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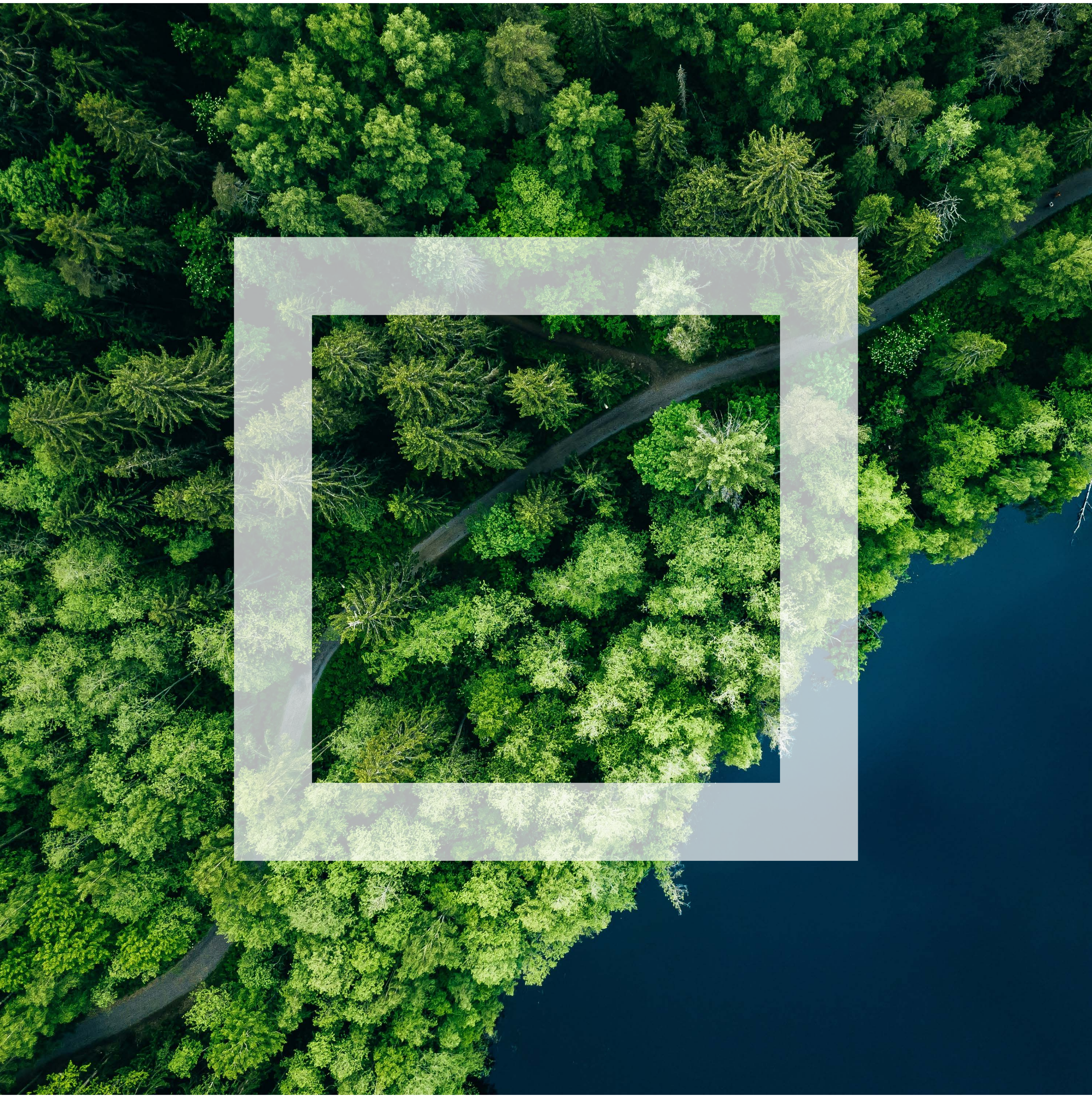

THE FUTURE OF FINANCIAL REPORTING 2020:
COMMUNICATION, STANDARD SETTING, INTANGIBLES AND AUDIT

A discussion paper based on the British Accounting and Finance Association (BAFA), Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 10 January 2020.

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A discussion paper based on the British Accounting and Finance Association (BAFA), Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 10 January 2020.

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About the Financial Accounting and Reporting Special Interest Group (FARSIG)

FARSIG is a group set up under the aegis of the British Accounting and Finance Association (BAFA). The main purpose of FARSIG is to further the objectives of BAFA and for that purpose to:

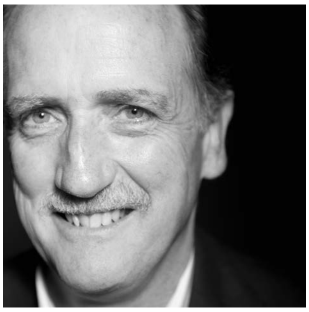
- encourage research and scholarship in financial accounting and reporting
- establish a network of researchers and teachers in financial accounting and reporting
- enhance the teaching of financial accounting and reporting
- provide support for PhD students in financial accounting and reporting
- develop closer links with the accountancy profession in order to inform policy
- publish a newsletter and organise targeted workshops
- develop and maintain relationships with BAFA and the professional accountancy institutes
- provide a forum for the exchange of ideas among accounting academics.

The symposium, which is one of an annual series that started in 2007, provides a forum for academic, practitioner and policy-orientated debate. Such forums are useful for expressing and developing rounded opinion on the current meta-issues facing financial reporting. Furthermore, they serve to illustrate the policy relevance and impact of current academic and practitioner thinking and outputs, in accordance with calls from the Economic and Social Research Council and Advanced Institute of Management for relevant and rigorous research combining practitioner and academic perspectives.

The authors would like to express their thanks to the five main contributors, both for their presentations and for their subsequent time and comments during the development of this discussion report. The authors have tried to capture faithfully the flavour of the original presentations. Nonetheless, although the original authors were shown the commentary on their presentations, any errors or omissions remain our own. Thanks are also due to ACCA for hosting the symposium and for its support of the publication of this discussion report. Finally, could any readers who wish to learn more about FARSIG or to become FARSIG members please contact any one of the authors.

Mike Jones is chairman of the FARSIG Committee and emeritus professor of financial reporting at the University of Bristol, UK. Andrea Melis is on the FARSIG committee and is professor of corporate governance and management accounting at the University of Cagliari, Italy. Silvia Gaia is a senior lecturer in accounting at the University of Essex, UK and Simone Aresu is a senior lecturer in accounting at the University of Cagliari. Luigi Rombi is a lecturer in accounting at the University of Cagliari and Penny Chaidali is a lecturer in accounting at the University of Cardiff.

Foreword



Richard Martin
Head of Corporate Reporting, ACCA

ACCA was pleased to host again the symposium of the Financial Accounting and Reporting Special Interest Group (FARSIG), an annual discussion of the future of financial reporting. The meeting continues to provide a valuable opportunity for discussion between two of the parties involved – principally academics studying and teaching the subject and those involved with its practical application in one form or another.

This year's presentation and discussion ranged, I think helpfully, beyond financial reporting as such and into the field of more complete corporate reporting covering non-financial information. One of the clear conclusions of recent years has been that financial reporting, though it remains a key focus for many reading about and commenting on companies, cannot provide all the information that is needed. Knowledge of the context of the business, what it does, its strategy, the risks it recognises, and its view of the future is vital, to supplement the financial statements. The impact of climate change and businesses' reaction to it have made that more important than ever. Two of this year's sessions addressed what that more complete reporting might look like and promoted the case for IASB to set the standards. These turned out to be very timely contributions to a debate which has really taken off since then.

Another issue that also bridges reporting in the financial statements and the rest of the annual report is how intangibles should be reported most usefully. This is an issue that ACCA has been researching as well so hearing some innovative proposals was very welcome. This is again a very topical issue to which accounting standard setters and regulators will need to turn their attention.

Corporate reporting and audit, at least for larger businesses, are inextricably interlinked. 2019 had seen major changes for audit being outlined in the UK. So it was good to hear from one practitioner her view of the impact of these changes. This is an area where plenty of developments have continued throughout 2020.

Of course, the symposium did not entirely depart from its title. As at previous FARSIG symposia, a representative of the International Accounting Standards Board (IASB) presented for comment the board's current proposals on presentation in financial statements, especially of profit or loss. These are controversial matters where the debate will continue.

So some very topical issues were covered. Practitioners' discussion of their concerns and issues should be helpful for those in teaching and training to keep that instruction up to date and relevant, especially for students starting accountancy. The current concerns of those in practice can also help to direct academic research to topics that will have the greatest impact. Equally, academic research can provide evidence to inform the development of standards and regulations.

The need for interaction between practice and academics, such as provided by the FARSIG symposium, is therefore as important as ever.

I extend ACCA's thanks to FARSIG for organising the conference and to Simone Aresu, Penny Chaidali, Silvia Gaia, Mike Jones, Andrea Melis and Luigi Rombi for providing this discussion paper based on the event.

1. Introduction

In 2020, the world is facing an increasingly challenging time with a growing number of new (and long-running) complex risks that are turning into major issues, such as those related with COVID-19 economic and social impacts.

Social, economic, political and environmental challenges are becoming more and more interconnected. It is a time of disruption that has brought sorrows to some, financial challenges to many, and immense changes and difficulties to the daily lives of us all. The incoming economic crisis due to the global health emergency, compounding with trade tensions between major countries and widespread domestic discontent with economic systems, has increased the risks of geopolitical turbulence, political instability and social unrest. Healthcare systems around the world are facing the risk of being unfit for purpose after the COVID-19 outbreak. Turbulence is becoming 'the new normal' (World Economic Forum 2020: 10).

The moderate yet relatively stable economic growth that characterised the last decade ('synchronized slowdown', as defined by the International Monetary Fund, 2019: xiv) has been dramatically interrupted by the global COVID-19 outbreak. Financial market volatility has increased, with sudden crashes in financial markets worldwide. Following the global manufacturing turndown and rising trade barriers, the world is facing an incoming global economic crisis that was difficult to predict (International Monetary Fund 2019). In Europe, heightened geopolitical tensions, including Brexit-related issues, could further disrupt supply chains. Combined with other domestic policy uncertainties, increased unemployment is no longer only associated with intensifying patterns of automation and digitalisation ('Fourth Industrial Revolution'). All this is likely to hamper confidence and investment.

Geopolitical and geo-economic tensions continue to rise among the world's major countries. The world is evolving into a period of divergence, with the trend towards re-establishing the national state as the primary locus of power. Two interesting cases in point are offered by, first, the US and China and second, the European Union and the UK. Geopolitical turbulence related to trade tensions and technological rivalries is jeopardising the relationship between the US and China, the world's two leading innovators, which account for over 40% of global GDP. The negotiations between the European Union and the UK have continued to be controversial since the 2016 referendum, when the UK citizens voted to leave the EU. It is still unclear, at the time of writing this (April 2020), not just *which* agreement, but rather whether *any* agreement will be reached. All this is occurring despite a more pressing need for a collaborative approach to addressing global social, economic and environmental challenges (World Economic Forum 2020).

In this uncertain social, economic and political scenario, climate-related issues dominated long-term risks in both their likelihood and impact. In late 2019, the United Nations Secretary-General warned that a 'point of no-return' on climate change is 'in sight and hurtling toward us' (World Economic Forum 2020: 12). Extreme weather was the environmental risk of greatest concern, together with an acceleration in biodiversity loss and pollution of air, soil and water. Australia's wildfires are an important example of how this risk can turn into an issue. What is occurring in the Arctic region is another. The Arctic Council is under stress. A new cold war is developing as countries – including China, Russia and the US – compete for natural resources and the use of new shipping lanes, and each establishes a 'footprint' in the region. The complexity of the climate system means that some impacts are unknown. The dramatic loss of biodiversity, for example, not only brings serious risks for the health of the planet, but also for societies and economies. Established risks include increased health spill-overs, putting a further burden on already stretched national healthcare systems, and food and water crises, with consequent increased migration and exacerbation of geopolitical tensions (World Economic Forum 2020).

It was within this complex and unstable social, economic and political scenario that the latest annual BAFA FARSIG symposium on the 'Future of Financial Reporting' was held at ACCA, London on 10 January 2020. Against a background of this continuing instability and problems there have also been continuing developments in financial reporting. This occurred in areas such as the responsibility of international standard setters for setting accounting standards for non-financial information (eg environmental, social and governance (ESG)-related information), the evergreen issue of accounting for intangibles, and the future of audit and corporate reporting, including the need for an integrated approach to the corporate reporting standard-setting and the role of the international standard setter in relevant issues such as presentation and general disclosure in the statement of profit or loss. These themes were affected by the increased environmental risk and the social and economic crises. The roles of non-financial information and intangibles have become more prominent, together with more integrated reporting; this should enhance corporate communication, which has a crucial role in times of crisis. This complex scenario is also affecting the audit profession. Indeed, the principles, concepts and elements that characterise how companies should report their overall performance are still under discussion. Relatively old questions (How do we improve communication of a company's performance to users? How do we measure and report intangibles?) are currently being debated, together with relatively new questions: How do we develop an integrated set of standards? Should the International Financial Accounting Standards (IFRS) Foundation be responsible for setting standards for non-financial information? By using all its potential, accounting could, and should, contribute to providing an answer to these critical questions. Consequently, proper decision-making and stewardship of all the different resources employed in business activities would be enhanced.

The title of the 2020 FARSIG symposium was 'The Future of Financial Reporting: Communication, standard setting, intangibles and audit', which reflected these current debates and developments. Five speakers provided their original views on significant current accounting issues and the future opportunities and challenges facing corporate reporting from the perspectives of the international accounting standard setters, practitioners from the accountancy and reporting professions, and academia.

The five speakers for 2020, in alphabetical order, were:

Richard Barker, Professor, Saïd Business School, University of Oxford): 'Should the IFRS Foundation be Responsible for Setting Standards for Non-financial Information?'

Jayne Kerr, Director, Audit Strategy and Public Policy, PwC UK: 'The Future of Audit'.

Andrew Lennard, Director of Research, Financial Reporting Council: 'The Future of Corporate Reporting: How do Intangibles Figure?'

Anne McGeachin (IASB Technical Staff): 'Exposure Draft: General Presentation and Disclosures'.

Neil Stevenson, Director, Deloitte: 'Integrated Approach to the Corporate Reporting Standard Setting of the Future'.

As in the tradition of the symposium, each presentation was followed by a lively and informed question and answer session and an overall discussion among the symposium delegates.

Issues raised by the symposium

Before introducing the presentations, the main topics presented and debated at the symposium are briefly summarised in Table 1.1. This table summarises the key themes since the 2011 symposium. During the symposium there was a critical examination of some of the basics of accountancy and its profession (eg how do you account for intangibles? What is the role of the international standard setter? What is the future of audit?) together with some new frontiers of corporate reporting (eg the use of integrated reporting and narratives in company's annual reports, 'cyber' auditors). Some of the issues raised and discussed were 'evergreens' that continue to present academics, standard setters and practitioners with important challenges, such as the role of the international standard setter, and accounting and reporting for intangibles. In addition, the speakers also provided their views on emerging issues and aspects, such as integrated reporting, the use of narratives in corporate annual reports and 'cyber' auditors, that are currently shaping corporate reporting ecosystems (eg companies, shareholders, regulator, auditors) and the way companies engage with their investors and stakeholders. As in the tradition of the symposium, the common themes that emerged during the event were discussed in more depth after the commentaries.

Table 1.1 reports a summary of the key topics raised at the 'Future of financial reporting' symposia since 2011. Specifically, the main themes covered in 2020 were: the role of the International Accounting Standards Board (IASB) in regulating non-financial information, accounting for intangibles, the future challenges to the accountancy profession, and the future of integrated reporting.

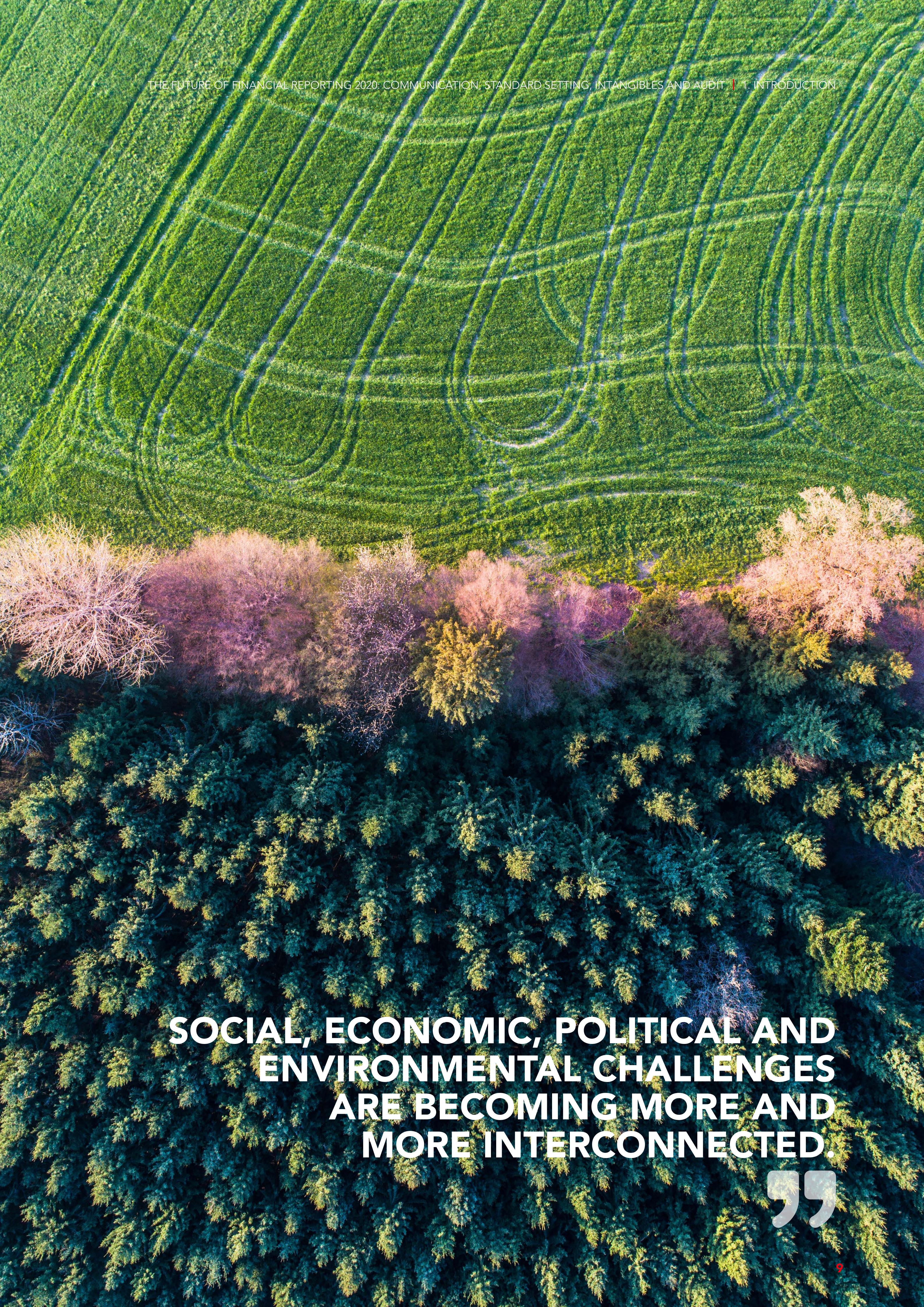
Some of the main developments that have occurred in accounting and corporate reporting during the years 2019 and 2020 are discussed below. The harmonisation of the accounting principles and standards issued by different national and international standard setters remains of great importance in enhancing the comparability, consistency and ultimately the usefulness of financial statements. Even so, the process by which the IASB and the US FASB have attempted to converge their respective financial reporting standards into one global set has not shown any substantial progress since 2012. In the meanwhile, the IASB has continued to examine and discuss various accounting issues. The IASB's agenda for 2020 included several important research projects. Specifically, the IASB's research pipeline includes projects on important topics, such as business combinations under common control; dynamic risk management; extractive activities; financial instruments with characteristics of equity; goodwill and impairment; and provisions. IASB's agenda for 2020 also contains many 'maintenance' projects, including amendments to IASs 8, 12, 16, 21 and 41 as well as to IFRSs 1, 9, 16, and 17. Importantly, the IASB has requested information feedback for its comprehensive review of the IFRS for SMEs Standard, the simplified accounting standard for small and medium-sized entities. During this period, the IASB decided to move its project 'Subsidiaries that are SMEs', ie the project related to subsidiaries that do not have public accountability, from the research programme to the standard-setting programme. It has been working on three other standard-setting projects: one on Primary Financial Statements (expecting feedback on the exposure draft by mid-2020), one on the 'Management Commentary' and one on 'Rate-regulated activities' (both exposure drafts expected in 2020).

This evolving scenario in corporate reporting is influencing preparers and users of corporate reports as well as the accountancy profession and all stakeholders. Many of these issues were, either directly or indirectly, discussed during the 2020 symposium. Each of the five speakers provided a range of informed and interesting perspectives. The issues specifically addressed in the symposium are now presented, and then discussed, in more depth in the following sections.

TABLE 1.1: Overview of key symposia themes, 2011–2020

2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Accounting regulation for non-financial information	Conceptual framework	The role of accounting in shaping capitalism	The evolution of corporate reporting	The use of information by capital providers	Accounting for goodwill	Conceptual Framework, measurement	Conceptual Framework, recognition and measurement	Asset and liability recognition	Complex financial instruments, asset and liability recognition and measurement
Accounting for intangibles	Narratives in corporate annual reports	The role of Big Data and AI in corporate reporting and investment	Corporate reporting vs financial reporting	Conceptual Framework: measurement	Corporate governance	EU Accounting Directive for SMEs	Regulatory Framework, governance and 'balanced reporting'	Measurement, fair value and confidence accounting	Regulatory environment, complexity of financial statements
Accountancy profession	Accounting in the public sector	Digital reporting	Financial narratives	Transparent corporate reporting	Integrated reporting	UK FRS: tax implications	IFRS adoption and national accounting practices	Regulatory Framework and complexity of financial statements	IFRS adoption and political interface
Integrated Reporting		Conceptual Framework	Accounting profession	Integrated reporting and the capital markets	Sustainability accounting	The use of information by capital providers	Nature and complexity of crises	Fraud and accounting scandals	Carbon accounting
		Integrated Reporting	Future of Chinese and Western auditing	The perceived role of the accountant in the society	IASB and politicisation of standard-setting	Compliance with mandatory disclosure requirements			

Sources: Jones and Slack 2011; 2012; 2013; Jones et al. 2014; 2015; 2016; 2017; 2018; 2019.



SOCIAL, ECONOMIC, POLITICAL AND ENVIRONMENTAL CHALLENGES ARE BECOMING MORE AND MORE INTERCONNECTED.

2. Symposium papers

The papers are summarised below in alphabetical order by author.

2.1 Should the IFRS Foundation be responsible for setting standards for non-financial information?

Richard Barker (University of Oxford)

Drawing on his industry experience and research on financial reporting at the IASB, Professor Richard Barker from the University of Oxford discussed the outcomes of the research he has conducted with Professor Robert Eccles on the role of the IFRS Foundation in standard setting for non-financial information.

The primary question in current discussions on non-financial reporting seems to be whether the IFRS Foundation should be responsible for setting standards for non-financial information (Barker and Eccles, 2018). As Richard explained, the answer is affirmative. To further elaborate on the argument in favour of such a stance, Richard discussed eight key questions.

Q1. Is there an economic problem?

Richard talked about the economic problem associated with the demand for and quality of information on environmental, social and governance (ESG) issues such as climate change. If one is to consider the implications for the sustainability of the world's economies, one will find that climate change is profoundly consequential.

INVESTORS NEED TO HAVE COMPLETE INFORMATION ABOUT THE CARBON IMPACT OF CORPORATIONS TO BE ABLE TO UNDERSTAND THE LONG-TERM ECONOMIC VIABILITY OF THEIR INVESTMENTS.

As Richard explained, the industrial revolution brought a significant increase of carbon emissions in the atmosphere with a sharp inflection point at the period when corporations emerged. Nowadays, more than ever, global warming has taken the form of an existential threat. In this context, investors need to understand how corporations contribute to carbon emissions, and how they are exposed to the economic effects of climate change.

Q2. Is reporting sufficient?

ESG reported information has seen substantial growth over the years. Despite the importance of the climate change problem and the urgent need to address it within the reporting landscape, Richard lamented that current reporting on ESG and, in particular, climate reporting remains voluntary and incomplete. Sets of data on carbon information can be found in various forms and reports, leading, unfortunately, to a perceived lack of consistency in carbon reporting. According to Richard, climate adaptation without standardised carbon data is like capital markets without earnings. Investors need to have complete information about the carbon impact of corporations to be able to understand the long-term economic viability of their investments. Unlike financial reporting, where financial information is standardised and consistent, there is a profound lack of information on carbon impact, thus, carbon reporting is deemed insufficient.

Q3. Is carbon special?

Among all the ESG issues, climate change triggered by carbon emissions should be the priority because of the risk that climate change entails to the stability of countries and the economic system. Richard noted that it is very easy, when one thinks of ways of improving ESG reporting in general, to overlook the riskiness of the impact of carbon. If climate change is not addressed, then the world's poorest countries would suffer the most. Similarly, biodiversity loss, which is highly correlated with the activities that generate carbon, would accelerate.

Q4. Is there carbon accounting?

Unlike other ESG metrics, accounting for carbon emissions is easy. Carbon accounting, therefore, already exists because carbon is measurable, monetisable and auditable. The Greenhouse Gas Protocol, developed by the World Business Council for Sustainable Development (WBCSD 2004) provides definitions of different scopes of carbon emissions.

Scope 1 emissions are the emissions that come directly from sources owned or controlled by the reporting organisation, such as a power company's production of electricity, heat or steam from combustion of fossil fuels. According to Richard, data on Scope 1 emissions is straightforward, measurable and aggregates in the same way that financial data aggregates. There is, therefore, a direct alignment with the existing financial reporting framework.

Scope 2 includes emissions associated with the production of electricity, heat or steam that is purchased externally by the reporting organisation (say, a factory). Again, Richard stated that accounting for Scope 2 emissions is very straightforward, as it resembles accounting for costs from suppliers.

Scope 3 is more complicated as it includes all indirect emissions that are related to energy consumption. This scope includes emissions that arise from inputs to the entity, and those arising downstream, such as: purchased goods and services; capital goods; business travel, employee commuting, transportation and distribution; use, and end-of-life treatment of sold products. In principle, under Scope 3, all the carbon emissions that were incurred in order for an entity to produce its product/service are accounted for. Richard said that this requires an examination of the supply chain, which is a challenging task, but not an insurmountable one. Richard used the example of the airline industry to elaborate on the controversy around the definition of downstream emissions. Although jet engine manufacturing might be a substantial source of carbon emissions in the first place, the reality is that the emissions associated with the use of the jet, that is emissions caused by the consumer, have a more damaging effect on the climate. Similarly, oil and gas production is a carbon-intensive business but, overwhelmingly, the carbon emissions occur during the consumption of the product by the customer. Richard emphasised the relevance of the downstream emissions information to investor decision making. Where businesses rely upon a product that is carbon-intensive in its use by their consumers, their business model is not sustainable. Even though they are not physically causing these emissions, they are still material to investors' understanding of the nature of such businesses.

Q5. How do global standards happen?

Richard moved on to discuss how global standards develop. From a historical perspective, Richard explained that the IFRS developed as a result of the collaboration of the EU and the IASB. The critical elements in this partnership were the existence of a body that had the credibility to develop standards (IASB) and a second body that had the legal mandate to enforce them (EU). Richard highlighted the need for clear authorities of standards and the legal mandate for the development of standards, and indicated the political will within the EU to take a similar approach to standards for carbon reporting.

Q6. Is carbon the place to start?

Richard stressed the importance of focusing on carbon reporting rather on ESG generally. The development of a carbon reporting standard would be the starting point for the development of other ESG standards. If this cannot be done, it is logical to infer that standards for other complex ESG issues would be impossible to develop. Richard talked about the critical constraint in the development of carbon and other ESG standards, that is, the inadequate institutional structure to support such a development. Currently, there is no mandatory global or even national reporting standard in place for ESG-type reporting. Richard referred back to the long time spent before the emergence of standard setting and auditing institutions, and the training required for the development of financial reporting standards. This shows how difficult it is to have good standards for non-financial reporting. Compared with financial reporting, which in its origin includes data from transactions that are traced relatively straightforwardly through market prices, non-financial reporting is challenging owing to the nature of the ESG elements to be captured and measured.

In Richard's view, dealing with ESG, in its entirety, would be a mistake. Taking the notion of social capital as an example, Richard described the concept of social capital as very difficult to understand and define. According to the Social Capital Protocol (WBCSD 2019), social capital is defined as the *'Resources and relationships provided by people and society'*. Richard pointed to the lack of clarity on the details that fit within the notions of resources and relationships in the above definition. A contrast between the social capital definition and the definition of financial capital as defined in the IASB's framework shows that social capital cannot be operational as a concept. A social capital impact can be defined as a positive or negative effect that businesses have on people and society through their operations and supply chains, and through the products and services they provide (WBCSD 2019). Richard concluded that altogether it is infeasible to develop meaningful, consistently applied standards in notions such as the social capital and governance. Richard, therefore, emphasised the need to focus on the environmental aspect of ESG reporting.

Q7. Is there a market solution?

Richard stated that there has been a lot of market noise about ESG reporting in the form of voluntary initiatives. The Task Force on Climate-related Financial Disclosures (TCFD) is the latest initiative . Although the chances for reaching the desired outcome via a market-based solution for ESG reporting seem slim, this does not mean that market solutions are not important. Using the example of TCFD, Richard referred to a key recommendation made by TCFD members that companies report on the resilience of their strategy using different climate-related scenarios that would model their climate-change impact. As Richard mentioned, companies need to be able to demonstrate to investors the adaptability of their business models within a particular timescale and explain sufficiently how the world will be affected by their strategy. Undoubtedly, such information would be very useful. Nevertheless, the enforcement and standardisation of this type of disclosure is very difficult owing to the forward-looking and subjective nature of business information, and given that the purpose of accounting standards is to verify corporate performance objectively and comparably.

Q8. Is there any urgency?

Moving on to the last question in his presentation, Richard affirmed the urgency of the development of carbon standards. He clarified that the fastest way along this path would be through a partnership between the EU and the IFRS Foundation. This partnership has the expertise to lead the incremental change to an extremely well-established global infrastructure: a change which will have to be a slow, but very carefully designed and developed, due process. The IFRS Foundation needs to act quickly to develop standards that connect financial and non-financial reporting effectively and that can be applied immediately.

In his conclusion, Richard summarised the key points of his presentation. He noted that climate change is material to investors and society and pointed to the lack of adequate carbon reporting. He repeated that carbon is, overwhelmingly, the logical priority within ESG metrics and, fortunately, carbon emissions comprise an easy data set for which companies can account in their reporting. Building on the case of global accounting standards, Richard suggested that the model used for the development of the IFRS standards could be used again. Nonetheless, he emphasised that generic ESG standards should not be set up yet, given the vagueness in the definitions of 'social capital' and 'governance'. Finally, Richard endorsed the co-existence of mandatory and voluntary reporting, which together lead to improved quality of reported information.

Questions and answers

Richard's presentation was very engaging and was followed by a lively discussion with the audience.

Mike Jones (University of Bristol) wondered why biodiversity loss and other natural factors beyond carbon have not been much considered in the discussion of non-financial reporting even though these seem to be the real threat to the survival of human society. Richard agreed that biodiversity does not receive the attention that it ought to get although the environmental impact on biodiversity is, at least, as dangerous and damaging to the future as global warming. Climate change is a major contributor to biodiversity loss and is more straightforward as a place to start for reporting and standard setting. Richard mentioned that the challenge of biodiversity loss is that it does not aggregate in quite the same way that carbon does, so agreeing a meaningful set of standards would be a very difficult task. He added, further, that biodiversity is a system property and, as such, it is not obvious what one would be trying to measure.

Richard Martin (ACCA) wanted to know if other greenhouse gases are included within the broader term of 'carbon' and whether the TCFD proposals on climate change disclosures and carbon reporting are data of equal importance. Richard Barker confirmed that various types of greenhouse gases are included in the broader discussion of carbon and that both carbon data and the impact on the business model are important in reporting.

Pauline Weetman (University of Edinburgh Business School) shared her thoughts on Scope 1 as being used most because it is the easiest way of accounting for emissions. Pauline argued that Scope 1 ignores all the outside impact of the business. This could lead to permanent damage and she, therefore, would argue that for greenhouse gases, carbon accounting only becomes meaningful if one starts with Scope 3. Furthermore, Pauline raised the point that the IASB and the IFRS Foundation have a public interest duty written into their constitution, so the use of any words different to 'the social impact', 'forward looking', and 'public good', would imply that there is no interest in the public interest aspect of the duty of the IFRS Foundation. Richard agreed with Pauline's arguments and explained that his presentation took a pragmatic stance of what Pauline described. In order to get to Scope 3 reporting one should have an institutional structure that enforces Scopes 1 and 2. Nevertheless, Scope 3 can be more controversial and difficult to do and, therefore, is more vulnerable and can be more easily dropped.

Neil Stevenson (Deloitte) noted that the excessive focus on carbon raises the risk of ignoring other corporate activities as significant contributors to the climate change problem. Richard clarified that the message should not be that carbon is all that matters. Rather, the message is that carbon is the place to start. Richard admitted that there is a lot of ignorance currently about other issues, such as the deforestation problem. Questions such as where deforestation is happening, who is responsible for it, whether it matters, arise. Linking these questions to the Greenhouse Gas Protocol, Richard explained that some answers could be given via an examination of Scope 3. Nonetheless, this path entails the risk of obtaining controversial data. It seems, therefore, that we are a long way from having an informed public debate on non-financial issues other than carbon, but this does not mean that they do not matter.

Sue Hardman (Brunel University) raised two alternative views of the relevance of reporting. First, as the data suggests, people are aware of the impact of carbon and therefore, markets are already adapting, and fossil fuels exploration is at an unprecedentedly low level. Second, Sue argued that, given that the market, itself, adjusts to climate change, perhaps accountants do not need to report on carbon since all the information is already known. Richard answered that climate change problems in the past were manageable because of the existence of alternative technology. Unfortunately, this is not the case with fossil fuels today. On the exploration activity for fossil fuels, Richard argued that the findings seem alarming. He explained that the *carbon tracker*, which among other factors looks at the extent to which oil and gas companies are investing over and above a level that is consistent with meeting the carbon targets set out in the Paris Agreement, demonstrates that the rate of transition is nowhere near as fast as it needs to be.

Anne McGeachin (IASB) commented on the EU–IFRS partnership, which has been fundamental to the success of the IFRS. Anne stated that the partnership is based on a relationship that has required a lot of effort to make it work and there are times that it has strains in it. Perhaps, on a positive note, one of the reasons for those strains is because differences in culture might have a significant impact on how information is used and by whom. She asked Richard whether he believed that the culture issue that arises in the partnership might not relate to carbon reporting. Richard replied that the atmosphere does not care about the origin of carbon, so Anne's understanding was valid in that sense. Nevertheless, he clarified that the social, cultural element that dictates how one interprets the significance of carbon information and what actions should be taken, would still exist in the case of the EU–IFRS partnership on carbon reporting.

Christian Stadler (Royal Holloway, University of London) claimed that a ninth question arose from Richard's presentation. That is, whether the IFRS Foundation should really be involved in a partnership which focuses on carbon reporting. Christian argued that an alternative approach, which would include the development of a new partnership with an established player such as the Global Reporting Initiative (GRI) rather the IFRS Foundation, which has a different core business, might prove more successful. Richard referred to some of the established players in ESG, such as GRI and the Sustainability Accounting Standards Board (SASB). As he explained, they all lack regulatory authority and therefore, it would be difficult for them to have a legal mandate. Even so, their work, including achievements such as the Greenhouse Gas Protocol, is of high importance in the further development of carbon reporting and standard setting.

Jimmy Feeney (Nottingham Trent University) commented that it would be useful to have information about how companies' inputs and investments in going greener are being measured. As Jimmy said, companies in the aerospace industry are responding to consumer demand and behaviour and, therefore, are not the main drivers of a growing carbon footprint. Richard answered with the use of a positive example, that of the energy generation industry, which is undergoing a dramatic transition from fuel-based to renewable resources. He noted that the discussion about companies' inputs and investments relates to prospective investment and development, and thus would fit better with voluntary reporting rather than a standard-setting regime.

RICHARD ENDORSED THE CO-EXISTENCE OF MANDATORY AND VOLUNTARY REPORTING, WHICH TOGETHER LEAD TO IMPROVED QUALITY OF REPORTED INFORMATION.

2.2 The future of audit

Jayne Kerr has been an auditor at PwC for over 20 years, both in the UK and the US.

Jayne started the session by demonstrating why the business community should be thinking about the future of audit. She showed newspaper headlines from the *Financial Times* and the *Daily Mirror*, among others, describing how, in the aftermath of the recent corporate failures, questions were raised over the effectiveness of the auditors. Jayne then highlighted that, although in the UK the debate about the value and purpose of audit is not new, in recent years the scrutiny has intensified. Although the scrutiny mainly referred to the Big Four world, she underlined that the whole audit profession is under pressure.

She then described how the UK debate has led to external reviews of the audit sector, which have focused on the level of competition and choice in the audit market, whether conflicts of interest may impair auditor independence (eg owing to non-audit services being provided to audit clients), the regulation of auditors and whether the scope of the audit is still relevant or needs to evolve. In her opinion, while these issues are sometimes interrelated, the fundamental concepts underlying them can be conflated by commentators and while suggested remedies may address one or more of the issues, there are no easy solutions.

Jayne then delved further into each of these external reviews, describing them as having three angles to the analysis: the corporate failure resulting from the audit market structure, the audit regulator, and the audit product itself. Before analysing each of these perspectives, Jayne presented the other recent changes in the audit sector. In particular, she referred to the revised Ethical Standards issued by the Financial Reporting Council (FRC) in December 2019 (FRC 2019b), setting out the characteristics that make the auditor independent and those services provided by the audit that may result in a conflict of interests (ie non-audit services). Jayne also mentioned the Auditing Standards issued by the FRC in December 2019, which included a revised UK Auditing Standard on going concern (FRC 2019a). According to Jayne, these reviews are likely to be looked at by the Department for Business, Energy and Industrial Strategy (BEIS). Nonetheless, in her opinion, any legislation to implement recommendations most likely will pass after the end of the Brexit transition period in 2021, unless the FRC or ARGA (Audit, Reporting and Governance Authority) could decide to implement some of the recommendations sooner.

Jayne then considered the three perspectives from which the audit sector is being currently analysed. The first perspective raises questions on whether the audit market is appropriate or not. The second perspective raises questions on whether the regulator is not regulating as it should. The third perspective raises enquiries about whether auditors are actually doing their job and whether the quality of the audit is enough.

On the audit market structure, Jayne started by analysing the Competition and Market Authority (CMA) market study of the statutory audit market (CMA 2019), which was intended to assess whether the market is working as well as it should. She outlined what the CMA believed were the issues in the audit market. First, the auditors are too close to the people who appointed them (ie the choice of auditors is based on 'their chemistry with the company' rather than the quality of audit service provided). Second, there is too much concentration in the upper end of the audit market, with too little choice of the auditors and too little competition between auditors. Third, audits are performed by firms whose main business is not in audit, which could lead to conflicts of interest. The solutions proposed by the CMA were synthesised in five points: 1) a more robust regulatory oversight of the audit committee; 2) mandatory joint audits (ie two auditors audit one company) for FTSE350 companies; 3) measures to mitigate the effects of distress for Big Four firms; 4) an operational split of Big Four firms between audit and non-audit; and 5) a five-year review of progress by the regulator.

Next, on audit regulation, Jayne proceeded to present the Kingman recommendations (Kingman 2018) on the role of the regulator in the audit sector. According to these recommendations, the ARGA should replace the current regulator, the FRC. The ARGA would have more power to hold companies and auditors accountable. With this aim, these recommendations are intended to develop a new, better-resourced independent regulator focusing on the interests of consumers of financial information and with significantly expanded powers and objectives. Other recommendations from the Kingman review include the publication of individual AQR (audit quality review) and CRR (corporate reporting review) results. Kingman also recommended that consideration should be given to a UK version of the Sarbanes–Oxley regime established in the US.

Finally, Jayne presented the Brydon review of the quality and effectiveness of audit (Brydon 2019), which dealt with the audit product itself. The Brydon review is a comprehensive report with 64 recommendations, aimed mainly at the largest companies. This review addresses the perceived widening of the 'audit expectations gap', ie the difference between what users expect from an audit and the reality of what an audit is and what auditors' responsibilities entail. It recommends a new, stronger corporate auditing profession with a unifying purpose and principles relevant to a wider group of stakeholders. It also recommends that the auditing profession should include both auditors of financial statements and other corporate auditors, for example, those covering sustainability data. Overall, wide-reaching change is suggested throughout the corporate reporting ecosystem, affecting company boards, executives, investors and regulators, as well as audit professionals and the audit product.

In Jayne's opinion, the next step for all the recommendations from the three reviews was likely to be a consultation by government (eg in 2021), with legislation to follow.

Jayne then closed by describing the future of audit: how will audits be carried out and by whom? In particular, she mentioned how, at the moment, many audit careers follow a traditional pathway: earn a degree (not necessarily in accounting), join an audit firm, do ACA/ACCA training, qualify. In her opinion, future auditors may not necessarily follow this pathway because of the diverse specialised skills required in the audit process as it evolves. There could, for example, be financial statements auditors, 'technologist' auditors (eg cyber auditors), environmental auditors, all focusing on different pieces of information a company puts out.

OVERALL, WIDE-REACHING CHANGE IS SUGGESTED THROUGHOUT THE CORPORATE REPORTING ECOSYSTEM, AFFECTING COMPANY BOARDS, EXECUTIVES, INVESTORS AND REGULATORS, AS WELL AS AUDIT PROFESSIONALS AND THE AUDIT PRODUCT.

Questions and answers

Jimmy Feeney (Nottingham Trent University) asked how auditors should move into this new IT world. Jayne answered that IT technologies will help auditors to focus on judgement and have more valuable meetings with clients.

Richard Martin (ACCA) questioned how the emergence of these new figures of specialised auditors will interact with the current audit profiles. Jayne answered that it will be necessary to recognise that accountants may be only one of the many types of auditor and future development will help to broaden the current profile of an auditor rather than narrowing it.

Anne McGeachin (IASB) questioned whether the proposed changes to the audit were only for the UK, or also internationally. Jayne answered that it varies, and that some countries, such as the Netherlands and Australia had similar reviews, but there was less focus on reform, at the moment, in other countries, such as the US.

Thomas Toomse Smith (FRC) asked whether recommendations on changing the work of auditors could conflict with the current structure of the annual report as a single document with specific boundaries. Jayne answered that recommendations are questioning the usefulness of the audit in its current form rather than the structure of the annual report itself. Nonetheless, that is not to say that it will not make people question the structure and boundaries of the annual report in the future.

Andrew Lennard (FRC) asked how the culture of audit firm can be changed from profit-oriented to being more public-interest oriented. Jayne answered that although this may be the perception, in her view, audit firms already focus very closely on audit quality and how the quality of the output affects the broader community.

Pauline Weetman (University of Edinburgh) asked whether increasing the scope of the audit will also increase the associated costs. Jayne answered that costs are likely to increase if more work needs to be performed.

2.3 The future of corporate reporting: How do intangibles figure?

Andrew Lennard is director of research at FRC.

Andrew started by pointing out that for many, many decades critics have argued that, although intangibles are increasingly important, financial reporting does not reflect many of them. These critics draw attention to the divergence between the book value of assets and the entity's market value. These criticisms have been ignored for too long: there is a need to respond. Hence, realistic proposals should be adopted to develop standards, in order to set out an approach that would improve the financial reporting of intangibles, within the current conceptual framework. It should have due regard to the economic literature on the nature of intangibles. Andrew suggested that many of the intangibles that critics cite would not qualify for recognition as assets within the current conceptual framework. Therefore, it was necessary to address reporting intangibles not only within the financial statements, but also in narrative reporting.

Andrew then analysed the current standards that set out the requirements for the reporting of intangibles (ie IAS 38 and IFRS3). IAS38 assumes that most intangibles are accounted for at cost but contains restrictions on those that can be capitalised, which, in effect, makes capitalisation optional. On the other hand, IFRS3 'Business combinations' assumes that fair value can be obtained (within tolerable measures of uncertainty) for all intangibles. Then, Andrew showed the asset's definition provided by the IFRS new conceptual framework in 2018, where an asset is recognised as 'a present economic resource controlled by the entity'. This definition, according to Andrew, is not met by many intangibles, such as customer loyalty.

He then continued by discussing the possibility of recognising an intangible at cost in the financial statements. Andrew highlighted the importance of taking into account the differences that typically arise between tangible and intangible assets. For example, when buying a tangible asset, companies know how much the costs are going to be more accurately than when developing an intangible asset. In addition, actual expenditure that can be easily identified on tangibles may not be identified in a straightforward way for intangibles. Lastly, when buying a tangible asset, it is possible to make a reasonable estimate of how long is going to last, to identify what the future benefits are going to be and identify the value of those future benefits. Such an approach cannot be easily translated to intangible assets owing to the difficulty of identifying their contribution to future activity. Another possibility is to recognise intangible assets at fair values, but that could not work, for example, because of the problem of uniqueness. When estimating the value of a tangible asset, such as a warehouse, you can compare it to a similar asset, ie a warehouse down the road, calibrate the value and reduce subjectivity in the evaluation process. For intangible assets it is much more difficult to identify comparable assets in order to reduce such discretion because every patent or novel, for instance, is unique.

Andrew concluded that without radical change to the conceptual framework, financial statements cannot provide comprehensive information on 'intangibles'. Hence, he questioned what can be done to improve the current situation. Before doing so, he highlighted what could be the consequences of not recognising intangibles, by quoting IAS 38, which states how: 'In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised' (IAS 38, par.39). As a consequence, reported earnings for the first financial year would be very low while returns in subsequent periods will seem unusually large compared with the book value of net assets.

Therefore, Andrew suggested a separate disclosure for intangible assets. First, such disclosure should clearly highlight expenditure on 'future oriented' intangibles, analysed by their nature. In addition, Andrew showed how net income should be measured before such expenditure, and the relative disclosure should highlight the cumulative amount (and its changes) expected to benefit future periods.

WHEN BUYING A TANGIBLE ASSET, COMPANIES KNOW HOW MUCH THE COSTS ARE GOING TO BE MORE ACCURATELY THAN WHEN DEVELOPING AN INTANGIBLE ASSET.

Example: income statement and cumulative amounts

Andrew then proceeded by emphasising that intangibles' reporting should take into account narrative reporting, especially for those intangibles that are relevant to the business model and their contribution to value creation. He also suggested that narratives should include metrics (ie, the numerical expression of factors that can help assess the strength of the intangible analysed), rather than value. In Andrew's opinion, metrics should be clearly defined, appropriately disaggregated, and allow the reader to easily identify trends and targets.

Example of metrics illustration

Then, Andrew showed the respondents' views based on the FRC consultation on the business reporting of intangibles (FRC 2019c). He pointed out that many respondents agreed that intangibles are important, welcomed efforts to improve their reporting and said that more transparency is needed in this area. Many respondents commented on the increasing significance of intangibles in a knowledge-based economy and their relevance to long-term value generation in many businesses. Investors agreed in supporting improvements in the quality of reporting on intangibles, with some concerns that information on intangibles provided outside the financial statements would not being audited. In addition, when questioned on the necessity of revising IAS 38, most respondents supported revisiting the current requirements. Even so, although they recognised the existing flaws, it was a widespread opinion that IAS38 works well and they mostly proposed subjective replacements, concluding that revision does not address the real issues and might not be the immediate priority.

When questioned on *fair value*, the majority agreed that assessing the fair value of intangibles raises difficult problems. Nonetheless, according to a few respondents, such problems are not insurmountable, and valuation would provide useful information. Although Andrew did not agree with that, according to these respondents everything has a value and it is necessary to dig deeper to find it. Respondents were divided when questioned on *future oriented intangibles*. While some were strongly in favour, some were not, and the main objection arose from the subjectivity involved in the decision on what would be regarded as benefits in the future. On the other hand, the majority of respondents supported the proposals for narrative reporting, although with caveats and reservations.

In addition, there was a general support for observations on metrics standardised according to industry. Most concerns were about the presence of the related costs and the disclosure of commercially sensitive information.

Andrew then concluded by leaving some food for thought on what should be done. In particular, he questioned whether current standards (IAS38 and IFRS3) should be revised, whether there should be separate reporting of expenditure on future-oriented intangibles and, if so, what the main challenges are for introducing such a requirement. He also questioned what constituted the roles of mandatory requirements, such as accounting standards, and non-mandatory guidance that disciplines how intangible assets are assessed and how accounting standard-setters could assist in the implementation of the ideas for narrative reporting, suggested in the paper. Finally, he concluded by questioning which other parties should be involved, and what their role would be, in this (r) evolutionary process and how the accountancy profession can assist such a process.

Questions and answers

Paul Jennings (University of Winchester) questioned whether there is a starting point from which it might be easier to change the intangibles approach. Andrew answered that, with some caveats, intangibles as addressed in IFRS 3 could be a useful starting point.

Richard Martin (ACCA) questioned whether there are no improvements worth making in IAS38. Andrew answered that, although it is not on the agenda at the moment, a renewed shape for IAS38 would have some benefit. It would not, however, answer all the points raised by critics, and further developments, for example to narrative reporting, would be necessary.

Richard Barker (Saïd Business School, University of Oxford) questioned whether there is a subjectivity problem when reporting 'future-oriented intangibles'. Andrew agreed that the proposal would inevitably raise issues of subjectivity. Nonetheless, he added that there is very often a trade-off between subjectivity (and hence loss of comparability) and relevance. But the problem could be reduced by, for example, disclosure requirements.

2.4 Exposure draft: General presentation and disclosures

Anne McGeachin (IASB Technical Staff)

Anne has been working for the IASB for many years and spoke as an IASB technical staff member. The views she expressed were her own and not necessarily those of the IASB or of the IFRS Foundation.

She gave a paper on the IASB Exposure Draft (hereafter 'ED') 'General Presentation and Disclosures', which focuses on the statement of profit or loss (hereafter 'profit or loss').

Her presentation covered the following main topics: the ED project background and overview; the main ED proposals; and the ED structure.

2.4.1 Project background and disclosure

Over the last few years, the IASB, Anne argued, has focused on many projects related to measurement and recognition, such as IFRS 9, 15, 16 and 17. In contrast, the central theme the board is currently dealing with relates to how to communicate information better to users. One project is on Primary Financial Statements, which has led to this ED. Another project is on the disclosure initiative, where the IASB is looking for ways in which standards can improve disclosure. Also, the board is working on the 'management commentary' practice statement, which is outside the financial statements. Finally, the IFRS Taxonomy is about how information is communicated to the market: how people can obtain information from the financial statements.

The Primary Financial Statements project looks at presentation and general disclosure with a focus on the statement of profit or loss (hereafter 'profit or loss'). The IASB has had several projects that have looked at the presentation of financial performance and not all the projects have resulted in changes to standards. According to Anne, the advantage of this new project is its relatively narrow scope, which covers improving the presentation of the information in profit or loss. In particular, the project does not address the split between items in profit or loss and other comprehensive income (OCI).

2.4.2 The main ED proposals

i. The project responds to investor needs

The project, Anne explained, mainly addresses the following investors' feedback.

First, investors suggest that subtotals (eg operating profit) in profit or loss should be comparable across different companies. At the moment, there is a great diversity in what is included in subtotals' calculations, despite the same titles being used. The board is working to require companies to present defined subtotals in the statement.

Second, investors say that companies should provide more granular information that provides better inputs for their analysis. Thus, the board is seeking to strengthen requirements for disaggregating information.

Third, performance measures defined by management, which are not necessarily IFRS numbers, should be used in a more transparent and disciplined way. This would allow investors to make comparisons across companies and to understand management's view better. The board is proposing a requirement that companies disclose information about management performance measures in the notes.

ii. Subtotals in the statement of profit or loss

The main problem on subtotals, as Anne explained, is the lack of comparability across companies. At the moment, for instance, the IFRS Standards do not define any subtotals between 'revenue' and 'profit or loss'. Most companies use subtotals with similar labels but different definitions, as found by the IASB. For instance, some companies include the share of profit or loss of associates and joint ventures in operating profit while others (the majority) do not.

The board's proposal is that subsections within the profit or loss should have defined subtotals. Essentially, the profit or loss would be divided into three main categories: operating, investing and financing. A fourth, minor, category is on integral associates and joint ventures. The ED also includes examples of how this approach would be adapted for financial institutions.

ESSENTIALLY, THE PROFIT OR LOSS WOULD BE DIVIDED INTO THREE MAIN CATEGORIES: OPERATING, INVESTING AND FINANCING. A FOURTH, MINOR, CATEGORY IS ON INTEGRAL ASSOCIATES AND JOINT VENTURES.

Anne then explained the three main categories in profit or loss, with operating considered as the residual one.

The aim of the financing subsection is helping investors to compare companies' performance before the effects of financing decisions. The main items are income and expenses from financing activities. Another item is interest amounts on liabilities not related to financing activities, such as the unwinding of a discount on pension liabilities. Anne highlighted that there was debate on whether this item should go in the financing sub-section (because it is financing in nature),or be included in the 'operating' area because it arises from operating liabilities. In order not to create confusion, the IASB decided to include the item in the financing sub-section but in a separate line, so that users could easily exclude/amend the item in their analyses.

The investing subsection should capture income and expenses from investments that generate returns largely independently of other assets. According to users, these amounts are typically differently analysed and, thus, should be viewed separately. This subsection includes items such as fair value changes on investment property and financial assets (other than cash and cash equivalents).

The operating subsection (residual category) aims to include income and expenses from an entity's main business activities (eg clothing), that are not part of the financing or investing activities.

Anne also explained the presentation of associates and joint ventures in profit or loss. At the moment, Anne argued, preparers put the results of associates and joint ventures in different places (eg in operating profit or after financing and tax) and users have expressed different views about where they would like to see these results. The IASB has tried to come up with a balanced proposal. Companies are asked to classify which of their equity-accounted associates and joint ventures are 'integral' (ie closely related to their main business activities). If 'integral', results would be presented immediately below the operating sub-total. If non-integral, results would be presented in the investing subsection falling within the board's definition of 'investing'.

Anne highlighted that financial entities are different but the IASB is trying to rely on the same three categories: operating, investing and financing. Anne argued that it would be too difficult to create a separate profit or loss structure for financial entities with separate requirements, given the difficulty of defining them. Instead, the ED proposes that financial entities can include results in the operating category that normally would be related to other categories (eg financing or investing), by following the definition of 'main business activities'. For instance, financial expenses can be moved up from the financing to the operating category, given that banks provide finance to customers as their main business activity.

Anne also provided an example of an investment and retail bank's profit or loss. The example showed how expenses from financing activities (eg interest expense) were moved up into the operating category when calculating important performance metrics, such as net interest margin.

iii. Disaggregation
Anne stated that the IASB has a number of proposals on disaggregation. One proposal relates to the analysis of operating expenses. At the moment, Anne explained that IAS 1 gives companies a free choice of analysing operating expenses either by nature or by function. Some companies, Anne mentioned, have used a mixture of the two options, which is very confusing for users. The board is thus proposing that companies have to decide which method provides the most useful information and then use that method. Also, users have highlighted that the analysis by nature always has some utility, despite not necessarily being the most useful. Thus, the board has decided that, if the company decides to provide, on the face of profit or loss, an analysis by function, it is then required to disclose in the notes the analysis by nature. In the opposite case (ie if companies provide an analysis by nature in the profit or loss account), an analysis by function in the notes is not required.

Another aspect of disaggregation is disclosure of unusual income and expenses. As argued by Anne, this proposal is a response to feedback that the board received on the discussion paper 'Disclosure Initiative – Principles of Disclosure', issued in 2017, about the usefulness of unusual income and expenses for analysts. At the moment, there is no discipline on how to disclose unusual results. The board proposes a definition of unusual income and expenses as income and expenses with limited predictive value, that is, when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future years. For disclosure requirements, unusual results have to be disclosed in a single note of the financial statements, analysed by line items that appear on the face of profit or loss, so that analysts can easily identify them. Also, companies are required to give a narrative description of how the unusual item arose and why it meets the definition of unusual.

Other proposals in the disaggregation area are related to the different roles of the primary financial statements and the notes. Also, new specific, required, line items would include goodwill (to be disclosed in the statement of financial position), income or expenses from integral and non-integral associates and joint ventures and income or expenses from financing activities. Anne added that the board is also trying to avoid the presence of line items such as 'other' that are confusing and unclear. The board encourages preparers to find meaningful labels, instead of 'other', that clearly explain groups of items and, if that is not possible, to provide information in the notes about the content of such groups of items classified as 'other'.

iv. Management performance measures
Anne highlighted a current debate on management performance measures (MPMs). She said it would be very difficult for the IASB to stop preparers using MPMs, since they are commonly used to tell a story in the way that they like and MPMs areappreciated by investors. Therefore, the board is seeking to ask companies to use more transparency and discipline in defining MPMs. The board has defined MPMs as measures used in public communications outside the financial statements (eg in press releases, management commentary) and that are based on the totals or subtotals in profit or loss. They are considered by the board to be helpful in complementing financial statements' information and communicating management's view. If a company uses MPMs, it is required to disclose them in a single note to enhance transparency. More specifically, companies need to explain how the MPM is calculated and why it provides useful information about the entity's financial performance and about management's view. Also, in the notes, a reconciliation between the MPM and its most directly comparable subtotal or total in the profit or loss is required. Then, companies have to state clearly that the MPM provides an entity-specific management's view and is not necessarily comparable (despite the same/similar names used) to measures provided by other entities. Finally, companies are required to disclose yearly changes in MPMs' calculation and use.

Anne provided an example of MPM reconciliation in the notes, with adjusted operating profit (MPM) reconciled with its most directly comparable subtotal: operating profit (IFRS-specified). The example also showed how a simplified approach to calculating the tax effect/ allocation can be presented, without applying IAS 12 to each reconciled item. Anne also explained that not all performance measures are MPMs that follow the IASB definition. First, MPMs are financial performance, rather than non-financial performance, measures. Second, they are not IFRS-specified. Third, they are related to subtotals of income and expenses, rather than other figures such as free cash flow or net debt.

v. Other proposals: Statement of cash flows
Anne also talked about the IASB proposals for the statement of cash flows. She clarified that the IASB proposed the removal of some of the options in IAS 7. The IASB has identified a single starting point for the indirect reconciliation, which is operating profit, and removed classification options for interest and dividends, which can currently be included either in the financing or the investing category. Anne specified that the proposed definitions of operating, investing and financing are not the same as IAS 7 definitions. For instance, IAS 7 considers depreciation of operating assets as 'investing' whereas, under the ED proposals for profit or loss, such depreciation would be included in operating activities. The board acknowledges that using the same words with different definitions in different standards is not ideal. IAS 7 does not focus on profit or loss, however, while this IASB project tries to get the most useful information out of the profit or loss.

2.4.3 The ED structure

Anne explained that the ED will lead to a new IFRS standard, which will combine the proposed presentation and disclosure requirements with related requirements brought forward from IAS 1, with limited wording changes. The other bits of IAS 1 not strictly related to presentation and disclosure will be moved to IAS 8 on accounting policies, and IFRS 7 on financial instruments. The new standard will also cause amendments to other standards and lead, once issued, to the withdrawal of IAS 1. Finally, Anne provided the list of illustrative, non-mandatory, examples included in the ED, which are intended to help people to understand the impact of the proposals. Anne concluded her presentation by encouraging the audience to provide academic feedback on the ED, as it helps to have an objective view and broader thinking on financial reporting. The easiest way of dealing with feedback is through comment letters.

COMPANIES NEED TO EXPLAIN HOW THE MPM IS CALCULATED AND WHY IT PROVIDES USEFUL INFORMATION ABOUT THE ENTITY'S FINANCIAL PERFORMANCE AND ABOUT MANAGEMENT'S VIEW.

Questions and Answers

Alison Bonathan (University of Winchester) wondered how the presentation of unusual items can coexist with that of discontinuing operations. Anne replied that IFRS 5 requires that discontinuing operations have to meet certain criteria. In the examples provided in the presentation, discontinuing operations have not been shown, but if they exist, a line for discontinuing operations should be presented. Anne observed that unusual items could exist that do not meet the definition of discontinuing operations but that some cases of discontinuing operations will also be classified as unusual items.

Jimmy Feeney (Nottingham Trent University) asked about the implications of this IASB project for the presentation of segmental analysis. Anne replied that the IASB is not changing the requirements for the disclosure of reportable segments (IFRS 8), that still stand. She agreed that information on reportable segments must to be reconciled with information in the profit or loss. At the same time, the project is not making extra requirements (eg on income and expenses' analysis by nature or function) for the segmental reporting that is not necessarily IFRS-based.

Christian Stadler (Royal Holloway, University of London), raised, first, the point that companies (eg insurance companies or carmakers) do not necessarily have one main business activity but can have several operating activities. He asked whether they would be allowed to disclose each operating activity in a different block, rather than combining them into one, potentially not useful, block. Also, on MPMs, Christian argued that in the ED they are disciplined only in their relationship with the income statement, despite not always being related to financial performance. He thus suggested that it was desirable to discipline key performance measures (including, for instance, free cash flow) comprehensively. Anne replied to the first question by highlighting that the proposal considers, within the operating subtotal, all the amounts regarded as arising from the main business activities.

In the case of insurance companies, for instance, both the underwriting and finance activities can belong to the operating category. Anne also replied to the question on MPMs. She personally thought that the board's main concern on alternative performance measures is related to financial performance, and thus the board prioritised increasing the transparency and discipline of MPMs on financial performance. Also, she stated that other, alternative measures (eg non-financial key performance indicators (KPIs)) are not very much in the IASB's remit. The 'management commentary' project might touch on some of these alternative performance measures.

Andrew Lennard (Financial Reporting Council) argued that operating profit is clearly one of the most important metrics, as the one related to the core business activities. But the proposal is treating the operating sub-total as the residual and is not defining it, while it would be important to define the operating category clearly. Anne answered that IASB, in her view, is not able to define all the sub-sections without creating gaps or overlaps. Nonetheless, by having positive definitions with clear requirements about what should go in the financing and investing categories, the IASB indirectly defines what should go in the operating category. It is a matter of practicality to treat operating as the residual, she argued.

BY HAVING POSITIVE DEFINITIONS WITH CLEAR REQUIREMENTS ABOUT WHAT SHOULD GO IN THE FINANCING AND INVESTING CATEGORIES, THE IASB INDIRECTLY DEFINES WHAT SHOULD GO IN THE OPERATING CATEGORY. ”

2.5. Integrated approach to the corporate reporting standard setting of the future

Neil Stevenson, director at Deloitte

This presentation was given before a number of developments in this area. These are summarised, along with the feedback from over 40 respondents to the *Accountancy Europe* paper referred to below (Accountancy Europe 2020).

A director at Deloitte specialising in corporate reporting and ESG, Neil discussed the future of non-financial reporting and how it can be encompassed within the standard-setting world. Building on other themes presented at the symposium, such as ESG and intangibles, Neil provided an overview of an Accountancy Europe project that highlights factors driving value and risk for an organisation and suggested an integrated approach to the corporate reporting standard setting of the future.

2.5.1 Why? – The case for connected standard setting

Neil began his presentation by explaining the need for connected standard setting. According to the World Economic Forum (2019) report, business leaders identify non-financial problems as the biggest risks to their organisations. Among other issues, climate change, stability between nations and water crises were the primary factors that business leaders highlighted. Neil noted that it was the first time that none of the top ten risks were specifically financial ones. Business leaders seem now to be more concerned about ESG issues related to extreme weather, natural disasters, failure of climate change mitigation and adaptation, food crises and interstate conflicts than about market bubbles and other similar financial risks.

Well allied to ESG, another factor driving the need for integrated standard setting is the rise of intangibles, which are a significant value-creating source for companies today. Technology and systems within an organisation are frequently at the core of business models and Neil acknowledged the importance of knowledge, people and, generally, the intellectual property existing in the business, as drivers of value.

Neil further elaborated on the current imperative for connected standard setting. More than in the last decade, at present there is an increasing coalescence of viewpoints that global standards should cover these broader ESG factors. Calls for the development of connected standards from a wide group of stakeholders, including investors, companies, standard setters, regulators, policymakers and academics, are becoming more frequent and prominent. As examples, Neil cited the 'point of view' of the 2019 statement by the International Federation of Accountants (IFAC) (Boutellis-Taft 2019), academic papers, and a report produced by Accounting for Sustainability and Aviva Investors (2019), which all call for consolidation and the emergence of global sets of standards in the ESG area. Moreover, the financial regulator, the European Securities and Markets Authority (ESMA), published a paper in 2019 which highlights the expectation gap between investors' information demands and the quality of ESG information produced by preparers. Furthermore, the World Economic Outlook report by the International Monetary Fund (2020), also notes the role of governments, policymakers and regulators in driving standardisation for ESG and acknowledging how important it is for users' understanding of the company's performance and prospects. Taking all these different voices into consideration alongside the underlying crisis of climate change, it can be concluded that the broader discussion of ESG and connected standard setting is timely and topical.

Building on a study conducted by Clark et al. (2015), Neil set out briefly the benefits of ESG for investors. These include: better operational performance and less risk faced by companies with strong sustainability scores; better performance of investment strategies that incorporate wider sustainable development than traditional strategies; active ownership by investors as a value-creating mechanism for companies and investors.

2.5.2 What? – The objective

Next in his presentation, Neil discussed the objective of connected standard-setting. He clarified that although mainstream reporting acknowledges investors as the primary users of corporate information, in reality, the picture is more complex. As Neil suggested, nearly all stakeholders are investors in some way and, therefore, there should be an improved long-term alignment of the needs and expectations of investors and other stakeholders in society. Furthermore, in today's world, long-term horizons are often becoming shorter. For instance, the water used by a company can actually affect its financial position very quickly, should it run out of water to use or sudden floods result in a significant impact on the company's supply chain. Similarly, through technology such as social media, there have been examples of companies whose reputation has been strongly affected by the rapid spread of negative news. According to Neil, these cases prove the existence of circularity of impacts and dependencies in business. It is, thus, important that companies report on the impacts that could affect their performance over time in the context of wider stakeholder needs. Therefore, this illustrates the need for a closer alignment of understanding of how the company creates value and how it takes account of its stakeholders' needs.

In the same context, Neil then referred to the trend among companies of developing a vision of corporate purpose, setting out how their activities relate to a positive impact on society and the environment. The *Business Roundtable Statement on the Purpose of the Corporation* (August 2019) shows that US companies include delivering value to stakeholders as part of their corporate purpose: the delivery of customer value; investment in employees; commitment to a fair and ethical supply chain; support of communities and protection of the environment; long-term shareholder value. Similarly, mainstream reporting requires UK companies to disclose how directors have exercised their duty to promote the company's long-term success while having regard for stakeholders and other matters.

The continuous development of new ESG initiatives and the lack of coalescence around one solution arguably now impedes progress towards the provision of consistent, reliable investment information to direct capital to sustainable business. The lack of standardised information can allow 'green washing'. From a financial reporting perspective, Neil stated that companies are mandated to disclose their financial result, ie profit or loss. This, unfortunately, is not the case with ESG non-financial reporting where no formalised structure currently exists that would require companies to disclose their ESG performance on a consistent global basis. This then leads to the data quality problem, as ESG reporting is not always timely and comparable across industry sectors or provided on a consistent basis for the performance of assurance. In line with the Accountancy Europe (2019) paper on 'inter-connected' standard setting for corporate reporting, Neil spoke of the need for a system change which would achieve a base level of transparency and comparability, connect financial and non-financial information, develop a core set of global metrics for non-financial information in mainstream reports, and a conceptual framework for connected standards.

2.5.3 How? – The evaluation of approaches

To achieve a system change, standard setting needs to meet certain key principles. Legitimacy, independence, transparency, due process, public accountability, and balanced board membership are core attributes that standard setting should encompass (Accountancy Europe 2017). Beyond these, Neil noted the importance of assessment criteria that could evaluate potential standard-setting approaches. Drawing upon a report by Accountancy Europe (December 2019), Neil discussed the nine criteria used in that report to evaluate integrated standard-setting models: urgency; global or local solution; oversight (public versus private sector considerations); due process of standard setting; responding to stakeholder interests; framework and metrics (connectivity between financial and non-financial information); materiality lens; legal embedding; and the role of technology.

As a starting point, Neil talked about the need to consider urgent global issues such as climate change and how standards can be implemented quickly under appropriate governance and structure. Then, a standard-setting model should be assessed according to whether it can function as a global or local solution. One should recognise that global risks have no borders.

Next, Neil referred to the criterion of oversight and noted that ESG and other non-financial information are issues of higher public interest owing to their impact on society. This should be taken into account in relation to oversight of standard-setting models.

The due process of standard setting is also an essential factor, as it enables credibility and buy-in from stakeholders, and ensures quality of standards.

Moving on to the criterion of responding to stakeholder interests, an integrated standard-setting model should respond to the needs of a broad range of users. These stakeholders could be: preparers, who demand clear guidance to help them achieve high-quality reporting; investors, who require consistent, high-quality and comparable data to enable them to make sustainable investments; regulators, who oversee processes for standard setting that will address the interests of non-financial information users; society, which calls businesses to focus on creating long-term value for all in a responsible way.

Another factor used in the assessment of integrated standard-setting approaches is the ability to accommodate a conceptual framework for connected reporting. Alongside this, there is a need for ESG metrics that can provide comparable, transparent and auditable information that meets the public interest.

Next, Neil considered the criterion of materiality. In the past, companies reported separately on their financial performance and on sustainability. Increasingly, however, as explained earlier, it is essential that the materiality view in a connected integrated standard-setting model should be broadened to include issues more explicitly affecting long-term value creation.

Lastly, Neil referred to both the need for a legal mechanism mandating the adoption of standards and the important role of technology, in particular the use of taxonomies for obtaining data for decision-making purposes.

Neil then noted Accountancy Europe's examination of a range of standard-setting approaches and a variety of global, regional, technology-based models which have led to the development of a global vision for the integrated standard-setting approach for the future (Accountancy Europe 2017). The model set out in the paper draws upon a three-tier structure for corporate reporting that goes beyond the interests of financial regulators alone, establishing an enhanced approach to public oversight. Under the enhanced oversight body, a new Corporate Reporting Foundation could be developed. Its remit might include the development and maintenance of a conceptual framework to enable connectivity between financial and non-financial reporting. As Neil stated, the International Integrated Reporting Framework already has many of the concepts required, such as: connectivity, multi-capitals and the value creation materiality lens.

Conclusion – a system change

Neil concluded his presentation with a synopsis of the reasons why globally integrated change in standard setting is essential. Climate change is a global risk that needs to be addressed in part through consistent, high quality, comparable data on companies' sustainable investments. Moreover, companies' international supply chains and customer bases increase the relevance of understanding and reporting on the dependencies and impacts within their value chain. The development of globally consistent standards would help mitigate concerns over the quality and comparability of data reported, and reduce reporting costs for companies.

The proposed integrated standard-setting approach (as set out by Accountancy Europe 2017) recognises that there could be different pathways and stages at which 'like-minded parties' come together to support the global vision for standard setting. As Neil highlighted, what is crucial to understand is that a system change could take place, now that more and more stakeholders, including regulators, companies, investors, NGOs and customers, are coming to a consensus on the need to embrace long-term, resilient business models and sustainable investment.

Questions and answers

At the end of the presentation, the audience had the chance to ask Neil questions.

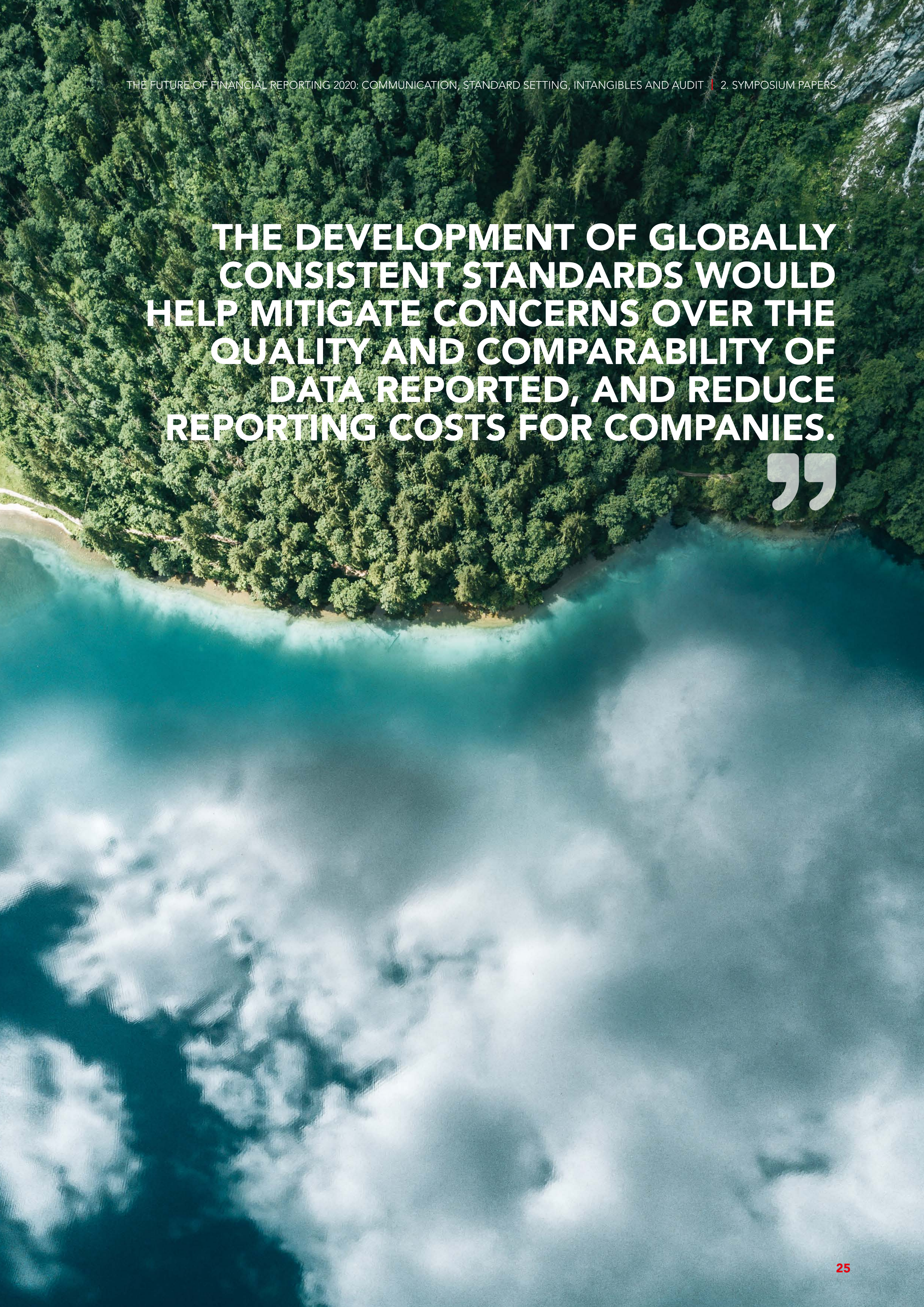
Richard Barker (University of Oxford) wanted to know what Neil sees as the biggest obstacles and the easy parts in the development of an integrated standard-setting approach. Neil said that an easy part is the readiness of stakeholders to move towards an integrated standard-setting model. A harder thing to achieve could be increasing the speed at which multinational organisations can move towards agreeing a solution.

Richard Martin (ACCA) asked Neil if there is any thought about what non-financial reporting standards might actually look like and the degree to which they would relate to financial reporting standards. Neil explained that the Accountancy Europe project has not aimed to go into that much detail. The project recognises the importance of connectivity between financial and non-financial information. Nonetheless, as Neil clarified, the notion of connectivity does not require each single disclosure to have a financial indicator attached to it. For the materiality assessment, this might include an additional perspective of impacts that could become dependencies, either quantitatively or qualitatively, over time.

Thomas Toomse-Smith (Financial Reporting Lab) wondered how issues such as government reporting, private company reporting, and small company reporting fit into the architecture of the integrated standard-setting approach proposed. Neil pointed out that smaller companies could have a very large impact in ESG areas. For example, some companies could be very large polluters, or they could have very high human rights impacts. Neil mentioned that the thinking behind the integrated approach could be applied more broadly than the capital markets model and include other companies with high impacts.

Anne McGeachin (IASB) wanted to know if there is the political will in the EU to kickstart the integrated standard-setting model and to get it going. Neil referred to a paper produced by Patrick de Cambourg, the former chair of Mazars in France, which shows signs that Europe is ready to move ahead, although any move in Europe would be subject to EU legislation. Neil confirmed that there is a clear European interest in more consistent and comparable metrics to underpin policies on sustainable finance.

The Q&A period ended with a follow-up question by *Anne McGeachin (IASB)*, who asked Neil to what extent he thinks the UK would get involved in this discussion, given that it will not be part of the EU. Neil answered that he would hope the UK would be involved because it is a recognised centre of excellence for standard setting, and also has the 'ticking clock' through its commitment to becoming net zero carbon by 2050. The Accountancy Europe project is primarily setting out a vision for a globally connected standard-setting approach. It is trying to stimulate debate and, as Neil said, it would be very interesting to see how various actors respond.



THE DEVELOPMENT OF GLOBALLY CONSISTENT STANDARDS WOULD HELP MITIGATE CONCERNS OVER THE QUALITY AND COMPARABILITY OF DATA REPORTED, AND REDUCE REPORTING COSTS FOR COMPANIES.”

3. Discussion

Summary of speakers' presentations

The five speakers presented a variety of diverse topics and ideas, although with some commonalities. There was a particular focus on non-financial information, presentation and disclosure of corporate information, accounting for intangibles, the future of audit, and integrated reporting. A summary of their respective views is given below, followed by a brief synthesis of the themes.

Richard Barker (University of Oxford)

Richard Barker is a professor of accounting at the University of Oxford. In his presentation, Richard discussed the outcomes of research he had conducted with Professor Robert Eccles on the role and responsibilities of the IFRS Foundation, as a standard setter for non-financial information.

Richard started his discussion by debating the economic problems associated with the demand for, and quality of, non-financial information, focusing, in particular, on issues related to climate change and carbon impact. He outlined how, nowadays, it is crucial for investors to understand how corporations contribute to carbon emissions, and how they are exposed to the economic effects of climate change. Richard highlighted that investors cannot understand this very easily as, despite the substantial growth over the recent years, corporate reporting on climate changes and carbon impacts is still voluntary, incomplete and lacking in consistency. Richard believes that among all the ESG issues, climate change triggered by carbon emissions should be the priority because of the risks that climate change entails for the stability of countries and the economic system. If climate change is not addressed, the world's poorest countries will suffer the most and biodiversity loss will accelerate.

Richard argued that carbon emissions are easy to account for, as they are measurable, monetisable and auditable. Carbon emissions are disciplined by the Greenhouse Gas Protocol, which provides definitions of different scopes of carbon emissions. Scope 1 emissions are the emissions that come directly from sources owned or controlled by the reporting organisation. Scope 2 emissions include those associated with the production of electricity, heat or steam purchased externally by the reporting organisation. Accounting for Scope 1 and 2 emissions is very straightforward. Scope 3 emissions include indirect emissions related to energy consumption (ie all carbon emissions incurred by an entity to produce its product/service). These are more difficult to calculate and to account for, as they require an examination of the supply chains. These are, however, important emissions and need to be reported because even though the reporting organisations are not physically generating them, they are providing products/services that involve such generation.

Richard then moved onto discussing how global standards developed. From a historical perspective, Richard explained that the IFRS developed from a partnership between the EU and the Financial Accounting Standards Board (FASB). This relied upon three key principles: evidence of demand; legal mandate; and technical and practical feasibility. The critical elements in this partnership were one body that had the credibility to develop standards and a second body that had the legal mandate to enforce them. Richard highlighted the need for recognised authorities to create standards and the legal mandate for their development. He suggested that there is the political will within the EU to take a similar approach to standards for carbon reporting.

Richard stressed the importance of focusing on carbon reporting as a starting point for the development of other ESG standards. This is because carbon reporting is, in his view, the least complex ESG issue. According to him, the main difficulties in setting up specific standards are associated with the lack of global or even national reporting standards for ESG reporting. He also outlined that non-financial reporting is challenging owing to the nature of the ESG elements which are difficult to capture and measure.

Richard then discussed the voluntary initiatives developed in ESG reporting, such as the TCFD. He focused in particular on a key recommendation made by TCFD members to companies to report on the resilience of their strategy using different climate-related scenarios that would model their climate change impact. Richard believes this information would be very useful. In practice, he believes that the enforcement and standardisation of this type of disclosure would be very difficult, given the forward-looking and subjective nature of business information.

Richard concluded by discussing the urgency of the development of carbon standards. He believes that the fastest way towards this would be through a partnership between EU and the IFRS Foundation. He thinks that the IFRS Foundation needs to act quickly to develop standards that connect financial and non-financial reporting effectively and that can be applied immediately. Richard emphasised that climate change is material to investors and society and reiterated that carbon reporting should be the priority within ESG reporting. He suggested that the model used for the development of the IFRS standards could be used again to develop ESG standards. But he emphasised that generic ESG standards should not be set up yet, given the vagueness of the definitions of social capital and governance. Finally, Richard endorsed the co-existence of mandatory and voluntary reporting, a combination that leads to an improved quality of reported information.

Jayne Kerr (PricewaterhouseCooper – PwC)

Jayne Kerr, director of audit strategy and public policy at PwC, discussed the future of audit. She highlighted that, recently, the scrutiny of audit activities has intensified, raising questions about the role of the audit profession and on whether there is still competition and choice in the market, whether conflicts of interest may impair auditor independence, and whether current audit quality is still relevant or needs to evolve.

She moved on to explaining the reviews being made in the audit sector and the current three angles of analyses: the market structure, the regulator and the audit product perspectives. The first perspective refers to audit failures and questions whether such failures are due to the audit sector market structure. The second perspective questions whether the audit sector is regulated as it should be. The third perspective questions the quality and effectiveness of audit. Jayne also underlined that the FRC has very recently issued a revised UK Auditing Standard on going concern (ISA (UK) 570), which in her opinion should be taken into account together with the above perspectives by the government and legislators.

She then used the illustration of a CMA market study on the statutory audit services (CMA 2019), aimed at analysing how the audit market is working. The report identified the following key issues: a) too much closeness between the auditors and those who appoint them; b) too much concentration in the market and c) that audit is being performed by firms whose main business is not auditing. The CMA proposed the following solutions to address these issues: 1) a more robust regulatory oversight of the audit committee; 2) mandatory joint audits for FTSE350 companies; 3) mitigation of the effects of distress for Big Four firms; 4) an operational split of Big Four between audit and non-audit; and 5) a five-year review of progress by the regulator.

Jayne then presented the Kingman recommendations (Kingman 2018) on how regulation affects the quality of audit. According to these recommendations, the ARGA should replace the FRC and individual AQR and CRR results should be reported publicly. Jayne believes that Kingman recommendations are a regime close to Sarbanes–Oxley in US, where mistakes are punished with incarceration.

Jayne proceeded with the illustration of the Brydon review of the quality and effectiveness of audit (Brydon 2019), which highlights six main key issues: 1) the necessity that audit purpose be expanded and go beyond the content of financial statements; 2) the corporate audit profession, rather than accountants, should be involved in audit; 3) shareholders should be engaged in corporate reporting and audit process; 4) directors should give their views of the company's immediate future and explain how their decisions are aligned to the public interest 5) companies should disclose how they address main risks and what controls they have in place to prevent and detect fraud; and 6) alternative performance measures used by boards should be audited.

Jayne concluded by giving her view on the future of audit. She believes that changes will occur in the audit career in the immediate future, as more specialised skills will be required in the audit process and new types of auditor might exist (eg cyber auditors). She also believes that changes in technology will enormously affect the profile of auditors, as the arrival of the computer did decades ago.

Andrew Lennard (Financial Reporting Council – FRC)

Andrew spoke as director of research at the FRC about the role of intangibles in the future of corporate reporting. He started by outlining how financial reporting still does not reflect the importance of intangibles and this causes divergence between book and market values. He believes that is necessary to change how businesses deal with intangibles and argued that a common conceptual framework should be developed, built on economic literature on the nature of intangibles.

Andrew illustrated the current standards on intangibles' reporting, IAS 38 and IFRS 3, and highlighted the contrasts between these standards and the current framework, and in particular the definition of assets. He explained that the definition of assets according to the new conceptual framework, where an asset is recognised as a present economic resource controlled by an entity, does not fit many intangibles, such as customer loyalty.

Andrew continued by discussing the possibility of recognising intangibles at cost in the financial statement although this might involve potential differences with tangible assets. When buying tangible assets, companies can easily identify purchase costs, associated expenditures, the economic life of the asset and the associated future benefits. This is, however, not straightforward for intangible assets. Moreover, when calibrating the value of a tangible asset, companies can compare it to a similar asset to reduce subjectivity on the evaluation process. This is problematic for intangible assets, as it is difficult to identify comparable assets that would enable such discretion.

According to Andrew, without radical changes to the conceptual framework, financial statements cannot provide comprehensive information on intangibles. He made some suggestions about what can be done to improve the current situation. He believes that a separate disclosure for intangibles that highlights expenditure on future-oriented intangibles, analysed by nature, can improve the situation. Andrew also believes that net income should be reported before such expenditures and that disclosure should highlight the cumulative amount expected to benefit future periods, and eventual changes in that amount. Andrew also emphasised that intangible reporting should include narrative reporting, particularly for those intangibles that are relevant to the business model and value creation. He suggested that narratives should include metrics, which should be clearly defined, eventually disaggregated, and allow the reader to identify trends and targets easily.

Andrew continued by discussing the results of an FRC discussion paper on intangible assets. He pointed out that many investors agreed on the importance of intangibles and welcomed the efforts exerted in improving intangibles reporting, but expressed concerns about information on intangibles provided outside the financial statements and not being audited. The FRC also emphasised the increasing significance of intangibles in a knowledge-based economy and their relevance to long-term value generation in many businesses. When questioned on the issue of fair value, the majority of the respondents to the FRC study agreed that fair value valuation of intangibles raises difficult problems. These respondents were divided when questioned on future-oriented intangibles: some were strongly in favour, while others were not, owing to the subjectivity involved in the decision on what would constitute 'future benefits'. The majority of respondents supported the proposals for narrative reporting, although providing caveats and reservations. In addition, there was general support for observations on metrics standardised by industry. Most concerns were about the presence of the related costs and the disclosure of commercially sensitive information.

Andrew concluded his presentation by discussing what should be done in the future. He particularly questioned whether current standards should be revised, whether there should be separate reporting of expenditure on future-oriented intangibles and the main challenges in introducing such a requirement. He also considered the roles of mandatory requirements and the question of which other parties should be involved, and what their role would be, in this process.

Anne McGeachin (IASB Technical Staff)

Anne spoke as an IASB technical staff member and discussed the IASB ED that focuses on the statement of profit or loss. She started by discussing the Primary Financial Statements project that has led to this ED, which tries to address feedbacks received from investors about three main areas: comparability of subtotals in the profit and loss; disaggregation of information to support investor analysis; and disclosure of details about management performance measures. Anne discussed in detail each one of these areas.

On the area related to subtotals, Anne outlined that currently the IFRS does not define any subtotals between 'revenue' and 'profit or loss', with companies using subtotals with similar labels but different definitions. To solve this matter, the board proposes requiring subsections within the profit or loss with defined subtotals. This would result in a profit or loss divided into three main categories (operating, investing and financing) and a fourth, minor, category on integral associates and joint ventures. The aim of the financing subsection is facilitation of comparisons of companies' performance before the effects of financing decisions. The aim of the investing subsection is to capture income and expenses from investments that generate returns largely independently of other assets. This subsection includes items such as fair value changes on investment property and financial assets. The operating subsection is a residual one, intended to include income and expenses from main business activities that are not part of the financing or investing activities. Anne also explained the presentation of associates and joint ventures in profit or loss, with companies being asked to classify which of their equity-accounted associates and joint ventures are 'integral', or not, to their main business activities. If integral, results would be presented immediately below the operating sub-total; if non-integral, results would be presented in the investing subsection. Anne then explained how this format can also be applied to financial entities.

Anne then discussed the IASB proposals on disaggregation. First, the IASB proposes changing the requirements for analysing operating expenses. Currently, companies have free choice on how to analyse them: by nature, by function or with a mixed approach. The board is proposing that companies choose the method that provides them with the most useful information. Moreover, since users find that the analysis by nature always has some utility, the board has decided that even if companies decide to use the analysis by function, they will also have to disclose in the notes the analysis by nature. Another aspect of disaggregation that Anne discussed is the disclosure of unusual income and expenses, which is currently not regulated. The board has proposed defining unusual income and expenses as income with limited predictive value and requiring them to be disclosed in a single note in the financial statements, so that they can be easily separated, together with a narrative description of how they arose and why they meet the definition of unusual. Anne also illustrated other proposals in the disaggregation area, concerning the provision of explanations of the role of the primary financial statements compared with the role of the notes.

Anne continued by discussing the current debate on whether management performance measures (MPMs) should be abandoned or encouraged. Users generally find MPMs provide useful information, but are not used in a transparent and disciplined way. Because of this, the IASB has opted to ask companies to be more transparent and to be disciplined in defining MPMs, rather than to stop using them. The board has defined MPMs as measures used in public communications outside the financial statements, which are based on the totals or subtotals in profit and loss. When MPMs are used, companies need to explain how the MPMs are calculated and any change in previous year calculations, if any. They also have to explain why MPMs give useful information about the entity's financial performance and management's view. Also, in the notes, a reconciliation between the MPM used and its most directly comparable subtotal/total in the profit or loss is required, together with the income tax effect and the effect on non-controlling interests.

Anne also briefly talked about the IASB proposals on the statement of cash flows, which aim to use the operating profit as a single starting point for the indirect reconciliation and to remove classification options for interest and dividends. Anne said that one of the main issues is that the proposed definitions of operating, investing and financing profit are not the same as the IAS 7 definitions, which is not ideal. IAS 7 does not, however, focus on profit or loss, while this IASB project tries to extract the most useful information from the profit or loss.

Anne concluded by explaining that the ED will lead to a new IFRS standard that combines the proposed presentation and disclosure requirements with related requirements brought forward from IAS 1 with limited wording changes. She encouraged the audience to provide academic feedback on the ED and encouraged academics to join the IFRS if they are interested in its activities.

Neil Stevenson (Deloitte)

Neil Stevenson is a director at Deloitte specialising in ESG reporting. In his presentation, he discussed the future of non-financial reporting and how it can be encompassed within the standard-setting world.

Neil started by discussing factors indicating the need for connected standard setting; these are mostly associated with ESG issues. Business leaders are now more alarmed about ESG issues than about financial problems. Neil further elaborated on the need to develop connected standards on a series of areas of concern for a wider group of stakeholders, as pointed out by several reports and academic papers. A broader discussion of ESG and connected standard setting is timely and topical.

Building on a study conducted by Clark at al. (2015), Neil set out the benefits of ESG, such as better operational performance, lower risks, better performance of investment strategies that incorporate sustainable development compared with traditional strategies, and active ownership by investors that improve value creation.

He continued by discussing the objectives of connected standard-setting. According to Neil, all stakeholders should be deemed investors, which should give an improved long-term alignment of the needs and expectations of investors and other stakeholders. He also highlighted the presence of circularity of impacts and dependencies in business and because of this it is important that companies report on all the impacts on their performance, as these need to be understood by all users. Neil outlined the importance of what should be companies' ultimate corporate purpose, which is the creation of a positive impact on society and the environment. Although companies are asked to think about their impacts and how they get present value for themselves and for their stakeholders, Neil said that this process entails a slight blurring when it comes to standard setting.

Neil stressed that the development of new independent initiatives, rather than standards, in conjunction with the lack of coalescence around one solution, impedes the provision of capital and sustainable investment information to stakeholders. He then stressed the differences between financial and non-financial reporting. While companies are mandated to disclose financial results, no specific requirements exist for ESG non-financial reporting, which causes data quality problems and lack of comparability. Neil advocated changes that would lead to an increase in transparency and comparability, the connection of financial and non-financial information, the development of a core set of global metrics for non-financial information in mainstream reports, and a conceptual framework for standards. For such changes to be achieved, Neil believes that standard setting needs to meet the key principles of legitimacy, independence, transparency, due process, public accountability and balanced board membership. Neil also noted the importance of assessment criteria for evaluating potential standard-setting approaches.

THERE IS A NEED TO CONSIDER URGENT GLOBAL ISSUES AND HOW STANDARDS CAN BE IMPLEMENTED QUICKLY UNDER APPROPRIATE GOVERNANCE AND STRUCTURE.

Neil then discussed the nine criteria than can be used to evaluate integrated standard-setting models. First, urgency: there is a need to consider urgent global issues and how standards can be implemented quickly under appropriate governance and structure. Second, global versus local solutions: a standard-setting model should be assessed according to whether it can function as a global or local solution. Third, oversight: as ESG matters are deemed issues of high public interest owing to their impact on society, standard-setting models should be evaluated according to whether they allow the alignment of private and public considerations of matters of policy interest. Fourth, the due process of standard setting is considered an essential factor, as it enables credibility and ensures the quality of standards. Fifth, responding to stakeholder interest, an integrated standard-setting model should respond to the needs of a broad range of users. Sixth, we need the development and use of a conceptual framework that connects the conceptual framework for financial reporting and for non-financial information with metrics that provides comparable, transparent and auditable information that meets public interest. Seventh, a materiality lens should be used to capture all the business dependencies and impacts on the long-term value creation of organisations. Lastly, there is a need for a legal mechanism mandating the adoption of standards and the important role of technology. Neil then discussed a wide range of standard-setting approaches and the global, regional, technology-based models that have led to the development of a global vision for the integrated standard-setting approach for the future.

Neil concluded his presentation by illustrating the reasons why global integrated change in standard setting is essential. He focused in particular on climate change, a global risk that needs to be addressed through consistent, high-quality and comparable data, and on the impact that international supply chains and an enlarged customer base increases have over the way companies manage dependencies and impacts within their value chain. He believes that to address these issues, the development of globally consistent standards is more appropriate than regional standards, as this would help mitigate concerns over the quality and comparability of data reported and reduce reporting costs for companies.

Overview

Five main central themes were discussed at the 2020 symposium: accounting regulation for non-financial information; presentation and disclosure of corporate information; accounting for intangibles; the future of the audit; and integrated reporting. An overview of these main themes is given in the following table.

TABLE 3.1: Thematic overview of presentations by theme

THEME	DISCUSSION
Accounting regulation for non-financial information	Issues associated with non-financial information were widely discussed during the symposium. Richard Barker and Neil Stevenson focused their presentation on the need to regulate non-financial reporting and on the future of non-financial reporting. Richard discussed mainly the role and responsibilities of the IFRS Foundation as standard setter for non-financial information. He focused, in particular, on issues related to climate change and carbon impact, as these are the issues that relate to the stability of countries and the economic system. Richard outlined how non-financial reporting is challenging owing to the nature of the ESG elements, which are difficult to capture and measure. Richard believes that carbon reporting is the less complex ESG issue. Emissions are easy to account for, being measurable, monetisable and auditable. Carbon reporting should thus be the starting point for the development of other ESG standards. Richard also highlighted the need for the regulation of ESG reporting and the development of ESG standards, suggesting a partnership between the EU and the IFRS Foundation to develop standards for carbon reporting. Neil discussed the future of non-financial reporting and the need to set connected standard setting associated with ESG issues. He illustrated the benefits of ESG and argued that business leaders are now more alarmed about ESG issues than about financial problems. Despite this, while companies are mandated to disclose financial results, no specific requirements exist for ESG non-financial reporting, which causes data quality problems and lack of comparability. Neil advocated changes that would lead to an increase in transparency and comparability, the connection of financial and non-financial information, the development of a core set of global metrics for non-financial information in mainstream reports and a conceptual framework for standards.
Presentation and disclosure of corporate information	Another theme that was widely covered in the symposium relates to the presentation and disclosure of corporate information. This theme was extensively covered by Anne McGeachin and mentioned also by Andrew Lennard and Richard Barker in their presentations. Anne illustrated the main feedbacks received for the ED on General Presentation and Disclosures and how the IASB intends to address them. The feedback relates to three main areas: lack of comparability of subtotals in the profit and loss; disaggregation of information to support investor analysis; and the disclosure of details about management performance measures. For the first area, the IASB proposes dividing the profit or loss into three main subcategories (operating, investing and financing) and a fourth minor one on integral associates and joint ventures. To address the need for more disaggregated information, the IASB proposes asking companies for more granular information on operating expenses and unusual income. For the last issues on management performance measures disclosure, the IASB proposes a requirement that companies explain how these measures are calculated and why they provide useful information about the entity's financial performance. Andrew also discussed issues of information presentation and disclosure, but in relation to intangible assets. He called for separate disclosure for intangible assets, which should clearly highlight expenditure on 'future-oriented' intangibles and include narrative information, especially for intangibles that are relevant to the business model and value creation, and metrics to allow users to highlight trends and targets easily. Richard discussed the importance of communication and disclosure on non-financial information. In particular, he discussed the TCFD and its recommendation to companies to report on the resilience of their strategy using different climate-related scenarios that model their climate-change impact. This would demonstrate to investors the adaptability of the firm's business model within a particular timescale. Richard emphasised that even though such information would be very useful, the enforcement and standardisation of this type of disclosure is very difficult given the forward-looking and subjective nature of business information.

THEME	DISCUSSION
Accounting for intangibles	The role of intangibles in corporate reporting was the focus of Andrew Lennard's presentation. Andrew outlined the need to change how businesses deal with intangibles and argued that a common conceptual framework built on economic literature on the nature of intangibles is needed. Without radical changes to the conceptual framework, financial statements cannot provide comprehensive information on intangibles. He believes that a separate and more detailed disclosure for intangible assets should be provided. Andrew also discussed the results of an FRC discussion paper on intangible assets, which pointed out that many investors agreed on the importance of intangibles and welcomed the efforts exerted in improving intangibles reporting. These investors, however, expressed concerns on how intangibles information is provided outside the financial statements and that it is not aud ited. Investors support the proposals for narrative reporting, although with caveats and reservations.
Future of the audit profession	The future of audit was at the core of Jayne Kerr's presentation. Jayne explained the main challenges that the audit profession is facing nowadays: increasing scrutiny; lack of competition in the market, lack of auditor independence and concerns about audit quality. She reported possible solutions proposed by the CMA and the Brydon Review, addressing these issues. The CMA calls for a more robust regulatory oversight of the audit committee; mandatory joint audits for FTSE350 companies; mitigation of the effects of distress for Big Four firms; an operational split of the Big Four between audit and non-audit and the introduction of a mandatory five-year review. The Brydon Review highlighted, instead, the necessity that: audit purpose be expanded beyond the content of financial statements; the audit profession rather than accountants be involved in audit; shareholders be involved in corporate reporting and the audit process; directors disclose their views of the company in the immediate future; companies disclose how they address main risks and what controls they have in place to prevent and detect fraud. She highlighted the significant changes that the audit procession will face in the near future, as more specialised skills will be required in the audit process and technology will enormously affect the profile of the auditors.
Integrated Reporting	Integrated reporting and connected standards were the focus of the presentation of Neil Stevenson. Neil explained the need to develop connected standards for a series of areas of concern and the objective of connected standard-setting. Neil discussed the main criteria that should be used when evaluating integrated standard-setting models: urgency; global or local solution; oversight (public versus private sector considerations); due process of standard setting; responding to stakeholder interests; framework and metrics (connectivity between financial and non-financial information); materiality lens; legal embedding; and the role of technology. Neil outlined the reasons why global integrated change in standard setting is essential. Focusing on climate change, he argued that the development of globally consistent standards is more appropriate than regional standards, as the former are better at mitigating concerns over the quality and comparability of data reported and they reduce reporting costs for companies.

4. Conclusions

The January 2020 symposium was held at an exceptional time of political, social and economic changes, with continuing challenges to accounting and financial reporting.

Increasing political tensions around the world have emerged as a consequence of the COVID-19 outbreak. The relationship between the Chinese and the US governments, already precarious since the 2018–19 trade war, have escalated since the virus has spread. The US president, Donald Trump, has blamed China for covering up the real extent of its COVID-19 outbreak. China in response has suggested that the US is the real source of the global pandemic. The COVID-19 outbreak has also uncovered fundamental tensions among the EU countries, which have weakened the feeling of community in the EU. The approval of a recovery plan is taking long negotiations, and, at the time of writing (June 2020), it is still unclear how it will take place. Strong divisions remain between the so-called 'frugal four' (Austria, Denmark, Finland, and Netherlands), whose governments want more money to be distributed as loans, and the countries hit the most by the pandemic, such as Italy and Spain, whose governments are calling for a larger proportion of money to be distributed as grants.

Brexit also remains a controversial issue in 2020. The UK formally left the European Union on 31 January, entering in an 11-month transition period during which it is negotiating the post-Brexit EU-UK relationship. In fact, at the time of writing this (June 2020), after the fourth round of negotiations, no substantial progress has been made. Environmental risks associated with climate change, biodiversity losses and pollution of air, soil and water conti nue to be foremost among the risks faced globally (World Economic Forum 2020). Fossil fuel production and consumption are the main factors in most of these environmental risks, with governments and investors being called to play an active role in encouraging the transition to a carbon-neutral world.

In 2020, before the COVID-2019 outbreak, social inequality had reached unprecedented levels, with more than 70% of the global population living in countries with a growing wealth gap (Department of Economic and Social Affairs 2020). Income inequality has grown within many developed and developing countries. Countries with increases in such inequality are the home of more than two-thirds of the world population. The COVID-19 outbreak has exposed, even more, the existing and persisting inequalities in the modern societies, by having its worst impacts on the lives of people living in deprivation or facing precarious socio-economic circumstances. Racial inequalities have also been on the spotlight in 2020, after the killing of George Floyd at the hands of the police of Minneapolis, in the US. The Black Lives Matter protests started all over the world, with protestors taking to the streets to cry against systemic racism and the brutality of police forces.

The COVID-19 outbreak has also interrupted the moderate but relatively stable economic growth that had characterised the previous decade. The protection measures that countries worldwide have put in place to contain the spread of the pandemic are having a severe impact on economic activities. The COVID-19 crisis has been labelled the worst economic crisis since the 1930s depression and far worse than the 2008 Global Financial Crisis (IMF 2020), with great uncertainty about its future severity and length. According to a report by the OECD (2020), the global economy will not be back to the 2019 levels for at least two years. The report also portrays the UK economy as the economy that will suffer the worst damage, worldwide, from the COVID-19 pandemic, with a slump in GDP of 11.5%, followed by France, 11.4%, Italy, 11.3% and Spain, 11.1%. Unemployment has sharply increased in the first two quarters of 2020, with significant increases still expected by the beginning of 2021.

As for accounting and financial reporting, there have also been some very important changes. The revised conceptual framework, issued in March 2018, has been effective since 1 January 2020, together with the amendments to IAS 1 and IAS 8 aimed at improving consistency in the application of that concept. Important projects have also been carried forward by the IASB, such as the Primary Financial Statement project aimed at improving how information is communicated in financial statements. This was discussed during the 2020 symposium.

There were five main central themes discussed at the 2020 symposium: accounting regulation for non-financial information; presentation and disclosure of corporate information; accounting for intangibles; the future of audit; and integrated reporting. At present these issues present fundamental questions about, and challenges to, the future of financial reporting.

The role of non-financial information has become more prominent in financial reporting in the last decade, being a topic highly debated by both academics, practitioners and regulators. The symposium addressed this topic by discussing the need for regulatory changes and the future of non-financial reporting. The main problems associated with non-financial reporting relate to the nature of the ESG non-financial elements, as they are more difficult to capture and measure than the financial elements. Among the ESG elements, accounting for carbon emissions is considered less problematic, being measurable, monetisable and auditable. These are factors that significantly affect the stability of countries and the economic system. Carbon reporting should thus be considered as a starting point for the development of other ESG standards. The lack of regulation of ESG non-financial reporting disclosure creates data quality problems and lack of comparability, which could be addressed through the development of a conceptual framework and standards aimed at not only increasing transparency and comparability but also creating a connection between financial and non-financial information.

THE ROLE OF NON-FINANCIAL INFORMATION HAS BECOME MORE PROMINENT IN FINANCIAL REPORTING IN THE LAST DECADE, BEING A TOPIC HIGHLY DEBATED BY BOTH ACADEMICS, PRACTITIONERS AND REGULATORS. ”

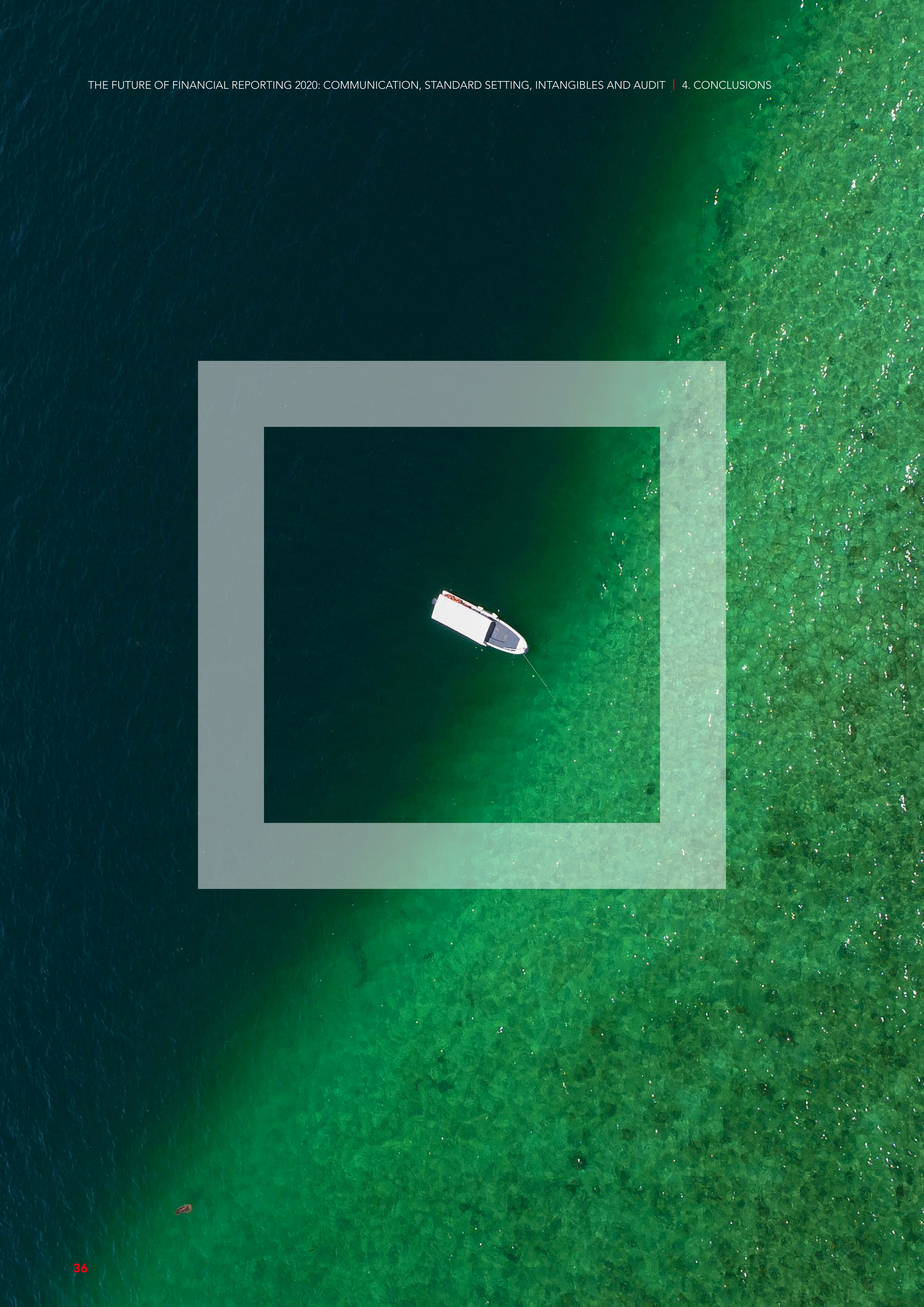
The presentation and disclosure of corporate information represents an increasingly important theme as it allows companies to discharge accountability to their stakeholders. This theme was covered in the symposium with a deep discussion of the Exposure Draft on General Presentation and Disclosures, as part of the Primary Financial Statement, and the IASB's proposals for improving transparency in three main areas: subtotals in the statement of profit or loss' provision of more granular information to support investors' decision-making process; and the disclosure of management-performance measures in a more transparent way. Disclosure issues for intangible assets and non-financial information were also discussed.

Accounting for intangibles was another key topic that has been discussed at the 2020 symposium. The symposium has outlined the need for radical changes in how businesses deal with intangibles. A common conceptual framework built on economic literature on the nature of more detailed disclosures for intangibles has been suggested.

The symposium also discussed the main challenges faced, nowadays, by the audit profession (eg increasing scrutiny; lack of competition in the market; lack of auditor independence; and audit quality) together with possible solutions to address these issues proposed by the CMA and the Brydon Review. The important challenges that the audit career will face in the near future were also discussed, with the need for more specialised skills and the role of technology being considered as the most important.

Lastly, the symposium discussed the important role of integrated reporting and connected standards on corporate reporting. The main criteria that should be used to evaluate integrated standard-setting models were discussed, together with the main reasons why global integrated changes in standard setting are essential.

The symposium discussed issues of key importance in accounting and financial reporting. These are long-lasting issues with no simple short-term solutions. The regulation of non-financial information, the disclosure of corporate information, accounting for intangibles, the future of the audit profession and integrated reporting are long-term issues that are likely to be much debated in the future.



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