The future of corporate reporting in a digital & sustainable economy

Conference organised by DG Fisma - November 30, 2018

1.Introduction (S. Berrigan, Deputy DG, DG Fisma)

- Corporate reporting is very important for the Commission
- The ongoing fitness check in this area is an important project
- It is about providing useful and reliable information to the stakeholders, being the bedrock for capital allocation, giving the basis for banks ratios
- It also serves to ensure that companies behave responsibly in economic, social and environmental terms
- It meets different interests of all stakeholders
- The digital revolution has shifted the business environment and changed how corporate information is disseminated and used by stakeholders
- The fitness check overall demonstrates that the EU framework for corporate reporting is good but there is a call for more efficiency
- Any change to the framework will be the prerogative of the next Commission

Sustainability is the issue of the day and will impact the reporting for sure (in terms of IFRS and promotion to a sustainable economy). A European Corporate Reporting Lab has been created under the auspices of EFRAG to help identifying best practices. The final report on the framework consultation/fitness check is expected by the 2d quarter of 2019.

Technology is a key driver for corporate reporting: centrally accessible electronic filing with a single access point for company report.

2. Is corporate reporting still fit for purpose and upcoming challenges? (O. Boutelis, CEO Accountancy Europe, M. Brogi, Professor University Roma, K. Hajjar, CFO Solvay, V. Willems, SG SME United)

- Less is more but more is required for better outcomes: we need effective reporting standards for corporate reporting and to ensure that we serve the intent. We need to look at value and sustainable finance is value

- ESG (Environment, social and governance) is required to make quality financial decisions
- We must focus on what investors are actually using and what is truly material.
- There is no one size fits all: each industry has its own issues

If there is a desire to change the world (eg: intangible to integrate) in which we are living, there needs to be measurement, disclosure and certification of this disclosure. It is what the accountancy profession does.

- There is a call for voluntary reporting for SMEs
- What gets measured gets managed and what gets miss measured gets miss managed. Regulators must look at whether what is reported helps create long-term value and we must not forget that the higher the standards, the higher the cost of compliance
- The standardisation of NF disclosure is not in line with the current business challenges: engrain sustainability aims
- The forward-looking of the corporate reporting is important

Integrated thinking should be promoted and we should call for a value reporting with environmental, social, governance and financial aspects. There is a clear need for standardisation and simplification of the current Standards used.

Globalisation and flexibility would also be nice to have in terms of Standards, so we should go into the essence of principle based Standards.

The NF could be recalled extra financial indicators as everything impacts the financials and there is a need to provide assurance on these indicators.

The ambition of reporting is not to have the largest number of readers or pages but to ensure that people that need to read the report are reading it and are receiving the right and reliable information.

It is iportant to act quickly and an **experimental approach is not a problem**. It is important to **include environmental factors that are endangering the social and economic model.**

3. Are accounting rules for EU capital markets coherent with the EU policy objectives of promoting long-term and sustainable investments? (P. Beres, EP, P. de Cambourg, President ANC, S. Maijoor, Chairman ESMA, JP. Servais, Chairman FSMA)

Accounting standards are a complex process and it differs according to the sector. The IFRS is an independent standard setter, EFRAG checks the proposal and then the

Commission makes a proposal on the standard and it is then for the Parliament and the Council to decide.

The use of IFRS is not neutral, it impacts the business model and they are unfortunately not global. There have been trials to allow the EU to have some carve in in order to be able to have its own standards when IFRS does not want to act. ESMA plays a role of enforcement and comments the standards.

Regarding sustainability, the markets are not properly pricing externalities at the moment and a reporting process on sustainability will not push investors taking it into account, based on ESMA experience. The solution is to add non-financial information to the financial ones but there is a long way to go to create measures trusted by investors and auditable.

It is time for **more consistency** on extra financial information: investors want to know what sort of risks companies face in the long term.

4. Keynote speech (E. Likanen, Chair IFRS Foundation Trustees)

- 144 of 166 jurisdictions require IFRS for all most publicly accountable companies
- IASB is midway through a project to update its Management Commentary Practice Statement to reflect new developments in integrated and sustainability reporting and particularly the growing interest in long-term value creation. A consultation will be launched in 2020
- There is a desire to maintain IFRS and EU cooperation and to face together the challenges for the future.

5. Towards relevant sustainability disclosure (N. Bolmstrand, CEO Nordea Asset Management, M. Collins, CEO Invest Europe, M. L. Kuhlow, VWF International, P. Tang, EP, J. Townend, Senior reporting BMW Group)

- The Commission should be praised for taking the global lead on sustainable finance
- G20 asked the FSB to set up a task force on climate-related disclosures duet o the realisation of financial risks from climate change and the need to transition the economy to sustainable opportunities
- The market is changing as we see more and more ESG reporting
- Eg: Bloomberg moved its data centre out of flood zones to protect itself: this is the type of decision that investors want to see

- The companies are leading by doing and this should create a virtuous cycle that allows the market to help drive the transition.

Sustainability is a key issue for major industrial groups as this is a question of securing their business future.

Sustainability can be anything ranging from environment, to how customers and staff are treated. It helps internal governance as it forces companies to plan the long term. There is an urgency, eg: the recent IPCC report shows the impact of climate change and the difference between 1.5 degree warming and 2 degrees. These environmental risks will quickly become financial risks.

If we want the financial industry to be engaged in these changes, we need to get the right price including all these disclosures. A form of globally consistent standards for reporting and disclosure would be very helpful in this context.

It is important to define how the information will be checked and it must be auditable.

An idea is to move from process reporting to impact reporting.

6. Corporate reporting: time to embrace the digital revolution (A. Mettler, Head of European Political Strategy Centre, EC, S. Wolf CEO GLEIF, J. de Frutos, CIO EFFAS)

- Only 25% of large enterprises work with big data analytics. The failure of legislation to insist on digital reporting has had spill-over effects on the digitalisation of companies
- Open data combined with analytics will create a major leap forward
- Digitalisation means digitally distributed supply chains, whereas technology is the products that emerge from this. Therefore, the emergence of standards is key as they drive the process

For analysts and investors, technology has made their jobs easier and created efficiency. Technology is a mean and not an end.

- The annual reporting is outdated for large companies as real-time data can now be accessed
- There is a tsunami of technical changes and corporate reporting is slowly changing
- Policy disclosures should be digital too and they must be discoverable (access to everyone)
- Companies will go digital if they feel that they need to or if it reduces costs

- Companies are also fear with the speed of digitisation and are afraid to implement new system as another one is arriving soon

ESG reporting can be digital and the Management needs to put a system in place to create the data. These processors can be checked by auditors and the audit regulators must ensure that it can be measured.

The EU has not done its companies any favours by not forcing them online.

Conclusions (M. Nava, Director, Investment and Company reporting, DG Fisma)

This conference is part of the broader exercise of the fitness check which is looking at the effectiveness of the EU corporate reporting flameworking and whether it is fit for purpose and how it can meet the challenges of sustainability and digitisation.

The first panel showed that whilst reforms are required, what has already implemented should not be endangered. The public policy issue that is on the table is environmental sustainability, but what needs to be done in this area, should not negatively impact what is already done. The difference between financial and non-financial information is not as clear-cut as it once was. The case for integrated reporting is growing. Reporting financial information to investors remains the main goal of corporate reporting. The EFRAG lab is an area where experiments can be carried out.

On the second panel, it has been demonstrated that the introduction of IFRS was a major step forward for the EU, but it is important to be open to future potential changes. On the question of sustainability, the issue is whether IFRS and accounting treatment in general unnecessarily hinder long-term investment. This may warrant flexibility in the enforcement of IFRS. Accounting standards are too important to leave to accountants alone and this means that politics has to be taken into account. The European Commission is trying to take the global lead on sustainable finance. The non-financial reporting is relevant for a very wide audience including society as a whole. Non-financial reporting reflects the values of the company in question and this is an important signal for investors.

On the question of digitisation, it is clear that this is an area in which Europe is not in the lead. Market players are accustomed to the fast pace of change. Companies should not be afraid of digitisation, as it always provides a long-term benefit.
The whole question relates to the issues of knowledge and information. This offers both power and liberation.