>3</sup>

Financial crises and individual company failures have eroded trust in corporates. Improving corporate reporting is an important part of restoring, maintaining and enhancing this trust.

<sup>1</sup> In this publication we use the term annual report to refer to annual financial statements or general purpose financial reports that are typically required to be presented by listed entities, including their equivalents such as a 10k filing with the US SEC. We also mean this term to include the commentary that is typically part of an annual report, such as management commentary, a directors report (or strategic review) or MD&A. In some jurisdictions the commentary and the financial statements are published separately. However, we consider these to be collectively part of the annual reporting to investors.

<sup>2</sup> Corporate performance: What do investors want to know? PwC, September 2014.

<sup>3</sup> The 2015 UK Reputation Dividend Report.

The nature of the risks and opportunities facing corporations has changed over time. Much of the global value today is more technology, service and knowledge based than it was 40 years ago.

# A changing landscape

## Are annual reports becoming irrelevant?

The relevance of annual reports has come under increasing scrutiny in recent years. For example, the ACCA stated in July 2013 that “The future of corporate reporting is currently the subject of considerable debate. Financial reporting has been criticised for over-complexity and requiring more disclosures, sparking accusations that corporate and financial reports are not relevant, especially for the needs of investors.”

## Price to book ratios – the growing gap

The nature of the risks and opportunities facing corporations has changed over time. Much of the global value today is more technology, service and knowledge based than it was 40 years ago. As a consequence many of the assets companies invest in are intangible rather than the physical assets that property, plant and equipment accounting standards were developed to address.

A factor cited as evidence of the, increasing, irrelevance of traditional annual reports is the gap that has grown between price and book value of listed entities. The contribution intangibles assets make to the S&P 500 has grown from 17 per cent in 1975 to 84 per cent in 2015.<sup>4</sup>

However, general purpose financial statements do not set out to measure the value of a firm in the balance sheet. And investors do not rely on a balance sheet to act as a proxy for value. General purpose financial statements contain more than just a balance sheet. The income and cash flow statements and the supporting notes also contain information about intangible assets. A market premium means that investors rely more on the information outside of the balance sheet.

It is not always appropriate to monetise items. Some information about intangible assets may best be captured by the income statement or by other information. We do not see the “answer” as narrowing the book to price gap by putting more assets and more fair value on the balance sheet.

Many companies in sectors that have a high price to book ratio provide other information to help investors. This should not be a surprise.

In its strategy review in 2015 the IFRS Trustees observed that “some stakeholders see the growth of (alternative performance measures) as either a risk to the relevance of IFRS or a reflection that the current suite of IFRS alone does not provide companies with the means to report what they see as their ‘true’ financial performance and position.”

This is an area where we think standard-setters have a role to play, and where they have been slow to respond to a changing economy.

Financial reporting standards need to evolve to ensure that they provide better information to explain the book to market premium. The IASB’s Disclosure Initiative and its project on the primary financial statements provide such an opportunity.

## Broader information needs

How a company does business and whether its operating model is sustainable affect its value, both in the short and long term. Investors need information to assess how a company is managing the risks and opportunities associated with changing social expectations.

Examples can include information related to corporate governance, employees, safety, taxation payments, dealings with specific jurisdictions, social responsibility and the environment. These requirements reflect a broader social license to operate, reflecting expectations that companies have an obligation to behave in a responsible manner.

Business these days depends on more than financial capital and manufactured capital to make its money. It relies on a broader set of resources and relationships ...

Society in the 21st century expects business to participate in resolving society’s needs and desires. How a business makes money today must be aligned and integrated with those of society. In part, the corporate dialogue has moved away from how the world encourages capitalism and growth to how it encourages responsible capitalism and responsible growth.

Rebuilding trust in business and long term value creation go hand in hand. Long term value creation is impossible if an organisation does not take into account the interests of all its major stakeholders. A business cannot ignore its employees, suppliers, customers, creditors, communities and the environment.

**Deloitte: A Directors’ Guide to Integrated Reporting**

<sup>4</sup> Annual Study of Intangible Asset Market Value from Ocean Tomo, LLC.

The International Integrated Reporting Council (IIRC) was established by people who believe that companies should be providing information about a broader range of activities, risks and capitals than is being provided in a typical financial report. Integrated reporting has the notion of six capitals – financial, manufactured, intellectual, human, social and relationship, and natural. The IIRC has developed a framework for thinking about the relationships between those capitals and how an entity creates or consumes value.

Societal expectations change over time. This means that what is material to stakeholders also potentially changes over time – such as where taxes are paid, how commodities or goods are sourced and so on. These matters can affect the cash flows of a company – businesses may need to switch to more expensive, but more socially acceptable practices; and consumer preferences can also be influenced by corporate behaviour.

### **Standards for non-financial information**

Non-financial information to support the financial statements is growing in importance. The problem is that there are few standards for this type of information and some such information is labelled as alternative performance measures or non-GAAP information, with negative connotations.

There are many definitions of measures as simple as sales per square metre and churn rates for subscribers.

Developing agreed industry standards for some of these measures, and incorporating them in the general purpose financial reporting requirements would help lift their credibility.

### **Information content of the annual report**

It is well documented that much of the information contained in an annual report is anticipated by markets, and impounded in prices, before the reports are released. Investors gather information from a variety of formal and informal sources. Prices are set on the basis of expectations about future performance.

A price reaction to the release of a general purpose financial report will generally indicate that the report has information that changes investor expectations – the report has new information. If we were to observe economically significant movements in prices on a systematic basis in response to the release of financial reports, we would be concerned about the effectiveness of continuous reporting, i.e. fair disclosure requirements. We do not. Price changes are, on average, small. And that is good news. It means that the information being provided to, and sourced by, investors on a continuous basis is keeping them informed.

In our view annual reports are not becoming irrelevant. Annual reports have special qualities that make them an essential part of the corporate reporting framework. They summarise a myriad of transactions into a digestible picture of the financial performance and position of the business. They provide management with an opportunity to emphasise the matters that consider to be important to the business, within a framework of globally supported standards. And they are audited.

## Technology

Over the last 40 years there has been a revolution in how information is generated, disseminated and consumed. Social media allows companies, and individuals in companies, to share information quickly and to a wide audience.

Most of the revolution around corporate information is in the way that information is fed into the public domain. Investors have access to information from a wide variety of formal and informal sources to assess how well a business is doing.

Data mining techniques give investors access to information about factors that are likely to affect companies, such as information about trends in consumer behaviour. Information can be monitored automatically and at very low cost, reducing search and transaction costs for investors. The additional information should make projections and estimates investors make more accurate.

And even simple filings of information with regulators or stock exchanges can be accessed remotely and almost instantly today, whereas 40 years ago it might have been necessary to physically visit the depository to get the information.

These factors combine to create a very different information environment to the one that existed 40 years ago.

### What has happened to the news?

Let's consider how technology has changed the way we access news.

Many people follow the same news provider, but access the news in different ways.

Some people prefer to read the news, whereas others prefer to watch or listen to it. And those who prefer to read it might do so on paper, their computer or on a smartphone or other device. Some access the news when it suits them whereas others want to be fed news about specific topics, as it is reported.

Some people prefer to read the news in full whereas others will skim-read the headlines and dig down if the story seems to be of interest. Others are analysing and looking for trends across different stories, or comparing it to information from other sources.

And news reports sit in a world that is flooded with "information", and clutter, about events from many informal sources via the internet and social media.

There are many parallels between the reporting of news and corporate reporting, and two observations stand out:

- Despite a transformational change in the amount of informal information, there is still a demand for reliable news services and agencies to provide credible information. We think there is a similar demand for credible corporate information from the businesses themselves.
- We have seen a revolution in how the news provided by credible news services is accessed and consumed, but we have not seen equivalent developments in the provision of information by corporates.

Just as developments in technology have changed the way we access, read and are fed news, we expect technology to change how investors, and others, access and consume corporate information.

We expect technology to change how investors, and others, access and consume corporate information.

... audited annual reports help improve the credibility and honesty of continuous reporting.

Companies know that they are required to produce these periodic reports and that unjustifiably optimistic, or conservative, information released during the period will be brought to account with the annual report.

# The future

We see a world where information that could help investors will come from a greater range of sources. We also see companies providing more non-financial information, more continuously and in a variety of forms and formats.

All of this will give users flexibility, to access and consume the information in ways that suit them. But we also see the annual report retaining its unique position as an audited summary of the business, shaped by globally accepted financial reporting standards, and remaining a cornerstone of corporate reporting.

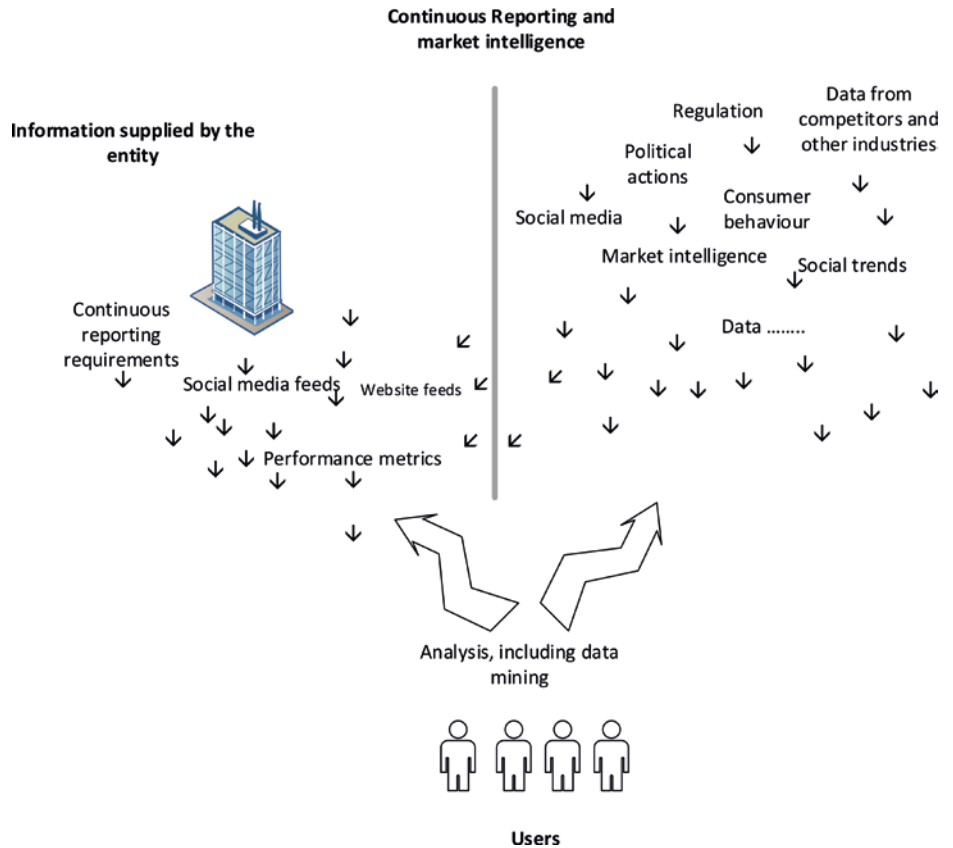
But if that annual report, and corporate reporting more generally, are to meet the needs of investors, and help other stakeholders, they need to respond to:

- an economy that has changed fundamentally in structure, with more invested in information and services;
- higher expectations of a business to act responsibly in relation to a broader range of capitals, and the need to demonstrate that they are a responsible corporate citizen; and
- new, and disruptive, technologies that are changing how we create and access information.

## More and continuous information

Technology has changed how people communicate.

Developments in technology and social media mean that more information is being fed by, and about, companies. And the flow of information is continuous.



## Sources outside a company

The sources of the information about companies are wide and varied, ranging from formal analysis by monitoring bodies such as data aggregators and analysts to informal “chatter” on social media.

Informal sources are often quicker to spread news than the more formal sources. You need only look at trending topics on social media around major events for evidence of the extent of the informal chatter, information, opinions and speculation. People have always seen things or had opinions, but social media is the enabling technology that has changed fundamentally how that information is shared. Of course the reliability or quality of this information varies enormously.

Social media can also shape opinion. Good or bad experiences with a company or a product that are shared on social media by friends can very quickly affect perceptions and have a real impact on the cash flows of a business. In a similar manner, information about a company's practices, such as how it treats its employees, can be spread quickly through social media. And this too can affect the business directly.

There are also huge amounts of data being collected and analysed that can be relevant to entities. Data mining is playing an increasingly important role in providing information about businesses. Data are collected and related in surprising ways, such that it is possible to analyse the movement of people through mobile phone data, their spending patterns and how they click through web pages. Data from disparate sources can also be related and mined for trends and patterns so that parties holding the data can make educated guesses about consumer behaviour. By being able to anticipate consumer actions, businesses can affect their cash flows and investors can use the data to help them assess the impact on businesses.

Companies should be monitoring this information for their own purposes – both to help their own understanding of the community in which they operate and to be ready to correct misinformation about their company.

### Continuous reporting by companies

Companies contribute to this formal and informal information set. Many companies have, or allow some of their staff, to maintain social media accounts associated with the company. Hence, companies contribute chatter to the broader pool.

There is also more formal continuous reporting. Much internal information is stored electronically. The technology exists today to allow companies to report that information into the public domain continuously. And many do. Regular updates on matters such as aircraft loading factors or store-by-store sales are made by companies.

It is not always that easy to report the type of information we see in annual reports for shorter periods. It can be challenging ensuring that revenue or expenses are recognised in the appropriate annual accounting period. Shorter reporting periods put greater pressure on that process.

Some information lends itself to more frequent reporting than other information. For example, retail sales figures of goods often have fewer accrual components than sales of services that are delivered over longer periods. Similarly, some non-financial information, such as aircraft load factors, can be easier to measure over short periods than the associated revenue.

### Standards

Most accounting standards are written with annual periods in mind. They do not always translate easily to continuous reporting. We think that the credibility of continuous reporting would benefit from financial reporting standards developed for that purpose.

### Assurance

The credibility of information is clearly enhanced when it has been audited independently. The audit processes for an annual report are not necessarily conducive to providing assurance over continuous reporting.

A positive spinoff is that the discipline that continuous reporting requires can help improve the integrity of a company's internal processes. And in a similar manner, the external assurance process also provides management with assurances about its internal processes.

External assurance forms part of a range of mechanisms that management uses to assure itself that its internal processes and the information it reports is credible and of investment-grade quality.

### Deloitte: A Directors' Guide to Integrated Reporting

Auditing also needs to respond so that more focus is given on assuring that the systems that will produce continuous and broader information are reliable.

### Continuous reporting - what needs to be done

To reduce the cost of providing information continuously, and enhance the quality of information:

Standard-setters need to consider whether financial reporting standards need to cater for measures that are conducive to continuous reporting.

Auditing standards need to evolve for broader measures and continuous reporting.

### An annual report – the company's story

Despite all of the new sources of information there is little evidence to suggest that the annual report no longer provides incremental information. Prices still react to the information in earnings announcements and the release of financial statements.

We also think that audited annual reports help improve the credibility and honesty of continuous reporting. Companies know that they are required to produce these periodic reports and that unjustifiably optimistic, or conservative, information released during the period will be brought to account with the annual report.

In an annual report, the management is telling its primary users who they think their major stakeholders are and how the company is interacting with them – how the entity is creating, or destroying, value.

Annual reports allow those responsible for running the business to present their assessment of the risks and opportunities the business has faced, and is facing. Annual reports provide information through the eyes of management.

An annual report summarises and filters all of the internal information available to management into a focused and digestible set of information for investors.

Feedback suggests that many investors are interested in the value creation process. In a survey of 85 investors, 93 per cent said that understanding management's view of potential risks and their mitigation strategies is important; 80 per cent said that an explanation of a company's business model needs to link to its overall strategy to be meaningful; and 87 per cent said that clear links between a company's strategic goals, risks, key performance indicators and financial statements is helpful for their analysis.<sup>5</sup>

An annual report is a written account of the financial position and performance of an entity. The report is designed to be a complete document. Many entities think very carefully about how to present the report including the content, the order in which the information is presented and which matters to emphasise.

An annual report is also summative, bringing together information that taken as a whole should provide a fair presentation of the company's activities over the year. This compares with other information that will have come from a variety of sources, at different times and with varying degrees of reliability. All in all, this puts the annual report in a unique position.

How information is presented is part of the materiality assessment, because presentation can affect its usefulness, and how it is perceived by the primary users. In other words, presentation matters if it can influence or affect the decisions taken by the primary users.

**Thinking Allowed – materiality**  
**Deloitte, 2015**

### Investors

For the annual report to retain its importance as a central part of the corporate reporting function it needs to have a clear objective and remain focused on investors. They are its primary users.

... the primary audience for integrated reports should be providers of financial capital in order to support their financial capital allocation assessments. It is important to identify a primary user to serve as a lens through which those matters critical to an understanding of the organisation are identified and assessed.

**Deloitte: Submission to the IIRC on its Integrated Reporting Framework**

Our focus on investors does not in any way imply that other stakeholders are not entitled to information. However, the appropriate question is whether the annual report is the best, or even appropriate, means for communicating with those other stakeholders.

We are concerned that the annual report has become a convenient depository for information that is not focused on investors, but is intended for other stakeholders. The annual report might be a convenient mechanism for providing broader information, but its main focus should be on meeting the needs of investors.

<sup>5</sup> Corporate performance: What do investors want to know? PwC, September 2014

Regulators should protect the integrity of the annual report by ensuring that it remains focused primarily on investors.

**Not all investors use information in the same way**

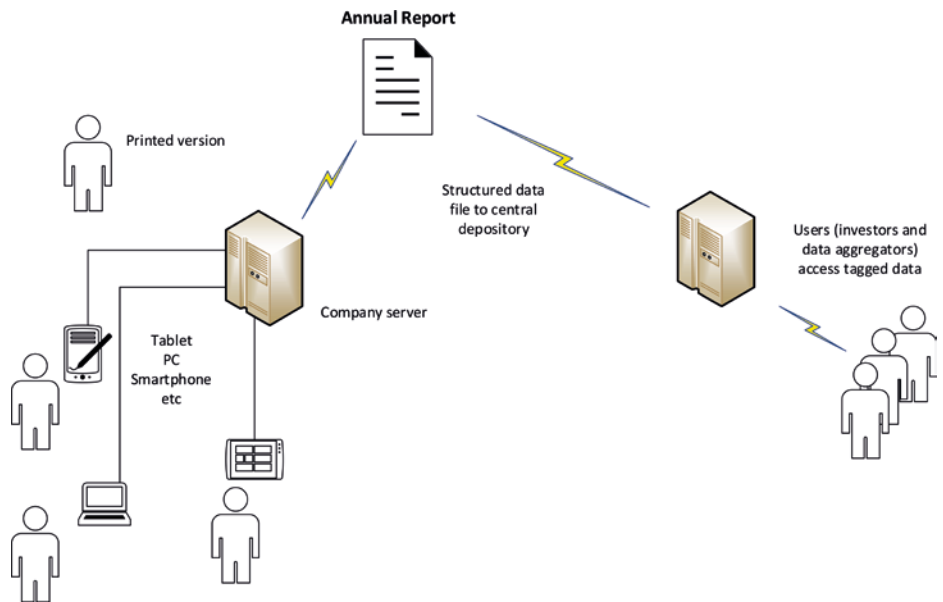
It is very common to see the statement “investors say ...” used in association with the design of financial reports and financial reporting standards. However, the reality is that different investors have different attributes and they do not all think alike.

The level and nature of the analysis they undertake, and therefore how they use an annual report, can also differ. There will be retail and institutional investors as well as analysts and intermediaries (credit, buy-side and sell-side).<sup>6</sup>

Some of these users will dissect the data in the financial report and combine it with their valuation or forecasting models. Others will focus more on the management commentary or narrative.

Rather than designing financial reporting to meet the needs of one type of investor, we think the key is to develop corporate reporting so that different types of user can read and assimilate the report in the way that best suits their needs.

We think that investors want, and should be able, to access information in an annual report via their PC, smartphone or other device using applications and tools created by the reporting entity. We also expect to see a growth in the use of structured data filing requirements, which provide “deconstructed” and tagged data that some investors and analysts can use in their models and analytical tools.



<sup>6</sup> Intra-day traders are almost certainly not using the annual report. They will be basing their trading decisions on other information.

### Websites, apps and other innovations

Technology can help stakeholders deal with larger quantities of data by giving them tools to filter out information they do not want to see or isolate information they do want to see.

Across the Deloitte network, our firms undertake surveys of companies and company reports. We have observed many examples of entities experimenting with their reporting, such as new measures or innovative graphics, within their annual reports. It is the larger entities that are best placed to be innovative, because they often have more resources dedicated to corporate reporting. Our experience is that it also requires innovative people within entities. As long as there are innovators, there will be market leaders for others to learn from and follow.

#### Example – filtering and the “click-through”

Some companies provide screens on their websites that provide summary financial statement data.

A simple example could be a statement of financial position that is viewable without the need to scroll.

If the reader wants to get more information about, say, the entity’s intangible assets a simple click (i.e. a hyperlink) takes the user to a new screen with more detailed information about those assets.

The information might also be tagged to enable the user to bring together related information, such as the accounting policy, expense and asset information.

There is very little today preventing entities from providing a broad range of information to a wide range of stakeholders. Nor are there many technical, legislative or practical barriers to companies providing information in innovative ways. The main barrier seems to be that entities are currently assessing that the benefits of innovating do not outweigh the costs.

The reality is that it takes some effort to create effective web pages and to render the information in an annual report in an intelligent way and across many platforms for use on a broad range of applications and devices. It is not just about putting a series of PDF’s on a website.

#### Reducing costs – data protocols

Technology is more powerful when it is used to implement intelligent content and communication. This means setting up different ways for investors to view data, anticipated by the company. Or to give more flexibility to allow investors to view the data in ways they decide, the data needs to be tagged by the company intelligently.

A powerful way to encourage technical innovation is reduce costs by developing data protocols that allow data to be used across a wide variety of platforms for different purposes. In that way an entity can focus on communicating information rather than creating multiple versions of the same data. Entities that have innovative websites often have strong data protocols that allow them to render the information in different ways or change how the data are viewed.

The idea behind XML-based protocols, and a financial reporting taxonomy that allows for the integration of non-financial data, is a powerful one. Such protocols can allow information to be repurposed, and focused on different users.

However, it is worth noting that technology can also reduce the need to be prescriptive. Data analysis tools are able to interrogate information in different formats. The more powerful these tools, the less important standardised data would seem to be. We think search tools and intelligent tagging work hand in hand.

#### Bringing information together

Technology enables entities to bring together financial and non-financial information, connecting diverse information from a variety of sources. In explaining how it develops and protects its intellectual capital, an organisation could provide financial information such as research and development expenditure and balance sheet information about recognised intangible assets. It could present this information alongside information about the patents it holds or has applied for, how many licenses it has sold, renewal rates on licenses and so on.

This is an area where we see tremendous potential.

#### Example – linking financial and non-financial information

Some companies present their financial information on screens alongside non-financial information.

For example, an entity might display financial information about its intangible assets along with data about, say, hit rates and the stickiness of a particular website.

Similarly, an entity might provide information about the financial performance of a production segment alongside information about energy consumption, wastage rates, worker injury rates and CO<sub>2</sub> emissions.

## Assurance

There are many examples of assurance processes being used to give credibility to non-financial and financial information, in many forms. There do not seem to be any substantive barriers to companies seeking assurance on a broader set of information. However, as with innovation, the slow take-up suggests that entities do not consider that the benefits yet outweigh the costs.

### Innovative access to corporate information – what needs to be done

There needs to be an environment that fosters experimentation.

Lowering costs is a priority, through data protocols and new technologies.

Users need to know that the information they are accessing on different platforms and using different technology has the same level of assurance as the annual report from which it is drawn.

We need standards for a broader range of measures, financial and non-financial, to support traditional financial reports.

## Electronic annual report filing requirements

Stock exchanges or regulators in most countries require that the annual report be made publicly available and many require that the report be filed with the exchange or regulator. But the method of filing differs. In some countries it is still acceptable to file a printed copy of the report. Many jurisdictions have requirements for companies to file electronic versions of their annual reports with a central depository. Again, however, the specific requirements vary. Some do not specify the format and accept a scanned copy of the printed report, text readable PDF or in other formats. Other regulators or exchanges require that companies file a structured data version of the report with the content electronically tagged using standardised tags and file structures.

The IASB has a project to profile the requirements around the world for filing annual reports. The initial profiles indicate that there is considerable variation in how soon after a year-end an annual report must be presented and the means of distributing the report. The initial findings suggest that, at a basic level, it is simply not very easy today for someone sitting in, say, London to get even a PDF of an annual report for every listed company in the jurisdictions applying IFRS. In some jurisdictions the information is accessible on individual company websites. In other cases a stock exchange or regulator will have an electronic filing depository that makes it easier for investors to access information.

Central depositories and standardised formats can reduce search costs and make it easier for investors to access and retrieve financial reporting data.

## Structured data

There is evidence that the US SEC's early developments of an electronic data gathering, analysis, and retrieval (EDGAR) system reduced the search costs of investors and led to information being reflected in share prices more quickly. More recently, the SEC has demonstrated the benefits of requiring that information included in an annual report (or 10k filing) also be tagged and filed using a standardised taxonomy and filing format.<sup>7</sup> The European Union will require an electronic version of the annual report to be filed from 2020 and is currently considering the specifications.

Structured data filing requirements allow a user to extract data automatically and incorporate it in their decision models. An investor can also reshape the information to reflect how they think it should be standardised across entities and industries. But there is nothing new in this. Data aggregators and many investors have been doing this sort of analysis for years.

What is changing is that improvements in technology are helping to lower the costs of doing so and making it easier to automate processes.

<sup>7</sup> The US SEC uses a taxonomy developed and maintained by the US Financial Accounting Standards Board and requires that the files be structured using XBRL (an XML-based protocol for exchanging data).

One of the benefits of tagging data using a well-defined taxonomy and technology is that it can be rendered on many platforms. For example, tagged data can easily be incorporated in websites and other data releases. For both preparers and users, there are clear advantages in using electronic standards, taxonomy specifications and filing protocols that are in line with international norms. And, preferably, they will be norms that are used in other parts of the business and therefore are incorporated in the internal management systems. Departures from such norms can create additional costs for international entities and divert their resources to compliance and away from innovation.

Structured data requirements can also enhance comparability across time and between entities, provided that the data are tagged consistently and reliably.

### Structured data versus principle-based standards

The issue of what level of standardisation is optimal in a reporting framework is one that has generated debate for many years. In the responses to its proposals to amend the process by which it develops changes to the IFRS Taxonomy, many respondents warned the IASB that structured data requirements risk undermining principles-based financial reporting standards.

We agree that a taxonomy and electronic tagging systems must not force dissimilar information to be presented as if it is the same. It is important to understand differences between how two business, and their management, assess and manage risks and opportunities. If two businesses operating in the same sector have different value creation strategies, this information should be of interest to investors.

We do not envisage structured data filing requirements replacing the annual report – we see such requirements as providing investors with a different way to access and use information in the report. And, realistically, this structured data will only ever be used by a subset of investors.

#### Structured data – what needs to be done

Agreeing on a taxonomy that provides information for tagging IFRS-compliant financial statements, and which has a structure that is compatible with taxonomies that capture non-IFRS information.

Having agreed protocols for tagging information that will make it easier to report and read electronic information.<sup>8</sup>

Developing international standards for providing assurance over tagged data.

Preparers and users having unencumbered access to depositories with electronic versions of financial statements.

### Future-proofing

The simple fact is that it is difficult to anticipate how technology or user needs will change. There will be disruptive changes that affect reporting.

You can make it easier to adapt by ensuring that reporting requirements, and the technology used to support them, are built on simple and practical concepts.

### Technology

Technical specifications for tagging structured data files should be as simple and generic as possible. Simple protocols such as HTML and XML can be adapted as technology changes.

Complex protocols, or protocols that are tailored for a specific regulator create barriers.

### Financial reporting standards

Reporting requirements, financial or otherwise, should be principle-based and not prescriptive. The more prescriptive the reporting requirements the more difficult it is likely to be for companies to adapt their reporting to meet changing needs. Reporting based on clear principles requires an appropriate application of materiality. It is also likely to be a more effective way of identifying and meeting the needs of investors, and permitting reporting changes when those needs change.

Once a standard-setter, or regulator, has specified that particular information must be reported, there is limited scope for innovating that information.

<sup>8</sup> Optimal taxonomy design and application requires thinking about matters such as how to provide “sufficient” tags for an entity to capture its financial report, without the need to create its own entity-specific tags and what level of tagging is appropriate (i.e. how deep the tagging goes).

The IASB also needs to think more about whether it should have standards for financial information that is reported continuously.

### Other standards

The boundary between financial and non-financial information is not rigid, and nor should it be. What is important is to have standards for financial and non-financial information that are credible and broadly accepted as being relevant to the matters being reported on.

The IASB already requires that entities report non-financial information. We think it needs to think more innovatively about what information is necessary to understand some of the resources controlled by an entity. For example, identifying information that helps investors assess the income potential of, and risks associated with, intangible assets is likely to be more fruitful than monetising intangible assets or increasing the use of fair value.

The role of the IASB in developing financial reporting standards has demonstrated the benefits of having a single body to develop a set of cohesive standards. However, it is not clear to us that a single body is required to lead the development of principles for non-financial information. We think that it is better to foster industry or sector based non-financial information. We say this because sector experts are more likely to be in a position to identify the measures most appropriate to their sector. For example, analysts that specialise in real estate, telecommunications, airline or extractive activities, to name a few, are likely to be best placed to develop standards for information that is specific to their sector.<sup>9</sup>

Having said that, it would be helpful for bodies that define non-financial information measures for a particular industry or sector to liaise to ensure that the integration of financial and non-financial information can be facilitated – such as agreeing on taxonomy protocols. We note that bodies such as IOSCO, the Corporate Reporting Dialogue, the IIRC and the IASB have all acted as agents in this capacity for different aspects of corporate reporting.

### Regulation

How legal requirements are enforced is also important. Prescriptive enforcement of reporting requirements sits uncomfortably with principles-based reporting requirements. We think clear and informative disclosure is more helpful to investors than narrowly interpreted and enforced reporting requirements.

We think there is merit in having mechanisms for gaining pre-clearance from regulators on how an entity might report a matter, when the issue is difficult. Also, safe harbour provisions reduce the cost and risks of providing forward looking information.

<sup>9</sup> For example, the property sector might be best placed to develop standards for measuring rental space in a building.

# Other issues

## **The public-private information balance**

Some commentators imagine a world where companies will provide information continuously, even at the same time that events take place, or technology that allows investors to access corporate data directly.<sup>10</sup>

It is technically feasible today for companies to be more open and to put much more of their private information into the public domain. However, we do not anticipate a time when companies will be completely open.

Businesses value their private information. They are reluctant to give their competitors and others access to information that they consider would reduce their comparative advantage. Public capital markets provide businesses with access to funds but one of the costs of doing so is that you have to provide information to the capital providers. There is evidence of businesses going private when they perceive the cost of complying with listing requirements exceeds the benefit of accessing a broader pool of investors.

Part of the regulatory function is establishing the balance between encouraging businesses to build a comparative advantage and ensuring that businesses provide enough information to allow investors to monitor their investment.

## **Frequency of reporting – interim reports**

The frequency of reporting is also important, particularly as it relates to the frequency of interim reports.

For entities in which their securities are publicly traded we would expect that price-sensitive information should be released in a timely manner. Expectations about future cash flows are being revised constantly and information that would alter investor expectations should be provided on a timely basis. If information is not timely it could lead to investors exchanging shares on the basis of misleading information.

Summary financial statements such as interim reports are an important part of this process and supplement continuous reporting requirements. For entities that do not have traded securities, the availability of information is generally less time-sensitive. The decisions about resources are generally made less frequently – such as a bank reviewing the performance of a loan to a private business. Accordingly, the need for regular interim reporting is not as great for such entities.

There are many claims that quarterly reporting is harmful in that it encourages short-term behaviour by those preparing the reports and by investors. However, reduced reporting frequency increases information asymmetry, i.e. it reduces transparency, and provides managers with more scope (time) to behave opportunistically.

The consequences of getting this wrong are potentially significant, and harmful to the efficient allocation of resources in an economy. If reporting requirements prevent the timely release of information there is a risk that prices of traded securities will reflect public information that is inconsistent with information known to the entity. On the other hand, if more frequent reporting encourages sub-optimal short-term behaviour this is also potentially inefficient in the longer term.

This is an area where we think more research would be helpful.

<sup>10</sup> Some of the early participants in the development of XBRL and the General Ledger version discussed giving investors' direct access to company ledgers.

### Summary reports

The demand for more and more information creates a risk that investors will be overloaded with information.

To ensure that the information from this pool is manageable for the intended users it needs to be filtered in an appropriate way. Investors have more confidence in information that is presented by a company that is clear and concise.

There are several ways to manage how information is presented to make it more helpful to stakeholders, including the use of summary reports and through technology.

Summary reports that synthesise higher level information can be useful for signposting where the stakeholders should access more detailed information.

Some jurisdictions allow companies to send to their shareholders a summary of the full annual report, leaving it up to the shareholders to choose to receive the full report if they wish. Such a report should provide enough information to help the reader assess whether they need to dig deeper into some aspect of the company, such as examining the full set of financial statements.

An integrated report is one form of summary report. The International Integrated Reporting Council describes it as “a concise report that summarises the relationships and interactions between the different capitals ... used by an organisation.” A proposal by the Federation of European Accountants to separate information into CORE and MORE can be interpreted as another variation of summary and more detailed information.<sup>11</sup>

Summary reports have their place. But we think they need to be used with care.

A summary report that is designed to be read as a stand-alone document should be able to meet its objective on its own, without a reader having to resort to other places or sources to find information that is essential to the purpose of that report. We do not support allowing entities to place information that is material to an understanding of an annual report in other places, such as on its company website or in supplementary publications. If it is material to the audience of the report then it should be included in that report. In the case of an annual report, if it is material to investors then it should be included in it and not placed elsewhere.

Technology can make a stand-alone summary report redundant by allowing a business to present summary information with hyperlinks to the expanded information that supports the summary.

<sup>11</sup> The Future of Corporate Reporting – creating the dynamics for change, Federation of European Accountants, 2015.

# Summary

Companies are collecting and creating more and more information, some of which is in response to changing demands on them and some because technology has changed how we communicate. Investors are being blessed, or swamped, with data from a variety of formal and informal sources.

Data and information are different things. Data are facts whereas information is what is conveyed or represented by a particular arrangement or sequence of things. The more data you have the more difficult it can be to understand how it fits together. Data mining techniques can find patterns and relationships, and our ability to mine data is constantly improving. But companies that are familiar with their own data can present it in meaningful ways that provides investors with information. Companies can use the data to tell their story.

We think that companies will need to organise the data to tell their story in a way that is appropriate to the primary users of their corporate information. It probably will not be in a form that suits all investors. But if the data that underpins the information is tagged or labelled properly the data can be reorganised by investors to suit their needs.

Today it is possible for companies to innovate and provide even more information across a variety of platforms. Annual reports can be presented on company websites, tagged and connected allowing a user to dig down for more information and relate financial and non-financial information together. But it is hard work, and many companies have clearly concluded that the costs exceed the benefits.

The key to encouraging companies to innovate is to reduce the costs of doing so and increase the benefits by increasing the demand. This will happen when we have:

- better technology standards;
- better standards for financial and non-financial information, both for within a corporate report and for information provided on a more continuous basis;
- better standards for auditing wider and more frequent reporting; and
- an environment where innovation is fostered and encouraged by regulators, such as principle-based regulation that allows the provision of information to evolve as the economy, circumstances and societal expectations evolve.

... our ability to mine data is constantly improving. But companies that are familiar with their own data can present it in meaningful ways that provides investors with information. Companies can use the data to tell their story.

# Contacts

If you would like to discuss any of the above matters with our experts, or simply for further information, please contact your local Deloitte partner or one of the following:

## **Veronica Poole**

### **IFRS Global Leader**

Tel: +44 20 7007 0884

Mob: +44 7711 954588

vepoole@deloitte.co.uk

## **Alan Teixeira**

### **Global Director, IFRS Research**

Tel: +44 20 7303 3230

Mob: +44 7775 680072

alteixeira@deloitte.co.uk

# Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2016 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000  
Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. J7755