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Mr Tony Manwaring
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Dear Mr Manwaring

Tomorrow's Corporate Reporting

ICAEW welcomes the opportunity to submit evidence to the Tomorrow's Company project on Tomorrow's Corporate Reporting.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance, which has over 775,000 members worldwide.

Our responses to the eight questions posed in the Tomorrow's Corporate Reporting call for evidence are to a large extent based on our report, *Developments in New Reporting Models*, published in 2009, of which we attach a copy. This builds on the work in our earlier report, *New Reporting Models for Business* (2003).

What are the weaknesses and strengths in the current system?

There is a statement at the start of the call for evidence that 'Corporate reporting is no longer working'. We do not believe that this claim is supported by the facts.

No doubt corporate reporting constantly needs to change to respond to changing circumstances, and no single approach to corporate reporting will be able to meet all the different needs of diverse groups of users. So it could be said that corporate reporting never has been perfect, is not now, and never will be. But the premise for Tomorrow's Corporate Reporting seems to be that the position at the moment is particularly bad – in a way that was not true, presumably, in the past. We do not see that this is the case. On the contrary, corporate reporting gives users more information, and major companies are more open now than at any time in the past. This seems to us to be progress, rather than a failure.

This state of affairs reflects a combination of market and non-market forces that contribute to the strength of the current system. While we often disagree with governments, regulators and standard setters on particular issues, we believe that in general the regulatory framework for corporate reporting

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is more effective at present than in the past. At the same time, the incentives for company managements and third parties (such as investment analysts) to provide information for investors are stronger than in the past. This in turn reflects growth in the volume and value of global capital markets, the growing number of sophisticated users, and falling costs of information production, transmission and analysis.

Some people do indeed portray this growth in information as a defect and say that it has become impossible to see the wood for the trees. While we accept that companies' communication of corporate reporting information could often be improved, we do not regard the growth in the total information available as a problem per se. Those who only want summary information are always free to restrict their reading to this. They are not obliged, for example, to read the full annual report if they find it unhelpful to do so, let alone all the other information that companies disclose. Indeed, the idea that there was once a golden age when all shareholders would happily read their way through 20, 50 or 100 page annual reports is, we suspect, a complete myth.

What are the barriers obstructing the evolution of corporate reporting?

At the moment we do not believe that there are significant barriers to the evolution of corporate reporting. It is possible to envisage a situation in which comprehensive and rigid global regulation could constitute a serious barrier to evolutionary change, but we are still some distance from that.

What solutions would you propose to rectify these weaknesses?

Governments, regulators, standard setters, and all those with a stake in the corporate reporting process need to maintain their readiness to respond to change. We do not see that any radical institutional changes are required.

To what extent is there a shared understanding about the purpose of corporate reporting and the overriding objective of reporting standards?

In our view, the key purpose of corporate reporting and of reporting standards is to provide information for investors (including creditors), to assist them both in monitoring managers' stewardship of the company and in making decisions on their investments. We believe that this priority is widely shared – for example, among the most important financial reporting standard setters. However, it is certainly not universally accepted. Some, for example, believe that promoting financial stability should be a priority of financial reporting – at any rate for banks and other financial institutions. Others believe that social and environmental reporting should be a priority or at least rank equally with the claims of investors. We do not think that it can be expected that there will ever be universal agreement on such issues.

We recognise that there may be cost savings in having a single annual report aimed at all kinds of users and that some users find it convenient to have everything in a single document. But subject to this, we believe that different information needs are best met by the provision of different reports, focused on the needs of relevant users. Financial reporting is effective as a means of meeting investors' information needs. Financial stability regulators may need rather different information. And those who are interested in social and environmental issues for their own sake, rather than from an investor perspective, may also be best catered for in separate reports. However reporting focused on the needs of different user groups evolves, it may also need to be accompanied by appropriate forms of assurance reporting, which will add to its value.

To what degree are investors, accountants, standard setters and management incentivised to engage in any dialogue about changing the reporting model?

As noted earlier, corporate reporting is constantly changing, through the actions of governments, regulators and standard setters, and as companies adjust their reporting to changing circumstances. This is an evolutionary process. The number of people who engage in discussion on this process is relatively small by comparison with the number of those affected by it, who include intermediaries in the information chain, such as analysts and journalists. We regard this as inevitable and indeed healthy. It would not be appropriate for everybody to be incentivised to spend a lot of their time discussing 'the reporting model'. However, those who do engage in the debate, such as professional bodies and industry associations, are often speaking for larger constituencies, and there are usually plenty of opportunities for those who do have strong views to contribute to the debate.

We would also question how far it is helpful to think in terms of 'the reporting model'. The language of 'models' may be a useful shorthand to refer to how people do things, but it can also be misleading. It gives the impression that there is a single way in which businesses report information and that this is designed by someone who is responsible for 'the model'. The reality of corporate reporting is a lot more complex. We believe that corporate reporting is best seen as an evolving social institution. It evolves, as we have indicated, in response to a range of market and non-market forces. At any given time, certain aspects of it are governed by relevant laws, regulations and standards, which vary according to jurisdiction and the company's size, ownership structure, and activities. But the manner in which companies comply with these requirements differs widely, and it is important to bear in mind that a significant amount of reporting – both in the annual report and elsewhere – is in effect voluntary. There is no single template for reporting that all companies follow.

Is the level of technical knowledge and understanding of financial and non-financial information and metrics a barrier?

Different industries require different types and degrees of skill from the readers of their reporting. For example, the detailed financial instruments disclosures of a major bank would be a challenge to many users of corporate reports, as would the extensive non-financial disclosures typically made by a company developing new pharmaceutical products. This is a reflection of the inherent difficulties in understanding such businesses, not a failure of the reporting system.

But although users have different levels of expertise, the information provided to them is usually tailored to reflect this. Tomorrow's Corporate Reporting is quite rightly not focusing exclusively on the annual report as for many large listed companies this is only a fraction of their total reporting. But it may be useful to consider the annual report for a moment to illustrate our point. A relatively unsophisticated user may have no need to go beyond the highlights page and chairman's statement and to read the press coverage. A more sophisticated user may well regard 15 pages of notes on financial instruments as barely adequate. We do not see that this is a significant barrier to effective reporting. It just means that different users will look at rather different information within what is reported by the company and in terms of what is provided by third parties (the media, analysts' reports and so on). Going beyond the annual report to the full range of corporate reporting, these differences are likely to be accentuated as more sophisticated users are more likely to monitor information such as preliminary announcements and press releases and to explore the more detailed information that many companies provide on their websites.

Are the transactional, regulatory, technological and other changes as a result of globalisation creating too much complexity and change for the system to deal with?

Increases in complexity and constant change do impose costs and create difficulties, but we do not know of any evidence that the corporate reporting system is unable to cope.

Who is best placed to change the system and what is needed to help them do this?

As we noted earlier, the system is constantly changing, partly through numerous incremental developments in reporting at the level of individual companies, and we expect this to continue. We do not see that there is a need to provide additional resources or other forms of help to ensure that this process of change continues.

Please contact me should you wish to discuss any of the points raised in this submission.

Yours sincerely

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