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BAFA BRITISH ACCOUNTING & FINANCE ASSOCIATION

The future of financial reporting 2017:

Change, narratives, education and globalisation

A discussion paper based on the British Accounting and Finance Association, Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 6 January 2017

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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About FARSIG

The Financial Accounting and Reporting Special Interest Group (FARSIG) is a group set up under the aegis of the British Accounting and Finance Association (BAFA). The main purpose of FARSIG is to further the objectives of BAFA and for that purpose to:

- encourage research and scholarship in financial accounting and reporting
- establish a network of researchers and teachers in financial accounting and reporting
- enhance the teaching of financial accounting and reporting
- provide support for PhD students in financial accounting and reporting
- develop closer links with the accounting profession in order to inform policy
- publish a newsletter and organise targeted workshops
- develop and maintain relationships with BAFA and the professional accounting institutes
- provide a forum for the exchange of ideas among accounting academics.

The symposium, which is one of an annual series that started in 2007, provides a forum for academic, practitioner and policy-orientated debate. Such forums are useful for expressing and developing rounded opinion on the current meta-issues facing financial reporting.

Furthermore, they serve to illustrate the policy relevance and impact of current academic thinking and outputs in accordance with calls from the Economic and Social Research Council (ESRC) and Advanced Institute of Management (AIM) for relevant and rigorous research combining practitioner and academic perspectives.

ACKNOWLEDGEMENTS

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Mike Jones is chairman of the FARSIG Committee. Andrea Melis is on the FARSIG committee and Silvia Gaia and Simone Aresu are lecturers in accounting at, respectively, the University of Essex and the University of Cagliari, Italy. Penny Chaidali is teaching assistant at the University of Bristol. Luigi Rombi is a PhD Student in accounting at the University of Cagliari, Italy.

The future of financial reporting 2017: Change, narratives, education and globalisation

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Foreword

ACCA was pleased to host again the Financial Accounting and Reporting Special Interest Group (FARSIG) annual discussion of the future of financial reporting.

The meeting continues to provide a valuable opportunity for discussion between interested parties – principally academics studying financial reporting and those involved with its practical application in one way or another. The speakers this year reflected that, with three being practitioners of various sorts and two academics.

What is really valuable is that the papers and discussion continue to address issues that are being debated in the corporate reporting arena. The 2017 symposium certainly covered relevant issues on reporting in the financial statements and corporate reporting more widely.

We were given an insider's perspective of the development of global accounting standards by the International Accounting Standards Board (IASB), which has clearly been the most significant development in that field in this century.

In addition, this symposium led us on into how things are developing beyond that. The focus of so much debate is now on the idea that reporting the numbers is not enough. The standard setters dealing with the financial statements and those dealing with the broader canvas of corporate reporting, including environmental impacts, are trying to coordinate their work through a formal dialogue. The corporates are increasingly responding to the demands of investors and others for information that is important for an overall assessment. Reporting needs to be more complete, strategic and forward-looking and, in this way, to provide more non-financial information and narrative explanation.

Furthermore, academic tools are evidently developing that can not only look at the numbers but also analyse these components of reports. The education and training of professional accountants are changing (certainly at ACCA) in response to this, in recognition of the different skills and qualities that they will need.

Finally, the symposium touched on the other huge development of recent times: the importance of China and its interaction with the rest of the world. For audit, that means the 'Big Four' global firms.

The relevance of academic studies to the development of financial and corporate reporting will increase. Legislators need to prepare impact assessments. Standard setters, quite rightly, need evidence to support the development and revision of their standards. All these parties can and should benefit from the findings of academic research. IASB's work plan to 2022 has now been published. The Financial Accounting Standards Board (FASB), the US standard setter, has issued proposals for its future work. IASB is running active research projects that could benefit from such studies and data when these are available. Of particular interest, however, is the research pipeline of projects that it will be tackling later. The publication of these plans allows academic researchers time to explore the factors that will inform those projects when they commence.

The need for interaction between practice and academia, such as provided each year by the FARSIG symposium, is therefore more important than ever.

I extend my thanks to Andrea Melis, Luigi Rombi, Mike Jones, Penny Chaidali, Silvia Gaia and Simone Aresu for providing this summary of the event.

Richard Martin
Head of Corporate Reporting, ACCA

Introduction

In 2017, a number of diverse and significant challenges to world sustainability have persisted, if not increased, in scale and scope.

They include terrorism and geo-strategic tensions from a political perspective, inequality from a social perspective, and the unsustainable use of our planet's natural resources from an environmental perspective.

The European economy is continuing to face only moderate growth. The so-called 'persistent jobless growth' (ie where growth comes without increased employment), apparently due to the 'Fourth Industrial Revolution', has raised popular dissatisfaction. This is reflected in a troubling disconnection between the public and the authorities who govern them. There continue to be protests against austerity; migration from non-EU, poor countries; and government budget cutbacks. Nationalism is rising as a reaction to large-scale involuntary migration and security threats (World Economic Forum 2017).

Geo-strategic tensions and other geopolitical uncertainties in Europe, Asia, and especially the Middle East and northern Africa, remain and seem to be associated with a lack of long-term-oriented political leadership. Terrorist forces continue to threaten peace and stability in many countries, including the most developed areas in Europe, the UK and North America.

Globally, while inequality between countries has been decreasing at an accelerating pace over the past 30 years, it has consistently increased since the 1980s within some industrialised countries (eg US, UK and Canada). The natural environment remains threatened. Short-term financially-focused thinking and the reckless use of our planet's resources have caused more frequent extreme weather events, a continuing global deforestation crisis (with consequent biodiversity crises), a rapidly acidifying ocean, as well as eroding topsoil and reduced agricultural capacity around the world (World Economic Forum 2017).

Economic concerns seem to be inextricably linked with environmental sustainability, political unrest and social tensions. In this scenario, the UK referendum held in June 2016 decided that the UK should leave the European Union ('Brexit'). Since then, negotiations have been problematic. This raises potential economic problems within the UK. Meanwhile, Donald Trump's election in the US has also caused global uncertainty. The good news is that voters in France and the Netherlands have rejected populism, and politicians in Brussels (and Berlin) have started reforms and pro-EU spending measures.

It was within this unstable social, economic and political scenario that the latest annual FARSIG symposium on the Future of Financial Reporting was held at ACCA, London on 6 January 2017. Against a background of continuing social, political and economic uncertainty there have also been developments in areas such as financial and corporate reporting, financial narratives analysis in corporate annual reports, and the audit market worldwide. For example, Integrated Reporting is still being actively debated and used.

The main issues covered in 2017 were: the evolution of financial and corporate reporting, the challenge of relevance in corporate reporting, the analysis of financial narratives in annual reports, the recent and future developments in ACCA's qualification, and the future of Chinese and Western auditing markets.

The principles, concepts and elements that characterise how companies report their performance are currently being debated. Relatively old questions are still discussed, together with relatively new questions. What aspects of performance should companies report? How do they address concerns about the relevance of the information they report? What is the role of financial narratives in corporate reporting? Are they used to inform or mislead investors? What is the future of the accounting profession? What are the future skills required for accounting professionals? What is the future of audit? Accounting could contribute to providing an answer to these critical questions by using all its potential. It can help widening corporate reporting, to include financial, natural and other capitals. As a consequence, it would enhance proper decision making and stewardship of all the different resources employed in business activities. For example, the emerging concept of broad corporate reporting could provide a way of responding to these critical issues, while the evolution of accounting and the audit profession could help companies do this.

The title of the 2017 FARSIG symposium was 'The Future of Financial Reporting: Debating on-going developments', which reflected these developments and debates. Five speakers gave their views on the major accounting issues and future challenges in corporate reporting from the perspectives of the accounting standard-setters, practitioners from the accounting and auditing profession, and academia.

For 2017, the five speakers, listed in alphabetical order, were:

Jennie Bruce, Head of Qualifications Content at ACCA, 'Embracing change. Shaping futures'

Matt Chapman, Head of KPMG's Better Business Reporting Network, 'Improving corporate reporting: The challenge of relevance'

Ian Mackintosh, Ex-Vice Chair of the IASB and Chair of HM Treasury's Financial Reporting Advisory Board, 'How is financial reporting evolving?'

Richard Macve, Emeritus Professor of Accounting, London School of Economics, 'The Future of Chinese and Western accounting and auditing'

Martin Walker, Professor of Finance and Accounting, Alliance Manchester Business School, 'Electronic analysis of financial narratives: An overview'

Each presentation was, in the tradition of the conference, followed by a lively and informed discussion among the many symposium delegates.

ISSUES RAISED BY THE SYMPOSIUM

Before introducing the commentaries, some of the key issues that were presented and debated at the symposium are briefly summarised in Table 1.1. There was a major examination of some of the basics of accounting (eg relevance of the information in financial statements) and its profession (eg qualifications) together with some new frontiers of corporate reporting (eg financial narratives), both during the symposium and in the subsequent audience discussion. Some of the issues raised and discussed were, in many ways, 'old favourites' that continue to present academics and standard setters, as well as practitioners, with complex challenges, such as the relevance of financial statements or issues concerning the qualifications of the accounting profession. In addition, the speakers also gave their perspectives on new aspects, such as a software-based analysis of financial narratives in annual reports and the future of the audit markets in both China and the Western world. Some of common themes that emerged during the symposium were discussed in more depth after the commentaries.

Table 1.1 also gives a summary of the key issues raised at symposia over the past decade. As can be seen from the table, the main issues covered in 2017 were: the evolution of financial and corporate reporting, the challenge of relevance in corporate reporting, the analysis of financial narratives in annual reports, the recent and future developments in ACCA's qualification, and the future of Chinese and Western auditing markets.

If the environmental risks and opportunities affect the recoverable amount of the asset compared with its book value, then this will influence the balance sheet value.

Table 1.1: Overview of key symposia themes, 2008–17

2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
The evolution of corporate reporting	The use of information by capital providers	Accounting for goodwill	Conceptual Framework, measurement	Conceptual Framework, recognition and measurement	Asset and liability recognition	Complex financial instruments, asset and liability recognition and measurement	The role of and need for global accounting standards	Regulatory change	Conceptual Framework
The future development of the accounting and auditing professions	Conceptual Framework: Measurement	Corporate governance	EU Accounting Directive for SMEs	Regulatory Framework, governance and 'balanced reporting'	Measurement, fair value and confidence accounting	Regulatory environment, complexity of financial statements	Understandability and usefulness	The convergence of global standards through IFRS	Income measurement
Globalisation and accounting practices	Transparent corporate reporting	Integrated reporting	UK FRS: Tax implications	IFRS adoption and national accounting practices	Regulatory framework and complexity of financial statements	IFRS adoption and political interface	Political concerns	Fair value	Fair value
Accounting history	Integrated reporting and the capital markets	Sustainability accounting	The use of information by capital providers	Nature and complexity of crises	Fraud and accounting scandals	Carbon accounting	Sustainability accounting	Corporate governance	Financial communication
	The perceived role of the accountant in society	IASB and politicisation of standard-setting	Compliance with mandatory disclosure requirements					Asset securitisation and the credit crunch	

Sources: Jones and Slack 2008, 2009, 2010, 2011, 2012, 2013; Jones et al. 2014, 2015, 2016.

Not only is non-financial information now integrated with financial information in corporate annual reports, but the information provided in financial statements is also increasingly complemented by information provided in financial narratives.

Some of the main developments that have occurred during 2016/17 are discussed below. The harmonisation of the accounting principles and standards issued by different national and international stand-setting bodies has been considered fundamental to enhancing the consistency, comparability and, at ultimately, usefulness of company's financial statements. 'International accounting convergence', which refers mainly to the process by which the IASB and the US Financial Accounting Standards Board (FASB) have sought to reduce difference between US Generally Accepted Accounting Practices (US GAAP) and the International Financial Reporting Standards (IFRS), has now been discontinued. It resulted in the draft of few chapters on the objective and qualitative characteristics of financial statements. Although more convergence and harmonisation would be useful, deep cultural and socio-political differences seem to impede this. Following the failure of convergence, the IASB has been examining various concepts, a task that, by January 2017, was close to completion, although some aspects (eg the chapter on measurement) will require further time for improvement.

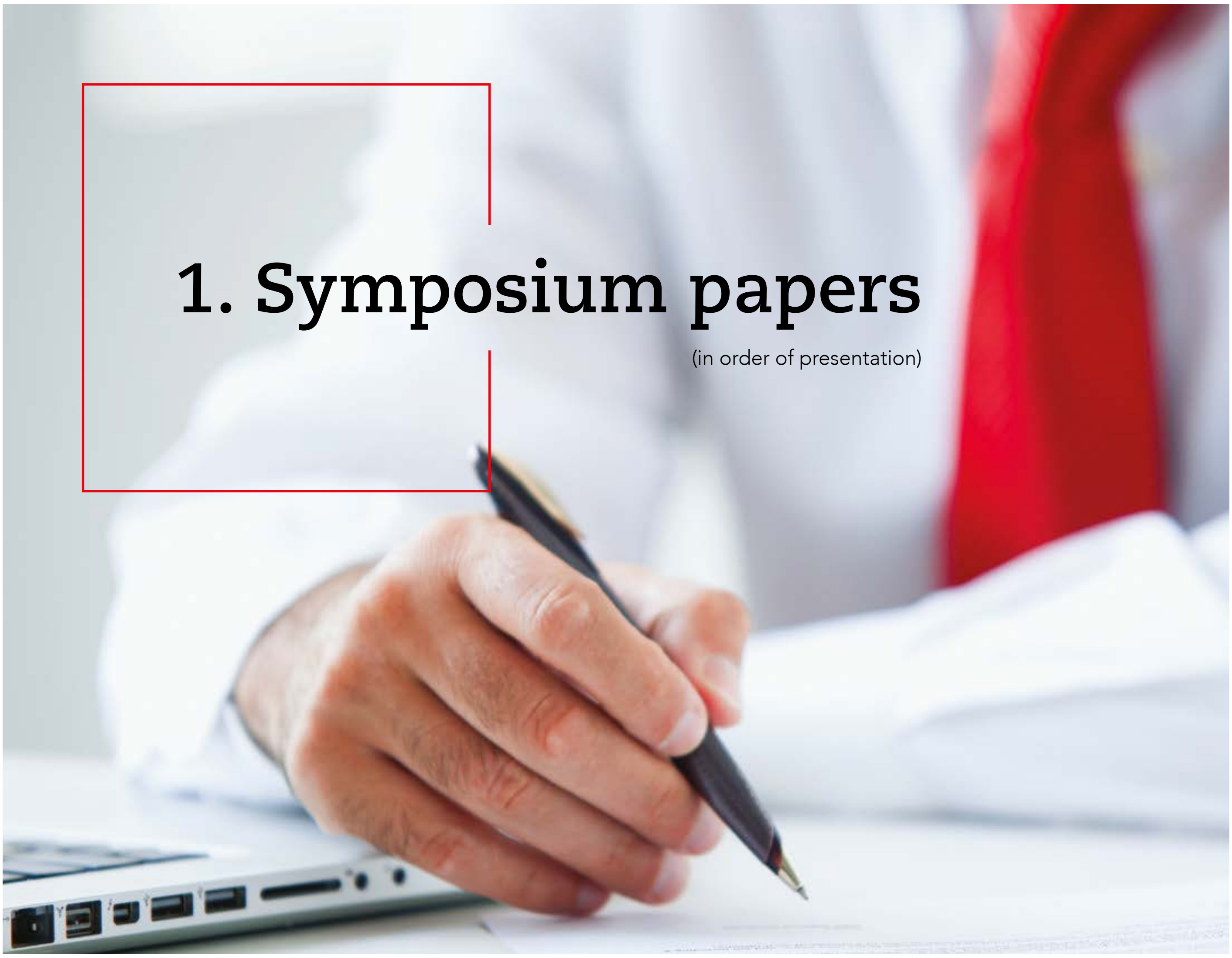
The IASB's agenda for 2017 includes a disclosure project. A discussion paper was published on 30 March 2017 with comments requested by October 2017. More importantly, the agenda includes the completion of the revised Conceptual Framework, which is expected to be published by 1st quarter 2018. The IASB's research pipeline also covers other important issues, such as the equity method, extractive activities, pollutant pricing mechanisms, provisions, high inflation, pension benefits that depend on asset returns, and SMEs that are subsidiaries.

Non-financial performance indicators are becoming increasingly used in corporate reporting. We are passing from a financial view to a financial and operational view. It is necessary to capture the non-financial elements of transactions and outcomes that are due to the intangible nature of many companies' key assets. In this scenario, the Corporate Reporting Dialogue initiative aims to foster debate and improve standard-setting and corporate disclosure. This initiative is being undertaken by well-known organisations that have significant influence on the corporate reporting landscape, namely: CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the Financial Accounting Standards Board (FASB), the Global Reporting Initiative (GRI), the IASB, the International Integrated Reporting Council (IIRC), the International Public Sector Accounting Standards Board (IPSASB), the International Organisation for Standardisation (ISO), and the Sustainability Accounting Standards Board (SASB). As of 2017, this Corporate Reporting Dialogue initiative has developed a statement of common principles of materiality from which only the US stands aside owing to country legislation.

Not only is non-financial information now integrated with financial information in corporate annual reports, but the information provided in financial statements is also increasingly complemented by information provided in financial narratives. The main types of corporate financial narrative that have so far attracted research attention are annual reports, Form 10K (an annual filing required by the US Securities and Exchange Commission (SEC)), Form 10Q (a quarterly SEC filing requirement), and company press releases and earnings announcements. Companies have considerable discretion over the content of these narratives. For this reason, the key issue for information users is understanding whether preparers use this discretion to inform or mislead them.

This evolving scenario in corporate reporting is affecting the accounting profession, and the skills required to be qualified as an accountant, as well as the future of the audit markets both in the Western world and in the emerging giants, such as China.

Many of these issues were, either directly or indirectly, addressed during the symposium. Each speaker provided a range of informed and interesting perspectives. The issues specifically addressed in the symposium are now presented, and then discussed, in more depth in the following sections.



1. Symposium papers

(in order of presentation)

How is financial and corporate reporting evolving?

Ian Mackintosh, Ex-Vice Chair of the IASB and Chair of HM Treasury's Financial Reporting Advisory Board

Drawing on his experience as vice chairman of the International Accounting Standards Board (IASB) and his recently appointed role as chairman of the Corporate Reporting Dialogue (CRD) initiative, Ian provided an outline of IASB's key events from 2001 to 2016, insights about its future actions and an overview of corporate reporting's future.

IASB 2001 TO 2011

Led by David Tweedie, the IASB was formed in 2001 to succeed the International Accounting Standards Committee (IASC), which since 1973 had been the primary international standard-setting body. The IASC concluded in 1997 that it was time to move to a new structure of standard setting that could streamline accounting standards and achieve the development of a single set of international standards. The vision of convergence between national and global standards first emerged when the European Union, as well as other countries such as South Africa, Australia and New Zealand, adopted the standards. To meet this goal, convergence with the US had to be achieved and for this reason numerous US members participated in the IASB's structure. During the period 2001–2011, a significant number of important standards were developed, namely those covering share-based payments, business combinations, operating segments, financial instruments, consolidations, joint arrangements and the fair value measurement. Despite all these achievements, the convergence with the US remained an open issue in IASB's agenda.

IASB 2011 TO 2016

Standards In the five years between 2011 and 2016, and following the crisis in the financial industry in 2008, the IASB produced standards on a variety of subjects. Among these one can find the revenue recognition standards and standards for the treatment of leases, which to a certain extent converged with US standards. Moreover, bearer assets were re-examined and modified. The IASB also started to look at rate-regulated activities. Rate regulation refers to the process whereby regulatory bodies or governments determine prices that can be charged to customers for services or products through regulations. It primarily concerns cases in which an entity has developed a monopoly or maintains a dominant market position that gives it significant market power. Rate-regulated activities are an interesting subject but raise the question of whether entities operating in a rate-regulated environment should recognise assets and liabilities developed under the effects of rate regulation; the answer to this is not unanimous among IASB members and so the issue has not been resolved yet. The

> **One of the biggest achievements of 2011–2016 was the adoption of standards by 120 countries, including such large and important countries as India, China, Japan, Brazil, Canada and South Africa.**

IASB has therefore produced a provisional standard with the intention of issuing a proper standard in due course.

Other matters During the period 2011–2016, Hans Hoogervorst and Ian Mackintosh were appointed as chairman and vice chairman respectively of the IASB, with Hoogervorst continuing in the same position for the next five years while Sue Lloyd took over as vice chair in October 2016.

At the same time, the IASB was looking at the conceptual framework, which by January 2017 was close to completion, although some parts, such as the chapter on measurement, require further time for improvement. The biggest challenge for the IASB has been the insurance standard, on which discussion began in 1997. The IASB made the last set of amendments in February 2017 as a result of field test activities conducted during the summer of 2016. On 18 May 2017, IASB issued IFRS 17 Insurance Contracts with the aim of resolving problems stemming from the interim standard IFRS 4.

An additional development in this period was the formation of the Joint Transition Resource Groups, whose purpose was to inform the IASB and the FASB about interpretative issues emerging during the implementation of the IFRS 15 Revenue from Contracts and IFRS 9 Financial Instruments and to provide consultation for resolving diversity in practice.

At that time, the convergence project with FASB remained difficult as the FASB kept its independence to some extent while from a taxonomy perspective there was a constant conflict between the principles-based and the rules-based approaches to defining various items. The difficulty in achieving convergence lies in the writing of a principles-based standard into the FASB's taxonomy, that continues to be rules-based. Although the board looked at the taxonomy issue, convergence continues to be deemed a challenging matter.

One of the biggest achievements of 2011–2016 was the adoption of standards by 120 countries, including such large and important countries as India, China, Japan, Brazil, Canada and South Africa, as well as the collaboration with the Accounting Standards Advisory Forum (ASAF), a board comprising 12 of the major standard setters.

IASB 2017 TO 2021

The IASB's agenda From 2017 to 2021 the IASB's agenda includes the completion of the revised Conceptual Framework, which is expected to be published by the first quarter of 2018. Moreover, IASB's aims include the introduction of a materiality practice statement that will explain the notion of materiality and how it can be applied in the accounts and notes.

Despite the difficulties in reaching an agreement on issues related to rate-regulated activities, the IASB is seeking the immediate completion of the project. Furthermore, the IASB emphasises the need for better communication, particularly in performance reporting, where there is a debate about what a company should report. One the one hand, it is argued that a company should explain performance as its own preparers understand it. One the other hand, a considerable number of investors support the view that all companies should tell their story in the same manner for comparability reasons. Taking into consideration the above arguments, the IASB is reviewing the primary financial statements with a particular focus on the statement of financial performance.

The IASB has undertaken a 'principles of disclosures' project, as part of the disclosure initiative. A discussion paper was published on 30 March 2017 with comments requested by 2 October 2017. At the same time, the IASB is expecting to receive post-implementation reviews of the taxonomy, which will address the question of whether particular standards need to be changed.

Research programme A series of important issues needs to be addressed within the period 2017–2021, including business combinations, dynamic risk management, financial instruments with characteristics of equity, goodwill and impairment, discount rates, the disclosure initiative on the principles of disclosure, and the primary financial statements.

In the IASB's research pipeline other significant matters exist which aim to be reviewed soon. These include: the equity method, extractive activities, pollutant pricing mechanisms, provisions, variable and contingent consideration, high inflation (ie a review of IAS 29), pension benefits that depend on asset returns, and SMEs that are subsidiaries.

Although all the bodies that are members have different standards, the purpose of the CRD is to promote greater coherence, consistency and comparability between the corporate reporting frameworks, the standards and the related requirements.

The IASB has decided to discontinue research on issues such as foreign currency translation, high inflation, income taxes and post-employment benefits, including pensions.

IASB's mandate During the last five years, there was a constructive discussion with the trustees about the mandate of the IASB and its potential expansion. Following on from this, financial reporting remains one of the primary tasks of the IASB. The same applies for SMEs as, despite the debate as to whether the IASB should be involved in that level of reporting, the SME standard has been successful, particularly in helping developing countries to deal with financial reporting issues. From the discussion with the trustees it was made clear that the IASB should either not be involved at all or sit on the fence for certain matters: public sector financial reporting, the not-for-profit sector and the broader corporate reporting landscape, including integrated reporting, <IR>.

At that time, a potential involvement of the IASB with issues beyond corporate financial reporting was deemed risky as it might put into danger all the gains made over the years. Nonetheless, this belief might change in the future as the IASB is a very well-resourced body and its involvement with broader reporting matters could prove fruitful.

Broader Corporate Reporting Dialogue (CRD) As the recently appointed chairman of the Corporate Reporting Dialogue, Ian provided important insights about its members, purpose and future.

CRD – the members The Corporate Reporting Dialogue (CRD) consists of well-known organisations that have a significant influence on the corporate reporting landscape: CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the Financial Accounting Standards Board (FASB), the Global Reporting Initiative (GRI), the International Accounting Standards Board (IASB), the International Integrated Reporting Council (IIRC), the International Public Sector Accounting Standards Board (IPSASB), the International Organisation for Standardisation (ISO), and the Sustainability Accounting Standards Board (SASB).

CRD – the purpose The CRD emerged with the aim of bringing together organisations with a significant impact on the corporate reporting landscape to respond to market calls for better interests' alignment and reduction of the burden of corporate reporting. Although all the bodies that are members have different standards, the purpose of the CRD is to promote greater coherence, consistency and comparability between the corporate reporting frameworks, the standards and the related requirements. CRD is working on the development of practical ways to bring about alignment and shared information with an expression of a common voice on areas of mutual interest.

CRD – Output to date To date, the CRD has created a landscape map outlining the reporting responsibilities for each of the eight body-members. It has also developed a statement of common principles of materiality from which only the US stands aside because of country legislation. Moreover, there is discussion about further outreach and output and, last but not least, the appointment of the new chairman.

INFORMATION ABOUT MEMBERS

CDP (formerly the Carbon Disclosure Project) The 15-year-old CDP runs a global disclosure system focusing on the disclosure by companies and cities of their environmental impacts. With regional offices and local partners in 50 countries and organisations participating from over 90 countries, it collects and publishes corporate climate change data. CDP aims at better measurement, management, disclosure and, ultimately, reduction of greenhouse gas emissions.

Climate Disclosure Standards Board (CDSB) CDSB seeks to equate natural capital with financial capital and articulate a framework for reporting environmental information. It uses the GRI sustainability reporting guidelines to present environmental capital information under the mainstream financial report; it was developed by the World Economic Forum in 2007.

Financial Accounting Standards Board (FASB) FASB is a well-known independent, private sector, not-for-profit US organisation established in 1973. It establishes financial accounting and reporting standards for public and private companies and not-for-profit organisations that follow US GAAP. FASB aims to provide useful information to investors and other users of financial reports.

> With regard to the further evolution of the broader corporate reporting landscape, the option of leaving things as they are does not seem beneficial.

Global Reporting Initiative (GRI) Based in Amsterdam and with hubs in Africa, China, North America, Oceania, Latin America, South Asia and South East Asia, the GRI claims to be 'the world's most trusted and widely used global standards for sustainability reporting'. It is a substantial organisation which has developed strategic partnerships with the OECD, the UN, the the United Nations Environment Programme (UNEP) and ISO and has been used in 90 countries. GRI provides global best practice on a range of economic, environmental and social impacts with the aim of empowering sustainable decisions.

International Integrated Reporting Council (IIRC) The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs, which promotes communication about value creation as the next milestone in the evolution of corporate reporting. Its mission involves the establishment of Integrated Reporting, <IR>, within mainstream business practice as the norm in both public and private sectors. The IIRC has published the International <IR> Framework, which includes principles-based guidance and content elements to govern and explain the information within an integrated report. The Framework advises reporting on six capitals, namely: financial, manufactured, intellectual, human, social and relationship, and natural capitals. The period 2014–2017 reflects <IR>'s breakthrough phase, in which the IIRC has sought to achieve a meaningful shift towards organisations' early adoption of the <IR> framework.

International Organisation for Standardisation (ISO) ISO was formed in 1947 to facilitate the international coordination and unification of industrial standards. It is a global network of national standards bodies with one member per country. It has published 21,000 standards to date, covering almost all aspects of technology and manufacturing. The standards ensure that products and services are safe, reliable and of good quality and are developed on a consensus basis by experts from all around the world.

Sustainability Accounting Standard Board (SASB) The SASB is a US-based body whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors in the US as well as in other countries. To date, SASB has developed standards for 79 industries in 11 sectors.

BROADER CORPORATE REPORTING

What should be the way forward?
With regard to the further evolution of the broader corporate reporting landscape, the option of leaving things as they are does not seem beneficial. One possible way to move forward relates to advances to be made in the CRD. Another possibility involves IIRC as the coordinating and leading body, while an alternative suggestion regards the IASB as the leading body in the development of a more extensive and mandatory management commentary. In addition to these options, the possibility of making GRI the coordinating body could be examined. Finally, one could recommend the formation of a new body that would bring together standards and guidance for broader corporate reporting. The future development of broader corporate reporting is thus a tough challenge that needs to be tackled.

QUESTIONS AND ANSWERS

Geoff Whittington (University of Cambridge) wondered whether there is an actual, immediate demand for the IASB to get deeply involved in broader corporate reporting.

Ian argued that even though people contributing to the IASB might not be interested in seeing the body take on a broader involvement in corporate reporting, investors actually demand it. He stated that there is a certain level of hesitation and discussion about the extent to which IASB should be involved in this type of reporting. To date, the IASB has made some steps that would enable it to make a more sensible decision, in due course, as to how involved it should be.

Pauline Weetman (Edinburgh University) noted the absence of national regulators from the constitution of Corporate Reporting Dialogue (CRD) and stated that the existence of broader reporting initiatives in parallel with national regulations creates confusion. Pauline asked what actions the CRD aims to take to engage with national regulators and so move towards alignment with them.

Ian replied that the CRD case mirrors the financial reporting standard-setting process whereby professional bodies first form standards that need to be aligned

> **From Ian's perspective, organisations need to tell their own story in alignment with an appropriate framework that would include principles that enable them to decide what to include and exclude.**

with an international standard and then this international standard becomes the subject of discussion with the regulators about potential application. Similarly, in the case of the CRD, in an attempt to avoid causing market confusion by the development of different standards, the body would try to gain international institutional agreement. The aligned model that would emerge would then be discussed with regulators who will still have a strong say on what a standard should include.

Richard Martin (Head of Corporate Reporting, ACCA) argued that one of the major problems with broader corporate reporting is the variety of information needed across industries, which cannot be provided using the generally applicable standards that accounting standard setters are used to producing. Richard supported the IASB's involvement in broader corporate reporting as it could ensure consistency between what organisations broadly report and what they put in their financial statements. He further suggested that organisations adopting broader corporate reporting should be in a position to explain the value that this adds to the financial statement and to clarify how their engagement with broader corporate reporting might change stakeholders' views of the company.

Ian replied by referring to what he had said in his talk about the debate among people who believe that organisations should be telling their story the way they see it and explaining why they're doing what they're doing. From Ian's perspective, organisations need to tell their own story in alignment with an appropriate framework that would include principles that enable them to decide what to include and exclude.

Sue Hardman (Brunel University) noticed that many accounting standards bodies focus very closely on corporate reporting rather than financial reporting, leaving challenging areas such as the not-for-profit disclosures unaddressed.

Ian agreed with Sue's opinion and stated that there was a debate about this matter among IASB's trustees.

Ian was then asked whether the IASB is examining the possibility of developing a standard for micro entities following the recognition they have received in the EU.

Ian replied that such a scenario is not within the IASB's interests as the SME standard, if properly applied, could suit micro entities to an adequate extent.

Rhoda Brown (Loughborough University) wondered how the development of a more extensive and mandatory management commentary would differ from the operating and financial review (OFR), which was ultimately overturned, and what lessons can be taught from the past experience with the OFR.

Ian clarified that the suggestion of developing a more extensive and mandatory management commentary is merely at the discussion stage, not yet taken to the IASB's board or trustees. Ian thought that although such a suggestion would meet fairly substantial resistance it would be well worthwhile to start discussing it.

Mike Jones (University of Bristol) asked about the future relationship between US standards and the IASB, given that the idea of convergence between the two is not on the table anymore. Mike was interested to know whether this means that there will be divergence over time, or if the two boards will remain in the same position.

Ian confirmed that not much can be done in this case, as the IASB and the FASB are indeed working together but they might reach different decisions.

There was a follow-up comment about the IASB's future research agenda, which seems quite different from FASB's future plans. This understanding confirmed Mike Jones' suggestion about the possibility of future divergence between the IASB and the FASB.

Ian stated that, a few years ago, the FASB suddenly said that international standards might not be possible because of the different circumstances existing in each country. The IASB contradicted this argument by asserting that past experience has shown that international standards are quite feasible, with the only exception being the US. Ian concluded that in cases where compromise cannot be achieved, divergence follows.

Improving corporate reporting: The challenge of relevance

Matt Chapman, Head of KPMG's Better Business Reporting Network

Matt Chapman is a senior manager at KPMG and currently works on guidance across a wide range of sectors, for businesses that are looking to develop their narrative reporting to support a deeper investor dialogue. His presentation challenged the common assumption that financial and corporate reporting are the same thing and how this misconception leads to short-term rather than long-term decisions. He started by suggesting that the gap between those two concepts is caused by current corporate reporting practices and how such practices are adopted by reporters, creating annual reports that do not give any particular insights for investors aiming at long-term value.

Matt illustrated his point by asking the audience which sector, among technology, utilities and retail, was the riskiest one in which to run a business. Even though the answer shared by all the participant was technology, Matt corrected this saying that *according to company reports* utilities are riskier. This is because, when counting the number of risks disclosed in company reports utilities companies generally identify 50% more risks than the other sectors presented. He also suggested that the answer reflected a tick-box approach to corporate reporting and an assumption that data about past financial performance was enough to give a complete view of corporate performance. In order to deal with investors' needs, and to provide information best suited to this purpose, this process must be challenged.

Matt continued showing what the world looks like from a report preparer's perspective. Almost the entire content of the report is about past performance, usually expressed with well-known financials, with limited insight into management plans and strategic issues that affect the long-term prospects of the business. In contrast, an investor's valuation model is likely to derive 30–40% of the firm's value from rolling forward current earnings, but maybe 20% from management initiatives, with the rest from assumptions about long-term performance. Matt emphasised that the disparity represented a *reporting gap*. As a result, he said that investors were exposed to management teams that traded *invisible* long-term value (for example, customer goodwill) for *visible* short-term value in the form of current earnings.

Matt then moved on to highlighting how this topic is business relevant, showing how strategy is addressed in current reports. Using a chart provided by a worldwide study done by KPMG (2016), he showed how almost half the strategy discussions in corporate reports do not look beyond the short term. Moreover, he pointed out how typically narrow in scope were strategy and business-model discussions that looked beyond short-term factors – in the medium term, strategy is usually described through initiatives relating to the product base and geographic focus, while in the longer term, social responsibility, customer experience and reputation tend to prevail.

Matt also provided anecdotal evidence of how investors were calling for more insight into business strategy, its implications, and the company's progress in implementing it.

He showed an extract from Blackrock's CEO Larry Fink's 'think statement', which said that 'CEOs should be more focused in these reports on demonstrating progress against their strategic plans than a one-penny deviation from their EPS targets' (Blackrock 2017).

Matt proceeded by demonstrating how business-model descriptions in reports vary and pointing out how there still exists a big gap between what companies are saying about their models and what seems to be important to business. All reports surveyed by KPMG presented general issues with a lack of depth in the business model's description and the omission of key aspects of competitive advantage. In addition, they typically failed to connect the business-model

> **In general, companies report what other companies in the same country tend to report, creating a boilerplate risk identification that limits insight for shareholders, especially when risk-management discussions are frequently bland and passive.**

description with the rest of the report. On this point, Matt said that the most striking gap is know-how disclosure in business models. According to KPMG's survey (2017), only half of UK companies identify knowledge and expertise as a key part of their business models. Matt argued that this is in part attributable to report preparers' thinking about know-how in the narrow accounting terms of research and development, rather than the wider expertise that is critical to the functioning of many businesses.

Another area where reporting tends to diverge from corporate reality is risk reporting. Matt said that, if you look globally, there are certain risks that are reported as a matter of routine by companies in particular countries, irrespective of relevance. French companies, for example, appear more concerned about availability of staff while, in other countries, companies tend to focus on exchange risks and/or commodity prices. In general, companies report what other companies in the same country tend to report, creating a boilerplate risk identification that limits insight for shareholders, especially when risk-management discussions are frequently bland and passive.

Matt then discussed whether current corporate reporting culture was geared to providing decision-useful information. He suggested that many companies see reporting as a tick-box exercise rather than as providing useful information to their users. He illustrated the need to look beyond the financial statements, using the headlines from a research report on a UK company that showed how analysts were attempting to do this. The report started with a message about an underlying earnings measure, ie 'earnings before interest, taxes, depreciation and amortisation' (EBITDA). It then discussed three operational key performance indicators (KPIs) and three analysed financial balances before referencing just two numbers from the GAAP financial statements.

Looking at the KPMG survey results, Matt then showed which aspects of performance companies are reporting. The great majority focus on short-term performance, such as historical financial performance and underlying financial performance. A smaller number focus on current performance, which is particularly valuable for businesses working in fluctuating or volatile industries. A smaller number still also provide short-term financial forecasts. Matt pointed out that, in some countries, the last type of information is mandatory (eg Germany) or semi-mandatory (eg Japan). Looking beyond short-term forecasts at companies providing information about operational health, this is a much small number still. As he underlined, there is a lot of information that is focused mainly on a short-term view of performance, but an understanding of a company's value requires objective insight into longer-term prospects. Matt concluded that reporting practice does not meet the regulatory ambition of providing shareholders with insight into longer-term aspects of value and strategy, owing to this narrow set of information.

In more detail, the operational health content of reports usually considered six broad operational areas: product (eg product quality, market penetration); customers (eg sales and customers); efficiency; staff (eg key staff retention); research and development; and, finally, brand performance. As Matt highlighted, even with quite a generous interpretation of the disclosures provided about these performance areas it is quite evident that key aspects are not yet being addressed. Moreover, taking sales KPIs as an example, some measures are more relevant than others. For example, few companies disclose customer retention KPIs or satisfaction-related KPIs, which would provide leading indicators of future financial performance.

Matt also praised the progression of the Federation of European Accountants (FEE) discussion paper, *The Future of Corporate Reporting*, aimed at increasing the relevance of corporate reporting, for both financial and non-financial information. Moreover, he emphasised how the accounting profession has all the necessary skills to handle this shift in corporate reporting content. In addition, he highlighted how the strategic report and the integrated report initiatives align. The strategic report requirements are, however, written in a different, more business-accessible language.

Matt concluded by outlining the practical challenges for the future. First, he highlighted how we are passing from a financial view to a joint financial and operational view. Systems will need to become broader and it is necessary to capture non-financial elements of transactions and outcomes. Therefore, it is also necessary to have high quality

> Annual reports have to tell the whole story and explain all the drivers of success, highlighting what is relevant to the long-term strategy and success of the company.

non-financial information. Second, we must shift from a compliance-led world to a business-focused world. Matt underlined how those preparing company reports often have only a narrow understanding of their company's strategic priorities and challenges; therefore, their role must change. Third, rather than backward-looking reports we must shift towards forward-looking reports (using leading historical indicators) with contents adapted to business strategy and with (relevant) future-oriented information rather than 'form-filling' content. According to Matt, this would require report preparers to move from a balance-sheet/earnings view of the world to one that focuses on relevance to shareholder value in order to understand users' needs. Finally, he concluded by specifying how financial information should be seen as the start of the company's story, not the end. Annual reports have to tell the whole story and explain all the drivers of success, highlighting what is relevant to the long-term strategy and success of the company.

QUESTIONS AND ANSWERS

Alan Graham (University of Portsmouth) questioned the difficulty of making forecasts for the long term and whether they could be affected by unpredictable shocks that could impair business models.

Matt answered that he believed the emphasis should be on businesses' provision of historical indicators of performance that supported investor assessments of prospects, rather than forecasts themselves. In relation to commercial shocks (eg Brexit) he said that good business-model disclosures have an important role to play in allowing investors to assess the implications of new issues as soon as they arise.

Geoffrey Whittington (Cambridge Judge Business School) asked what were the limitations of the audit activity aimed at controlling long-term forecasts.

Matt said that the majority of the numbers necessary to support an assessment of long-term value are auditable. He explained that an auditor entering into a company can understand what the business model and strategy are and whether they have been fairly disclosed. Using this knowledge the auditor could then determine whether relevant performance information had been provided and whether that information was accurately derived. Matt argued that this would address investor needs.

Richard Martin (ACCA) questioned why companies tend to be so slow in dealing with the gap highlighted between financial (short-term) and strategic (long-term) reports, considering the potential financial gains that both companies and shareholders could have.

Matt answered that the problem is that there is no complete overview of the reporting process by a single entity. Most of the individuals involved in the process do not focus on providing a full and complete view. Rather, they are much more interested in getting the numbers exactly right and avoiding trouble with the regulators.

Richard Martin (ACCA) also questioned whether certain modifications could be done directly in the financial statements, in order to address immediately the concerns raised by Matt.

Matt answered that the danger of taking this approach too far is that it could undermine the integrity of the financial statements. The financials could provide an objective starting point but reports needed to build on them. Providing a better discussion on non-GAAP measures could be a better starting point for a more forward-looking approach.

Martin Walker (University of Manchester) suggested that to speed things up, companies might develop voluntary statements and ask audit firms to audit certain measures.

Matt agreed with this as a model for reporting improvement but said that this would be quite a long journey. Auditors should be encouraging this, but should wait until reports reach sufficient quality before providing public assurance, or their credibility could be undermined.

Tuan Ho (University of Bristol) wondered whether long-term information should be provided through sell-side analysts rather than directly by companies.

Matt answered that this could lead to two problems: market abuse risk and quality/consistency risk. He suggested that, possibly, the absence of certain features in annual reports has arisen because companies have never focused on addressing a given matter, rather than because they were unable to do so.

Electronic analysis of financial narratives: An overview

Martin Walker, Professor of Finance and Accounting, Alliance Manchester Business School

Martin gave a speech on the role and importance of financial narratives. The analysis of financial narratives is a rapidly growing area of research. Companies have considerable discretion over the content of their narratives and there is a lot of interest in whether this discretion is used to inform or mislead investors. The response of investors to narrative disclosures is an important related theme. In addition, the role of information intermediaries in the dissemination, interpretation and moderation of financial narratives is emerging as a key topic.

The main kinds of corporate financial narratives that have so far attracted research attention are annual reports, the US Form 10K and Form 10Q, company press releases, earnings announcements, trading updates, and interim management statements. There are also opportunities for more research on the narratives contained in initial public offering (IPO) and secondary equity offering (SEO) prospectuses. Regarding the roles of information intermediaries, research is emerging on conference call transcripts, where the question and answer (Q&A) section is particularly interesting for investors, financial media articles, and analysts' reports. Credit analyst report narratives are ripe for investigation.

A lot of work on specific forms of narrative content focuses on how companies discuss their recent financial performance. The readability and bias in tone of performance reviews lend themselves to electronic analysis quite readily. The use of causal language (ie with cause and effect relationships) in such reviews has also attracted attention. The use of word lists to score specific types of language, such as tone, causality, and ambiguity is the most frequently applied research methodology.

Other forms of narrative content currently being researched include: forward-looking content (in contrast with backward-looking annual reports); strategic discussion; reviews of financial performance; 'risk and uncertainty' statements; corporate governance reports; remuneration reports; the New UK Audit Report; and corporate social responsibility reports. The shorter the document, the easier is its in-depth analysis, either human or electronic. Narrative content analysis can be based on words, sentences, paragraphs and, potentially, n-grams, which can be defined as all combinations of adjacent words or letters of length *n* found in a source text.

There have been significant methodological papers on measures of readability and tone as linguistic characteristics of narratives. On readability, important recent contributions include Li (2008), who found a negative relationship between readability and firm performance, and Loughran and McDonald (2014). On the scoring of tone, key papers include Li (2010), and Loughran and McDonald (2011). Henry and Leone (2016) provide a useful summary and empirical comparison of the alternative methods of measuring tone.

Latent Dirichlet Allocation (LDA) is an electronic technique that can be used to characterise the content of a large corpus of documents of a particular type. For a given corpus one can create a dictionary of all the words appearing in the corpus, omitting uninteresting ('stop') words such as 'a' and 'the'. The method assumes that every sentence in the document is concerned with one of a finite number of topics. Using Bayesian probability methods, LDA can be used to identify a

There are, however, limits to what can be researched by electronic methods alone. The more sophisticated the analysis, the less often electronic methods alone can be used.

finite set of latent (ie not directly observable) topics. A key output of the method is an 'N by T' matrix for each document, which measures the probability that particular topics will appear in a given sentence, where N is the number of sentences and T is the number of topics. Dyer et al. (2016) use LDA to characterise the linguistic content of all US 10K reports over the period 1996 to 2013, identifying around 150 topics and finding that three of these (fair value, internal controls, and risk factor disclosures) accounted for virtually all the increase in content.

Martin discussed another linguistic approach with potential for new applications in accounting and finance: the comparison of documents. For example, Brown and Tucker (2011) identify year-on-year changes in the management discussion and analysis (MD&A) section using the cosine between the two vectors (angles) of words appearing in successive MD&A sections. They find that firms experiencing larger economic changes have greater changes in their MD&A content, and that the stock price response to the disclosure of the MD&A is positively associated with the amount of change. Such document comparisons can also be made at lower levels of aggregation. For example, one could compare the sentences in the Form 10K of a company in two successive years with a view to identifying content in the second year that did not appear in the previous year and vice versa.

There are, however, limits to what can be researched by electronic methods alone. The more sophisticated the analysis, the less often electronic methods alone can be used. Detecting impression management in narratives, for instance, requires an understanding of the subtleties of language which are much more difficult to program. In particular, it is unlikely that the scoring of impression management can be achieved through a word-list approach alone. The scoring of more sophisticated linguistic features, such as impression management, may therefore require approaches that combine reading by the researchers with electronic methods. For example, it may be possible to use a computer-based approach, perhaps using a word list, to select sentences or paragraphs of particular interest for reading by the researchers. Although there are some types of linguistic project that can be almost completely computerised, and some that have almost no scope for computerisation, it is likely that the majority of projects will require the combining of computer-based analysis with manual reading, thus being semi-automatic projects.

A problem that particularly affects researchers outside the US is that annual reports do not follow a fixed format, and are presented in the form of PDF files. The Corporate Financial Information Environment (CFIE) project (Athanasakou et al. 2016) has produced free-to-use software that identifies the individual sections of annual reports and scores the narrative content of these sections along several dimensions, including word count, readability measures, and measures of positive and negative tone. For a sample of around 10,000 UK reports for the period 2003 to 2014, this project has found that UK narratives almost doubled in word length over that period. In particular, there was significant increase in the median word length of annual reports at the time of the implementation of IFRS in 2005/6. Further significant increases occurred between 2011 and 2013.

Further analysis of the CFIE data, at the annual report section level, has shown that there are significant differences in the tone of different types of section. In particular, performance review sections seem to be much more optimistic in tone than the rest of the annual report.

The CFIE data of 10,000 annual reports has also been used to construct a disclosure index for the UK, considering different sections of the annual report, their tone and readability. Interestingly, CFIE data has shown that overall readability has decreased over time. Preliminary results using this index suggest the existence of a u-shaped non-linear relation between the cost of capital and disclosure quality.

To summarise, the topic provides many research opportunities, particularly combining human and electronic analysis.

In software-based research, subjectivity cannot be avoided, inter-coder agreement is difficult and it is thus important, before running the software, to make the research design choices as clear as possible.

QUESTIONS AND ANSWERS

After Martin's presentation, there were some questions and comments by the audience.

First comment: this related to the fact that subjectivity still exists in computerised research as the researcher can choose the topic to investigate and the unit of analysis (eg words or sentences). Moreover, software-based research can lead to problems of validation and replication.

Martin Walker agreed that, in software-based research, subjectivity cannot be avoided, inter-coder agreement is difficult and it is thus important, before running the software, to make the research design choices as clear as possible.

Richard Slack (University of Durham) asked whether cross-border research has progressed, given the fact that IFRSs lead to longer reports in some countries than others.

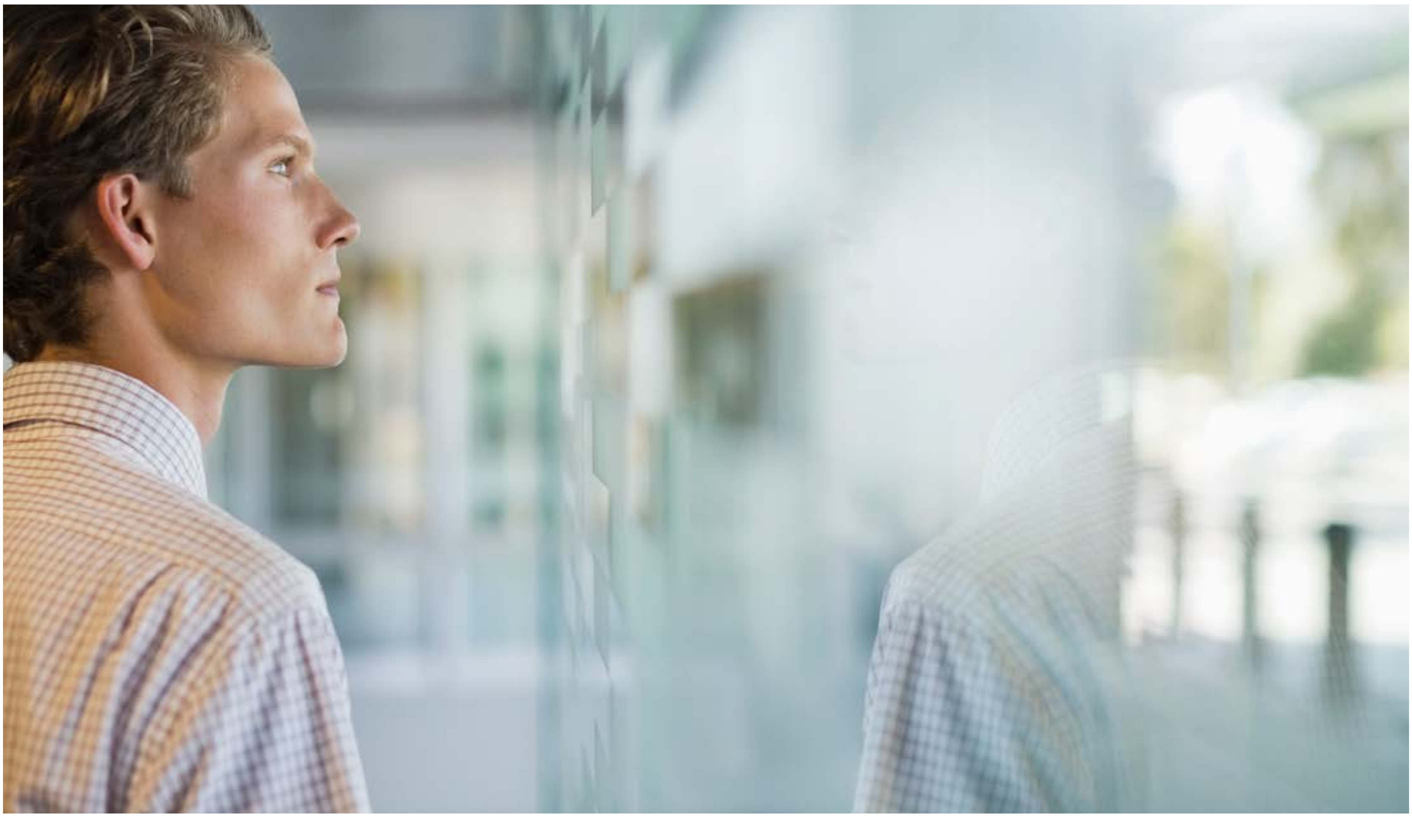
Martin Walker replied that there are interesting research opportunities in cross-border research.

Mike Jones (University of Bristol) also agreed that institutional context matters and leads to different disclosure choices within financial narratives.

Third comment: this dealt with the importance of choosing a section of the annual report rather than the whole document, which is less likely to be read in its entirety by stakeholders.

Fourth comment: this was on the role of regulators (eg auditors) in checking the consistency between financial statements and narratives.

Martin Walker stressed the need for consistency between financial statements and narratives and gave an example of an area (segmental disclosure) that is worthy of exploration, being part of both the notes to the statements and the performance commentary. He also highlighted that auditors should contribute to achieving consistency.



Embracing change. Shaping futures.

Jennie Bruce, Head of Qualifications Content at ACCA

Jennie presented recent and future developments in ACCA's qualification, which aimed at helping to shape the futures of newly qualified accountants in the ever-changing work landscape.

ACCA'S RESEARCH PROGRAMME

Jennie started her presentation by providing information about the research conducted by ACCA's Professional Insights team on the future of the accounting profession, the drivers of change and future skills required. On the basis of the results of the research, ACCA aims to develop a qualification fit for the future. Jennie described this particular piece of research as extensive and ambitious. Over an 18-month period, ACCA talked to 2,000 professional accountants in organisations around the world and organised workshops in which 300 participants, directly associated with or very close to the profession, were involved, with the aim of discussing their perceptions of the future and its challenges, and the skills that would be needed within the profession in the period to 2025. The survey participants were asked to select six factors from a list of 21 factors that they considered would have the biggest impact on the profession in the mid-term (up to 10 years from the time of the survey) and in the longer-term (more than 10 years).

Jennie explained that the results of the research identified four themes of change, namely: increased regulation and increased governance; digital technologies; wider expectations of professional accountants; and globalisation. She further noted that the research clearly demonstrated that accountants' traditional technical skills are no longer sufficient.

PROFESSIONAL QUOTIENTS

Jennie explained that the research helped ACCA develop the concept of professional quotients that reflect the wider set of skills and capabilities that the professional accountants of the future will need in order to succeed. In her view, this set is a combination of technical and wider skills and capabilities. They include technical and ethical competences; intelligence to handle complex situations; creativity in looking for novelty; digital technology abilities; emotional intelligence skills; the vision to look ahead; and, finally, experience, which is based on learning to understand customer expectations, meet desired outcomes and so add value.

ACCA QUALIFICATION – THE FUTURE

A journey of innovation Jennie then talked about the qualification and ACCA's journey towards changing it. The changes made since 2014 are being driven by some of the themes that the research highlighted and, particularly, by the acknowledgement that the world is changing at a fast pace. Under these circumstances, ACCA highlights the need for the development of highly skilled professional accountants with a strategic, forward-thinking aptitude. Jennie noted that the role of professional accountants within business and practice is vital because they help economies remain stable, fair and transparent. In this context, she described the changes that ACCA has already made, and will

Jennie explained that in order to make the exam more practical and work-focused, ACCA has widened the team that writes the content of the exam and intends to engage employers in participating in some of the validation processes.

continue to introduce during 2018, to the accounting qualification to ensure that the profession keeps adding value within a changing corporate landscape.

2014 Jennie talked about the shift made at the knowledge level from stand-alone objective test questions to questions that are closely related to real-life cases that enable students to understand how actual accounts are being prepared. Moreover, Jennie stated that the format of the skills exams has moved towards a computer-based model.

2015 During 2015, ACCA provided students and their employers with a more flexible exam schedule. Jennie said that that exams would run four times a year instead of the previous twice. This change will help students who find themselves in complicated job situations to plan their studies and make faster progress. In addition to this, ACCA changed the requirements for professional experience and launched ACCA-X, a new online course that helps candidates prepare for ACCA's foundation-level qualifications. At the same time, ACCA announced the establishment of a joint Master's degree with the University of London. Jennie also talked about the changes that ACCA made to its careers job board, the members' website and the Accounting and Business magazine.

2016 In 2016, ACCA started to release reports developed by the Professional Insights Team and further improved the continuing professional development (CPD) programme. With regard to the skills exams, Jennie referred to the mid-level exams that were introduced for the first time as computer-based exams in September 2016. Jennie explained that these computer-based exams are innovative in style and include objective test questions along with long questions that students have to answer on computer, using tools that allow them to apply skills necessary for the workplace. Finally, ACCA made changes to the Approved Employer Scheme to ensure support from a higher number of approved employers around the world.

2017–2018 Jennie presented the main pillars of the ACCA professional-level exams, which comprise knowledge, skills and strategic professional themes. To date, ACCA has already made changes to the knowledge and skills level. As far as the professional level is concerned, the compulsory exams will be reduced from the previous three to two: the strategic business leader and strategic business reporting. At the same time, ACCA continues to provide students with the opportunity to specialise through a selection of two optional exams from a list of four options.

Strategic Business Leader exam Jennie discussed the content of the strategic business leader exam. The learning outcomes of the syllabus are aimed at developing students' skills in various areas such as leadership, communication, professionalism, governance, strategy, risk management, technology and data analytics, organisational control, finance, innovation and change management. Jennie emphasised that the exam is designed to position students as if they were operating within a team in a business environment. The novel component of the exam involves the development of professional skills themes in which the students are examined. These include: communication, commercial acumen, analysis, scepticism and evaluation. As Jennie explained, the duration of the exam has changed to four hours from three, so that students have the time to apply all the skills required. She added that ACCA will not release in advance the scenario in which students are to be examined so as to treat all students equally and fairly. Jennie further noted that the exam will not be an 'open book' type to prevent students from writing parts from the book that do not actually answer the task they are given. Thus, the exam includes a scenario with some background realistic information about the business, with emails and other details. The requirements might ask students to do things that they would be asked to do in the workplace, for example: to write a report or a letter, to respond to an email or prepare a presentation. Jennie explained that in order to make the exam more practical and work-focused, ACCA has widened the team that writes the content of the exam and intends to engage employers in participating in some of the validation processes.

> **Future professional accountants will need to demonstrate ethical and professional skills and behaviour and, for this reason, ACCA is planning the development of an online interactive module that will cover ethics and other wider professional skills that are also required for the Strategic Business Leader exam.**

Corporate reporting Jennie then referred to the key skills needed in corporate reporting as identified by ACCA's research. First, the ability to communicate a holistic view of corporate reporting will be needed as over time <IR> is expected to become mandatory. Second, emphasis should be given to communication skills for engaging with new frameworks, principles, standards and technological developments. Third, understanding of financial maths will become more important across the profession. Taking into account the above skills, the ACCA syllabus on corporate reporting is designed to focus more on issues such as holistic reporting, stakeholder management and engagement, framework and principles, performance reporting, and IFRS, with less emphasis on manual accounting skills.

Options exams The Options exams include the following subjects: Advanced Financial Management, Advanced Performance Management, Advanced Taxation, Advanced Audit and Assurance. Jennie stated that ACCA continues to update the exams annually and review their formats.

The Ethics and Professional Skills module The final point of Jennie's presentation related to the replacement of ACCA's Professional Ethics module with a new module on ethics and professional skills. Future professional accountants will need to demonstrate ethical and professional skills and behaviour and, for this reason, ACCA is planning the development of an online interactive module that will cover ethics and other wider professional skills that are also required for the Strategic Business Leader exam. The aim of the module is to make students more employable and increase their effectiveness and career potential in the workplace. In her conclusion, Jennie drew upon ACCA's journey of innovation to highlight the importance of the new strategic professional exams and the Ethics and Professional Skills module for the development of strategic, forward-thinking accountants.

QUESTIONS AND ANSWERS

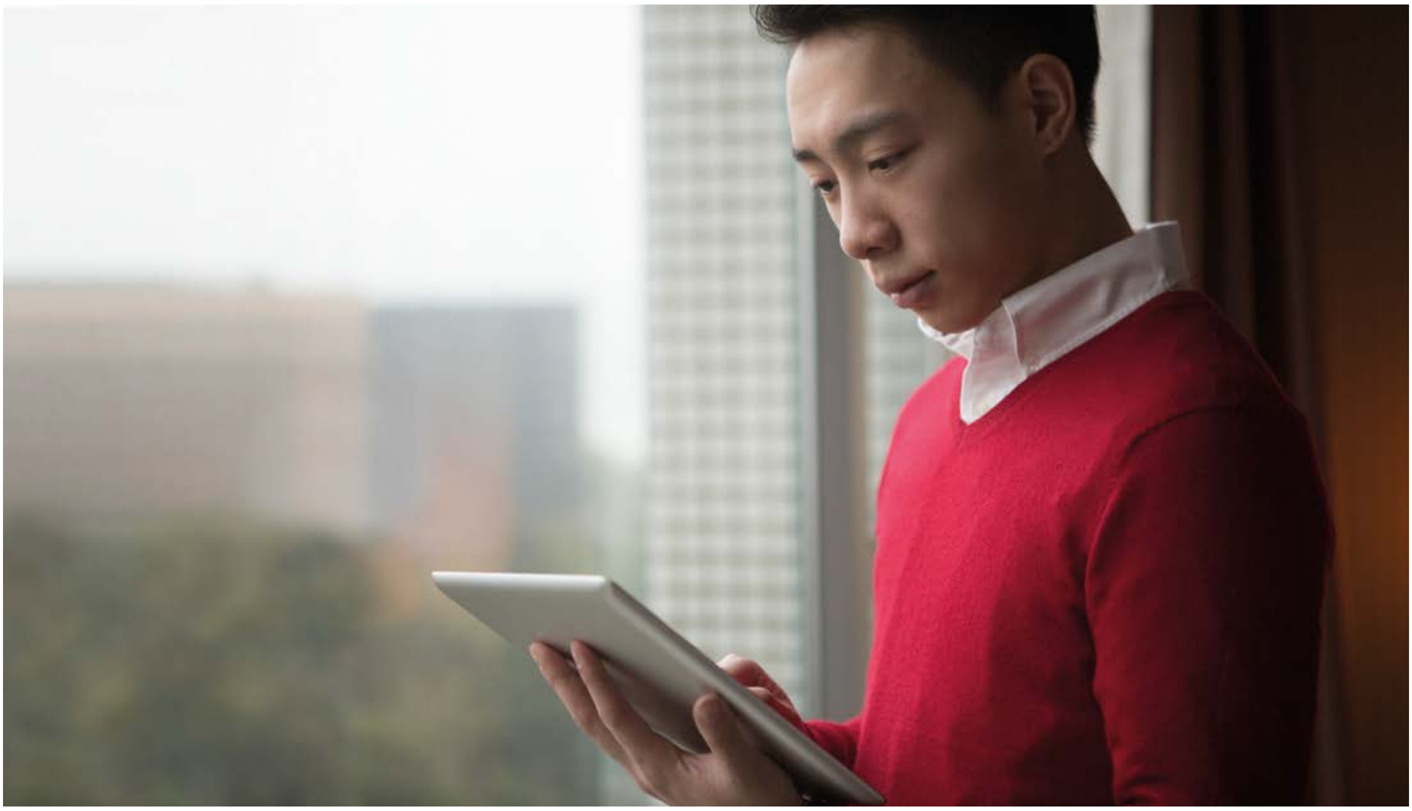
Jennie's presentation was followed by a lively question and answer session.

Jennie was asked whether students have the skills required in order to succeed at the challenging Strategic Business Leader exam. Jennie explained that the format of the exam was intentionally designed with the aim of providing students with critical thinking skills.

Richard Macve (London School of Economics) was interested in the security issues that might arise from the use of computers and asked whether students take their exams in ACCA's sealed exam centres. Jennie replied that ACCA operates exam centres around the world that provide a security model to ensure the trustworthiness of students' results.

Richard Slack (Durham University), on the basis of the quotients described by Jennie, wondered whether it was actually surprising to find that accountants need to be intelligent and creative. Jennie explained that in the past accountants were expected to have more technical skills and ethical values. In her opinion, these expectations have changed and now accountants need to develop a broader skill set.

Richard Macve (London School of Economics) then asked how ACCA deals with cultural variations in the way that people in countries such as Japan, India, China or North America think of the accountant's role and skills. Jennie referred to the regional heads of education based around the world, which inform employers about the changes that ACCA makes in the qualification in response to particular demands from various countries.



The future of Chinese and Western accounting and auditing

Richard Macve, Emeritus Professor of Accounting, London School of Economics

Richard gave a presentation on the future of Chinese and Western auditing markets, raising this interesting research question: Could the next 'Big N' international firm be a Chinese certified public accounting (CPA) firm? His research project with Shuwen Deng (Shanghai Stock Exchange) explores how far it is realistic to suppose that one or more indigenous Chinese firms, however large they may grow domestically, or even as 'multinationals' serving Chinese clients as they invest overseas, could now aim to occupy a position internationally alongside the current Big Four. The research project also aims to explain the implications, for the global structure of professional firms, of the evolution of large Chinese auditing firms. Chinese 'international' auditing firms can have two dimensions: being accepted as the auditor of Chinese companies that obtain overseas listings; and/or attracting overseas listed companies as clients either in China itself or by opening offices worldwide. In exploring the question, Richard also explored the ways in which international accounting and auditing firms and their rules and regulation (alongside those for other professional service firms) have been changing globally in recent years.

For understanding the current auditing market in China, Richard highlighted the importance of understanding its ancient history. Historically, indigenous standards (not related to audit but to currency, weights, road widths, etc.) in China originated with the first emperor, Qín Shǐhuáng (3rd century BC). The private audit industry in China originated in the 1920s and stagnated during the first communist period under Mao Zedong. Then the industry was reconstructed in the 1980s under Deng Xiaoping's post-Mao 'reform and open' policy. The reconstruction occurred through these three stages: first, by bringing in foreign expertise (eg with the help of the Big Four), then building up audit firms' own capacities and, finally (and this is what is happening now), turning the foreign competitors into Chinese firms, so that the Big Four are owned by local partners. In China, the Big Four started with Joint Venture (JV) licences with some local partners (such as academics), which gave them access to auditing of Chinese clients. Considering the whole history of China, Richard claims that, while accounting standards have not grown from the specific history of China's business environment, culture and 'constellation' of forces and institutions but have been imported 'as if from heaven', China now contributes to international standards through participation in IASB (International Accounting Standards Board) and IAASB (International Auditing and Assurance Standards Board).

During the last 35 years or so, the Chinese economy has been transformed from wholly state-planned to becoming today's 'socialist market economy with Chinese characteristics'. Richard's work explores the changing relationships between the international firms, that have themselves developed a changing identity, and the Chinese government's initiatives in creating, developing and regulating an indigenous profession of accountants holding the CICPA (Chinese Institute of Certified Public Accountants) qualification, in the context of the translation into China of international accounting and auditing standards and the continuing rapid growth in China's own stock markets and in its international trade and investment. An important document (No. 56) was issued in 2009 by China's Ministry of Finance. In line with this document, the audit market structure, the range of audit services and professional competence have evolved. On the audit market structure, the Chinese government stated targets, announcing that the structure of the auditing profession should comprise three tiers of '10–200–7000': 10 'super' indigenous audit firms with multinational operations that could service large comprehensive companies, 200 medium-sized firms that could provide services for general listed companies, and 7000 small specialised audit firms focusing on their respective local clientele. Chinese firms that aim to be among the new 'Big-audit' companies can follow different strategies to achieve their purpose: they could

> **Chinese firms have increased their range of services to be more compatible with the international markets currently dominated by the Big Four.**

simply have Chinese clients and grow by size, though according to Richard this would not achieve an international profile; they could follow multinational clients overseas; and/or they could expand abroad – beginning with the H-share licences awarded in 2011, allowing holders to audit Hong Kong-listed Chinese companies – with main offices located in the main worldwide financial markets to serve clients from all over the world. This last strategy, according to Richard, will require Chinese firms to become trusted overseas, as foreign clients are not yet used to their names so their reputations still have to be consolidated. Richard than gave some examples of Chinese CPA firms that now have 'H-share'[1] licences. They have often been dominated by Hong Kong partners that have difficulty in learning Mandarin but those firms are now required to 'localise' by coming under the control of by CICPA members. Chinese firms have increased their range of services to be more compatible with the international markets currently dominated by the Big Four. Such services can include management consultancies, merger and acquisitions (M&A) and designing investment strategies. The priority here is currently to make local auditing firms competent in providing these extra services, while potential issues of independence are seen as a problem for the future. On professional competence, which was originally learnt from the Western audit firms, China now relies mainly on its own qualifications, such as the CIPCA exam and extensive training programmes provided by CICPA and the National Accounting Institutes. Chinese qualifications have reciprocal relationships with international professional associations (eg ACCA) and European and US qualifications (eg the UK ICAEW 'Chartered Accountant' can be added to the CICPA qualification). One of the main problems is the existence in China of different regulatory bodies for the auditing market, including not only the Ministry of Finance and the CICPA but also the China Securities Regulatory Commission (CSRC), which also has the status of a ministry.

Turning to the current situation, although in 2012 the Big Four's JV licences expired and the government put more pressure on the Big Four to localise rapidly, there are still not enough competent stand-alone firms (such as ShineWing[2] and Pan-China) and second-tier network audit firms that could provide auditing services for China's biggest cross-listed companies, given the former's short 20-year history. Little by little, however, Chinese audit firms are growing through mergers and are also beginning to compete by providing consulting services for state-owned enterprises (SOEs). According to Richard, the role of IAS/IFRS and ISA in enabling local firms to comply with international accounting and auditing standards can be particularly important in establishing their international credibility.

On the method used to implement the research, Richard explained that he and Dr Deng have gained access to interview senior representatives of audit firms, regulatory bodies and universities in mainland China, Hong Kong and the UK, enabling them to explore a range of informed views about the potential of the Chinese audit firms in the 'second-tier' international networks and among the larger 'stand-alone' firms to rival the 'Big Four' in international reputation for quality – and the hurdles they still face. Interviews were carried out between 2011 and 2014 and questions were adapted after the 2012 'watershed' of the expiry of the Big Four's JV licences and the introduction of the new localisation requirements. On balance, interviewees believed that the target of one or more Chinese 'Big N' firms will be achieved, building on the opening in 2011 of a gateway through the Hong Kong Stock Exchange, albeit perhaps not quite in the form or within the timescale originally envisaged but only in the longer term. The 'practical' solution seems to be the tendency to join the 'second-tier' international networks, in which the Chinese firms will soon become the biggest firms. For instance, in January 2016 Mazars merged with ZhongShen ZhongHuan. With this merger, the firm

1 H shares refer to the shares of corporations incorporated in mainland China that are listed on the Hong Kong Stock Exchange.

2 ShineWing is a Chinese certified public accountants' firm that participates in the Praxity international referral network.

> **If Chinese member firms will be the largest in both Big Four and second-tier networks, the Anglo-American pattern could hardly continue to dominate the international professional service firms.**

added more than 1,800 staff in China to 17,000 worldwide, which is a significant increase. This example illustrates how the joining of international networks allows both the independence of Chinese CPA firms and an easier access to international quality control procedures, training and technologies. These 'local-foreign' networks appear to be viewed by the government more favourably than wholly 'foreign' firms, as the Big Four are still perceived to be.

Richard concluded by highlighting that the historical background to the development of China's indigenous accounting profession and audit firms has created both opportunities and challenges. The government is trying to support the growth of local Chinese partners requiring, by 2017, a maximum of 20% non-CICPA partners and also that the chairman of the audit firm be CICPA qualified. The Big Four have argued, on the other hand, that localisation from expatriate to local CPA-dominated partnerships would evolve naturally but local partners' promotions should not be rushed. One of the main challenges is to make Chinese firms independent from solely Chinese control and become truly international. But if Chinese member firms will be the largest in both Big Four and second-tier networks, the Anglo-American pattern could hardly continue to dominate the international professional service firms. To summarise, a huge change is happening in China but its speed and its consequences are unpredictable.

Overall, the research project contributes by providing new voices and alternative perspectives to the emerging literature on the globalisation of large professional services firms.

QUESTIONS AND ANSWERS

Robin Jarvis (Brunel University) wondered whether the 10 'super' indigenous audit firms with multinational operations could cooperate with international organisations (eg IASB) and could actually achieve control in the market and, if so, which type of control.

Richard replied that European firms and institutions, as well as European audit representatives, should be more inclined to cooperate with Asian audit firms as business (and, perhaps, audit control) is moving there. On the role of control, Richard recalled that Chinese society has been historically influenced by Confucianism, where firms have been run by the head of the family, with a hierarchical structure. In this society, audit firms might also be more inclined to have a boss rather than partners. If they want to be fully international, they should abandon a hierarchical model and make their governance more democratic.

Martin Walker (University of Manchester) asked a question related to the biggest multinational corporations in China. Would they be too big to fail as well and be protected by the government?

Richard argued that the role of the government (both central and provincial government) is still very important in the Chinese economy, despite the latest privatisation reforms. One of the main challenges for auditors would be dealing with the huge state-owned, internationally cross-listed banks and industrial companies in China. And although state-owned enterprises are still very important in China it should be noted that they have been getting more popular in Europe as well, especially with the nationalisation of banks after the 2008 financial crisis. Richard then talked about the Big Four audit firms and the potential competition that new large second-tier network of audit firms (eg BDO China Shu Lun Pan CPAs LLP) could exert. According to Richard, the Big Four are still larger internationally and probably still widely perceived as more competent. Regulators (in the EU and elsewhere, as well as in China) are trying to strengthen competition via rotation but the magic circle of the Big Four seems extremely hard to break.

2. Discussion

SUMMARY OF SPEAKERS' PRESENTATIONS

The five speakers presented a variety of diverse themes and ideas, although with some commonalities. A summary of their respective views is given below, followed by a brief synthesis of the themes.

Ian Mackintosh (ex-Vice Chair, IASB; Chair, HM Treasury's Financial Reporting Advisory Board)

Ian Mackintosh outlined the IASB's key events from 2001 to 2016, provided insights about its future actions and an overview of the future of corporate reporting.

Ian began by describing the IASB key events since 2001, when the IASB was formed to succeed the IASC. He outlined the importance of replacing the IASC with a new structure capable of streamlining accounting standards and of achieving the development of a single set of international standards and convergence with US accounting standards. He illustrated the main standards developed and modified since 1997 and the main challenges faced by the IASB in this period, such as those with the insurance standard, on which discussion began in 1997 that has now resulted in the issuance of IFRS 17 Insurance Contracts. He discussed the Joint Transition Resource Groups, whose role was to inform the IASB and the FASB about interpretative issues emerging during the implementation of the revenue recognition and financial instrument standards. He illustrated the convergence project with FASB and the difficulties faced in achieving convergence, primarily because of a constant conflict between the principles-based and the rules-based approaches to defining various items. The adoption of standards by 120 countries and the collaboration with the Accounting Standards Advisory Forum (ASAF) are, for Ian, the IASB's biggest achievements.

Ian then provided an overview on the IASB's agenda for the period 2017–2021, which includes the completion of the revised Conceptual Framework and of the insurance standard, the introduction of a materiality practice statement, and the development of a disclosures project, as part of the disclosure initiative. The IASB's research pipeline for this period will focus on matters such as business combinations, financial instruments with characteristics of equity, goodwill and impairment, extractive activities and provisions. Issues such as foreign currency translation, high inflation, income taxes and post-employment benefits will no longer be researched.

In his speech, Ian talked also about the mandate of the IASB and its potential expansion. Financial reporting and the SME standards remain primary concerns of the IASB. By contrast, issues such as public sector financial reporting, the not-for-profit sector and the broader corporate reporting landscape should not be considered by the IASB as that might endanger all the gains made over the years.

As the recently appointed chairman of the Corporate Reporting Dialogue (CRD), Ian provided insights about this body. It is composed of eight organisations that have significant influence on the corporate reporting landscape: CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the Financial Accounting Standards Board (FASB), the Global Reporting Initiative (GRI), the International Accounting Standards Board (IASB), the International Integrated Reporting Council (IIRC), the International Public Sector Accounting Standards Board (IPSASB), the International Organisation for Standardisation (ISO), and the Sustainability Accounting Standards Board (SASB). The CRD's purpose is to promote greater coherence, consistency and comparability between the corporate reporting frameworks developed by these different organisations, the standards and the related requirements issued by its body-members. By the end of 2017, the CRD had created a landscape map showing the reporting responsibilities for the body-members, developed a statement of common principles of materiality and initiated a discussion about further outreach and output. Ian then provided information about all the eight bodies that are CRD's members.

> **By using the data from a KPMG study done in 2017, Matt showed that corporate reports have usually contained mainly information about past performance, usually expressed with well-known financials.**

He concluded his speech by talking about the possible alternative ways for a further evolution of the broader corporate reporting landscape. He suggested the possibility of assigning to the IIRC, or the GRI, the role of coordinating and leading body of the corporate reporting initiative, or making the IASB the leading body and developing a more extensive and mandatory management commentary, or creating a new body to bring together standards and guidance for broader corporate reporting.

Matt Chapman (Head of KPMG's Better Business Reporting Network)

Matt Chapman spoke from his position as a senior manager at KPMG. In his presentation, he challenged the common assumption that financial and corporate reporting are the same thing and explained how this misconception led to short-term decisions. He proved his point by showing that even the audience considered technology to be the riskiest sector to run a business while according to corporate reports it is not. Corporate reports show that utilities companies are riskier as these companies identify more risks in their reports than companies in other sectors. He also suggested that this misconception reflects a tick-box approach to corporate reporting and the assumption that past financial performance is enough to give a complete view of corporate performance. Matt suggested that this process must be challenged to provide information to investors that is best suited to their needs. By using the data from a KPMG study done in 2017, Matt showed that corporate reports have usually contained mainly information about past performance, usually expressed with well-known financials. Only in limited cases were investors given information about management plans and strategic issues, which in several cases did not look beyond the short term (KPMG 2017).

Matt continued by showing how business models are differently described in the reports and the gap that exists between what companies say about their models and what seems to be important to the business. The KPMG study (2016) showed that in most of the reports analysed, the business model's description lacks depth, does not include key aspects of competitive advantage and is not connected with the rest of the report.

He discussed how the information provided in risk reporting tends to diverge from corporate reality, pointing out that companies tend to report what other companies in the same country report. This, according to him, limits value creation for shareholders, especially when risk management is covered with a bland and passive discussion. He also pointed out that most risk reports are the results of box ticking and do not provide useful information to their users.

Matt then showed that the great majority of corporate reports focus on short-term performance, only a few focus on current performance or provide short-term financial forecasts and almost none provide information on operational health. He pointed out that this myopic set of information does not meet the regulatory ambition of creating value in the long term. He then illustrated the information disclosed about operational health, which is usually looked at within six broad operational areas (products, customers, efficiency, staff, research and development, and brand performance) but which does not, however, address the key aspects of these areas.

Matt concluded by outlining the practical challenges needed for the future of corporate reports. First, he suggested that we should move from a financial view to a financial and operational view, so as to capture non-financial elements of transactions and outcomes. Second, he highlighted the necessity of moving from a compliance-led world to a business-focused world and, third, he outlined the importance of shifting from backward-looking reports towards forward-looking reports with (relevant) future-oriented information rather than a form-filling approach. Fourth, he highlighted the importance of moving from earnings to shareholder value so as to satisfy readers' needs. Finally, he suggested that financial reports should provide a full, rather than a partial, story.

Martin Walker (Professor of Finance and Accounting, Alliance Manchester Business School)

Martin Walker spoke from an academic perspective about financial narratives, a growing area of research. The main research themes in this area include the way in which companies use the discretion they have over the content of their narratives, the response of investors to narrative disclosures and the role of information intermediaries in the dissemination, interpretation, and moderation of financial narratives.

Martin concluded by highlighting that corporate narratives represent a research area that provides many opportunities, particularly for combining human and electronic analysis.

Corporate financial narratives have been studied mainly from corporate reports, press releases, earnings announcements, trading updates and management statements. Martin believes that IPO and SEO prospectuses offer interesting opportunities for more research. He also suggested that an emerging area of research is represented by conference call transcripts, financial media articles, and analyst's reports.

Martin discussed the forms of narrative content under research. He pointed out that most studies have looked at the discussion of financial performance by focusing on their readability and bias in their tone, and their use of causal language, and that strategic discussion, corporate governance and corporate social responsibility reports have been also covered by several studies.

Several methodological papers exist that have developed ways of measuring linguistic characteristics of narratives, such as readability and tone. Martin illustrated some of the techniques that can be used to analyse narratives. The Latent Dirichlet Allocation (LDA) method is an electronic technique used to identify a finite set of latent topics. The comparison of documents is another linguistic approach for which there is potential for new applications in accounting and finance. Martin pointed out that such electronic techniques cannot be used alone when the analysis is highly sophisticated, such as in the case of detecting impression management in narratives. In these cases, electronic methods should be combined with reading by the researchers.

At the end of his presentation Martin illustrated some new software that has been developed for analysing annual reports that do not follow a fixed format. This software identifies the sections of annual reports and scores the narratives of these sections along several criteria, including word count, readability measures, positive and negative tone. The software has been tested using a sample of 10,000 UK reports for the period 2003 to 2014. Results show that narratives almost doubled in word length over the sample period, performance review sections seem to be much more optimistic in tone than the rest of the annual report and readability has decreased overall over time.

Martin concluded by highlighting that corporate narratives represent a research area that provides many opportunities, particularly for combining human and electronic analysis.

Jennie Bruce (Head of Qualifications Content, ACCA)

Jennie spoke about the recent and future developments in ACCA's qualification.

Jennie started by providing information about a piece of research conducted by ACCA on the future of the accounting profession, the drivers of change and future skills required by accountants. The research has identified four themes of change (increased regulation and increased governance; digital technologies; wider expectations of professional accountants; and globalisation) and shows that accountants' traditional technical skills are no longer sufficient. This research helped ACCA to develop the concept of professional quotients, which reflect the set of skills and capabilities that the professional accountants of the future will need to succeed. Jennie argued that this set of skills includes, among others, technical and ethical competencies, intelligence skills, creativity and digital technology abilities.

Jennie illustrated the ACCA qualification and ACCA's journey towards changing it. She first described the changes that ACCA has made to the accounting qualification since 2014. A shift was made, at the knowledge level, from stand-alone objective test questions to questions that are closely related to real-life cases. This is intended to enable students to understand how actual accounts are prepared. A more flexible exam schedule has been introduced and an online course launched to help candidates to prepare for ACCA's foundation level qualifications and a joint Master's degree with the University of London has been introduced. Jennie then illustrated the main changes to the ACCA accounting qualification that will be introduced in 2018. These include the reduction of the compulsory exams from three to two (the strategic business leader and the strategic business reporting exams) and the opportunity for students to specialise through a selection of two optional exams out of a list with four options. The strategic business leader exam tests skills in areas such as leadership, communication, professionalism, governance, and strategy. It is designed in a way that positions students as if they

> Richard concluded by highlighting that the historical background to the development of China's indigenous accounting profession and audit firms has created both opportunities and challenges.

were operating within a team in a business environment. The exam includes a scenario with some realistic background information. The exam might ask students to do things that they would be asked to do in the workplace: for example, to write a report or a letter, to respond to an email or prepare a presentation. The corporate reporting exam tests the ability to communicate a holistic view of corporate reporting, communication skills for engaging with new frameworks, principles, standards and technological developments, and the understanding of financial maths. Jennie then discussed the replacement of ACCA's professional ethics module with a new module on ethics and professional skills, with the aim of making students more employable and increasing their effectiveness and career potential in the workplace.

She concluded her presentation by highlighting the importance of the new strategic professional exams and the professional skills module for the development of strategically forward-thinking accountants.

Richard Macve (Emeritus Professor of Accounting, London School of Economics)

Richard Macve discussed the future of Chinese and Western auditing markets. He illustrated a research project that explores whether Chinese auditing firms could occupy a position internationally alongside the current Big Four and aims to explain the implications for global structure of professional firms, caused by the evolution of large Chinese auditing firms.

To explain the current auditing market in China, Richard first provided information about the historical development of auditing in China. He highlighted that in China accounting standards have not grown from the specific history of China's business environment, culture and 'constellation' of forces and institutions but have been more developed on the basis of foreign standards.

Richard continued illustrating how the audit market structure, the range of audit services and professional competence have evolved in China. The Chinese structure of the auditing profession that comprises three levels: 10 'super' indigenous audit firms with multinational operations, 200 medium-sized firms that provide services for general listed companies, and 7,000 small local audit firms. Chinese firms that aim to be within the new 'Big' audit companies can follow different strategies to achieve their purpose. They could target Chinese clients and grow by size, but, according to Richard, this could lower their international profile. They could follow multinational clients overseas. Alternatively, they could move abroad with H-share licences with main offices located in the main worldwide financial markets to serve clients from all over the world. In practice, the latter strategy, according to Richard, is also risky as Chinese firms have to be trusted overseas and foreign clients are not used to their names so their reputations have to be consolidated. Richard also outlined the need for these firms to increase the range of services provided, to make their offering more consistent with international practices in markets dominated by the Big Four and to improve professional competence by adding European and US qualifications to Chinese ones.

Richard turned to the current issue that the Big Four's JV licences have expired and the Chinese government is putting pressure on Big Four firms to localise rapidly. He pointed out that there are not enough competent indigenous audit firms that could provide auditing services for China's biggest cross-listed companies and that Big Four reputation and perceived independence from government is still higher than that of indigenous audit firms. Nonetheless, Chinese firms are merging and beginning to compete in providing consulting services for state-owned enterprises (SOEs).

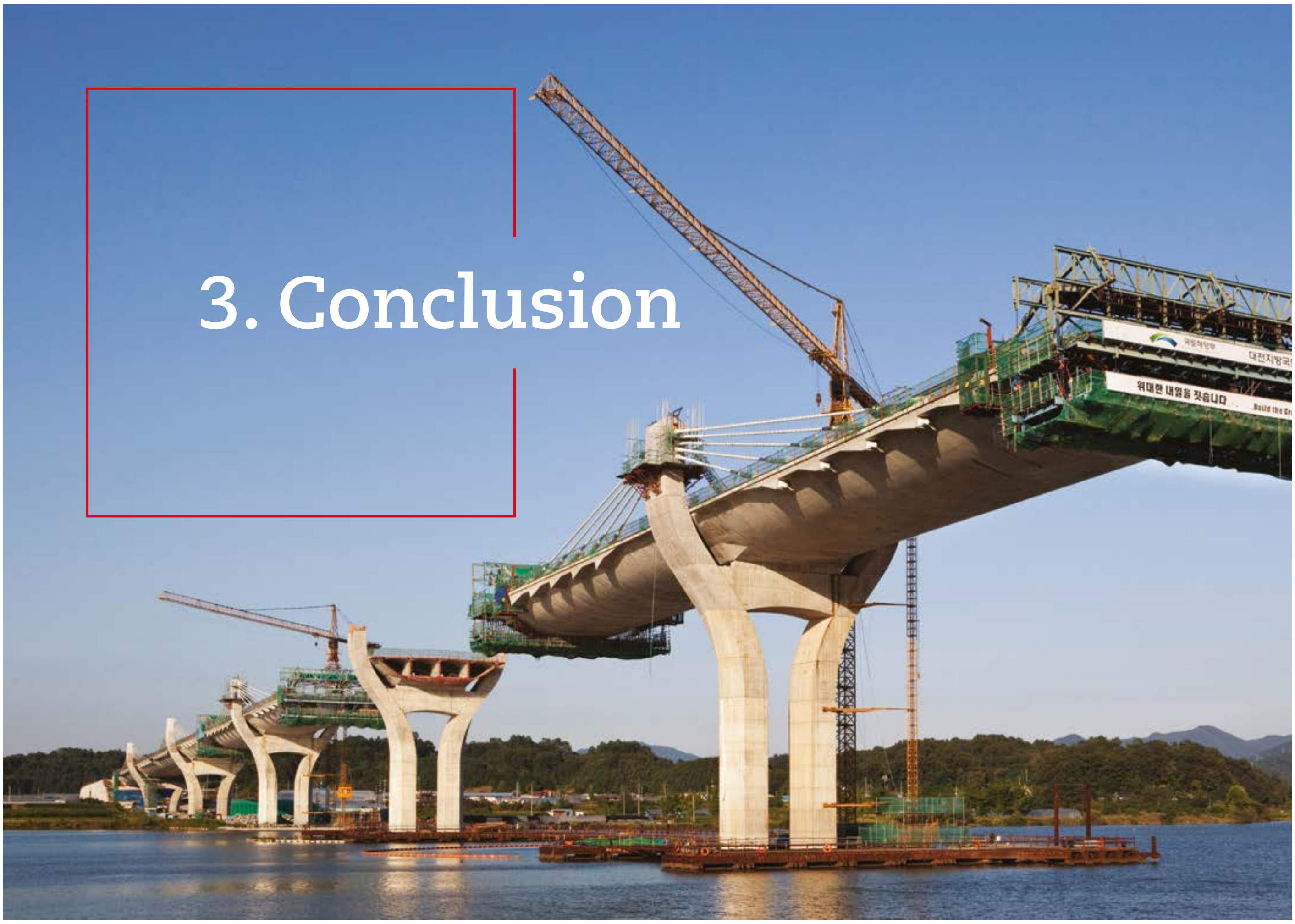
Richard then illustrated the method used for implementing the research. Senior representatives of audit firms, regulatory bodies and universities in mainland China, Hong Kong and the UK were interviewed between 2011 and 2014 to explore a range of informed views about the potential of the Chinese audit firms. On balance, interviewees believed that the target of becoming one or more Chinese 'Big N' firms will be achieved. The 'practical' solution seems to be the tendency to join the 'second-tier' international networks, in which they will soon become the biggest firms.

Richard concluded by highlighting that the historical background to the development of China's indigenous accounting profession and audit firms has created both opportunities and challenges.

Table 3.1: Thematic overview of presentations by theme

THEME	DISCUSSION
The evolution of corporate reporting	The evolution of corporate reporting from mere financial reporting to including both financial and non-financial information has been widely discussed. Matt Chapman, in his presentation, challenged the common assumption that financial and corporate reporting are the same thing. He highlighted the need for broader information systems able to capture non-financial elements of transactions and outcomes. In his view, financial information should be seen as the start of the company's story, not the end. The annual report should tell the whole story and allow readers to understand all the drivers of success. The evolution of corporate reporting was also discussed by Ian Mackintosh, who, as the recently appointed chairman of the CRD, provided insights about members, purpose and future of this body. Jennie Bruce discussed the implications that the developments on corporate reporting have on the skills needed in the accounting profession. She particularly underlined the need to develop the ability to communicate a holistic view of corporate reporting, as Integrated Reporting is expected to become mandatory, and to develop communication skills for engaging with new frameworks, principles, standards and technological developments. Martin Walker discussed corporate reporting by focusing on the role of narratives. He illustrated the most important techniques for analysing narratives and discussed their main limitations. He highlighted the research opportunities provided by corporate narratives, particularly when human and electronic analyses are combined.
The future development of the accounting and auditing professions	The significant changes that will be faced by the accounting and auditing professions were also discussed during the symposium. Jennie Bruce spoke as the head of qualifications content at ACCA, about the recent and future developments in ACCA's qualification. Using the results of its own research conducted on the future of the accounting profession, ACCA has developed the concept of professional quotients that reflect the set of skills and capabilities that the professional accountants of the future will need to succeed. Significant changes have been introduced to ACCA's accounting qualification in order to help the candidates to develop such skills. Richard Macve's presentation discussed, instead, the impact that increasing globalisation is having on the auditing profession. By focusing on the Chinese institutional setting, he showed how the changing relationships between international firms and the Chinese government's initiatives have led to changes in the audit profession in China, across audit structure, services and professional qualifications. These changes will soon affect the audit market structure globally, leading to the international presence of one of the large Chinese audit firms alongside the current Big Four.
Globalisation and accounting practices	Issues related to the globalisation of accounting practices were covered by most of the speakers. Ian provided an overview of the Corporate Reporting Dialogue (CRD), which brings together organisations operating at a global level that have a significant impact on the corporate reporting landscape, with the aim of promoting global coherence, consistency and comparability between the corporate reporting frameworks. Martin discussed the differences between US and European reporting practices and illustrated recently developed software that could be used to analyse narratives in reports that do not follow a fixed format. Jennie explained the changes introduced in ACCA's qualification and indicated that globalisation has been considered to be one of the main factors that led to the development of such changes. Finally, Richard discussed the implications of globalisation on the evolution of large Chinese auditing firms.
Accounting history	Historical aspects of accounting were discussed by both Ian Mackintosh and Richard Macve. Ian provided an outline of IASB's key events from its foundation up to 2017, by focusing on the main challenges it has faced, such as the issuance of IFRS 17 Insurance Contracts and the convergence project undertaken with the FASB, and its main achievements, as represented by the adoption of its standards by 120 countries and the collaboration with the Accounting Standards Advisory Forum. Richard illustrated the evolution of the audit industry in China, starting from the origin of indigenous standards (not related to audit but to currency, weights, road widths, etc.) in the 3rd century BC. It was only in 1920, however, that the private audit industry was developed. Richard focused particularly on the period of the audit industry's reconstruction after the first Mao Zedong communist period stagnation, as this is relevant to understanding the current challenges.

3. Conclusion



The 2017 symposium was held at another interesting time of political, social and economic change with continuing challenges to accounting and financial reporting.

From a political perspective, the main concerns of the present time are related to terrorism and geo-strategic tensions associated with the current lack of long-term-oriented political leadership. The collective failure to resolve conflict is giving birth to new threats to peace and stability in many countries, including the most developed areas. Within the European Union the key political challenge of this time is represented by the process whereby the UK is leaving the European Union. Since these negotiations have been problematic, the terms of the UK's departure and the nature of its future relationship with the EU are still unclear. From a social perspective, the key challenges are represented by income inequality and persistent growth coming without increased employment which affect both developed and developing countries. These have led to an increase of popular dissatisfaction, particularly, against austerity, incoming migration and budget cutbacks policies. From an economic perspective, the main issues are still linked with the environmental crisis. The natural environment, which is central to all economies, continues to be threatened from the short-term orientation and financially focused thinking. As for accounting and financial reporting, there have been some important changes. For several years, the IASB has been working on the revision of the Conceptual Framework. Discussion papers, exposure drafts, supplementary documents and revised exposure drafts have abounded as these seemingly endless projects marched on. The IASB is finalising an update to the Conceptual Framework that will provide a more complete, clear and updated set of concepts for use when the Board develops or revises the IFRS Standards. The IASB aims to publish the revised Conceptual Framework and to update references to the Conceptual Framework in IFRS Standards by the end of the first quarter of 2018.

The IASB is also working on a disclosure project. In March 2017 it published a discussion paper that suggests principles that would make disclosures in financial statements more effective, with comments requested.

There were two main central themes discussed at the 2017 symposium: the evolution of corporate reporting and the future of the accounting profession. At present these two issues remain fundamental questions and challenges to the future of financial reporting.

The evolution of corporate reporting has been a highly debated topic in recent years, and was also widely covered at the 2017 symposium. Corporate reports are moving from a financial view to a financial and operational view. Corporate reports should be more forward-looking, provide more long-term and strategic information and provide users with the whole story, rather than only selective information. There is now the need to have more non-financial information of higher quality. In this scenario, the Corporate Reporting Dialogue initiative and the Disclosure project of the IASB play a key role in fostering improved standard setting and corporate disclosure. Narratives now form one of the main formats used to disclose financial information. Companies have considerable discretion over the content of these narratives, which provides them with the opportunity to inform or mislead users. Extensive research has been done in this area; however, as discussed during the symposium, the technical

> **The evolution of corporate reporting is also affecting the skills needed in the accounting profession where the ability to communicate a holistic view of the organisation is becoming very important, particularly if, as expected, Integrated Reporting becomes mandatory.**

development and the new channels and formats used to disclose such information provide researchers with new opportunities, particularly if they are keen to combine human and electronic analysis. The evolution of corporate reporting is also affecting the skills needed in the accounting profession where the ability to communicate a holistic view of the organisation is becoming very important, particularly if, as expected, Integrated Reporting becomes mandatory.

The future development of the accounting and audit professions was also discussed during the 2017 symposium. As shown by research conducted by ACCA on the future of the accounting profession, accountants' traditional technical skills are no longer sufficient because of significant changes in regulation, governance and digital technologies as well as because of increased globalisation. In order to face these changes, the professional accountants of the future will need a combination of technical and wider skills and capabilities, including ethical competencies, emotional intelligence skills and digital technology abilities. With the aim of allowing its students to develop such skills, ACCA has introduced significant changes to its accounting qualification. Significant changes will also occur within the audit profession. China is now a key global player that is actively contributing to the development of international standards through the IASB and IAASB. The audit profession in China has evolved rapidly in the 21st century and it is now expected that one of the large Chinese audit firms will soon occupy a position internationally alongside the current Big Four. This raises the question of whether the Anglo-American model still dominates the international professional audit market.

Alongside these two main central themes, the symposium also discussed other important issues related to accounting history and the impact that globalisation is having on the development of accounting practices.

The symposium discussed issues of key importance in financial reporting. These are long-lasting problems that do not have simple solutions in the short term. The evolution of corporate reporting and the need to broaden its content, the use of discretion over corporate disclosure and the impact that technological and economic development will have over the accounting and audit professions are all long-term issues that will continue to be debated in future years.

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