DIGITISATION AS AN ENABLER OF

Better corporate reporting

The potential for the digitisation of non-financial information lags behind that of financial reporting information. There is a need to shift from considering technology as an ancillary delivery vehicle for information that is essentially designed for a paper-based system towards thinking of technology as an integral part of setting disclosure requirements.

By Vincent Papa

A distinction is usually made between financial and non-financial information when describing corporate reporting. Financial reporting information has been subject to a decades-long regime of continuous improvement through ongoing updates of accounting standards. Furthermore, in a European context, the European Single Electronic Format (ESEF), which becomes effective from 1 January 2020, will be a key step towards digitisation and enabling ease of access of consolidated financial statements information. ESEF has the potential to improve the comparability of information, reduce the processing and analytical costs of users that are covering EU companies.

Non-financial information reporting requirements are less mature than those for financial reporting. Mandated requirements such as the EU Non-Financial Reporting Directive and the existence of a multitude of voluntary reporting initiatives related to non-financial information makes evident that there is a need to fill gaps in reporting entities' communication of relevant and material non-financial information to adequately meet the needs of users.

Mandated requirements and voluntary initiatives aim to address a demand from stakeholders for the reporting of non-financial information that is both material to reporting entities position, performance and prospects and highlights the material external impact of reporting entities on the environment and society; that includes sufficient quantitative data and informative qualitative and contextualising disclosures; that is reliable and can be subject to assurance, comparable and linked to the business model. Enhancing non-financial information is also a pillar of the European Commission's Action Plan: Financing Sustainable Growth (EC Action Plan) that aims to stimulate a low-carbon, sustainable EU economy.

Nonetheless, the co-existence of multiple voluntary reporting frameworks and nascent standardised mandatory requirements on non-financial information exacerbate the incomparability of this information. Another consequence of this situation is that the potential for the digitisation of non-financial information lags behind that of financial reporting information.

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Threats from digitisation

Due to data and technology innovation, there is also a threat of a lessened significance of corporate reporting information. This point was highlighted during an EFRAG-hosted March 2019 conference on fostering innovation in corporate reporting, whereby one of keynote speakers, the CEO of IIRC Richard Howitt, described how investors are relying less on a flow of periodic reporting that is analogous to a "dripping tap" and instead relying more on a "lake" of readily accessible and wide variety of technology enabled alternative data sources. An example of useful entity-specific information sourced from outside the boundaries of corporate reports is the profile of entities' physical assets that are exposed to physical climate risk. Third party data providers using "big data" sources are able to provide such information even when it is lacking in corporate reports. In effect, corporate reporting information is a relevant albeit diminishing part of an ever widening set of information that investors have access to and can apply for the analysis of companies.

There is a threat of a lessened significance of corporate reporting information.

Opportunities in the application of technology

While posing threats to the relevance of current reporting, technology also presents opportunities to enhance corporate reporting practices. For starters, there is a need to shift from considering technology as an ancillary delivery vehicle for information that is essentially designed for a paper-based system towards thinking of technology as an integral part of setting disclosure requirements.

As alluded to earlier, under the current state of play, it would be difficult to enact structured data requirements for non-financial information due to the absence of standardised reporting frameworks and due to the paucity of related quantitative data. Nevertheless, this could change in the medium to long term.

Furthermore, the application of technology could be explored to facilitate the ability of users to link financial and non-financial information. For example, via the block tagging of information in the narrative reporting sections outside the financial statements. Enhanced application of technology could also be embedded by firms that adopt the Accountancy Europe's Core and More model (described as a presentation concept to organise different strands of reporting in a structured yet connected manner).

Finally, the EC Action Plan called for the establishment of the European Corporate Reporting Lab at EFRAG and this occurred in the second half of 2018. The European Lab presents an opportunity to bring stakeholders together in a "safe space" to identify innovative and best practices in corporate reporting. The Lab's first project is on climate-related reporting. The Lab may also look at aspects of digital reporting as a future project, as was suggested in the EC Action Plan, subject to the consideration, consultation and approval by the European Lab Steering Group.