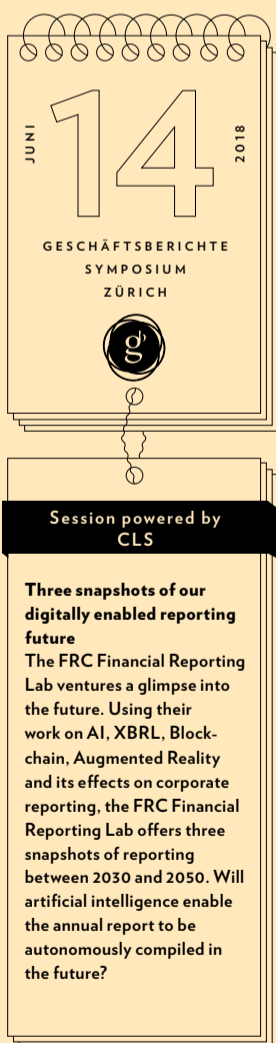


PRACTICAL REPORTING SOLUTIONS

FROM THE UK'S FINANCIAL REPORTING LAB

The Financial Reporting Lab seeks to develop market-led, innovative solutions to corporate reporting challenges faced by companies. It provides practical ways that companies can improve their communications with investors. How does it achieve that – by finding out what investors are looking for and working with companies to deliver it. Phil Fitz-Gerald, the Director of the Lab, explains more.

By Phil Fitz-Gerald



What is the Financial Reporting Lab?

The Financial Reporting Lab (“the Lab”) seeks to encourage improvements in reporting by inviting companies and investors to come together to discuss reporting issues and find innovative solutions. Since its formation in 2011, it has worked with over 70 companies and 140 investment professionals, and has published 19 project reports. The topics covered have ranged from those specific to the financial statements (eg. Net debt reconciliations, cash flow statements and accounting policies), narrative reporting (eg. Business Models, risk and viability reporting, dividend disclosures) and the delivery of reporting in a more digital way. Although its work is focussed on UK reporting, the Lab also has an international perspective, and is therefore always keen to hear from European issuers and investors.

What are the Lab’s current projects?

The Lab is carrying out a series of projects focussing on narrative reporting (in the UK, this is the information included in the Strategic Report). Its first report, on business model reporting, identified the need for companies to express clearly how they generate value through their strategy. The strategic report is providing increasingly important information for investors as company valuations are more often being driven by factors that are not included in their financial statements. If a company’s business model is unclear, it prevents investors from properly understanding how the company will generate value for them.

The second report on risk and viability reporting showed that investors also seek a clear understanding of the risks that might affect that business model and, more importantly, what the company is doing to mitigate those risks, both in the short term and to ensure the longer-term viability of a company. Practice is still developing in this area, but the Lab’s report sets out some good examples of how companies report on risks and viability. It includes examples of stress and scenario testing disclosed by companies to assess the potential impact of risks materialising and the extent of resilience that the company has to withstand these.

Both of the above projects highlight the need for clear narrative reporting. But investors also seek to measure the success of a company’s business strategy. The third project that the Lab is currently working on is looking at the performance metrics used by companies. IFRS has created a consistent framework for measuring the financial performance of a company. However, that is only one part of the story for measuring a company’s value. Companies use alternative performance measures to provide investors with information on underlying performance. Increasingly, companies are also providing information on other sources of value, such as human capital, customer loyalty, product development and environmental and social impact. These are of increasing importance to investors but often are not reported using consistent frameworks.

The Lab’s report, which will be published later in the year, will emphasise the need for companies to identify the key drivers of value and set out their strategy for delivering value before determining the performance metrics that measure this. For example, if a company produces a highly innovative and technical product, the ability to keep its most highly skilled employees is likely to be vital. Turnover of skilled staff will therefore be a key indicator of future success. This approach is generally considered to be better than providing a bucket list of metrics that may or may not relate to the key drivers of value.

What about the future of reporting?

The Lab is also exploring ways in which companies can use technology to deliver corporate reporting in a more digital way, thereby helping the users of corporate information to access the information that is most relevant to them. It is exploring different technologies such as XBRL, Blockchain, Artificial Intelligence and Augmented Reality to see how they can be best used in Corporate Reporting. It recently issued its report on XBRL which concludes that it is an important technology for corporate reporting but it is important that regulators and others consider the best way of implementing it to ensure it works for both users and companies in the most effective way. Blockchain is next on the Lab’s list for consideration. The Lab will be presenting their vision for the future of reporting, based on its digital project, at the CCR symposium in June where you can hear more.

Where can I find out more?

The Lab is hosted by the Financial Reporting Council in the UK. Although it retains independence from the regulatory activities of the FRC, its position ensures that its suggestions are credible and gives companies the confidence that following its recommendations will not fall foul of the regulations. Lab reports can be found at the Lab’s web page – www.frc.org.uk/lab along with details of how companies and investors can get involved. The Lab is always happy to speak with interested parties, both those wanting to find out more about its work and those wanting to participate in its projects.



PHIL FITZ-GERALD is a Chartered Accountant and former auditor at KPMG. Throughout his career he has helped companies and their advisors to improve the quality of corporate reporting. He has led the Financial Reporting Lab since February 2017.