

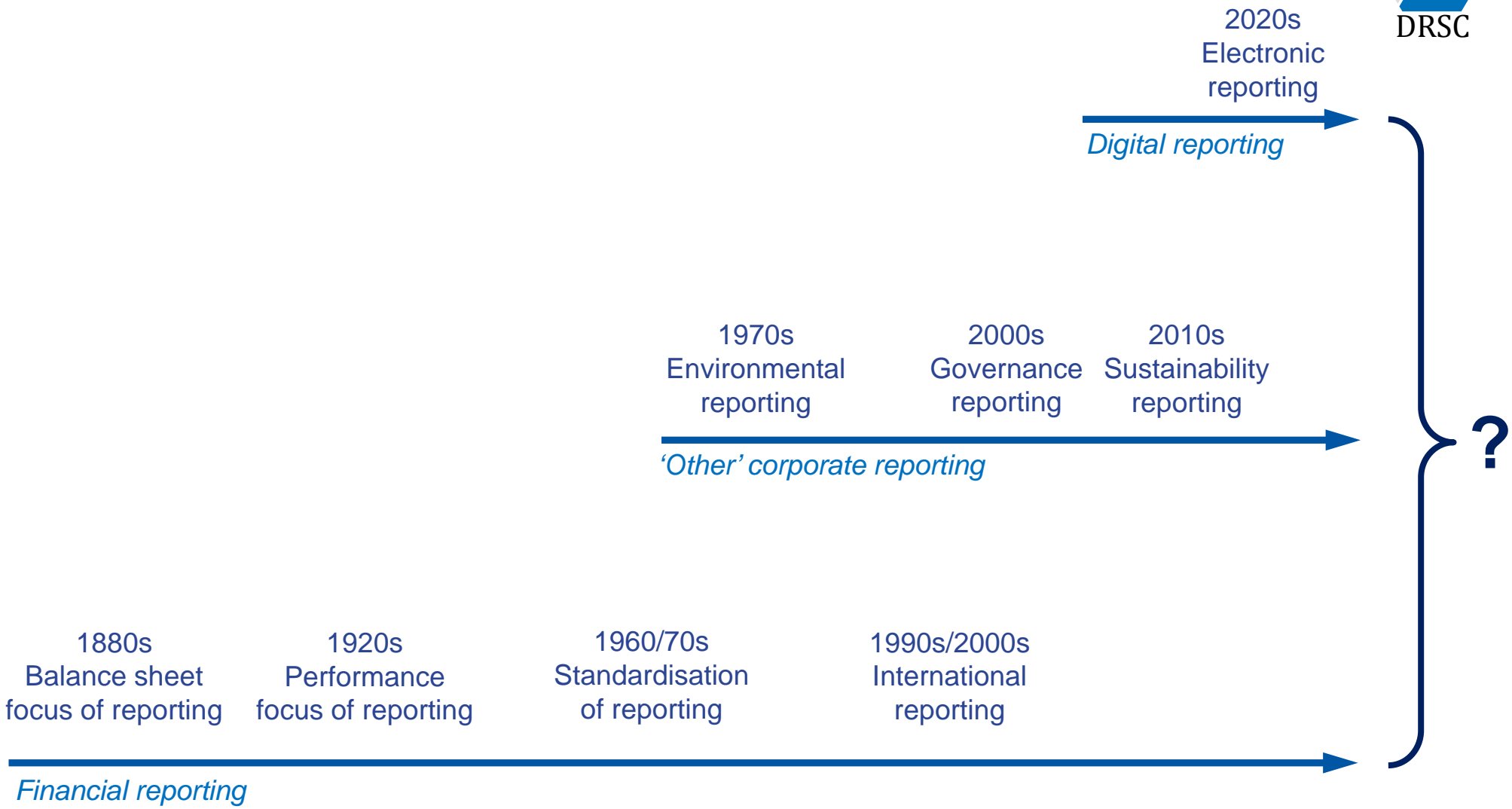
# **The future of corporate reporting – a standard setter's perspective on contents and proliferation**

Accounting and Management Information Systems Conference  
Bucharest, 13 June 2018

Andreas Barckow

- ❖ Setting the scene
- ❖ Financial reporting – challenges (as I see them)
- ❖ Other (wider) corporate reporting
- ❖ Technological aspects (proliferation/dissemination)
- ❖ Concluding remarks – so where are we heading to?

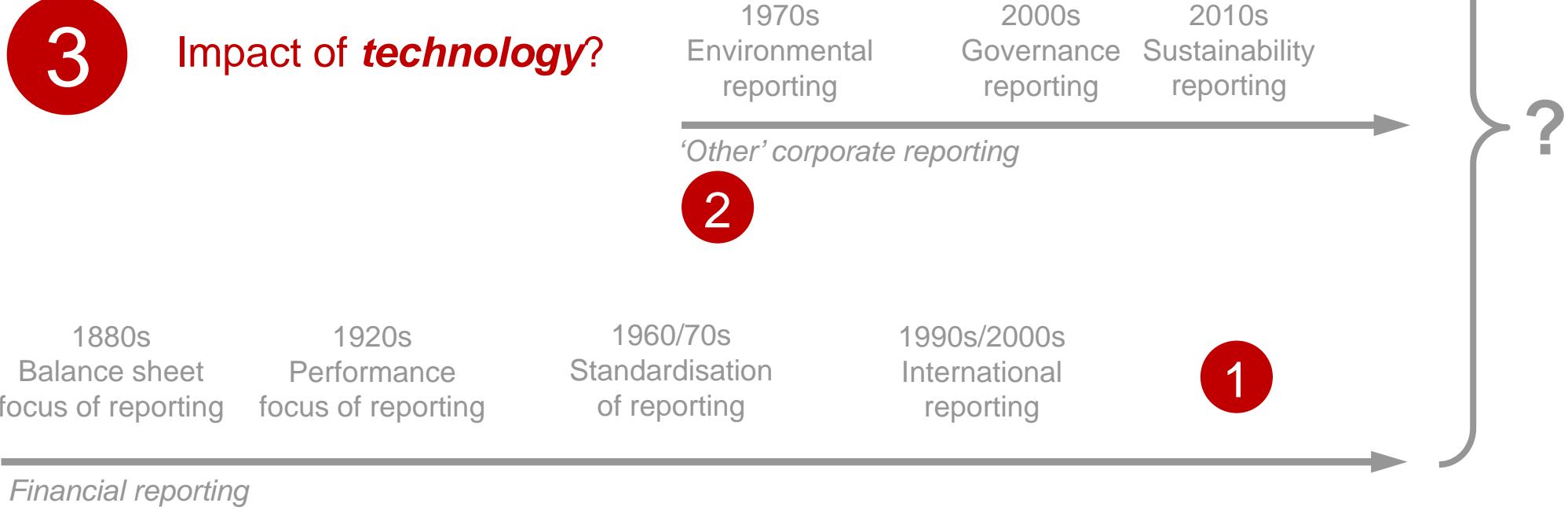
# Setting the scene – the development of reporting in Europe



# Setting the scene – first observations



- 1 No real development of **financial** reporting after 2005
- 2 Focus on **'other'** (esp. narrative) aspects of **corporate** reporting
- 3 Impact of **technology?**



# Financial reporting – challenges (as I see them – 1/5)

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## A manufacturing-centric accounting model



## A manufacturing-centric accounting model

- *Manufacturing-centric = depicting value creation through conversion of (tangible) inputs into (tangible) outputs*
- *Standard-setters often try to take the **role-model of a manufacturer** when developing requirements – adequate for a service-dominated economy?*
- *Application to **new business models** (e.g. internet companies) often leads to accounting results that are hard to understand (and sometimes meaningless), fostering the development and use of **non-GAAP measures**.*
- *Assets, ownership, control, etc. – (how) do these terms and **concepts** that are central to the current reporting regime still work in a digital economy?*

Do we need another set of conventions that better depict the businesses of a digital economy?

## An insufficient depiction of self-generated intangibles

- *New (intellectual property-driven) business models*
- *Bright ideas, know-how, business secrets*
- *Customers, followers, users, clickers (you name them ...)*
- ...



An example worth thinking about:

*TESLA's market cap is about two thirds of BMW's; whilst the former has not earned a single cent yet, the latter just declared a profit 9bn Euros!*



Are the accounts telling the full story? Is *'too difficult to measure'* a good enough reason not to tackle the issue?

## Generally – too much focus on fixing yesterday's issues

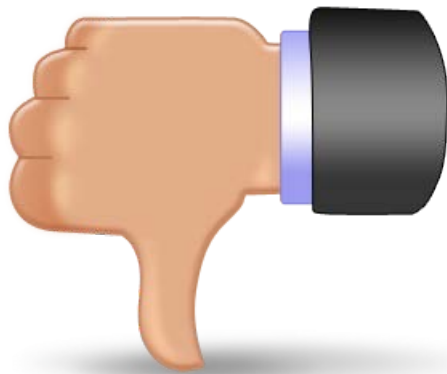
- *Accounting in **crisis situations** ('**KEEP CALM AND CARRY ON**')?*
- *Depicting **changes in macroeconomics** and their impact on the accounts of an entity, such as (and certainly not limited to):*
  - *climate change (and their impact on strategy and business models)?*
  - *an ageing society (and their impact on pension schemes)?*
  - *a changing society's attitude regarding sustainable strategies, financing and behaviour?*
- *Dealing with **new topical issues** on the block, e.g. crypto-assets?*
- *Dealing with a **changing relevance** of financial reporting?*

Are we placing the right emphasis on developing and providing solutions for today's (and tomorrow's) issues?



## Many say that financial reporting has lost relevance

- Often viewed by preparers as a **compliance exercise** and commodity
- Mainly **confirmatory** (reflecting the past), little information about the future, business model and strategy, risks & opportunities
- **Differences between book value and market capitalisation** suggest something is missing (decrease in explanatory power)
- **So: Get rid of it?**

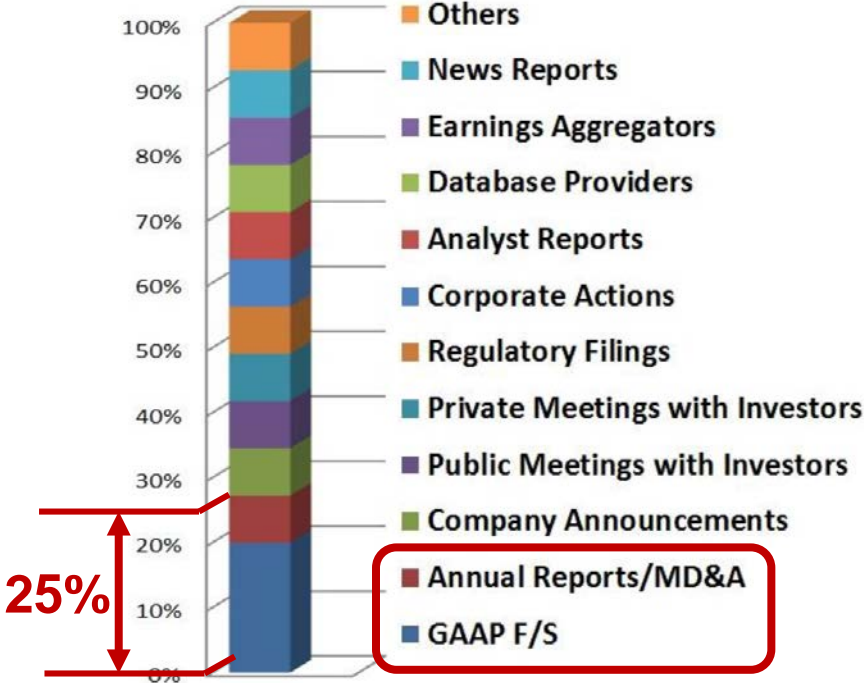


*Well, no, but...*

# Financial reporting – challenges (as I see them – 5/5)



From a recent survey amongst Canadian investors about their sources of information:



**25%**  
*(only) 25% are direct financial data!*

**BUT:**  
*Most of the other sources they use are based on those 25%, too!*

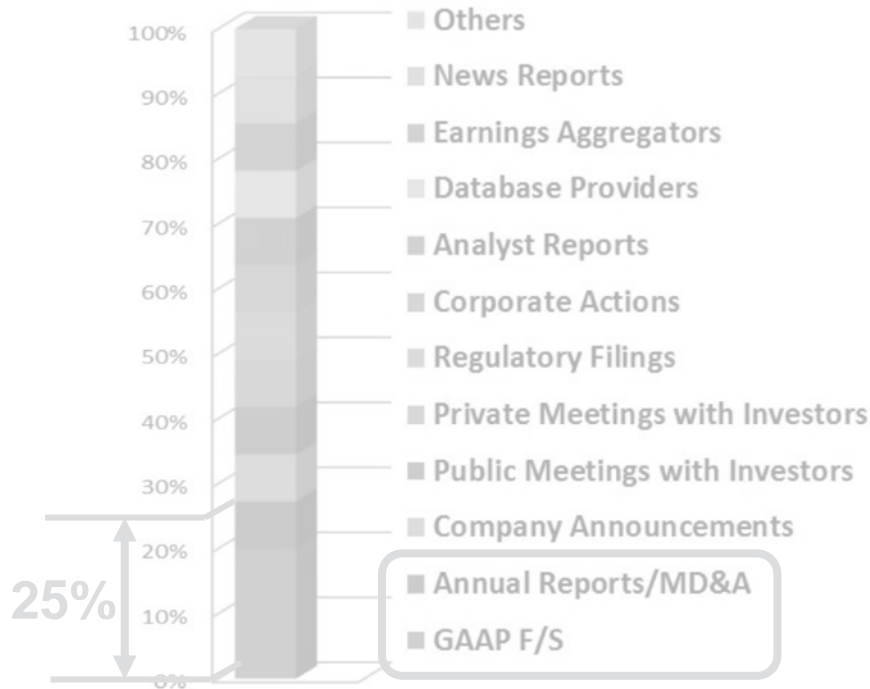


*Financial reporting is not just about numbers;  
it is about a **systematic approach** that people trust in!*

# Financial reporting – challenges (as I see them – 5/5)



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***BUT:***

*Most of the other sources they use are based on those 25%, too!*



*Financial reporting is not just about numbers;  
it is about a systematic approach that people trust!*

***All good, still but...***

### What is missing in/from today's f/s?

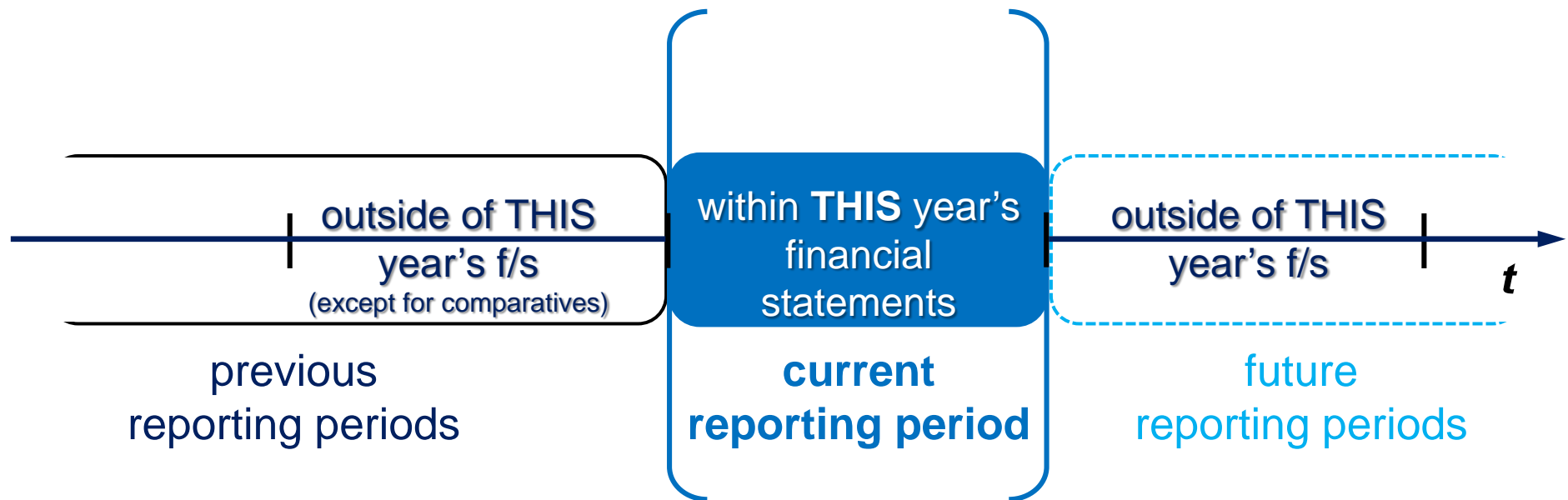
- *Mandatory parts of a complete set of **financial** statements:*
  - *Statement of **financial** position (aka balance sheet)*
  - *Statement of **financial** performance (aka income statement)*
  - *Statement of cash flows*
  - *Statement of changes in equity*
  - *Notes to these statements (mainly information explaining transactions and events contained in the primary f/s, sometimes containing further **financial** information)*
- *Even if most users are interested in financial information, there is a concern that entities miss out on the 'other' half – **non-financial information***

I prefer the term '*pre-financial*' over 'non-financial' as most of that 'other' information will become financial (**but at a later period**)

## Other (wider) corporate reporting (2/3)



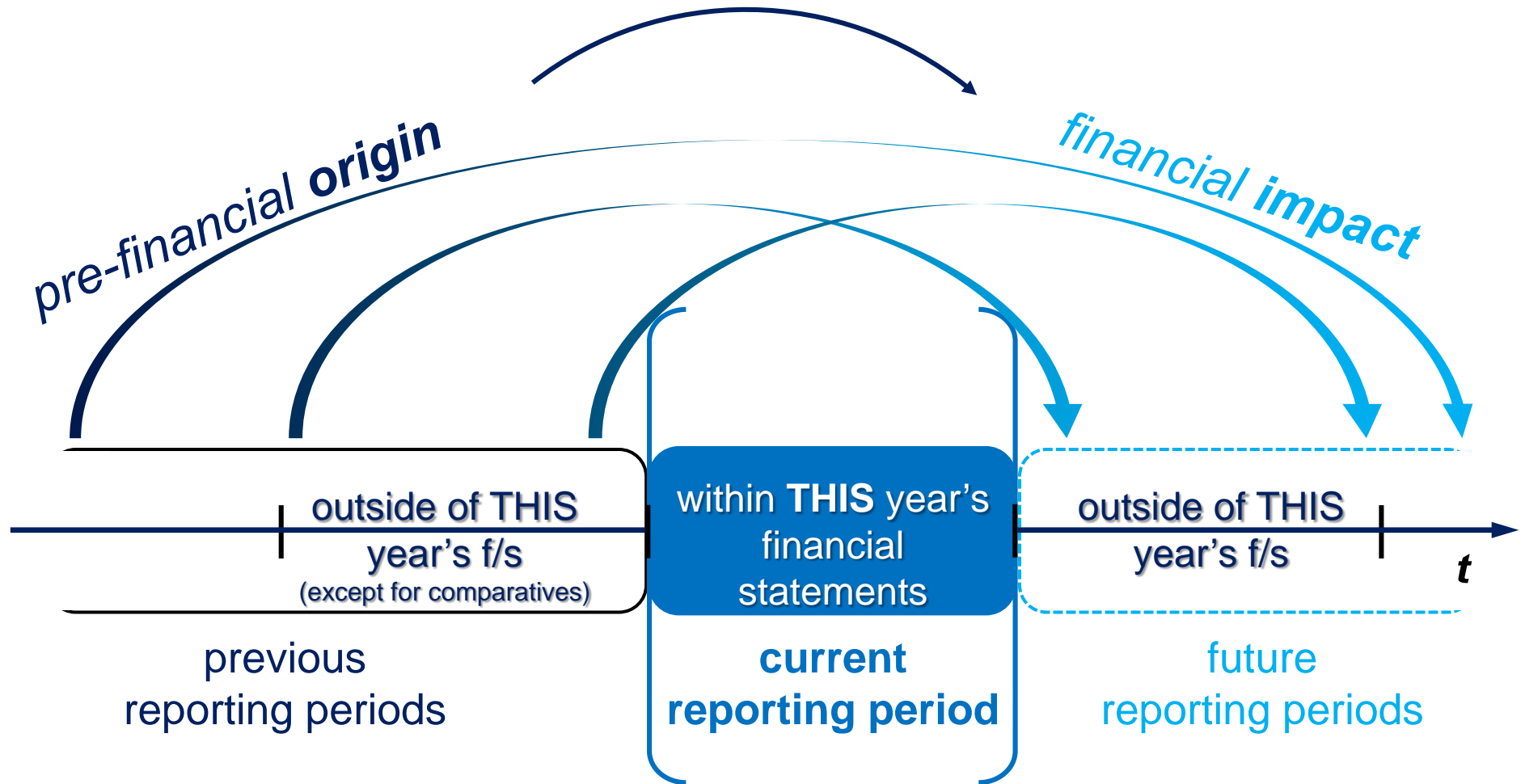
### Financial vs pre-financial information: it's a timing issue!



# Other (wider) corporate reporting (2/3)



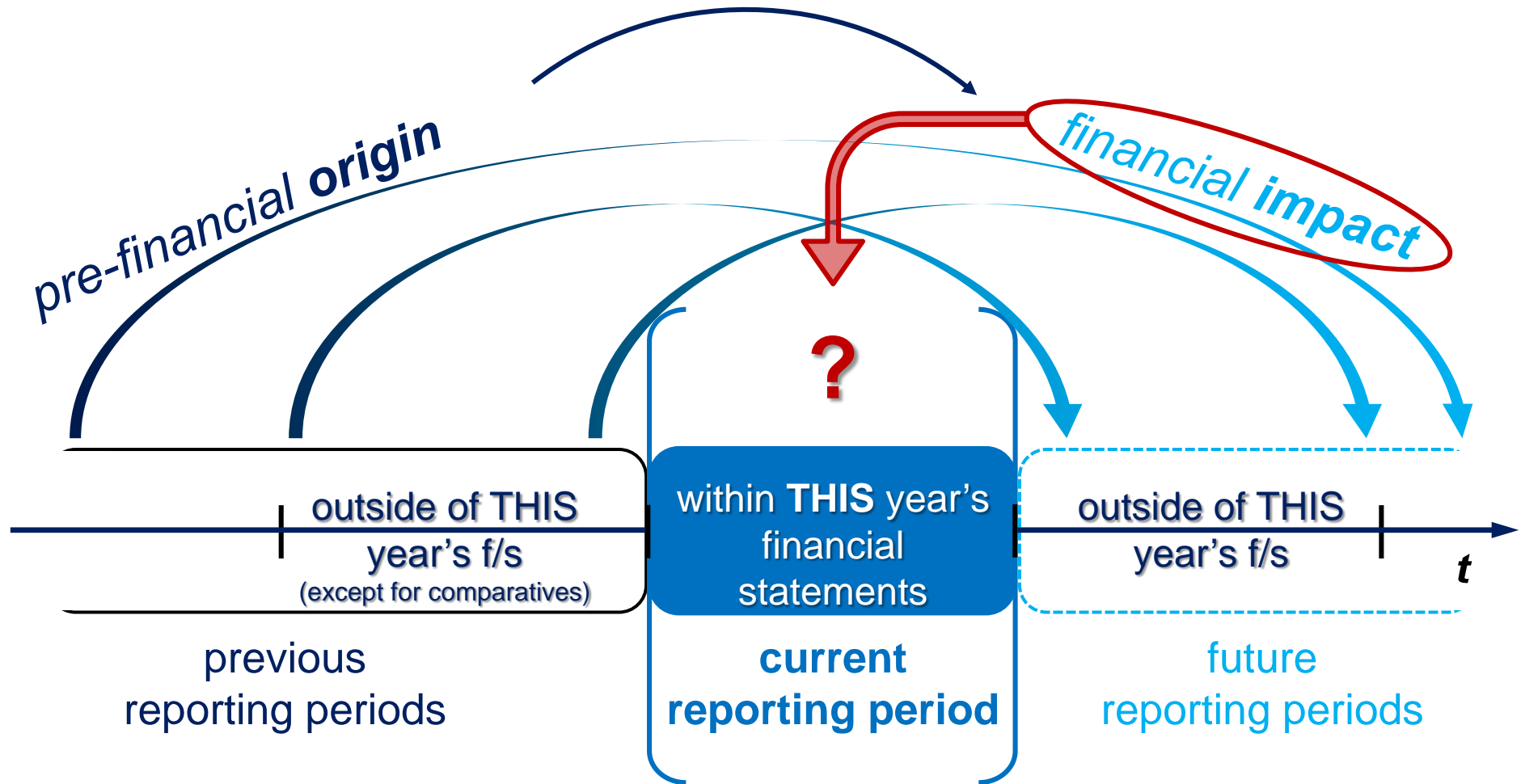
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# Other (wider) corporate reporting (2/3)



## Financial vs pre-financial information: it's a timing issue!



## Other (wider) corporate reporting (3/3)



(Too) many cooks for one soup...



- Numbers **range from 300 (PRI) over 400 (OECD) to more than 1,000 (Reporting Exchange)** [see AP 9 for July 2017 ASAF meeting]
- **Few dealing with (pre-financial) reporting holistically**, most just address certain aspects
- **Key issue: Most initiatives treat financial reporting largely as ‘given’ and supplement it with information about pre-financial issues (personnel, climate, anti-corruption, supply chain, human rights, etc.)**

Connectivity? Same or different stakeholders? Frequency, depth/breadth and process of reporting? Assurance level?



## Today's reporting requirements:

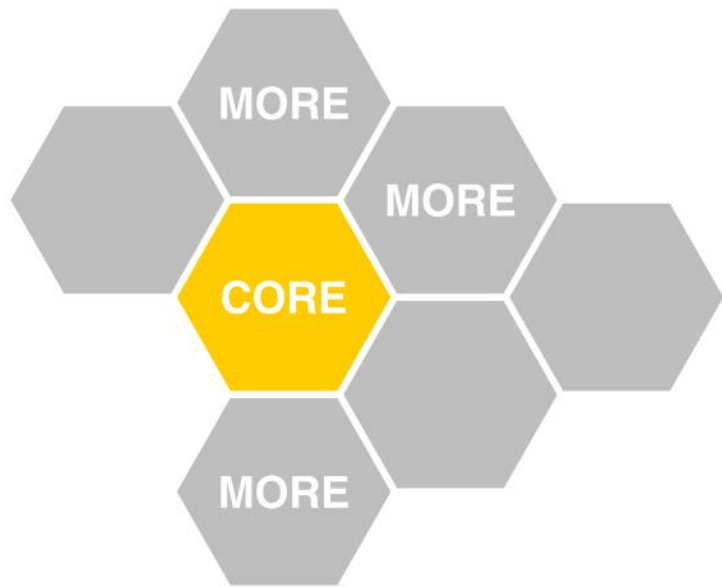
- ... are driven by thinking of the final product being '**a printed book**'; i.e.
  - a printed 'book' (not an **electronic** report)
  - a printed 'book' (i.e. **one** report)
- ... are **hardly taking stock of today's technological possibilities** (e.g., mass computing, artificial intelligence, blockchain, etc.) – what does that mean for, e.g.,:
  - the way financial information is consumed?
  - the concept of materiality and its thresholds?
  - the audit profession?
- ... are still driven by 'mine' and 'yours' – the magical **boundary** question

Is our role model for the financial 'report' still appropriate?  
If not, what should it be instead?

# Technological aspects (proliferation/dissemination) (2/2)



## One way of thinking about dissemination/consumption



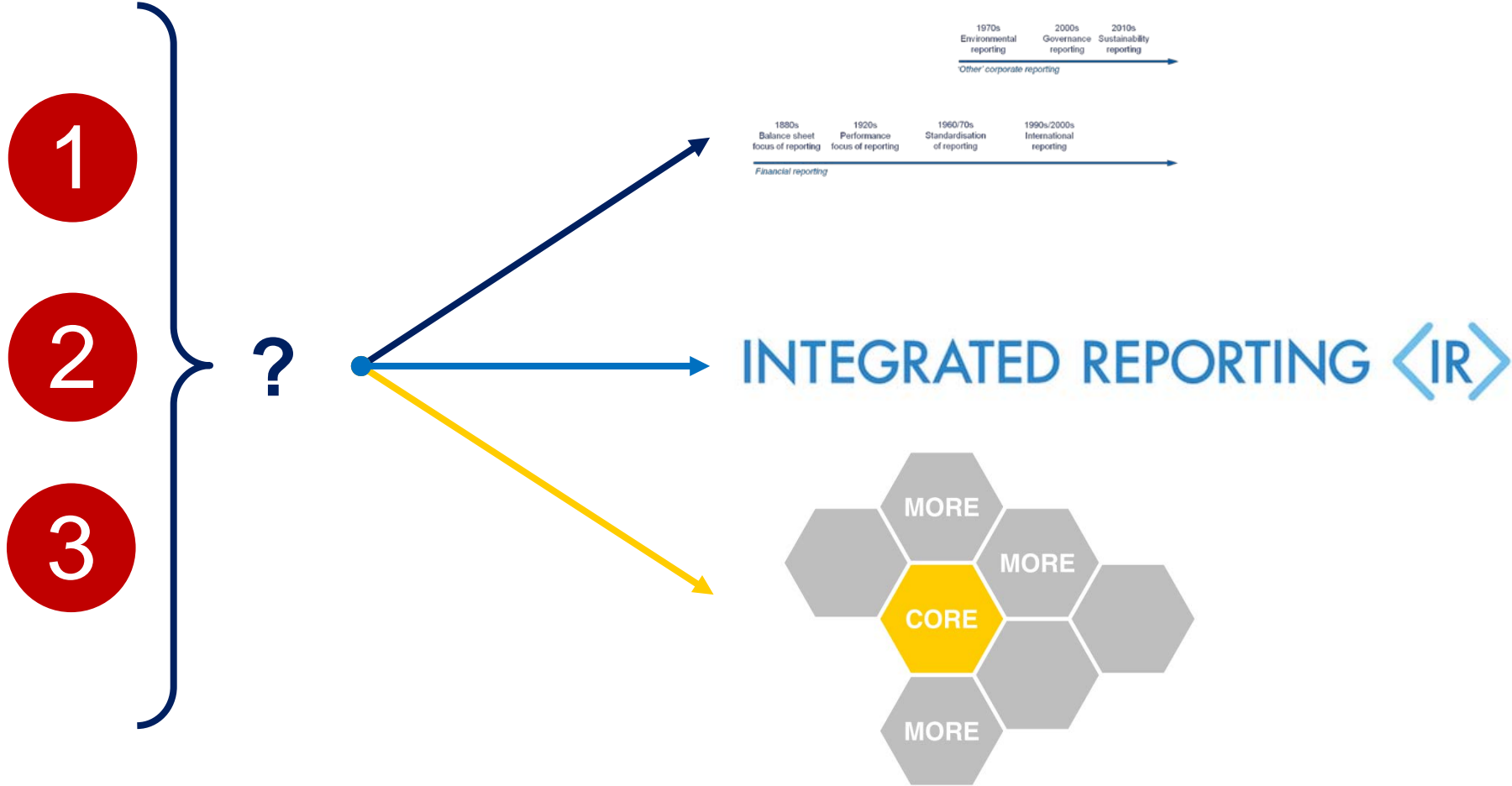
\* FEE Cogito Series – The Future of Corporate Reporting – creating the dynamics for change, Brussels 2015

*In 2015, Accountancy Europe (formerly known as FEE) produced a discussion paper\*:*

- **No information is superfluous**, it is there because somebody wanted it, so do not take it away
- **BUT:** ask yourself whether it is **needed and required by most**
- Distinguish **‘must have’ (CORE)** from **‘like to have’ (MORE)**
- **Link the individual pieces together**
- **Think screen, not paper!**

Many nuts to crack: lawmakers, regulators, enforcers, auditors etc.  
all must chime in for such a concept to work!

# Concluding remarks – so where are we heading to?



Deutsches Rechnungslegungs Standards Committee e.V.

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Accounting Standards Committee of Germany



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