

IS THE FUTURE OF CORPORATE REPORTING

# Block-shaped?

It was nearly ten years ago (in November 2008) when an untraced individual using the pseudonym Satoshi Nakamoto released a paper that laid out the basics of the cryptocurrency, bitcoin. While bitcoin and its wild fluctuations have gained most of the headlines, the technology that underlies cryptocurrency, blockchain, is likely to have the biggest long-term impact on business and the accounting and reporting processes that underpin it.

By Thomas Toomse-Smith



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In our latest report, the UK's Financial Reporting Lab ("the Lab") considered some key questions about blockchain and its potential in corporate reporting.

## What is blockchain?

A blockchain is a type of shared database which creates a permanent record of a transaction. Because it is distributed across a number of participants in a network, and therefore not under the control of a single participant, it is robust. This robustness combined with the fact that any changes made to the data are clear to all participants ensures both the data and the network are resilient in a way that creates trust. The business community can use blockchain to rethink how they create and communicate trust in a resilient way, and it is that potential that makes blockchain potentially disruptive.

## Are blockchain and reporting a natural fit?

Like blockchain, accounting and corporate reporting are mechanisms designed to create permanent records of transactions in a way that generates trust. It is therefore not surprising that some have seen blockchain as the next natural evolution in accounting; from double entry to shared entry. However, this view is too simplistic. Businesses record and use information for various purposes and in varying levels of detail and reporting is more than just about transactions; it is about communication.

Therefore, a single blockchain solution is unlikely to be able to fulfil the needs of business even before thinking through concerns about data security, cost and complexity. So rather than a single blockchain, we think that business are likely to see a number of different/smaller blockchains featuring in the accounting and reporting process.

## Where might blockchain fit into the reporting process?

Using the framework of digital reporting published by the Lab in May 2017 (which expresses the qualities that preparers, users and others value in digital reporting), we considered the case for blockchain in specific aspects of the accounting and reporting process. Our review concluded that for:

**Production of accounting records** – blockchain has the potential to improve the efficiency and timeliness of creating error/tamper-free records (across markets, industries and companies) and may increase the speed of consolidation within groups, particularly where there are multiple participants. However, there are issues of cost and interoperability which need to be solved.

**Distribution of corporate reports** – The use of blockchain to create a single location for credible, usable corporate data across Europe is a real possibility and would be highly valuable. While such a system is already being worked on by the European Commission through their transparency gateway project, ultimate success is dependent upon any resulting solution being easy to use.

**Consumption of corporate reporting** – That the potential for using blockchain to form an unalterable group of communications (to meet reporting requirements) across different formats and entities is worth investigating as it could lead to different ways to meet regulatory requirements, perhaps leading to more engaging reporting. However, the need for wider adoption may reduce the likelihood of its use.



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We conclude that blockchain is not the only possible answer (or even always the best), but it does have the potential to solve some of the challenges of corporate reporting. Blockchain, therefore, merits consideration and experimentation by preparers, regulators and others involved in the corporate reporting ecosystem (in the right circumstances).

## What do you need to do?

Blockchain provides many interesting properties that could provide value to both preparers and users of reporting, and it is possible that it will become a key element of the accounting and reporting infrastructure in the future, especially where its focus on trust and resilience is valued. However, it remains immature. Therefore preparers and users should focus on gaining a greater level of understanding and consider experimentation and cautious innovation when costs and benefits are balanced.

### ABOUT THE LAB REPORT

The full Lab report provides more background on blockchain, its workings and fuller details about the potential use cases. The report forms part of the Lab's overall work on how technology (such as XBRL, AI, and Virtual Reality) might impact corporate reporting in the future. All the reports are available for free download on the FRC's website:

[FRC.org.uk/lab](http://FRC.org.uk/lab)