The future of financial reporting 2018: Digitalisation and integrated reporting

A discussion paper based on the British Accounting and Finance Association, Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 12 January 2018
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The future of financial reporting 2018:
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About FARSIG

The 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 accounting 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 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.

ACKNOWLEDGEMENTS

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. They would like to thank Christoph Pelger for providing a summary of his presentation, Paul Druckman for providing some notes, and all the authors for checking their proofs. 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.

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

In fact this year’s conference heard more about corporate reporting in general than about financial reporting as such. We have been reminded that corporate reporting, in its broadest sense of the information put out by a company about itself, is only one source of information about businesses, as artificial intelligence and the plethora of sources of views and data expand. It may indeed be one of diminishing importance, if it does not include the information that investors and others want. It seems that reporting needs to concentrate on activity and value creation, providing a view of the company in its wider context.

The other main focus of the discussion was of course technology, because that is a theme at almost every conference. The digital age is delivering new capabilities and more data affecting most aspects of our lives.

There was, however, one contribution purely on financial reporting and that was on the International Financial Reporting Standards (IFRS) Conceptual Framework and how it has actually been used. The Framework has been a matter much discussed by FARSIG, and some sections of the profession, in the past and no doubt this will continue in the future as well.

I am sure that practitioners discussing their current concerns and views are helpful in guiding those responsible for teaching and training to keep them up to date and their knowledge relevant, especially for students starting in accountancy. The current concerns of those in practice can also help to direct research towards the topics that will have the most impact on reporting. In the opposite direction, academic research can provide evidence to support the development and revision of the standards and regulations that govern reporting in practice.

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

I extend my 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 summary of the event.

Richard Martin
Head of Corporate Reporting, ACCA
In 2018, despite an overall global economic recovery that is slowly under way, with the main economic indicators suggesting that the world is finally getting back on track after the 2007–8 global financial crisis, the urgency of addressing systemic challenges has probably intensified, given the proliferation of indications of social, economic, and political uncertainty, instability and fragility (WEF, 2018).

The aim of re-establishing the state as the primary locus of power and legitimacy has become an increasingly attractive strategy for many countries, following a build-up of protectionist commercial pressures and military tensions against a backdrop of rising nationalist and populist politics. These political issues, together with social inequality and the unsustainable use of our planet’s natural resources (WEF 2018) represent some of the main causes (and consequences) of the current economic, social and political scenario.

The European economy is continuing to grow at a moderate rate. Nonetheless, the ‘persistent jobless growth’ (ie the persistence of growth without increased employment), apparently due to the so-called ‘Fourth Industrial Revolution’, has raised new challenges. This is a fear of growing inequality due to the disruptions caused by intensifying patterns of automation and digitalisation (WEF 2018). The limited governmental response to these concerns has continued to raise popular dissatisfaction. This is reflected in a troubling disconnection between the public and the institutions that are expected to govern them. Protests against austerity, migrants from non-EU poor countries and government budget cutbacks have continued. Nationalism has continued to rise and gain political acceptance as a reaction to large-scale migration and security threats (WEF 2018).

Geopolitical uncertainties and tensions in Europe, Asia, and especially the Middle-East and Northern Africa remain and seem to be connected to a lack of long-term-oriented political leadership. Inequality between countries has continued to decrease since the late 1980s’, with some exceptions (eg US, UK and Italy) (WEF 2018).

The natural environment continues to remain threatened. Extreme weather events and temperatures; accelerating biodiversity loss; pollution of air, soil and water; failures of climate-change mitigation and adaptation are among the most pressing environmental challenges facing us as we move towards a low-carbon economy (WEF 2018).

In this scenario, the negotiations between the European Union (EU) and the UK following the UK’s decision to leave the EU (‘Brexit’) have continued to be problematic since the referendum. There has been continuing controversy and debate between the UK and the EU – so much so that it is still unclear, at the time of writing this (November 2018), whether any agreement will be reached.

It was within this problematic social, economic and political scenario that the latest annual FARSIG symposium on the ‘Future of Financial Reporting’ was held at ACCA, London on 12 January 2018. Against a background of continuing social, political and economic uncertainty and problems there have also been continuing developments in areas such as the role of accounting in shaping a more inclusive capitalism, the impact of Big Data and Artificial Intelligence (AI) in corporate reporting, and investment in <IR> and digitalisation for corporate reports.
The principles, concepts and elements that characterise how companies should report their performance are currently being debated. Relatively old questions (What do we mean by ‘value’? What influences the investment decision? What is the role of professional bodies and standard setters in changing reporting?) are still debated, together with relatively new questions: What is the role of Big Data, AI and other new technologies in providing information and trust? How do they influence investors’ decision-making? What will be the impact of the European Single Electronic Format? How does <IR> increase the value relevance of corporate reporting? How can corporate information measure all the dimensions of company’s value? By using all its potential, accounting should (and could) contribute to providing an answer to these critical questions. As a consequence, proper decision-making and stewardship of all the different resources employed in business activities would be enhanced.

The title of the 2018 FARSIG symposium was ‘The Future of Financial Reporting: Digitalisation and Integrated Reporting’, which reflected these current debates and developments. Five speakers provided their views on the major accounting issues and the future challenges and opportunities facing corporate reporting from the perspectives of the accounting standard setters, practitioners from the accounting and auditing professions, and academia.

For 2018, the five speakers, listed in alphabetical order, were:


**Hilary Eastman**, Director, Head of Global Investor Engagement, PwC: ‘Technology’s Future Role in Providing Information and Trust’

**Christoph Pelger**, Professor of Financial Accounting, University of Innsbruck: ‘Conceptual Frameworks in Financial Reporting Standard Setting’


As is the tradition of the conference, each presentation was followed by an informed question and answer session and a lively overall discussion among the many symposium delegates.
Some of the issues raised and discussed were ‘evergreens’ that continue to present academics, standard setters and practitioners with complex challenges, such as the role of the IASB’s Conceptual Framework.

ISSUES RAISED BY THE SYMPOSIUM
Before introducing the presentations, the main issues presented and debated at the symposium are briefly summarised in Table 1.1. This table summarises the key symposium themes since 2008. There was a major examination of some of the basics of accounting (eg the importance of conceptual frameworks in accounting) and its profession (eg the role of professional bodies and standard setters in changing reporting) together with some new frontiers of corporate reporting (eg, <IR>, the role of Big Data and AI, and digital reporting) as well as the role of accounting in shaping capitalism, both during the symposium and in the subsequent audience discussion. Some of the issues raised and discussed were ‘evergreens’ that continue to present academics, standard setters and practitioners with complex challenges, such as the role of the IASB’s Conceptual Framework. In addition, the speakers also gave their perspectives on emerging issues and aspects, such as how Big Data, AI, and digital technologies in general are currently shaping, and will increasing affect, corporate reporting and investment. Some of common themes that emerged during the symposium were discussed in more depth after the commentaries.

Table 1.1 reports a summary of the key issues raised at symposia since 2008. The main issues covered in 2018 were: the role of accounting in shaping a more inclusive capitalism, how technologies (eg Big Data, AI) influence corporate reporting and investment, and digital reporting, as well as the ‘usual suspects’: the Conceptual Framework and Integrated Reporting.

### Table 1.1: Overview of key symposia themes, 2008–18

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<td>The role of accounting in shaping capitalism</td>
<td>The evolution of corporate reporting</td>
<td>The use of information by capital providers</td>
<td>Accounting for goodwill</td>
<td>Conceptual Framework, measurement</td>
<td>Conceptual Framework, recognition and measurement</td>
<td>Asset and liability recognition</td>
<td>Complex financial instruments, asset and liability recognition and measurement</td>
<td>The role and need for global accounting standards</td>
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<td>The role of Big Data and AI in corporate reporting and investment</td>
<td>Corporate reporting vs financial reporting</td>
<td>Conceptual Framework: measurement</td>
<td>Corporate governance</td>
<td>EU Accounting Directive for SMEs</td>
<td>Regulatory Framework, governance and balanced reporting</td>
<td>Measurement, fair value and confidence accounting</td>
<td>Regulatory environment, complexity of financial statements</td>
<td>Understandability and usefulness</td>
<td>The convergence of global standards through IFRS</td>
<td>Income measurement</td>
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<td>Digital reporting</td>
<td>Financial narratives</td>
<td>Transparent corporate reporting</td>
<td>Integrated reporting</td>
<td>UK FRS: tax implications</td>
<td>IFRS adoption and national accounting practices</td>
<td>Regulatory Framework and complexity of financial statements</td>
<td>IFRS adoption and political interface</td>
<td>Political concerns</td>
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<td>Conceptual Framework</td>
<td>Accounting profession</td>
<td>Integrated reporting and the capital markets</td>
<td>Sustainability accounting</td>
<td>The use of information by capital providers</td>
<td>Nature and complexity of crises</td>
<td>Fraud and accounting scandals</td>
<td>Carbon accounting</td>
<td>Sustainability accounting</td>
<td>Corporate governance</td>
<td>Financial communication</td>
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<td>Integrated Reporting</td>
<td>Future of Chinese and Western auditing</td>
<td>The perceived role of the accountant in the society</td>
<td>IASB and politicisation of standard-setting</td>
<td>Compliance with mandatory disclosure requirements</td>
<td>Asset securitisation and the ‘credit crunch’</td>
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Electronic technology is becoming increasingly used in corporate reporting. Its development and implementation are inextricably intertwined with the future of corporate reporting.

Some of the main developments that have occurred in accounting and corporate reporting during the years 2017–18 are discussed below. The harmonisation of the accounting principles and standards issued by different national and international standard setters has been considered of great importance in enhancing the consistency, comparability and, ultimately, the usefulness of companies’ financial statements. ‘International accounting convergence’, ie the process by which the IASB and the US FASB attempted to converge their respective financial reporting standards into one global set, is still very far from being accomplished. The IASB–FASB joint convergence project, which aimed to design a unified comprehensive Conceptual Framework, was prominent until 2012. Since then the project has been stalled. In the meantime, the IASB has continued to examine and discuss various concepts that, by March 2018, were eventually put together in the publication of the new IASB Conceptual Framework.

The IASB’s agenda for 2018 includes several research projects. More specifically, IASB’s research pipeline includes projects on important issues, such as business combinations under common control, dynamic risk management, financial instruments with characteristics of equity, goodwill and impairment, and share-based payment. IASB’s agenda also contains many ‘maintenance’ projects, including amendments to IASs 8, 34, and 37 as well as to IFRSs 3, 8, 9 and 16. Importantly, the IASB has been working on two standard-setting projects: one on the Management Commentary (Exposure draft expected in 2020) and another developing a new accounting model to inform financial statements’ users of a company’s incremental rights and obligations arising from its rate-regulated activities (Discussion paper or Exposure draft expected in 2019).

Electronic technology is becoming increasingly used in corporate reporting. Its development and implementation are inextricably intertwined with the future of corporate reporting. The European Single Electronic Format (ESEF) legislation is a first step, as it requires that the transparency directive version of the corporate annual report (ie the version that the directors sign off) will be the electronic version, not the paper version. The primary official regulatory version of the annual report is, thus, moving from a paper version to an electronic version. In this scenario, technologies such as the blockchain, virtual reality (VR), Big Data, natural language processing and AI point to the need for change. Although no one can predict exactly how things will evolve in the future, corporate reporting is likely to be shaped by the abundance of data currently being generated, and the processing power and data storage capacity available to provide digital information that will help users understand how value is created over the short, medium and long term.

Financial and non-financial (eg environmental, intellectual capital) information is starting to merge with the Management Commentary and move into the overall integrated annual report. The idea is to enhance user relevance and report a company’s unique story of value creation, rather than a fragmented version of it where the story is lost among the details. In practice, there are challenges in developing standards that will prevent companies from selectively choosing the information to disclose. Attention is needed to assure the relevance and reliability of such information, given the existing tension between the increasing pressure on corporate reporting to meet the needs of different stakeholders, and simultaneously, the need to apply the comparability principle.

This evolving scenario in corporate reporting is influencing preparers and users of corporate reports as well as the accountancy and audit professions. Many of these issues were, either directly or indirectly, addressed during the 2018 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.
Is inclusive capitalism a pipe dream?

Paul Druckman: Non-executive Director of the Financial Reporting Council

Paul has been a non-executive director of the Financial Reporting Council (FRC) since January 2017, after having led the International Integrated Reporting Council (IIRC) as CEO for five years. His lively presentation on inclusive capitalism and the future of corporate reporting reflected his commitment to a more democratic capital market reform.

Paul's presentation covered three main topics: the importance of an inclusive capitalism, the new reporting challenges and the role of national and international institutions (eg FRC) in dealing with these challenges, and the role of technology in reporting. During the whole presentation, Paul used exemplary illustrations and quotes to support his observations.

WHY MORE INCLUSIVE CAPITALISM IS IMPORTANT

Paul started the presentation by showing that, globally, we are currently facing inequalities and imbalances whereby a few billionaires own the same wealth as the 3.6 bn poorest people. Corporations need to reconsider the value they create with a greater focus on their multiple stakeholders rather than just investors. Investors have started to achieve a major shift to a long-term rather than a short-term orientation. Paul is in favour of an inclusive capitalism, arguing that capitalism can still represent the best business model but with another shape and function. Inclusive capitalism can be defined as the simultaneous pursuit of profit and social welfare (Ansari et al. 2012). Inclusive capitalism is also supported by various institutions, including the Ford and Rockefeller foundations. They have, together with companies such as the Carnegie Corporation and Citigroup, built a coalition for inclusive capitalism that aims at engaging leaders across business, government and civil society in a movement to make capitalism more equitable, sustainable, and inclusive. Also investors and pension funds, such as the Australian association CBUS (the Construction and Building Unions Superannuation), have started to appreciate this concept and incorporate it within business.

Paul argued that corporations have to seek the trust of all members of society if they wish to grow in the long term. Instead of seeing their responsibility as limited to supporting the share price, they should try to maximise the company's sustainable long-term value, including its shareholder value. To highlight the importance of long-term investments, Paul mentioned this quote by Dominic Barton, global managing director at McKinsey & Co: “Enabling more long-term investment is the single action that would make the biggest difference in achieving a more inclusive capitalism”. Paul stressed the importance of connecting the company’s resources (its financial, human, social, natural, manufactured and intellectual capitals) and stakeholders (eg investors and employees) with its value creation, measured through asset growth.

Paul then showed the importance of considering a corporation not as a black box with limited liabilities but as a living being that plays a role within a certain context. The metaphor of a corporation as a living being was the creation of Mark Goyder, whose book and not-for-profit think tank Living Tomorrow’s Company inspired Paul after the ENRON case (see Goyder 1998). Mark Goyder wrote that, like a human being, the corporation has different organs and relationships.
Corporate reporting refers to the whole set of documents on the social, environmental and economic-financial impact of the business while financial reporting is more limited to financial statements.

Employees are its life-blood, management is the heart that keeps the blood pumping, strategy is the brain and culture is the DNA. Also, leadership and continued entrepreneurial energy are its soul and spirit while governance and accountability are its rhythms and disciplines that keep this living organism fit and lean. Finally, measurement and communication are the central nervous system. Managers are thus required to keep this being alive, focusing on the company’s health rather than shareholders’ wealth. They are asked to be proactive and innovative, changing the status quo that depends on a stock-price-oriented view.

THE ROLE OF PROFESSIONAL BODIES AND STANDARD-SETTERS IN CHANGING REPORTING

In this part of the presentation, Paul focused mainly on his recent experience at the FRC. He is now trying to be more involved in the corporate governance and stewardship codes consultations. FRC has, as a mission, promoting transparency and integrity in business. Sir Win Bischoff, chairman of the FRC, highlighted that ‘Trustworthy information isn’t enough and trustworthy behaviour in a company is equally as important’. This means that actions should reflect what corporations write in their external reports. These actions do not necessarily mean increasing the stock price. In the UK, both the 2006 Companies Act (H.M. Government 2006) and the recent FRC initiatives (eg. The project on Climate and Workforce reporting, announced in September 2018) have stressed the importance of faith and trust in business for the benefit of all members of a corporation. Article 172 of the 2006 UK Companies Act, on the directors’ duties to promote the success of a company, requires directors to pursue a stakeholder approach that preserves the company’s health as a whole (see Companies Act, 2006). Companies are asked to change their reporting as well. Reporting is changing, Paul submitted, owing to drivers at a macro-level such as global warming. Paul highlighted that we need to start thinking about corporate reporting rather than financial reporting. Corporate reporting refers to the whole set of documents on the social, environmental and economic-financial impact of the business while financial reporting is more limited to financial statements. Using an Ernst & Young (EY) figure (EY 2016), Paul mentioned the importance of an accounting shift in the future, to help companies to measure the integration of business resources and stakeholders so as to achieve sustainable development. Reporting has to become wider and Paul criticised some attempts at sustainability reporting that have made sustainability special rather than embedded, thus not linked with the business functions and too narrow in its content. Paul highlighted that excellent financial reporting standards (such as IFRS 17) are needed, together with wider reporting. The IASB is also moving in the right direction with the Management Commentary project, although it is not yet sufficiently conscious of the importance of integrating the different dimensions of business. Non-financial measures (eg on intellectual capital) are also likely to become more significant.

THE ROLE OF TECHNOLOGY IN ACCOUNTING

Technology is likely, Paul argued, to revolutionise reporting. The landscape for corporate information is, indeed, witnessing a sea change, with wide-ranging global digital trends transforming the flows of corporate information. It is not just that technology is enabling new ways of creating, sharing and consuming information, but also that these new ways are interoperating with each other in ways that multiply the magnitude of their impacts. Technology will lead to democratisation, multiplication, transparency and intelligibility of data only if that technology is correctly managed. As far as democratisation is concerned, the traditional model assumes that established and credible news sources create and distribute corporate information. It is not just that technology is enabling new ways of creating, sharing and consuming information, but also that these new ways are interoperating with each other in ways that multiply the magnitude of their impacts. Technology will lead to democratisation, multiplication, transparency and intelligibility of data only if that technology is correctly managed. As far as democratisation is concerned, the traditional model assumes that established and credible news sources create and distribute corporate information. Today, the consumers of information are also just as likely to be creators and sharers, using social media and internet tools. Thus, Paul argued, we have to rethink what information flows are and who controls them, because many are no longer controlled by companies. The credibility and provenance of data are less certain than ever before, but many, many new voices can now be heard.
The diversity of source information has hugely improved our knowledge, but it also challenges the trust we can put in this information. Technology both helps and hinders, in this regard.

Multiplication of data is the result of the major technological trends of the last 10 years, such as Big Data, Cloud, mobile and social media. Each trend plays its own role in the creation, distribution and consumption paradigm, but all are accelerating the shift away from the traditional information model.

We also live in a more transparent society, where we know so much more than ever before about a host of issues, whether this is wage rates in South Asian supply chains, ecosystem diversity loss in central Africa or gender inequality in our corporate pay structures. The diversity of source information has hugely improved our knowledge, but it also challenges the trust we can put in this information. Technology both helps and hinders, in this regard. For instance, a technology such as blockchain offers greater transparency on individual transactions, but widely available data security malware causes us all to hold back on transparency. Paul argued that transparency is not just about annual reports as they contain only a small amount of information.

The intelligibility of data is the key and it is very hard to preserve. Paul claimed that analytics allow us to take disparate, unconnected sources of data and find new insights, new answers but these are not always intelligible. Smart analytics drives the business models of transformational companies such as Google and Facebook, but it is only just beginning to be used in wider contexts.

Two futures, Paul explained, are possible. The first one will use technology just to streamline our world while the second will lead to a deeper transformation, with completely new ways of organising and deconstructing information. Paul provided some examples of the results of a deep transformation. For instance, Harvard online signed up in one year more people than had previously ever attended Harvard in its history. Also, in six years Huffington Post online has achieved more unique visitors than the New York Times in 164 years. Another interesting example is eBay, which handles disputes online without lawyers’ intervention with the eMediation App. eBay has handled, with this App, more civil cases than in the UK civil justice system. Paul also added the example of religious apps that have tools for confession of sins.

Paul highlighted that we have existed in a ‘monocapital’ market system whereby only the core financials have been of any relevance to the markets. Now we are starting to see the move towards more ‘multicapital’ market systems where more resources are taken into account in assessing value. This does not have to be a pipe dream, as Paul illustrated; we can move even further by being inclusive in our capital market system and ensuring more diverse prosperity. Technology will be a key element driving this transformation. As accountants and influential academics and practitioners, we need to make sure that corporate information is clear and diverse enough to measure all the dimensions of company’s value. The last slide of Paul’s presentation linked a single switch with an illuminated stadium. Paul showed that a single person can light a stadium big enough to hold 50,000 people with a single switch, but only if the intricate internal wiring and connections it forges are in place and work harmoniously.

Paul concluded that bringing harmony to a patchwork of interconnected voices and interests was, and continues to be, the biggest challenge.
Sustainability reporting is not yet central and integrated with the company’s strategy and value creation.

QUESTIONS AND ANSWERS

First comment: A scholar in the audience claimed that he was shocked when Paul said that sustainability reporting was too specific and wondered whether there was a better format. There are global organisations that are working to make sustainability reporting more detailed and material.

Paul replied that sustainability reporting was not, per se, the problem but he maintained that sustainability reporting is not yet central and integrated with the company’s strategy and value creation. This is why the <IR> project was introduced.

Yen-Pei Chen (ACCA) asked whether it is time to change the view that shareholders are the primary audience of corporate reporting.

Paul replied that primary does not mean exclusive. Paul would still consider shareholders important but other stakeholders need to be included in a business’s priorities. Paul suggested talking about dedicated stakeholders such as customers and employees and then to choose which are the priorities. Also, Paul argued that the primary audience for annual reports are not necessarily the primary audience across the whole of corporate reporting.

Stuart Cooper (University of Bristol) argued that the concept of wider reporting is interesting but, at an individual company level, it is tough to extend corporate responsibilities to include planet-wide issues and inequalities.

Paul agreed but added that each business has to be sure that it understands the changes in society and the new trends. Also, corporations need to understand whether and to what extent these trends (eg sustainable goals at a country level) affect their business.

Pauline Weetman (University of Edinburgh) asked about the role of the FRC in the future, given the fact that information flows are no longer under the control of the company.

Paul agreed that Pauline’s challenge is very valid.

Rhoda Brown (Loughborough University) asked which institutions would be involved in the process of changing the actual behaviours of the companies and whether these institutions should be at a country or global level.

Paul argued that, first, codes (eg corporate governance) should change. The good thing about the codes, he argued, is that, being soft-law tools, they leave room for the companies to apply them or not.

Neil Stevenson (IIRC) asked Paul whether, practically, country-level institutions such as the FRC could help in achieving inclusive capitalism.

Paul replied that institutions (eg FRC, IIRC, IASB) need to collaborate and share their partners to make rules as comparable as they can between countries.
Technology’s future role in providing information and trust

Hilary Eastman, Director and Head of Global Investor Engagement in PricewaterhouseCoopers (PwC)

Drawing on her experience as director and head of Global Investor Engagement at PwC, Hilary provided insights about the role of technology in corporate reporting. She also outlined the factors that influence investors and analysts’ use of information in making investment decisions.

As Hilary described, ‘alternative data’, a term commonly used for the non-financial information generated about a company, is currently a ‘hot’ topic in her discussions with investors. The proliferation of alternative data through the internet and social media seems to be changing the world quite quickly. This type of information, which is being distributed in ways that no one had ever thought of before, is used by investors to inform their decisions.

Hilary believes that there is a clear focus today on how technology is disrupting company business models. Nevertheless, both the technology and reporting experts seem to neglect the implications of technology for corporate reporting and for the information available to investors and analysts. To date, corporate reporting discussions among experts concern issues that relate primarily to the financial statements and the factors that drive value creation. Unfortunately, these discussions ignore to a large extent the importance of studying the new ways of disseminating, receiving and using information and their consequences for standard setters and regulators.

Hilary has noticed that, unlike technology and reporting experts, investors are very keen to understand the impact of technology on two areas: first, the disruptive power of technology on their investment decisions and second, its ability to improve investment analysis through the use of available data and processing power.

With the aim of investigating the factors that influence the investment decision, Hilary and her peers conducted an online investor survey with 663 respondents, ranging from fund managers and analysts to credit ratings agencies and private equity investors, in 63 countries. This survey has not yet been published.

WHAT INFLUENCES THE INVESTMENT DECISION?

In the 2018 survey (PwC 2018), participants were asked to state the top three factors that influence their decisions today and to indicate the factor that they thought would be most important in five years’ time. The results of the survey suggest that the business model; strategy; management’s credibility; brands and reputation; and operational effectiveness are the five most highly ranked factors. Financial reporting and audit were placed eighth and eleventh respectively while in the last place was the impact on society and the environment.

Looking five years ahead, the business model, the strategy, management’s credibility, brands, and reputation remained the top four factors that are expected to affect investment decisions. Nonetheless, participants ranked research and innovation in fifth place, the ranking currently held by ‘operational effectiveness’. Hilary pointed to this change as a sign of the importance of intangible assets and innovation for companies. The results of the survey indicate that financial reporting will
Corporate reporting should focus on identifying trends over time, comparing companies and also triangulating relationships within the data to understand the story the data is telling.

become less relevant. Moreover, the quality of non-statutory financial information was placed last among the factors that will influence investors’ decisions in the near future. In Hilary’s view, the results of the survey contradicted current discussions about the quality of non-statutory financial information and the reliability of this type of information. Participants’ interest in this factor during decision-making seems to decline to nothing with the passage of time. Hilary also paid attention to the increasing interest in environmental and social matters in the future as a sign of change.

In another PwC global investor survey focusing on corporate reporting and conducted in 2017, Hilary and her colleagues had asked participants to comment on the usefulness of various aspects of reporting (PwC 2017). Although the business model was stated as the number one factor that investors took into account when making an investment decision, it was found that only 43% of investors agreed that companies explain their business model sufficiently. With regard to the second area of importance, the strategy, only 36% of participants considered that companies successfully outline how their strategy, risks and key performance indicators (KPIs) are aligned with their financial results. Hilary noted that only 40% of the participants trusted the reported strategic goals, risks and KPIs of companies. As far as management credibility is concerned, it was found that only 27% of the investors thought that management is sufficiently transparent about the metrics being used internally for managing the business.

Hilary further referred to the difficulties in the collaboration between human beings and machines and the prevailing assumption that AI will eventually replace the former. Hilary wondered how technology should be used by people for making decisions and noted that one of the biggest challenges today is the lack of understanding of technological outputs that assist people in this regard. Nowadays, more and more decisions are made out of automated reports that are the product of compiled data provided by management information systems. One could reasonably expect that annual reports might be created in this way in the future.

THE IMPACT OF TECHNOLOGY ON BUSINESS ASPECTS, INCLUDING CORPORATE REPORTING

The results of the 2017 and 2018 surveys clearly point to the failure of corporate reporting to meet investors’ needs for information to use for decision-making. Hilary suggested that it is time corporate reporting paid more attention to the growing sources and types of data that are being used to inform decisions about investments. Corporate reporting should focus on identifying trends over time, comparing companies and also triangulating relationships within the data to understand the story the data is telling.

Hilary argued that changes in the following three areas have increased the possibilities for using alternative data: the abundance of data currently being generated, the processing power available, and the data storage capacity. Nowadays, from product pricing to partnership and collaborations with other companies, individuals’ decisions, as well as corporate decisions, rely to a large extent on the internet and the power of the data that it disseminates. Because of this, the trustworthiness of data is a crucial matter that needs further investigation. Given the low impact of financial reporting on the one hand, and the increasing relevance of data from various sources on the investment decision-making process on the other hand, it is vital for companies to ensure the relevance, materiality and reliability of the information used.

CONTROL AND TRUST ISSUES

A major consequence of the continuous development of technology for data processing and use, is the challenge organisations face over the control of their story. Hilary argued that this raises questions about the ownership of data and its trustworthiness. As she explained, the information about a company relates to a Big Data world. The basis for a lot of the information that is revealed about a company stems from its management information systems and processes. The company thus generates internally data that is then transferred into the financial reporting systems. This data is then processed to comply with regulatory information in the context of management commentaries, strategic
It is crucial for companies to investigate how information about them is being consumed and used and what kind of conclusions can be drawn from that information.

Reports, risk reporting, and corporate governance. Because of this, Hilary stated that alternative performance measures and sustainability information are starting to merge into the Management Commentary and suggested that attention should be paid to the reliability and relevance of such information.

For Hilary, the most interesting issue is the use of Big Data and the role of distributors of data. She provided several examples to illustrate how the investment world is changing because of technology. Hilary talked about the data science team of an investment firm that used location data to predict whether a company would have profitable results. Focusing on the discrepancy between their predictions and market expectations, the team suggested investment in the particular company that eventually emerged as a profitable choice. As Hilary claimed, the above example successfully points to the issue of ownership of data, as a series of stakeholders ranging from the company, customers, code writers and even mobile phone companies could act as potential owners of data.

In another example, Hilary referred to data scientists who bought weather data to corroborate management’s claims that adverse weather conditions were affecting the performance of the company. Although Hilary found this case of data use fascinating, she argued that this practice calls into question the purpose of the audit and the role of auditors of financial information in the future. Finally, she mentioned the case of a data aggregator that sells data analytics products and, in particular, a natural language processing program algorithm that predicts events that might affect the organisation, such as a potential merger or the possibility of a covenant breach, to investment firms and banks. This data analytics process might include the compiling of information from websites, annual reports, analysts’ presentations and other media, with the aim of identifying patterns of human language and human speech that will demonstrate signs of organisational performance. Hilary argued that this data is not used to predict cash flows or other metrics; rather, it is used to generate knowledge about the fundamentals of the business and the situation that the business is in.

BIG DATA, AI AND INVESTMENT ANALYSIS

The aforementioned examples should urge companies to think about the data available about their business and the relationship between themselves and the third parties using it. It is crucial for companies to investigate how information about them is being consumed and used and what kind of conclusions can be drawn from that information. In this context, PwC published a global report in 2017 on the implications of Big Data use for companies and PwC’s clients as well as the implications for PwC itself and the wider accountancy profession (PwC 2017). As Hilary argued, there are also implications for investors so, in PwC’s latest global investor survey (PwC 2018), participants were asked whether they need or want to have access to information on an ‘as needed’ basis and whether they think they will be able to use large volumes of data effectively, choose the content available in reports, determine the format of the information, and have confidence in that data and the algorithms, and be able to determine delivery channels and use open source data. Participants were also asked when they think these changes are likely to happen.

The results of the survey demonstrated that, today in 2018, many participants are able to determine the delivery channel and format of the information they receive. Fewer participants think the other situations are happening currently, but more expect them to happen within five years. Very few think these situations will never happen and some responded that they do not know when they will happen. Hilary stated that there are plans to publish the results of the 2018 surveys later in the year.

Although no one can predict how things will evolve in the future, there is sufficient evidence to suggest that, currently, companies use data and algorithms to make sense of the fundamentals of the business and make informed decisions about the potential of the business. In her conclusion, Hilary referred to a ‘twin track model’, which depicts the current situation in the corporate reporting landscape. On the one hand, IASB and FRC and others are working towards the
Technological advancements are made every day by investment firms that seek to make both profits and better investment decisions.

Improvement of the current corporate reporting model while, on the other hand, technological advancements are made every day by investment firms that seek to make both profits and better investment decisions. In Hilary’s view, these two different reporting directions will inevitably converge in the future. In this context, Hilary urged accountants, auditors and regulators to pay attention to the impact of technology on their role in corporate reporting.

**QUESTIONS AND ANSWERS**

Hilary’s presentation was followed by questions from the audience.

As a first comment, Mike Jones (University of Bristol) referred to the results of the global investor survey and pointed to the non-existence of financial performance as one of the factors that influence the investment decision today.

Hilary clarified that participants of the survey were specifically asked to state the top three factors that influence their investment decision currently and would be expected to in five years. Participants were given a set of answers to choose from, in which financial performance was implicitly included into the IFRS/US GAAP accounting track record.

Monomita Nandy (Brunel University) argued that there is a big gap between academia and the real world with regard to the analysis of Big Data. Given the results of the global investor survey, where investors seem to believe that algorithms are really important for their decision-making, she asked Hilary to make suggestions about teaching units in universities that will aim at bridging the gap between academia, higher education and practice.

Hilary recommended the design of courses related to programming and coding, which would focus on the understanding of the source of data and of its quality. She also used an example of a one-day class of data science for investment professionals that takes place on a recurring basis in San Francisco to suggest that universities should teach students how to use data visualisation techniques when making investment decisions and, most importantly, how to evaluate the trustworthiness of the data.

Following on from the results of the global investor survey, Richard Slack (Durham University) asked Hilary to comment on the fact that the impact of companies on society, communities and the environment is ranked low in the list of factors that affect investment decisions.

In Hilary’s view, the listing of the environmental factor among the last positions in the survey does not reflect investors’ negligence of companies’ impact on natural resources and society. On the contrary, investors believe that the way companies influence the environment and society is an important factor that they take into account in their decision-making. Nevertheless, as Hilary explained, the survey asked participants to pick three options so inevitably, the business model and the way companies make money were positioned first in the ranking.

Richard noted that the methodology of the survey ensured non-bias on behalf of participants. He implicitly suggested that the low score of the environmental factor is an interesting finding as participants were urged to choose the factors that they cared more about when making an investment decision.

Christoph Pelger (University of Innsbruck) wondered how technology can change investors’ dissatisfaction with the quality of information on business models and the strategy of companies.

Although Hilary expressed the opinion that alternative data cannot sufficiently describe the company’s business model, she explained that significant technological steps are being made towards an improved analysis of qualitative metrics such as corporate purpose information and business models.
Social media are not among the channels companies prefer to use for information distribution.

Kofi Narh-Saam (London Metropolitan University) stated that the control of data and trust of information are important issues nowadays. He asked Hilary to comment on how reliability of information could be ensured, given the expansion of social media, and to indicate whether more regulation was the way forward.

Hilary supported the importance of regulation but from her conversations with companies, social media are not among the channels companies prefer to use for information distribution. As she explained, companies tend not to use social media because of extreme opinions developed by people who primarily look at the negative side and are very critical of companies.

Mike Jones (University of Bristol) asked Hilary to comment on whether accounting information and the work accountants and the accounting research community do, is irrelevant to the investment decision process.

Hilary said that indeed, accounting information seems to be becoming less relevant. Hilary mentioned that the static nature of financial statements in tandem with the availability of other data sources does not make the accounting information the primary source of information for investment decision making.

David Cairns expressed the view that investment decisions could not be made without the existence of financial statements and other accounting information published regularly, which allows investors to have a firm foundation on which they can make their next investment.

Hilary agreed with David and concluded the session by praising the important role of accounting information in corroborating other available information and the fine-tuning data models that analysts and investors use for their decision making.
Conceptual frameworks in financial reporting standard-setting

Christoph Pelger, Professor of Financial Accounting, University of Innsbruck

Christoph Pelger has an outstanding academic experience in financial accounting, with frequently cited publications in international journals. He is now a professor at the Department of Accounting, Auditing and Taxation, Faculty of Business and Management, University of Innsbruck.

Drawing on his research, Christoph provided an outline of the importance of conceptual frameworks in accounting, with a focus on the IASB’s Conceptual Framework. Christoph’s presentation highlighted the changing objectives of the IASB’s Conceptual Framework, its relationship with specific standards, and its research avenues.

Conceptual frameworks are documents of a general nature that typically include the objectives and desirable qualities (also called ‘qualitative characteristics’) of financial reporting as well as core definitions (e.g., assets and liabilities) and principles of recognition, measurement and display (IASB, 2018). These documents first appeared in the 1970s, when the FASB published an official conceptual framework. Compared with the long history of accounting in practice, and with the history of accounting regulation in many jurisdictions, conceptual frameworks are a rather recent development.

Since the 1970s, enormous resources have been spent by standard-setters in multiple countries, as well as at the international level, on developing and revising conceptual frameworks.

The IASB put the project to revise its own conceptual framework as a high-priority item on its agenda during 2004–10 as well as 2012–18. The commitment by standard setters to working on conceptual frameworks can partly be explained by the expectations of their key audiences, who have often articulated the importance they assign to conceptual frameworks, for instance during the agenda consultations of the IASB. From the recent agenda consultations of the IASB, it is clear that constituents (not only academics) are very interested in the content of the new IASB Conceptual Framework.

The presentation, first, addressed the question of what the main objectives of the Conceptual Framework are.

Looking at the introduction to the 2015 IASB ED (IASB 2015), three main purposes of a conceptual framework can be found. A framework, indeed, is supposed to:

a) assist the IASB to develop future standards and review current standards on the basis of consistent concepts
b) assist preparers to develop consistent accounting policies when no standard applies to a particular transaction or event, or when a standard allows a choice of accounting policy; and
c) assist all parties (e.g., auditors, financial statements’ users) to understand and interpret the standards.

The presentation then addressed the question of what research tells us about how conceptual frameworks meet these objectives and what other roles they might play.

1 The final revised IASB Conceptual Framework was published just after Christoph’s presentation, at the end of March 2018.
Specific parts of the framework have repeatedly been used in standard setting, as can already be seen from the fact that definitions and principles from the framework reappear in multiple standards.

Regarding the purpose of assisting the IASB, one can distinguish between the more abstract general parts of the framework (objective and qualitative characteristics) and the more specific parts, including recognition, measurement and display principles. Christoph argued that there is little research addressing the issue of whether and how the abstract parts of the framework are actually used. While some studies have found repeated references to concepts such as relevance or reliability in the accounting standards of the FASB (eg Hudack and McAllister 1994), it is unclear whether there is any systematic use of the objective and the qualitative characteristics in standard-setting decisions. Barth (2014), as a former board member of the IASB, maintains the usefulness of these for standard setting, but other studies question whether the concepts can be meaningfully operationalised for dealing with specific accounting problems (eg Williams and Ravenscroft 2015). Also, the concepts seem to be differently interpreted by different IASB members.

Specific parts of the framework have repeatedly been used in standard setting, as can already be seen from the fact that definitions and principles from the framework reappear in multiple standards. Even so, it is less clear how consistently these have been used by the IASB. For example, the recognition criterion of the probability of future economic benefits specified in the 2010 Conceptual Framework has not been taken up in every standard developed by the IASB that deals with recognition topics (eg not for financial instruments). Another problem is that certain concepts that have been used in individual standards, notably measurement concepts such as ‘fair value’ or ‘value in use’, were not part of the original Conceptual Framework. For instance, the recognition criterion of future economic benefits specified in the 2010 Conceptual Framework has not been taken up in every standard developed by the IASB that deals with recognition topics (eg not for financial instruments). Another problem is that certain concepts that have been used in individual standards, notably measurement concepts such as ‘fair value’ or ‘value in use’, were not part of the original Conceptual Framework. The revision of the IASB framework in 2018 provides an updated version that will heal many of the inconsistencies that have occurred simply because of gaps in its predecessor. Nonetheless, more research is needed to explain, for instance, how standards setters rely on the framework when writing specific standards and when and how references to conceptual terms are employed.

Regarding the purpose of assisting preparers, Nobes and Stadler (2015) analysed references to qualitative characteristics in the financial statements of 323 companies from 10 countries: ie companies that changed their accounting policies. While the authors show that a number of characteristics (eg relevance and comparability) were employed by companies to justify such changes, they do not explore in more depth whether these references had any substance and why companies decided to use certain terms (and not others). Thus, more could be learned about how companies understand and employ terms from the Conceptual Framework in their preparation of financial statements.

Regarding the purpose of assisting all parties to understand IFRS, there is only indirect evidence available, which suggests that arguments with a basis in the Conceptual Framework are frequently used by constituents in IASB consultations (eg Giner and Arce 2012). This lobbying literature assumes a strategic use of these conceptual arguments because constituents expect the IASB to pay more attention to arguments grounded in the Conceptual Framework. Whether this assumption is actually true, however, has not yet been analysed in accounting research and how constituents consider (certain parts of) the Conceptual Framework in forming their opinions on accounting topics is still largely unknown.

Also, the likelihood that the current IASB Conceptual Framework makes financial reporting accessible to outsiders is, Christoph said, still not high, as the framework (ie the Exposure Draft) is too technical.

The Framework does also have other roles from those explicitly outlined by the IASB. First, the mere existence of the Framework provides a private standard setter, such as the IASB, with additional legitimacy, as the IASB can argue that it works on a sound theoretical basis instead of setting standards arbitrarily. Second, the Framework influences how actors in the standard-setting arena think about financial accounting problems, thereby somewhat constraining the space of possible solutions. Along this line, what
Overall, there are research opportunities on the Conceptual Framework of the IASB and how it meets its stated and unstated purposes in preparers’ and users’ day-to-day work.

is specified as an objective or concept of financial reporting in the framework might, over time, also influence how people think about the role of financial reporting, which might affect how financial reporting performs in economies and societies.

Overall, there are research opportunities on the Conceptual Framework of the IASB and how it meets its stated and unstated purposes in preparers’ and users’ day-to-day work. Such research could use multiple approaches, although qualitative studies (e.g., with a detailed analysis of standard setters’ discussions and constituents’ comment letters) seem most promising in bringing to light what roles the framework plays in the world of financial reporting and beyond.

QUESTIONS AND ANSWERS

David Cairns (previous secretary-general of the IASB from 1985 to 1994) stated that the role of the staff is nowadays very important in the IASB, and for the Framework. One interesting research approach would be to investigate whether the staff use the framework to put their ideas to the board, and whether or not the board accepts the papers prepared by the staff on the Framework. Christoph agreed and added that it would important to investigate the relationship between the content of the staff’s papers and the IASB board discussions on the Conceptual Framework.

Omiros Georgiou (University of Manchester) asked what the constituents’ priorities were when asking for a new conceptual framework and whether these priorities have actually been satisfied, as there seems to be an ample disagreement on the new IASB Conceptual Framework. Also, he asked whether the legitimacy argument is still in place or not. Christoph replied by arguing that, although the literature that links legitimacy with the Conceptual Framework seems out-dated, the Conceptual Framework has not lost its purpose of establishing legitimacy. Also, the constituents’ priorities need to be further investigated and linked with the IASB work that has led to the revised Conceptual Framework.

Richard Martin (ACCA) argued that the IASB Framework might have lost some of its importance after the IASB’s endorsement by the European Commission. Even so, it would be extremely difficult to abandon the Framework. Richard agreed with Christoph about the limited improvement of the current Framework compared with the previous one, given the enormous resources and time spent. Richard also explained that the Framework role of establishing legitimacy was more important at the time when the first framework was created, and Christoph agreed.

Pauline Weetman raised the situation whereby accounting policies can be chosen by preparers when no standard applies. She argued that the IASB seems not to like, without its approval, any accounting policy developed by preparers. Christoph replied by outlining that there must be some situations when no standard applies and preparers are asked to find a policy that is in line with the Conceptual Framework.
Corporate reporting trends: enhancing user relevance

Neil Stevenson, Managing Director, Global Implementation, at the International Integrated Reporting Council (IIRC).

Neil discussed corporate reporting trends and how they enhance user relevance. He started by highlighting the IIRC’s vision of aligning corporate behaviour and capital allocation with the goals of financial stability and sustainable development by the integration of reporting. Therefore, Neil underlined how corporate reporting is linked to the value created and suggested alternative ways of improving reporting quality and its connection with value creation.

INTEGRATED REPORTING AND VALUE RELEVANCE

Neil started by addressing the relevance of <IR>, quoting the responsible Investment and Stewardship Report of First State Investments 2017 (First State Investments, 2017), which stated that over the past five years 75% of the funds outperformed the benchmark and one of the factors that contributed to that was the company-wide commitment to responsible investments and the integration of ESG (environmental, social and governance) factors into core business investment decision-making. In addition, Neil also quoted an excerpt from the annual report of Hermes, stating, ‘Our goal is to ensure that the strategic decisions are aligned with long-term holistic returns for savers, that enables us to create value for all stakeholders in the financial system’ (Hermes Investment Management 2016).

Neil then specified that, before talking about value relevance and enhancement, it is probably best to define what we mean by ‘value creation’. Therefore, it would be useful to take a step back and address what do we mean by ‘value’? Whose value? Who benefits from the value created? Who decides the value that has been created? Moreover, Neil highlighted how the development of <IR> is based on key insights. In particular, he emphasised the importance of recognising the different ranges of capitals. Moreover, he noted how reporting is usually fragmented and the story is lost in details. Neil argued that users want to read about value creation over time, and reporting must cover not just financial but also wider matters, since those are relevant for investors. In addition, better reporting can allow institutional investors to have a clearer picture of the company’s intentions in the long term.

VALUE FOR THE ORGANISATION AND THE SOCIETY

Then, Neil highlighted that the ability of an organisation to create value for itself not only enables its financial return to its shareholders, but is also interrelated with the value that the organisation creates for the stakeholders and society. Therefore, when talking about value enhancement, it would be useful to define more precisely what kind of value, for the organisation and/or for society, is being created. Following this path, Neil highlighted how the <IR> framework addresses the disclosure of how key stakeholders’ interests are understood, taken into account and responded to.
To give a practical example, Neil showed how value creation involves every stage of the business and key stakeholders by considering the annual review of Aegon NV. (IIRC 2013). To give a practical example, Neil showed how value creation involves every stage of the business and key stakeholders by considering the annual review of Aegon NV. In particular, he described it as ‘a very classic <IR> presentation of how value is created and how we think about value and what are the drivers of this thinking’. In Aegon NV’s map, Neil argued, value creation is presented in the context of customers, employees, business partners and society in general: it also highlights how these parties are involved not only in the input phase (for example, through the contribution of premiums, deposits and capital), but also in the output phase. It is also important to note the focus on outcomes in relation to the capitals.

Neil also showed a map illustrating part of the widespread network of organisations committed to the adoption of IR. These organisations embrace <IR> and drive innovation in reporting, and are at the forefront of this corporate reporting evolution. <IR> provides a better insight for businesses, investors and the wider economy, helping in the search for better ways of understanding and communicating how value is created over the short, medium and long term. The Integrated Reporting Business Network ensures the market relevance of integrated thinking and the integrated report and is open to businesses across the world that want to progress <IR> in their organisations. Participants have an opportunity to access resources and expertise, network with leading businesses to learn from other’s implementation experience and share insights to help inspire new <IR> adopters. For Neil, the network offers the chance for businesses to explore the opportunities and challenges of adopting <IR> in a variety of ways, such as: networking with peers; sharing experiences and leading practice; accessing crucial investor insights; obtaining analysis and critique of reporting; and gaining important industry-sector and expert perspectives. Neil also pointed out the importance of the Integrated Reporting Examples Database, which shares insights from global reporting practices with other <IR> networks and the IIRC community, highlighting leading examples of integrated reports.

**FIGURE 2.1: Aegon NV Value Chain**

Source: Aegon NV 2016
Investors are now saying that they need more than financial information in order to make informed investment decisions.

ENHANCING VALUE RELEVANCE

Neil identified four value drivers, suggesting that explaining some of these will enhance value relevance. These areas are: investor horizons, wider financial system change, sustainable development, and new business thinking. In particular, for the last of these, Neil quoted ACCA’s report (Greer, 2017), specifying how companies must be smarter in the sense of providing ‘[forms of] more equitable value creation that produce less waste and are more responsive to new demands’ (Greer 2017). Then, in relation to investor horizons, Neil stated that, from a survey made by EY, 92% of investors agree that public company CEOs should set out an explicit strategy each year for long-term value creation and then directly affirm that the company’s board has reviewed it (EY 2016). Then, he highlighted how ESG strategies may improve investment returns against a market benchmark. In particular, by quoting a recent study (Amel-Zadeh and Serafeim 2018), he highlighted how more than half of those interviewed (61.2%) responded that the full integration of ESG into individual stock valuation has had a moderate or significantly positive impact on investment return compared with a market benchmark.

Neil then proposed the necessity of wider financial system change. Investors are now saying that they need more than financial information in order to make informed investment decisions. The famous call of Larry Fink, the CEO of the world’s biggest investor, BlackRock, sets out a vision for tackling short-termism, urging companies to report on their strategy. In his letter, BlackRock’s CEO reiterates that it is the responsibility of the board ‘to review, understand, discuss and challenge a company’s strategy’. Moreover, as Larry Fink says in his letter, ‘one reason for investors’ short-term horizons is that companies have not sufficiently educated them about the ecosystems they are operating in, what their competitive threats are and how technology and other innovations are impacting their businesses’ (BlackRock 2016). In Neil’s opinion, this powerful call for change is a perfect example of what the IIRC is trying to achieve through the global introduction of <IR>. The primary purpose of an integrated report is to improve the quality of information available to providers of financial capital by communicating broader and more relevant information that can assist in effective capital allocation decisions.

Neil then clarified how an integrated report explains how an organisation creates value over time. In particular, value is not created by or within an organisation alone and the relevance of <IR> lies in sustainable development. In particular, Neil highlighted how value is influenced by the external environment, created with and for stakeholders and dependent on various relationships. Neil therefore argued that an integrated report aims to provide insights about: the external environment that affects an organisation; the resources and the relationships used and affected by the organisation (which we refer to as ‘capitals’); and how the organisation interacts with the external environment and the capitals to create value over the short, medium and long term. In particular, Neil pointed out how the external environment, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organisation operates. Then, at the core of the organisation is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (ie products, services, by-products and waste). Therefore, continuous monitoring and analysis of the external environment in the context of the organisation’s mission and vision identifies risks and opportunities relevant to the organisation, its strategy and its business model. Neil argued that the organisation’s strategy determines how it intends to mitigate or manage risks and maximise opportunities. Therefore, Neil submitted that the value creation process is not static and a regular review of each component (and its interactions with other components), with a focus on the organisation’s outlook, leads to revision and refinement to improve all the components.
At this stage it is more beneficial to have a principles-based approach in order to promote innovation rather than mandate <IR>.

Richard Slack (Durham University) questioned the difficulties in developing standards for assurance that would circumvent the supply of only ‘cherry-picked’ information by organisations. Neil answered that assurance is definitely of paramount importance and should be encouraged to enhance the quality of integrated reports. He put this in the context of global adoption: at this stage it is more beneficial to have a principles-based approach in order to promote innovation rather than mandate <IR>.

Stuart Cooper (University of Bristol) asked about the development of the UN’s sustainable development goals (SDGs) for structuring <IR>. Neil responded that the SDGs should be seen in the context of outcomes and their impact on the business model and strategy of the business. Therefore, he argued, the SDGs should not be a mere model with which companies seek alignment, but seen as a system or end state to which organisations can contribute (or that they can change) through their business and strategy.

Michael Jones (University of Bristol) pointed out how literature usually criticised the IIRC for not engaging with preparers. Neil noted that there is extensive engagement with businesses throughout the world. There is a global <IR> Network for preparers, and local networks in a wide number of countries, and further events and roundtables with partners, which are aimed at preparers and other stakeholders.

Monomita Nandy (Brunel University) questioned how organisations in countries with a national framework could implement <IR>. Neil answered that the presence of several frameworks and local requirements created a huge complexity in practice. <IR> can act as an ‘umbrella’ to help organisations make more sense of their reporting, by considering more clearly the value drivers relevant to their business. The <IR> Framework is designed to work in the context of local requirements.

Richard Martin (ACCA) questioned the progress in laws and metrics accepted not only by organisations but also by investors. Neil agreed on the importance of standardised non-financial metrics, pointing out, however, that current progress may not be fast enough.
The future: Moving towards digital reporting

Thomas Toomse-Smith,
Project Director at the Financial Reporting Lab

As project director at the Financial Reporting Lab, Thomas presented a paper focused on the scope and role of the Lab, changes in the annual reporting landscape, the impact of the European Single Electronic Format on corporate reporting, and the future of corporate reporting.

THE SCOPE AND ROLE OF THE LAB

Although it is part of the UK’s FRC, as Thomas explained, the Lab is quite different from the rest of the FRC. The Lab does not set standards or monitor regulations. Rather, it works closely with companies and investors and other stakeholders to investigate important issues in corporate reporting and ways of improving them. Thomas argued that the primary role of the Lab is to engage in dialogue with investors and identify their needs, with the aim of improving the corporate reporting practice. Despite being part of the Financial Reporting Council, Thomas clarified that the Lab is interested in projects related to corporate reporting overall. Since 2013, the Lab has worked on more than 14 projects and covered a wide range of topics in financial, narrative and governance reporting. Thomas cited, as examples, projects related to business models, remuneration, accounting policies, and the impact of technology on the future of corporate reporting.

IS IT TIME TO TEACH AN OLD DOG NEW TRICKS?

Taking into account the role of the annual report and using the example of Prudential plc, which has published its annual report since 1849, Thomas wondered whether it is time for this fundamental reporting concept to change. From his experience at the Lab, Thomas provided a positive answer to his rhetorical question, making clear that it is time for corporate reporting or annual reporting to change. He then highlighted three factors that are driving change in the landscape for reporting.

The first key driver is technology, which continues to develop, creating new opportunities and risks. In this context, Thomas discussed the rise of robots and referred to the involvement of technology in reporting. As he stated, 70% of stock exchange trades worldwide are executed by algorithm whereas 40% of all new hedge funds are using AI for investment decisions. As a result, the needs of investors are changing. Nowadays, companies might understand what shareholders think about their annual report, but it is equally important that they fully understand what an algorithm is picking up from the document. Building on this finding, Thomas used the example of Bloomberg, which has built a prototype 20-screen Bloomberg terminal.
Thomas commented that by 2020, 50% of the workforce will be millennials, which will affect the use of information, expectations about technology, and the information people will receive from technology.

In an Oculus Rift VR headset to support a claim that the establishment of VR in reporting is closer than one might imagine. Thomas argued that as soon as the cost barriers are reduced and VR headsets are provided to investors, VR in corporate reporting will become a fait accompli. As Thomas explained, there are companies that are already experimenting with VR. For example, Exxon has created an app for the VR platform Cardboard, similar to Google's paper-based VR headset, which enables investors who cannot visit sites to see the types of environment in which Exxon works.

The second key driver is users. Thomas emphasised that the way that users consume and analyse corporate information is changing. Drawing on the findings of research conducted by PwC, Thomas commented that by 2020, 50% of the workforce will be millennials, which will affect the use of information, expectations about technology, and the information people will receive from technology. As the findings of another Lab project reveal, young people are not interested in the annual report and the numbers within the document. Rather, they care about the biography of the business and its authenticity. In line with Paul Druckman's presentation, Thomas pointed to the increasing demands from other stakeholders, who are beginning to think about different types of information. Their needs will cause changes in expectations about reporting and communicating with others.

Regulation and, in particular, the return of HTML or European Single Electronic Format (ESEF), is the third key driver that will change corporate reporting practice. Thomas referred to the legislation, which mandates the production of an HTML annual report for all listed companies across Europe. The ESEF is expected to apply to over 7,000 companies by 2020. This piece of legislation will fundamentally remove the primacy of the PDF or paper annual report and replace it with the HTML annual report. Thomas stated that there are significant changes afoot that will be driven by this regulation and companies should start thinking about how they will build the return of HTML into their timetable and how it might change the design of the annual report.

**WHAT WILL BE THE IMPACT OF THE EUROPEAN SINGLE ELECTRONIC FORMAT?**

At its core, the ESEF has two elements: the HTML element, which is the full annual report, and the XBRL element, which from 2020 will provide tagged information on the primary statements. Thomas explained that the XBRL had been introduced in the past but was not immediately implemented. To clarify its importance, Thomas drew upon the establishment of the barcode in products and services and its impact in the retail industry. He then referred to a Lab project that sought to identify what investors, companies, and other stakeholders want from a digitally enabled system of corporate reporting, with the aim of enabling technologies such as XBRL to meet stakeholders' needs.

Thomas classified the needs of stakeholders as corresponding to three key phases of corporate reporting, namely: production, distribution, and consumption. From a production perspective, preparers' needs are primarily grouped into cost efficiency, ease of production, compatibility with other reporting requirements and the ability to produce reports on a timely basis. From the distributional angle, participants in the project require prompt, compliant, and free, accessibility of information. Lastly, from a consumption perspective, the users of the financial information consider the important aspects to be: the context, the period covered, the accounting or other framework, the level of assurance attached to the information, and the usability and credibility of the information.

Thomas stated that the above characteristics are embedded in the current reporting system but they also need to be embedded in a digital future. In December 2017, the Lab published a report that provides a summary of the potential impacts of the use of XBRL in reporting. The report suggests the XBRL is a good technology for the purposes of corporate reporting; it can be cost efficient, engaging, and compliant. Nevertheless, the report revealed that the amount of information covered is not sufficient. XBRL covers the primary statements and, as Thomas pointed out,
The implementation of a series of technological advancements such as the blockchain, VR, Big Data, natural language processing and AI points to the need for change in annual reporting.

primary statements are interesting, but it is the information included in the notes and other parts of corporate reports that stakeholders find most important and interesting. Thomas argued that the report shed light on the challenges of implementing XBRL, which can be overcome through regulatory support, discussion with investors and companies.

WHAT MIGHT THE FUTURE OF REPORTING LOOK LIKE AND HOW WILL IT BE USED?

The continuous development of technology is inextricably intertwined with the future of corporate reporting. The implementation of a series of technological advancements such as the blockchain, VR, Big Data, natural language processing and AI points to the need for change in annual reporting. As Thomas stated, although it is now conceptually fundamental, the current annual report might no longer exist in the future. Thomas talked about the tension caused by the increasing pressure on the annual report to meet the needs of different stakeholders through the communication of the company’s unique story while, simultaneously, applying the comparability principle. He concluded that the aforementioned tension, exacerbated by the development of technology, functions as an important sign demonstrating that the concept is beginning to break apart.

Following on from the example of the US, the future annual report might be a more compliance-focused document, Thomas said. Then, companies might have the option of publishing another document or using other media to tell their own story, describe their business model, explain their impact on society, and present their future strategic focus. The presentation ended with Thomas highlighting the vision for the future of corporate reporting. Thomas submitted that the vision is that corporate information will be easily and freely accessible with structured data that can be analysed in seconds against other similar companies across the world. Finally, it will enable companies to tell their story before others tell it for them, and will allow access for all companies to means of raising capital.

QUESTIONS AND ANSWERS

Mike Jones (University of Bristol) asked Thomas to clarify whether the annual report will die or simply change into an electronic version of the current document.

Thomas replied that the ESEF legislation requires that the transparency directive version of the annual report, ie the version that the directors sign off, will be the electronic version. So, the paper version will no longer be the important one as the electronic version will be the primary, fundamental, official regulatory version of the annual report. On top of that, Thomas added that it would be interesting to see how boards and companies will respond to the change in corporate reporting. Thomas wondered whether companies would continue to create embellished documents or spend money on forms of communication with stakeholders other than the annual report. Thomas said that this change constitutes a pivotal moment in corporate reporting history and concluded that the decisions people will make might be quite different from any current expectations.

David Cairns (previous secretary-general of the IASB from 1985 to 1994) commented that beyond the transformation of the financial information from a PDF format to an electronic format, nothing has really changed in corporate reporting. David further noted that, currently, there are no impediments that would prevent companies from doing what Thomas described as the vision for the future. Thus, he asked Thomas to explain the factors that make this vision new.

Thomas explained that the discussions with companies and boards point to companies’ focus on the paper version of the annual report as the primary regulatory document. With the new regulation, the difference is that companies are no longer restricted to this piece of paper. Companies have to think about the electronic version, which gives them various options for communicating information, which differ from the way they currently do this. Thomas said that companies are constrained by the paper document and the conversations the Lab have had with them over some years demonstrate the lack of innovation in corporate reporting.
The difference between short-term and long-term investors will always exist. Nevertheless, the focus of the Lab and of regulators is on long-term investors.

Pauline Weetman (University of Edinburgh) referred to the wide range of projects that the Lab has been working on. She was interested to know whether the Lab believes that this work has an impact on the education world and the teaching side of accounting.

Thomas stated that there is some indication, although it is usually anecdotal, that the work of the Lab is being used in teaching exercises. He also added that the Lab would be interested in investigating other ways of getting the message through to future generations of accountants or investors. In Thomas’ opinion, these are the people who will make some of the significant changes in the future.

Neil Stevenson (IIRC) praised the work of the Lab, and in particular, the Lab’s work on technology. Having listened to the presentations of Paul Druckman, Hilary Eastman and Thomas, Neil reflected that much of the discussion had revolved around the need for changing the corporate reporting system. Drawing on the vision that companies should tell their story before others tell it for them as described by Thomas, Neil suggested that it might not be in the interests of investors to hear the story before others can tell it. Neil argued that investors might want to have proprietary technology that tells the story that they want to see and that they can take advantage of for their own gains. Neil claimed that the vision for the future reporting could be against long termism and seems to include technological mechanisms that will enable investors and analysts to predict effectively what the company will say and how it will make profits.

Richard Martin (ACCA) referred to active and passive investors and recognised that passive investment has been taking a bigger proportion of funds compared to active ones. Richard noted that investors who claim to be active investors are actually using a lot of passive models in their investments. He asked Thomas to advise whether this trend in the investment market might affect the vision for the future of corporate reporting.

Reflecting on a personal experience with investors in Japan, Thomas replied that because passive investors have to follow the market they might not be interested in the financial data. Nevertheless, Thomas found that passive investors might be interested in other, non-financial information. This information can be collected from sources accessible to these user groups, such as Twitter and websites, but not from the currently very structured annual report. Thomas suggested that regulators give incentives to passive groups of investors by giving them more accessible information in the area that they are interested in, such as non-financial data.
SUMMARY OF SPEAKERS’ PRESENTATIONS

The five speakers presented a variety of diverse themes and ideas, although with some commonalities. A summary of their respective views is given below, followed by a brief synthesis of the themes.

Paul Druckman (Non-executive Director of the FRC)

Paul Druckman spoke as a non-executive director of the FRC. In his presentation, he illustrated the concept of inclusive capitalism and discussed the challenges faced by corporate reporting.

In his presentation, Paul stressed the importance for companies of maximising the company’s sustainable long-term value rather than focusing only on the share value growth. Paul believes that corporations should pursue an inclusive capitalism as it can allow them to obtain the trust of all members of society, which is necessary for achieving long-term growth. Paul argued that a corporation should not be considered as a ‘black box’ with limited liabilities but as a living being that plays a role within a certain context. He sees employees as its life-blood, management as the heart, leadership as its soul, strategy and culture respectively as the brain and DNA. Governance and accountability are its rhythms and disciplines, while measurement and communication are the central nervous system. Paul said that managers are required to make this being work, focusing on the company’s health rather than only on shareholders’ wealth.

Then Paul talked about his recent experience at the FRC, whose mission is to promote transparency and integrity in business. Recent FRC initiatives have stressed the importance of faith and trust in business for the benefit of all members of a corporation. Paul argued that reporting has to become wider, moving from financial reporting to corporate reporting. Excellent financial reporting standards are needed in order to achieve this. Paul criticised some recent attempts at sustainability reporting, which are too narrow in their content and not linked with business functions.

Paul argued that technology is necessary for revolutionising reporting, as shown by the wide-ranging global digital trends that are transforming the flows of corporate information. The traditional information model is becoming obsolete. Social media and internet tools are changing the ways of creating and distributing corporate information, with the consumers of information being able to share corporate information in the same way that the companies do. It is thus necessary to rethink how information flows and who controls this flow, as companies are not necessarily the only controllers. This change creates issues of credibility, and provenance of data is less certain than ever before. Many new voices can now be heard. The major technological trends of the 21st century and the diversity of source information that are now available have made society more transparent, improving our knowledge but also challenging the trust that we can have in this information. Intelligibility of data is the key and very hard to preserve. Paul’s view is that two future avenues of development are possible. The first one will use technology just to streamline our interactions with the world while the second will lead to a deeper transformation, with completely new ways of organising and deconstructing information.

Paul concluded his speech by sharing his hope of moving toward a more inclusive capital market system able to ensure more widespread prosperity and highlighting the important role that accountants, influential academics and practitioners play: ensuring that corporate information is clear and diverse enough to measure all the dimensions of company’s value.
The continuous development of the use of technology for data processing and use can help to improve the quality of corporate reporting, but it also raises questions about the ownership of the data and its trustworthiness.

Hilary Eastman (Director, Head of Global Investor Engagement, PwC)

Hilary Eastman spoke as director and head of global investor engagement at PricewaterhouseCoopers. In her presentation, she discussed the role of technology in corporate reporting and the main factors that influence investors and analysts' investment decision-making.

Hilary started her presentation by illustrating the concept of alternative data and its proliferation through the internet and social media, which are changing the way investors inform their decision-making process. She maintained that the implications of technology for corporate reporting and for the information available for use by investors and analysts have been almost neglected. It is now necessary to study the new ways of delivering, receiving and using information and their consequences for standard setters and regulators. Investors are particularly interested in understanding the impact of technology in two areas: the investment decision process and investment analysis.

Hilary then illustrated the results of two recent surveys that she and her colleagues at PwC have conducted (PwC 2017; 2018). They aimed at investigating the main factors that influence investors’ decision-making and the usefulness of various aspects of reporting for investors. The results of these surveys show that corporate reporting currently fails to meet the informational needs of investors. Investors consider business model, strategy, management’s credibility, brands and reputation and operational effectiveness to be the most important factors to be taken into account in their decision-making process. Nonetheless, they argue that companies do not report and explain these aspects sufficiently clearly and with enough detail. For Hilary, this suggests that corporate reporting should pay more attention to the growing sources and types of data that are being used to inform decisions about investments. Technology is pivotal in this sense, with three main aspects that need to be examined in more depth: the abundance of data currently being generated, the processing power available, and data storage capacity. A deeper understanding of technological outputs to assist people’s decision making is needed, as nowadays decisions are made on the basis of automated reports. The continuous development of the use of technology for data processing and use can help to improve the quality of corporate reporting, but it also raises questions about the ownership of the data and its trustworthiness. Although a company’s management information systems represent the basis for most of the information revealed about the company itself, alternative performance measures and sustainability information are now emanating from different sources, whose reliability and relevance might be questionable. Hilary stressed the importance for companies of investigating how information about them is being consumed and used and what kind of conclusions can be drawn from that data. In this context, Hilary and her colleagues in PwC have published a global report on the implications of Big Data use for companies and the wider accounting profession (PwC 2017). The results of the survey showed that most of the participants were not able to evaluate how much confidence they should place in the data and algorithms used for the analysis. Few participants thought that changes in information use will never happen, while other participants thought that these changes will happen in five years’ time. Very few respondents stated that they have already been able to use large volumes of information, to determine its format, or to choose the content that they get and be confident in the data.

Hilary concluded by outlining that, currently, companies use data and algorithms to make sense of the fundamentals of the business and make informed decisions about the potential of the business. She commented on the fact that the current corporate reporting model developed by IASB and FRC will inevitably converge in the future with the technological advancements that take place every day within companies. She concluded by urging accountants, auditors and regulators to pay attention to the impact of technology on their role in corporate reporting.
Companies need to understand not only what shareholders think about their reports, but also what an algorithm is picking up from them.

Thomas Toomse-Smith (Project Director – Financial Reporting Lab)

Thomas Toomse-Smith is project director at the Financial Reporting Lab. In his presentation, Thomas illustrated the scope and role of the Lab, the changes in the annual reporting landscape and the future of corporate reporting.

The Financial Reporting Lab is part of the UK’s Financial Reporting Council, whose primary role is to engage in dialogue with investors with the aim of identifying their needs and improving overall corporate reporting practices, not only financial ones. Corporate reporting is changing and Thomas submitted that three main factors are driving this change.

The first driver is technology, which is creating new risks and opportunities. Most stock exchange trades are now executed by algorithm and an increasing proportion of new hedge funds are using AI for investment decisions. Companies need to understand not only what shareholders think about their reports, but also what an algorithm is picking up from them. Thomas thinks that corporate reporting will be also influenced by the perceptions that investors and companies have about what constitute the important technologies for corporate reporting. In this sense, companies claimed that video would be the most important technology, for investors virtual augmented reality was the most important one. Building on this finding, Thomas cited several companies that are already investing on VR prototypes, such as Exxon, which has created an App for Cardboard that enables investors who cannot visit sites to see the types of environment in which Exxon works. Thomas argued that VR will become commonplace in corporate reporting as soon as the cost barriers are reduced.

The second key driver is users. This is because users are now changing the way they consume and analyse corporate information. Thomas suggested that soon people will no longer be interested in the annual report and the numbers within it, but will focus on the biography of the business and its authenticity. He pointed out that there is an increasing demand from other stakeholders for different types of information.

Thomas suggested that regulation is the third key driver that will change corporate reporting practice. In particular, Thomas referred to the ESEF legislation, which mandates the production of an HTML annual report for all listed companies across Europe and introduces the XBRL element, which will provide tagged information on the primary statements. Companies need to start evaluating how the use of HTML will affect the design of their annual report. Thomas outlined the importance of identifying what companies and their stakeholders want from a digitally enabled system of corporate reporting, in order to enable technologies to meet this need. Thomas then discussed a report published by the Lab that provides a summary of the potential impacts of the use of XBRL on reporting. The report suggests that XBRL is a good technology for the purposes of corporate reporting, as it can be cost efficient, engaging, and compliant. Nonetheless, XBRL does not cover a sufficient amount of information. This is because it focuses mainly on the primary statements, while notes and other parts of corporate reports, which include the information that stakeholders find most important and interesting, are not covered.

In the last part of his presentation Thomas discussed the future of corporate reporting and how it is inextricably linked with the continuous development of technology. On his view, the current annual report might no longer exist in the future, because of the development of technology and the tension between the need to satisfy different stakeholders through the communication of the company’s unique story, and the simultaneous application of the comparability principle. Thomas concluded his presentation by sharing his vision of the future of corporate reporting, which he argues will be easily and freely accessible with structured data that can be quickly analysed and that will enable companies to tell their story before others tell it for them, and will allow access for all companies to the means of raising capital.
Christoph highlighted the need for more studies investigating how companies understand and employ terms from conceptual frameworks in their preparation of financial statements.

**Christoph Pelger (Professor of Financial Accounting, University of Innsbruck)**

Christoph Pelger is professor of financial accounting at the University of Innsbruck. Drawing on his research, he explained the importance of conceptual frameworks in accounting.

Christoph started his presentation by illustrating the role of conceptual frameworks in financial reporting and their historical developments. He focused on the IASB’s project of revising its conceptual framework, and explained the standard setters’ commitment to working on conceptual frameworks because of the importance assigned to these by their key audiences. He then explained the main objectives of the IASB’s Conceptual Framework, which is supposed to:

1) assist the IASB to develop future standards and review current standards;

2) assist preparers to develop consistent accounting policies when no standard applies to a particular transaction or event, or when a standard allows a choice of accounting policy; and

3) assist all parties to understand and interpret the standards.

Christoph moved on by illustrating the academic studies that have investigated how conceptual frameworks meet these objectives and the other roles that conceptual frameworks might play.

He started his explanation by focusing on the first purpose of the IASB conceptual framework. He highlighted that not many studies have investigated how the more general parts of the IASB’s Framework (objectives and qualitative characteristics) have been used to assist the IASB to develop or review standards. The few studies in this area have questioned mainly whether these concepts can be meaningfully operationalised for dealing with specific accounting problems. The more specific parts of the framework, which include recognition, measurement and display principles, have been used repeatedly in standard setting, but not consistently. For Christoph, a main problem related to the specific parts of the Framework is that certain concepts that have been used in individual standards, such as fair value or value in use, were not part of the Conceptual Framework. He suggested that more research is needed to investigate how standards setters rely on the framework when writing specific standards and when and how references to conceptual terms are employed.

Christoph then discussed the studies on the second and third purposes of the Conceptual Framework. Studies on how the Framework assists preparers to develop accounting policies have shown that qualitative characteristics, such as relevance and comparability, have been employed by companies to justify changes in accounting policies. Christoph highlighted the need for more studies investigating how companies understand and employ terms from conceptual frameworks in their preparation of financial statements. Regarding the purpose of assisting all parties to understand IFRS, Christoph commented that only indirect evidence is available, which suggests that arguments with a basis in its Conceptual Framework are frequently used by constituents in IASB consultations. Christoph argued that more studies are needed to evaluate how constituents use the framework in forming their opinions on accounting topics.

In relation to the additional roles of a framework, Christoph outlined how a Conceptual Framework provides a private standard setter with additional legitimacy and influences how actors in the standard-setting arena think about financial accounting problems.

Christoph concluded by outlining the research opportunities that exist with respect to a Conceptual Framework. In particular, he views qualitative studies to be the most promising in shedding light on the roles that a Framework plays in the world of financial reporting and beyond.
Integrated reports are used to explain how ‘value relevance’ appears to stakeholders and society in general, highlighting how they are involved both in the input and in the output phases.

Neil Stevenson (Managing Director, Global Implementation, IIRC)

Neil Stevenson spoke as managing director of the IIRC. His presentation focused on corporate reporting trends and how they enhance user relevance.

Neil started his presentation by underlining how corporate reporting is linked with value creation and suggested alternative ways of improving reporting quality and its connection with value creation. He emphasised that the ability of an organisation to create value not only enables it to provide capital returns to its shareholders, but is also interrelated with the value that the organisation creates for the stakeholder and the society. For this reason it is important to define more precisely what kind of value organisations create for themselves and/or for the society. Neil then highlighted how the <IR> framework addresses disclosure of how key stakeholders’ interests are understood, taken into account and responded to. Neil argued that value creation involves every stage of the business and several stakeholders. Integrated reports are used to explain how ‘value relevance’ appears to stakeholders and society in general, highlighting how they are involved both in the input and in the output phases. Neil claimed that <IR> is delivering better insights for businesses, investors and the wider economy, and helping participants to find better ways of understanding and communicating how value is created over the short, medium and long term. The Integrated Reporting Business Network offers the chance for businesses to explore the opportunities and challenges of adopting <IR> in a variety of ways, such as: networking with peers; gaining important industry sector and expert perspectives; and accessing crucial investor insights.

Neil then discussed four areas of value drivers (investor horizons, wider financial system change, sustainable development, and new business thinking), which he argued will help organisations enhance value relevance. In relation to investor horizons, he underlined the fact that investors agree that public company CEOs should lay out an explicit strategy each year for long-term value creation and directly affirm that the company’s board has reviewed it. Neil then argued the necessity for wider financial system change, since investors are now saying that they need more than financial information in order to make informed investment decisions. In Neil’s opinion, this call for change is a perfect example of what the IIRC is trying to achieve through the global introduction of <IR>. The primary purpose of an integrated report is to improve the quality of information available to providers of financial capital by communicating broader and more relevant information that can assist in effective capital allocation decisions.

Neil concluded his presentation by emphasising that value is influenced by the external environment, created through relationships with stakeholders, and depends on various relationships. He argued that an integrated report should aim at providing insights about the external environment that affects an organisation, the resources and the relationships used by the organisation, how the organisation interacts with the external environment and the capitals used to create value over the short, medium and long term. The external environment sets the context within which the organisation operates. Therefore, continuous monitoring and analysis of the external environment in the context of the organisation’s mission and vision allows organisations to identify more accurately the risks and opportunities relevant to the organisation, its strategy and its business model.

OVERVIEW

Seven main central themes were discussed at the 2018 symposium: the role of accounting in shaping capitalism; the role of Big Data and AI in corporate reporting and investment; digital reporting; the importance of conceptual frameworks in accounting and integrated reporting. An overview of these main themes is reported in the following table.
TABLE 3.1: Thematic overview of presentations by theme

<table>
<thead>
<tr>
<th>THEME</th>
<th>DISCUSSION</th>
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</thead>
<tbody>
<tr>
<td>The role of accounting in shaping capitalism</td>
<td>Accounting has played an important role in shaping capitalism as we know it today. This role was addressed by Paul Druckman, when he discussed the concept of inclusive capitalism and the challenges faced by corporate reporting. A more inclusive capital market system able to ensure more diverse prosperity is necessary in modern society. Accounting plays a central role in this sense. Accounting has to ensure that corporate information is clear and diverse enough to measure all the dimensions of a company’s value. Corporate reporting has to become wider, with non-financial reporting embedded into financial reporting. Financial reporting standards and IASB initiatives aimed at pursuing a more inclusive capital system are pivotal in this sense.</td>
</tr>
<tr>
<td>The role of Big Data and AI on Corporate reporting and investment decisions</td>
<td>Technologies are becoming increasingly used in corporate reporting and are changing the way investors inform their decision-making process. Their development and implementation are inseparably intertwined with the future of corporate reporting. Paul Druckman, in his presentation, outlined the central role played by technology in revolutionising corporate reporting. He discussed how social media and internet tools are changing the way of creating and distributing corporate information, with the consumers of information being able to share corporate information in the same way as companies. These technological developments have made society more transparent and allowed many new voices to be heard. In consequence, issues of credibility of data have emerged. Hilary Eastman highlighted the need to pay more attention to the growing sources and types of data that are being used to inform investment decisions. A deeper understanding of technological outputs to assist people’s decision making is needed. A continuous development of the use of technology for data processing and use can be useful for improving the quality of corporate reporting, even if it raises questions about the ownership of the data and its trustworthiness. Thomas Toomse-Smith considers technology to be one of the main factors that is driving corporate reporting’s changes. Investment decisions are now based on the use of algorithms and AI, changing the way in which companies should report information. Thomas also discussed the European Single Electronic Format legislation, which will cause a shift from paper versions to electronic versions as the primary official regulatory version of the annual report. In this scenario, technologies such as VR, Big Data, natural language processing and AI point to the need for change.</td>
</tr>
<tr>
<td>Digital reporting</td>
<td>Digital reporting has been considered by many to be the future of corporate reporting. Nonetheless, corporates still rely heavily on paper and Excel or Word documents in the reporting process. In his presentation, Paul Druckman highlighted how the wide-ranging global digital trends that characterise this era are transforming the flows of corporate information. He discussed how technology enables new ways of creating, sharing and consuming information, accelerating the shift away from the traditional information model. Digital reporting was discussed in details by Thomas Toomse-Smith, who discussed the European Single Electronic Format legislation, which will make the digital report the primary official regulatory version of the annual report. According to the new legislation, all annual financial reports shall be prepared using the HTML format. Financial reports containing IFRS consolidated financial statements shall be labelled with XBRL tags, embedded in the HTML. In explaining the new legislation, Thomas highlighted the importance for companies of evaluating how the use of digital reporting will affect the design of corporate reports. He explained the needs of investors, companies, and other stakeholders in relation to digital reporting and how technologies such as XBRL should be used to satisfy these needs. Thomas also discussed the potential impacts of the use of XBRL in reporting for companies and investors.</td>
</tr>
<tr>
<td>The importance of conceptual frameworks in accounting</td>
<td>In March 2018 the IASB issued the revised Conceptual Framework for Financial Reporting, replacing the previous version issued in January 2010. Christoph Pelger discussed the role of conceptual frameworks in financial reporting and their historical developments. Christoph, in particular, drew on the main academic studies that have investigated how conceptual frameworks meet their main objectives and the other roles that they might play. Christoph outlined the research opportunities that exist with respect to the IASB’s Conceptual Framework. He argued that more research is needed to explain how standards setters rely on the framework when writing specific standards, and when and how references to conceptual terms are employed, and to evaluate how constituents use the framework in forming their opinions on accounting topics. Christoph see opportunities for studies using different approaches. He also viewed qualitative studies as more promising in shedding light on the roles that the framework plays in the world of financial reporting and beyond.</td>
</tr>
<tr>
<td>Integrated Reporting</td>
<td>Integrated Reporting &lt;IR&gt; has been increasingly considered to be the future of corporate reporting as it is perceived to be an ideal tool for exploring the issues of value creation. Neil Stevenson, in his presentation, highlighted how &lt;IR&gt; can improve reporting quality, and its connection with value creation. Value creation involves every stage of the business and its stakeholders. Integrated reports are used to explain how value relevance is seen by stakeholders and society in general, highlighting how they are involved both in the input and output phases. Neil argued that &lt;IR&gt; is delivering better insight for businesses, investors and the wider economy helping them to find better ways of understanding and communicating how value is created over the short, medium and long term. &lt;IR&gt; improves the quality of information available to providers of financial capital by communicating broader and more relevant information that can assist in effective capital allocation decisions.</td>
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### Value creation

The concept of value creation was also covered during the symposium. Neil Stevenson presented a value-creation model that shows how the value-creation process of organisations not only enables them to obtain financial returns for themselves, but also supports the creation of value for the stakeholder and the society. Neil maintained that value creation involves every stage of the business and several stakeholders. He also discussed value creation in relation to <IR>, showing how <IR> reports can be used to explain how the value creation process appears to stakeholders and society. Value creation was also discussed by Paul Druckman who, in his presentation, highlighted the need for corporations to reconsider the concept of value creation, by moving from shareholder value to multiple stakeholders’ value creation. In his view, inclusive capitalism will help companies to pursue value creation for multiple stakeholders. Companies should not see their responsibility as limited to supporting stock price: they should try to maximise the company’s sustainable long-term value, including the shareholder value.

### Users of accounting information

The role played by the users of accounting information in corporate reporting was another widely discussed topic at the 2018 symposium. Neil Stevenson outlined the importance for companies of providing users with timely and frequent information about an organisation’s value creation, as this will allow them to take better decisions. Thomas Toomse-Smith considered the users of accounting information to be one of the key factors driving changes in corporate reporting. Users now consume and analyse corporate information differently from the past. This creates the need for changing the channels and formats used for transferring corporate information. Users, and in particular stakeholders, are also increasing their demands for different types of information in corporate reports, and in this way are affecting the content of these reports. Christoph Pelger discussed how the IASB Conceptual Framework assists the users of accounting information in understanding and interpreting the standards. He concluded by outlining the research opportunities in this area, as it is still unclear how the IASB’s Conceptual Framework meets its stated and unstated purposes in preparers and users’ day-to-day work.
4. Conclusion

The January 2018 symposium was held at another interesting time of economic, political and social change, with continuing challenges to accounting and financial reporting.

From an economic perspective, there were indicators suggesting that the world’s economies have finally recovered from the 2007–8 global financial crisis, with the European economy continuing to grow at a moderate rate (OECD 2018). The current economic environment is, however, characterised by important challenges, mainly represented by the fears of growing inequalities caused by intensifying patterns of automation and digitalisation, and the pressing environmental pressures that we are facing as we move towards a low-carbon economy (WEF 2018). The increasing income inequality within modern societies and the persistent jobless growth represent the most important social issues of this time (Alvaredo et al. 2018; IMF 2017). The limited political attempts made to address these issues have led to an intensification of popular dissatisfaction and to an increasing disconnection between the public and the institutions that are expected to govern them. From a political perspective, terrorism and geo-strategic tensions associated to the lack of long-term-oriented political leadership remain among the main concerns. Within the European Union the key political challenge of this time is still represented by the process of the UK’s departure. The UK–EU negotiations have been problematic, creating uncertainty about the future relationship between the UK and the EU: uncertainty that could persist for longer than originally anticipated. As for accounting and financial reporting, there have been some important changes. For several years, the IASB has been working on the revised version of its Conceptual Framework, which was finally published in March 2018. Several other research projects have been undertaken by the IASB in 2018. Among these, the most important included two standard-setting projects: the Management Commentary Practice Statement and the Rate-regulated Activities project. Important changes in financial reporting are also resulting from the ESEF legislation which, starting from 2020, mandates all issuers to prepare their annual financial reports by using the ESEF.

There were seven main central themes discussed at the 2018 symposium: the role of accounting in shaping capitalism; the role of Big Data and AI in corporate reporting and investment; digital reporting; the importance of conceptual frameworks in accounting; IR; the value-creation process; and the users of accounting information. At present these issues remain fundamental questions and challenges to the future of financial reporting.

The importance of pursuing a model of inclusive capitalism, more conducive to human well-being, has increasingly been considered as the best solution to societal and political discontent (Carney 2014; Neely et al. 2016). Accounting has been considered a central factor in shaping the concept of capitalism over time and it can be a key factor in helping society to move toward an inclusive capitalism. Accounting can help companies in measuring the integration of business resources, and driving stakeholders towards sustainable competitive advantages, by ensuring that corporate information is clear and diverse enough to reflect all the dimensions of company’s value.

The roles played by technologies, such as Big Data and AI, are becoming an increasingly debated topic in corporate reporting (ICAEW 2017), and were also widely covered at the 2018 symposium. Technologies are revolutionising corporate reporting in different ways. Social media are changing the way of creating and distributing corporate information, with the consumers of information being able to share corporate information in the same way as companies and contributing to making society more transparent. Investment decisions are ever more frequently based
Users are increasingly urging companies to disclose more, and different, types of information on corporate reports, and in this way they are affecting the content of corporate reports.

on the use of algorithms and AI, changing the way in which companies should report information. A continuous development of the use of technology for data processing and use is now necessary for improving the quality of corporate reporting. In this scenario, technologies such as VR, Big Data, natural language processing and AI point to the need for change in corporate reporting. Digital reporting represents a recent trend that shows how technologies are influencing accounting and corporate reporting. Soon, all annual financial reports will be prepared using the HTML format, replacing the PDF version of annual reports, following the new ESEF legislation. The switch to digital reporting will change how companies design their corporate reports and create new needs for investors, companies and other stakeholders that will have to be satisfied.

The revision of the IASB’s Conceptual Framework has represented a much-debated topic in the years leading up to its publication. The symposium addressed this topic by discussing the role played by conceptual frameworks in financial reporting. Conceptual frameworks are supposed to assist the standard setters in developing future standards and reviewing the current ones. They should also assist preparers in developing consistent accounting policies when no standard applies or when a standard allows different accounting policies. They should also assist all parties to understand and interpret the standards. Nonetheless, the symposium has shown the lack of a general understanding about how these objectives are met and how conceptual frameworks influence corporate reporting. This provides new opportunities for future accounting research.

The symposium also discussed the roles of Integrated Reporting, <IR>, in improving reporting quality and its connection with value creation. Integrated reports provide businesses, investors and the wider economy with broader and more relevant information that can assist them in more effective capital allocation decisions. This can improve their understanding and communication of how value is created and the role played by corporate stakeholders and society in the value creation process.

The concept of value creation is changing over time, moving from the concept of value creation only for shareholders to a wider concept that includes other stakeholders and society. The symposium has addressed this topic, highlighting how inclusive capitalism could help companies to pursue a multiple stakeholder model of value creation. Organisations should follow a value-creation model that enables them to obtain financial returns for themselves while also supporting the creation of value for other stakeholders. They should not focus only on shareholder value creation, seeing their responsibility limited to supporting the stock price, but instead pursue the creation of sustainable long-term value, including the shareholder value.

Finally, the symposium discussed the role that the users of accounting information play in shaping corporate reporting. Users’ needs are affecting the way corporate reports are prepared and communicated. Users are increasingly urging companies to disclose more, and different, types of information on corporate reports, and in this way they are affecting the content of corporate reports. Users are also shaping the channels and formats used for transferring corporate information as a consequence of the changes in the way they consume and analyse information.

The symposium discussed issues of key importance in financial reporting. These are long-lasting problems that do not have simple short-term solutions. The evolution of capitalism and how accounting can shape it, the impact made by technologies in corporate reporting, the diffusion of digital technologies and <IR>, and the role of the conceptual framework in financial reporting are all long-term issues that will be continue to be debated in future years.

References

2 At the time of printing this paper, the URL link is no longer associated with a PDF file.