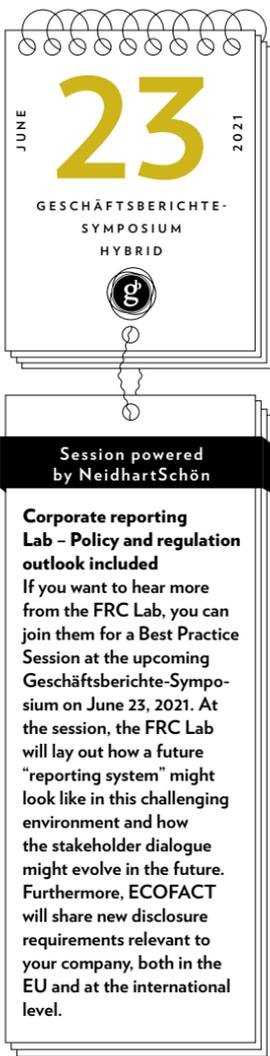


THE STAKE OF THE NATION

How corporate reporting must respond to changing stakeholder needs

In the 1980s, if you wanted to see annual reports as they were released, you had to camp out at the SEC's library and await a fresh batch of telephone directory thick paper annual reports as they were filed. Fast-forward to today, and reports for almost all listed companies in the world are simply a click of a mouse or an Alexa query away. But whilst access has become easier, is the concept, format and purpose of annual reporting in need of evolution? It is a question that the UK's Financial Reporting Council (FRC) has been looking to answer.

By Thomas Toomse-Smith



Corporate reporting Lab - Policy and regulation outlook included
If you want to hear more from the FRC Lab, you can join them for a Best Practice Session at the upcoming Geschäftsberichte-Symposium on June 23, 2021. At the session, the FRC Lab will lay out how a future "reporting system" might look like in this challenging environment and how the stakeholder dialogue might evolve in the future. Furthermore, ECOFACT will share new disclosure requirements relevant to your company, both in the EU and at the international level.

"Technology is transforming people's relationship with information. Annual paper-based reporting struggles to meet a growing need for flexibility, immediacy and personalisation."

Sir Jon Thompson, CEO of the FRC

Recognising the need

The FRC has a history of looking ahead to understand changing trends and their impact on corporate reporting. Where we see the need for change, we have looked to update standards and codes to support the evolving landscape. Our 2020 paper, *A Matter of Principles*, looked ahead to how trends such as demands for more relevant information by stakeholders, a need to reflect environmental data, and continued digitisation might shape the corporate reporting framework of 2030. We received more than 70 responses from investors, preparers and others, and are currently analysing these. While we are aiming to provide the market with the full feedback and outline next steps later in the year, we have already identified several themes that will not only shape 2030 but also how we think about reporting right now. In this article, I am going to highlight three of those themes.

Investors = stakeholders and stakeholders = investors

The cornerstone of corporate reporting in many countries has been and remains the investor. Investors are owners of the business and have a natural ability to hold management to account. This has often driven regulators, standard-setters and companies themselves to focus reporting on financial matters. However, this myopic view of investors and investor needs is outdated. Our research has shown that modern investors have a wide range of interests and needs that often mirror wider stakeholders. Reporting, therefore, should not focus on a traditional view of what investors want. Rather it should seek to tell the company's story about its interactions with its communities, its employees, its customers and how it creates and maintains value.

REFERENCE LIST

- 2020 paper "A Matter of Principles": bit.ly/2QuqzYU
- Video in corporate reporting: bit.ly/3c6roZo
- VR and AR in corporate reporting: bit.ly/3f3NXA4



THOMAS TOOMSE-SMITH is the Head of Innovation and Digital at the FRC. Thomas works across the FRC's policy remit to identify ways to innovate corporate reporting and make the most of the digitisation opportunity. He is a qualified accountant and has worked on corporate reporting in the UK and US as a preparer and an auditor.

Our research has shown that modern investors have a wide range of interests and needs that often mirror wider stakeholders.

Useful reporting is wider than the investor relations section of the website

Investors and other stakeholders have long used alternative data sources to gain insight into a company, its impacts, target markets and opportunities. However, it is not just these alternative data sources that are providing insight. Many companies produce a range of engaging content for wider stakeholders, from employee videos to information on new products and services. This wider content often engages and communicates insightful information that is relevant to a company's long-term value (and therefore to investors). Therefore, rather than treat the IR section as a walled garden, companies should think of it as a jumping-off point for investors' investigation and information across the companies' communications. Connecting the investor story to these wider communications companies can often present a more engaging and authentic narrative than through traditional financial communications alone. Our recent video and augmented reality projects include examples of how companies are using wider stakeholder communications and new media to achieve better reporting.

We all need to work together

Whilst financial reporting (IFRS) has long been an area of international harmonisation, and the reporting of sustainability is currently building the core components of such a system, the wider mechanisms and process of corporate reporting have been a more national endeavour. Our vision to evolve the UK system of reporting is rooted in our role as a UK regulator. Still, we realise that any proposals for change won't succeed if adoption is limited to the UK. Countries with forward-looking capital markets such as Switzerland and the UK need to work together. We should explore and progress a more interconnected and engaging form of corporate reporting; it is only then that reporting will truly meet stakeholders' needs. Stakeholders are not confined to national borders, and therefore, the corporate reporting system shouldn't be either.

I have highlighted just three themes coming from the FRC's work on evolving corporate reporting. Our engagement with interested parties is bringing up many more, from the need for global ESG standards to a call for a full suite of digitally structured disclosure. Our *A Matter of Principles* project is not an end in itself. Rather, it is an invitation to start a conversation. Let's talk.