Think Ahead ACCA

The future of financial reporting 2015:

Continual Evolution and Development

BAFA
BRITISH ACCOUNTING & FINANCE ASSOCIATION

A discussion Paper based on the British Accounting and Finance Association Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 9 January 2015.

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December 2015

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 accountancy 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)/Advanced Institute of Management (AIM) for relevant and rigorous research combining practitioner and academic perspectives.

ACKNOWLEDGEMENTS

The authors would like to express their thanks to the five main contributors, both for their presentations and for their subsequent time and comments during the development of this discussion report. The authors have tried to capture faithfully the flavour of the original presentations. We would like to thank Mark Cardale for providing his notes and to all the authors for checking their proofs. Nonetheless, although the original authors were shown the commentary on their presentations, any errors or omissions remain our own. Thanks are also due to ACCA for hosting the symposium and for its support in the publication of the discussion report. Finally, could any readers who wish to learn more about FARSIG or to become FARSIG members please contact any one of the authors.

Mike Jones is chairman of the FARSIG Committee. Andrea Melis is on the FARSIG committee and Silvia Gaia and Simone Aresu are, respectively, lecturer at the University of Essex and lecturer at the University of Cagliari, Italy.

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The Future of Financial Reporting 2015: Continual Evolution and Development

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Foreword

ACCA was pleased to host again the FARSIG annual discussion of the future of financial reporting.

ACCA was pleased to host again the FARSIG annual discussion of the future of financial reporting. The meeting continues to provide a valuable discussion between interested parties – principally academics studying financial reporting and those involved with its practical application in way or another. The speakers this year reflected that with four practitioners of various sorts and an academic.

The 2015 papers and discussion followed two main strands and covered issues that continue to be relevant.

Firstly there were two aspects of financial reporting. Goodwill may be an issue that has been around for as long as most can remember, but it has resurfaced as part of the post-implementation review of IFRS3 on business combinations. In 2016 any amendments to the accounting for goodwill are likely to be debated, including the fundamental accounting treatment choices – the impairment only model, amortisation or immediate write-off.

The second of the financial reporting issues looked at the nature of the IASB and its evolution from an 'Anglo-Saxon' to a more truly global standard setter. The issue is a factor in the review by the IFRS Foundation of its structure and effectiveness which will be debated until the end of this year and then actioned in 2016.

The second of the strands reflects the increasing importance of reporting other than through periodic financial statements which can be seen in the other three papers. Integrated Reporting is an initiative which is continuing to gain recognition and use in practice, incorporating both financial and non-financial information. Corporate governance reporting is an aspect of that as well. 2015 saw several examples of governance failures. The issue of stranded assets in the fossil-fuel sector has had further and continuing prominence in the media and markets, and is one primarily of risk assessment and disclosure, albeit that it has also resulted in some impairments in the financial statements.

We continue to see an increased impact of academic studies on the development of financial reporting. Standard setters need, quite rightly, evidence to support the development and revision of their standards. IASB will be working on further post-implementation reviews in the next year or so – on fair value and on the 'consolidation package' of standards of IFRS10,11 and 12. These are now part of their regular due process. They are hosting a regular research forum. Legislators also need to prepare impact assessments. All of these can and should benefit from the findings of academic research. The need for interaction between practice and academia, such as the FARSIG symposium, is therefore more important than ever.

I extend my thanks to Mike Jones, Andreia Melis, Silvia Gaia and Simone Aresu for providing this summary of the event.

Richard Martin
Head of Corporate Reporting, ACCA

1. Introduction

In 2014, there were, once again, economic problems related to international austerity policies, persistent growth in unemployment and the economic downturn.

In 2014, there were, once again, economic problems related to international austerity policies, persistent growth in unemployment and the economic downturn. There continued to be protests against austerity and government budget cutbacks in Europe. While the global financial crisis and its after-effects appear to have subsided, their social consequences still trouble policymakers and regulators, given the magnitude of other significant global issues (such as persistence of growth without increased employment' and income inequality) that have continued to increase in scale and scope.

The continuing financial difficulties, the debt repayment negotiations with Greece, and the social, economic and political implications of the potential exit of Greece from the EU (the so-named 'Grexit' option) have tempered the fragile signs of economic recovery across Europe. In particular, the UK economy has been recovering at a relatively strong rate since early 2013, although there were signs of a slight slowdown in growth in late 2014 due to problems in the 'Eurozone' and other geopolitical uncertainties. In the realm of international politics, terrorist forces continue to threaten peace and stability, impeding progress and prosperity. The natural environment remains seriously threatened. Extreme weather events are becoming more frequent, powerful and unpredictable, and are changing perceptions about climate change. What is needed is prevention of, or at least adaptation to, the massive effects that these phenomena produce, including political unrest and social and economic stress.

It was within this mixed scenario in much of Europe that the latest annual FARSIG symposium on the Future of Financial Reporting was held at ACCA, London on 9 January 2015. Before this, the IASB was reviewing the feedback received on the Discussion Paper in order to develop an Exposure Draft of the revised Conceptual Framework, which was presented in May 2015. The IASB aims to finalise the revised Conceptual Framework in 2016. In May 2015, the comprehensive review of the IFRS for SMEs was eventually completed.

Nonetheless, international accounting convergence is far from being accomplished. At the national level, financial accounting regulation continues to change and adapt, mostly as a result of the consequences of the international changes made by the IASB. In the UK, all the old UK accounting standards have been withdrawn and a new financial reporting regime has been introduced in their place. The transition to this new framework is likely to be a major change for UK businesses.

The principles, concept and elements that characterise the way companies report their annual performance are currently being questioned, debated and redesigned. Key notions such as capital employed, value creation, and accountability are redefined, both in theory and in practice. What should companies report? To whom are companies accountable? What are the types of capital a company employs? What types of capital do a company's activities affect? And how does this influence its relationships? Accounting may be able to contribute to providing an answer to these critical questions by using all its potential and allowing proper stewardship of, and accountability for, all the resources employed in business activities. The emerging integrated reporting regime may provide a response to these critical issues.

Overall, this suggests a future of continual evolution. Against a background of continuing economic uncertainty there has also been the continuing evolution and development of accounting in areas such as corporate governance, financial regulation, accounting standards and integrated reporting. The 2015 FARSIG symposium, 'The Future of Financial Reporting: Continual Evolution and Development' reflected these developments. Five speakers offered their views on the major accounting issues and future challenges from the perspectives of the regulatory bodies, practitioners and academia.

For 2015, the five speakers in order of appearance were:

Anthony Appleton, Director of Accounting and Reporting Policy at the Financial Reporting Council, 'Is Goodwill at a Conceptual Dead-end? A Review of Current Debates'

Mark Cardale, editor of *Practical Guide to Corporate Governance*, 'How Good Governance Enhances Shareholder Communication'

Jonathan Labrey, Policy and Strategy Director, International Integrated Reporting Council, 'The Future of Integrated Reporting'

Richard Martin, Head of Corporate Reporting at ACCA, 'Stranded Assets'

Geoff Whittington, University of Cambridge, 'The IASB: Anglo-Saxon Enclave or World Standard-Setter?'

As usual, after each presentation, there was a lively and informed discussion among the many symposium delegates.

> The harmonisation of the accounting principles and standards issued by different national and international regulatory bodies has been considered fundamental to enhancing the consistency, comparability and efficiency of the financial statements.

ISSUES RAISED BY THE SYMPOSIUM

Before introducing the commentaries, some of the key issues that were presented and debated at the symposium are highlighted in Table 1.1. There was a fundamental examination of some of the basics of accounting together with some new frontiers, 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 affect everyone in the field (practitioners, standard setters and academics, among others) with complex challenges, such as accounting for goodwill, the politicisation of standard-setting and the role of the Conceptual Framework in improving the quality of information provided in annual reports. Nonetheless, the speakers also focused on many specific, new aspects, such as the future role of integrated reporting, and the concept of 'stranded' assets. Integrated reporting, in particular, develops a broader concept of accountability and a stewardship towards all suppliers of different sources of capital (including natural and human capital). Some common themes that emerged during the symposium were discussed in more depth after the commentaries.

A summary of the key issues raised at symposia over the past eight years is shown in Table 1.1 below. As can be seen from the table, the main issues covered in 2015 were: accounting for goodwill, corporate governance and shareholder communication, the future of integrated reporting, stranded assets and the politicisation of accounting standard-setting.

Some of the main developments that have occurred during 2014–15 are discussed below. The harmonisation of the accounting principles and standards issued by different national and international regulatory bodies has been considered fundamental to enhancing the consistency, comparability and efficiency of the financial statements. 'International accounting convergence' refers mainly to the process, started at the beginning of the 2000s, in which the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) attempted to converge their respective financial reporting standards into one global set. Their convergence joint project, intended to create a joint comprehensive Conceptual Framework, was particularly prominent in 2012. After the interruption of this project, the IASB moved towards a more independent path and decided to reactivate the Conceptual Framework project on its own. In May 2015, the IASB published an Exposure Draft based on the feedback received on the previous discussion paper. The aim is to finalise the revised Conceptual Framework in 2016. In May 2015 , a comprehensive review of the IFRS for SMEs was eventually completed. The new amended version will be effective from 2017, but its impact should be considered sooner rather than later as earlier application is permitted.

Table 1.1: Overview of key symposia themes, 2008–15

2015	2014	2013	2012	2011	2010	2009	2008
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 and need for global accounting standards	Regulatory change	Conceptual Framework
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
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
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
IASB and politicisation of standard-setting	Compliance with mandatory disclosure requirements					Asset securitisation and credit crunch	

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

The growing concerns for environmental degradation and climate change, together with concerns about increasing social disparities, have continued to place sustainable development under the spotlight.

The growing concerns for environmental degradation and climate change, together with concerns about increasing social disparities, have continued to place sustainable development under the spotlight. This continues the long history of accountants' interest in social and environmental reporting. This area has slowly evolved since the late 1980s, reflecting widespread concerns with climate change and global warming that began with the Brundtland Report in 1987. In accounting, therefore, there has for some time been an interest in social and environmental reporting, sustainability reporting, biodiversity reporting and integrated reporting. An increasing number of companies have been producing separate reports such as social and environmental reports, sustainability reports and, most recently, integrated reports. Integrated reports started in South Africa but are now being promoted by the International Integrated Reporting Council (IIRC).

National and international institutions and policymakers, as well as academics, have all increased the attention given to social and environmental sustainability, worldwide. In this context, a form of 'sustainability rhetoric' has been emerging in corporate mission statements and internal codes, as well as in external reporting systems. In response to the increasing pressures coming from society, as well as national and international institutions, companies are gradually being pushed towards the adoption of principles of both social and environmental responsibility within their strategies, procedures and management systems. In the attempt to move beyond sustainability rhetoric and pursue an active search for sustainable development, what is needed is not only a clear definition of this concept and of its key dimensions but also the adoption of an integrated approach towards the notion of sustainability. Indeed, worldwide initiatives (eg Rio+20, the 2012 United Nations Conference on Sustainable Development) have highlighted the need for an integrated approach to sustainability.

In 2013 the International Integrated Reporting Council, a coalition of regulators, investors, companies, standard setters, accounting associations and NGOs, released the Integrated Reporting Framework. This has been widely debated internationally. If adequately designed and implemented, integrated reporting seems to be able to play an active and constructive role in managing sustainability beyond mere compliance and rhetoric. Environmental and social factors have also started to be integrated with the more central corporate governance issues, becoming equally important for investment institutions. Environmental, social and governance (so called ESG) factors, taken together, are becoming increasingly central to institutional investment strategy, as they help investors to evaluate corporate behaviour and determine the future financial performance of companies.

Many of these issues were directly or indirectly addressed in the symposium. The five speakers provided a range of informed, interesting and, above all, provocative opinions. The issues specifically addressed in the symposium are now presented, and then discussed, in more depth in the following chapters.

Anthony critically reviewed the debate on accounting regulations covering goodwill. He illustrated the main international regulations.

Is goodwill at a conceptual dead-end? A review of current debates

Anthony Appleton (Director, Accounting and Reporting Policy, FRC)

INTRODUCTION

In his presentation, Anthony critically reviewed the debate on accounting regulations covering goodwill. He illustrated the main international regulations. Despite the fact that the amortisation of goodwill had been discussed for a long time, it was only in 1970 that the US accounting standard setters required the capitalisation and amortisation of goodwill over a period not exceeding 40 years. Within the International Financial Reporting Standards (IFRS), the first standard that discussed the accounting treatment of goodwill was IAS 22, issued in 1983. At that time, IAS 22 provided two alternative accounting approaches to goodwill: the 'capitalisation and amortisation approach' and the 'write-off approach'. Following the first approach, companies had to recognise goodwill as an asset and amortise it over its useful life, which could not exceed 20 years. By contrast, if adopting the 'write-off approach', goodwill could not be recognised as an asset but as a correction to the equity, thus it had to be written off to equity. The SSAP 22, published in 1984, provided a similar accounting treatment for goodwill in the UK. In 1993 IAS 22 was modified and the write-off option eliminated. In the UK, FRS 10 effectively made capitalisation plus amortisation over a period of no longer than 20 years the preferred method.

Only in the 2000s did the US GAAP (SFAS 141&142, 2001) and IFRS (IFRS 3, 2004) provide that goodwill should not be amortised but submitted to an impairment test, by comparing its recoverable value (or fair value, in some standards) with its carrying value. This approach, Anthony argued, provides more useful information to investors, many of whom prefer that goodwill remains on the balance sheet with no amortisation, but is subject to impairment reviews as this makes managers more accountable for their investment decisions.

The new FRS 102, introduced in 2013, still requires capitalisation and amortisation of goodwill over the expected useful economic life. The FRS 102 established that if it is not possible to make a reliable estimate of the useful life of goodwill, the life should not exceed five years. Similarly, US GAAP for private companies, revised in 2013, requires capitalisation and amortisation of goodwill but for a period no longer than 10 years.

ACCOUNTING FOR GOODWILL – BACK ON THE AGENDA

Anthony then discussed the results of the main studies undertaken by national and international accounting standards setters. In particular, he focused on the following:

- IFRS 3/Financial Accounting Standard Board (FASB) post-implementation review
- Financial Reporting Council (FRC) research on investor views on intangible assets
- Accounting Standard Board of Japan (ASBJ), European Financial Reporting Advisory Group (EFRAG) and Organismo Italiano di Contabilità (OIC) research project 'Should goodwill still not be amortised?'
- FASB Private Companies Council.

IFRS 3/FASB POST-IMPLEMENTATION REVIEW – KEY FINDINGS

Anthony reported the main results of the post-implementation reviews of the business combinations reporting standard. He stated that annual report users have mixed views on the usefulness of the current accounting treatment for goodwill. The current model is considered useful for calculating performance measures (such as Return on Invested Capital), which can be used to assess stewardship. Moreover, it permits an understanding of whether management has overpaid or whether the acquisition was successful. By contrast, the major weakness of the current model is represented by the ineffectiveness of the impairment test: impairment losses are not recognised early enough and the market ignores the impairment test results.

Anthony then outlined the main challenges for the impairment test. First, the impairment test is too costly and complex. Second, the assumptions used in the impairment test are subjective and are often considered to be too optimistic. Moreover, he stated that it is not easy to perform effectively an impairment test as the purchased goodwill may be supported by internally generated goodwill (ie it is difficult to separate the cash flows between these two). This approach, he pointed out, only makes sense if goodwill is recognised as an asset.

Moreover, it emerged that most of the investors tend to add back some or all the amortisation charges on intangible assets acquired in a business combination when assessing earnings per share (EPS).

FRC RESEARCH: INVESTOR VIEWS ON INTANGIBLE ASSETS

Anthony illustrated the results of a survey conducted by FRC to assess investor views on intangible assets. The survey shows that the majority of those investors who responded would prefer a different accounting model, both on initial recognition and subsequent reporting. In particular, IFRS 3 requires separate identification of all intangibles. Investors disagree, as they consider many of the separately recognised intangibles to be part of the business. Moreover, it emerged that most of the investors tend to add back some or all the amortisation charges on intangible assets acquired in a business combination when assessing earnings per share (EPS). The survey also revealed that many investors proposed a separation of intangible assets into two classes: a) 'wasting' intangible assets, which they proposed should be recognised separately, and b) 'organically replaced' intangible assets, which they proposed should be subsumed within goodwill.

ASBJ, EFRAG AND OIC RESEARCH PROJECT

Anthony illustrated the main findings of a research project on accounting for goodwill carried out by a research group composed of members of ASBJ, EFRAG and OIC. The research group performed a survey to seek views on the usefulness of goodwill generally and specifically under the current IFRS 3 approach. The survey revealed that investors have mixed views. Most of them claimed that companies had expected impairment losses before they were recognised in the financial statements. They also raised some concerns over the cost of annual impairment reviews. In relation to the perceived effects of goodwill impairment during the 2007-08 financial crisis, the majority of the survey respondents thought that it could have pro-cyclical effects. Despite the concerns of some respondents, Anthony does not believe there is a clear enough consensus to mandate a change to the accounting approach.

The Research Group explored possible approaches to remedy the shortcomings identified in the survey. In particular, the alternative approaches identified are:

a. the 'discernible-element' approach, by separating goodwill into different components and applying different treatments thereto

b. the 'direct write-off' approach, by immediately charging the goodwill to profit or loss on the acquisition date

c. the 'direct write-off' approach by immediately charging the goodwill to equity on the acquisition date, and

d. the 'amortisation and impairment' approach.

Goodwill can be viewed from either one of the following two general perspectives (Johnson and Petrone, 1998):

- 'top-down' perspective
- 'bottom-up' perspective.

Under a top-down perspective goodwill is viewed as a component or subset of something larger, represented by the acquirer's investment in the acquiree. Following this perspective, goodwill is perceived as what is left over. Under the bottom-up perspective, acquired goodwill should be separated into different components and a different accounting treatment should be applied to each component. From a bottom-up perspective it is argued that goodwill consists of the following components:

1. excess of FV (fair value) over BV (book value) of the acquiree's net assets

2. FV of other net assets that the acquiree had not previously recognised

3. going-concern goodwill

4. combination goodwill – value of synergies

5. overvaluation of the consideration paid – ie the consideration given is overvalued in the calculation

6. overpayment by the acquirer – ie the consideration given is more than the 'true' value of the business acquired.

According to the research group, only components 3 and 4, which might be termed as 'core goodwill', should be recognised as part of the goodwill asset. By contrast, components 5 and 6 should be immediately expensed. Anthony indicated that component 6 might not be written off under an impairment review if over-optimistic assumptions are applied in determining its recoverable amount. By contrast, components 1 and 2 should be included in the measurement of assets other than goodwill. IFRS 3 requires the separate recognition of assets not previously recognised by the acquiree.

The Research Group concluded that the discernible element approach would involve too much subjective judgment in identifying discernible elements and is too complex to be applied in practice.

The Research Group also concluded that as goodwill meets the recognition criteria of an asset, it is not appropriate to write it off. It

follows from the Group's 'bottom-up' analysis that goodwill meets the definition of an asset under the relevant definitions in the existing Conceptual Framework, because:

- it is a resource controlled by the entity
- it is the result from a past event (the business combination)
- future economic benefits are expected to flow from it to the entity in combination with other assets and together they will contribute indirectly to future cash flows.

Moreover, 'core goodwill' also meets the recognition criteria under the existing Conceptual Framework because:

- with the synergies embodied in the 'core-goodwill', it is presumed that future economic benefits associated with goodwill will flow to the entity; and
- acquired goodwill can be measured at cost (or residual) with sufficient reliability.

The Research Group was also in favour of an amortisation and impairment approach because it follows from the conclusion that acquired goodwill is an asset, that it is consumed and replaced with internally generated goodwill over time.

Anthony argued that we should take a top-down perspective. According to this, goodwill is considered as a leftover component of a larger asset. Defining goodwill as a difference seems to be more a matter of unit of account and measurement than one of definition. Even if this leads to a conclusion that goodwill is not a separately identifiable asset, a pragmatic exception to the usual recognition rules can provide useful and meaningful information; many investors want to see it on the balance sheet as this information is useful because it allows management to be held to account. He argued that the main problem with goodwill recognition is represented by impairment reviews that need to be improved.

Anthony reported the results of the IASB Post Implementation Review, which reviewed 28 published academic studies and found evidence that generally supports the current requirements. In particular, it shows that the information reported in corporate annual reports in accordance with IFRS 3 is useful for investors because the amount of goodwill and of the other intangible assets recognised in accordance with IFRS 3 is positively associated with share prices. They also found that impairment expense provides relevant information as there is a significant negative association between goodwill impairment and share prices. There is, however, also evidence that managers exercise discretion in the recognition of goodwill and impairment expense. Some studies point to earnings management and income smoothing and a lack of timeliness in recognising impairment. Impairment-related disclosures have been found to be important to users, but there are some areas for improvement.

CONCLUSION

Anthony concluded by stating that there is no clear conceptual rationale for changing the accounting treatment of goodwill. Furthermore, he argued that there is no clear call for a change, as users' views are mixed. Moreover, he stated that even if a conceptual analysis concluded that goodwill is not an asset, its recognition is useful. He stressed the importance of improving the existing impairment test and, while generally supporting the current non-amortisation approach, he concluded by questioning whether it is still useful to recognise very old goodwill, where a business has been integrated into a new combination.

QUESTIONS AND ANSWERS

Geoff Whittington (University of Cambridge) disagreed with IFRS 3. He stated that the UK ASB introduced, in FRS 11, impairment tests with a separate cash flow test to stop abuse and expose over-optimistic assumptions of future performance. He asked why the IFRS strives to recognise all sorts of separate items. Anthony agreed with him that the UK test is powerful and that something similar might improve the IASB impairment model. He also agreed that the separated recognition of all possible intangible assets did not always provide useful information because investors often believed that they were inseparable from the business itself and that the determination of their fair value was often very subjective.

Richard Slack (University of Durham) asked if overpayment is the reason for goodwill, and what incentive companies have to admit that they have overpaid and then impair assets. Anthony answered that there would be very little incentive. Richard Slack replied that it gets hidden away and it would only be useful if there was an impairment review.

Richard Martin (ACCA) agreed that an impairment test is most important and stated that there have been fewer impairments than might have been expected. Anthony agreed. Considering the recent economic difficulties in Europe, one might argue that there have been very few impairment losses recognised. He added that some research has identified a correlation between the appointment of new management teams and the recognition of impairment losses.

Mike Jones (University of Bristol) asked if there are any statistics on the level of goodwill in UK or elsewhere. Anthony replied that research has been done in this area but that he did not have the data with him.

Debbie Pearson (University of Roehampton) said that investors know what it is wrong and want impairment and asked if they anticipate it in the share price. Anthony replied yes, but underlined that some investors have noted that there are sometimes delays in the recognition of the impairment loss.

Richard Martin (ACCA) said that we should hesitate before having separate rules for private and public companies. Anthony answered that trying to have the same rules for both is the right approach, but this needs to be balanced with issues of cost and proportionality.

Mark Cardale, the editor of *Practical Guide to Corporate Governance*, gave a talk on the importance of good corporate governance (CG) in improving shareholder communications, with a focus on the annual reports.

How Good Governance Enhances Shareholder Communication

Mark Cardale, editor of *Practical Guide to Corporate Governance*

First, Mark examined the definition of CG provided by Cadbury (1992): the 'system by which companies are directed and controlled'. In the relationship between shareholders and the board, the chair has a pivotal role in linking those shareholders who are not involved in the management of a company at a daily level with directors, and in linking the board as a whole with executive management.

When CG was defined in 1992, the shareholders' role was limited and distinct. Shareholders had to 'appoint the directors and the auditors' and it was the board's responsibility 'to set strategic aims, provide leadership to put them into effect, supervise management, [and] report to shareholders' (Cadbury 1992). By 2000, the Cadbury view had been developed and became more sophisticated, with a reference to 'society'. CG recognised a stewardship function aimed at aligning individual, corporation and society interests (Cadbury 2000). After the financial crisis (2007–8), the CG role was further assessed. According to Walker (2009), boards have to take social influence into account in their monitoring activity and respond to existing and anticipated situations going beyond mandatory prescriptions.

But what does 'good' governance' mean? Mark clarified this by reference to the opening statement in the UK CG Code (hereafter the UKCGC): 'The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company'.

Good governance can be said to require effectiveness in achieving increased and sustainable profitability, within a social dimension. In practice, attention to the social dimension is often restricted by the need to guarantee 'clarity of purpose' and compliance with applicable codes, laws and regulation.

Mark suggested that the attributes of invention, entrepreneurial skill, originality, and sheer managerial competence and integrity (Charkham 2008) should accompany a good governance system and not be distinct from it.

The presentation, then, moved to its core: the CG role in promoting communication with shareholders. Mark's key principles for a meaningful communication were taken from the UKCGC. First, the dialogue has to be based on a 'mutual understanding of objectives'. Second, boards and shareholders should keep constantly in touch through 'practical and efficient' procedures. Third, the board should provide, via the annual report, a 'fair, balanced and understandable' assessment of the company's position and prospects (Financial Reporting Council 2014a).

The first important principle analysed was the 'mutual understanding' of objectives. The whole company and its board should spend time thinking about their aims and direction: these have to be clearly assessed. The chair's personal role in this appears to be significant in coordinating the production of information within the company and presenting it fairly to shareholders. As written in paragraph 7 of the UKCGC 2014, 'Chairmen are encouraged to report personally in their annual statements how the principles relating to the role and effectiveness of the board (in Sections A and B of the Code) have been applied' (Financial Reporting Council 2014a). The chairman's role in this context was also examined in a report published by the Association of British Insurers in July 2013, which generally addressed the importance of shareholder engagement (Association of British Insurers 2013).

Shareholders should provide input and actively participate in the affairs of the company. Such engagement has also been encouraged by the Financial Reporting Council's UK Stewardship Code, which calls for disclosure from investors about their attitudes to investment and voting policies (Financial Reporting Council 2012). Shareholders are now quite frequently invited to take positions on what may be regarded as social issues, in areas where politicians and regulators are, perhaps, nervous about intervening in company affairs. These areas included, Mark said, boardroom diversity and remuneration. In order for shareholder engagement or intervention in these areas to be meaningful, significant amounts of information had to be provided to shareholders – particularly, for example, on remuneration. Mark pointed out that shareholders have not traditionally played this sort of interventionist role, and whether they can or will do so effectively is in doubt.

To share the objectives and plans with shareholders, companies can use different communication channels: prospectuses and formal circulars, annual reports and other reports, such as the CG reports, interim and preliminary announcements of financial results, general meetings, informal briefings and social media. Equality of information between shareholders is an important

objective, but with social media, in particular, it may not always be easy to achieve.

Mark explained, with reference to the AirAsia example, how important social media have become in certain situations. AirAsia, listed on the Malaysian Stock Exchange, purports to adopt an active engagement strategy with shareholders through its website and is apparently enthusiastic about promoting investor relations initiatives. After 28 December 2014, when an AirAsia aircraft crashed in bad weather, with all the passengers killed, social media were, however, used to create a feeling of reassurance about the firm's attitudes to its responsibilities for passengers and other stakeholders. On the other hand, there was no formal announcement directly to investors to explain how the company saw things and what it was doing to cooperate with authorities. Only after some days did it become known that the firm was not licensed to fly the route in question on the particular day of the accident. As this example shows, social media can be favourably managed, and Mark thus cast doubt on their suitability as a means of keeping shareholders and the stock market properly informed.

Moving on from the example of the use of social media, Mark mentioned the FRC initiative in creating the Financial Reporting Lab – an opportunity for companies and investors to engage interactively, through a website, on the development of best practices in the presentation of financial and other corporate and business information. The FRC has already published several reports arising out of the work of the Lab.

Mark then focused on the annual report package. Its several components (the audited accounts, the Strategic, Directors', Corporate Governance and Directors' Remuneration reports) make up the annual report as a whole, which can be described as a 'mammoth' document. Some reports may be published separately from the composite package, even if technically part of it. The package is sent out to shareholders for review in advance of the annual general meeting. This meeting is required to be held with 21 clear days' notice, or for premium listed companies 20 working days' notice (ie four weeks), allowing shareholders this length of time to assimilate all the information they have been given.

To give an impression of the length of annual reports, Mark described the 2013 Barclays' annual report. It was around 440 pages long and included a risk review as required by the UKCGC for premium listed companies. It has been held up as something of a model, prepared under the chairmanship of Sir David Walker himself. Mark imagined the amount of effort required of a fund manager, let alone a private investor, having to work through numbers of these long documents during the reporting season. It was likely to be hard work, Mark argued, to assimilate such an amount of information in even the easiest of circumstances.

Mark then briefly described the various component parts of the annual report.

THE AUDITORS' REPORT

First, Mark drew attention to the development of the Auditors' Report (sometimes referred to as a 'certificate') whose increased length has in part reflected the growth of the material required to be reviewed by company's auditors and, in part, a desire to make the report generally more accessible to the reader: initiatives on this were being led, Mark thought, by KPMG. Mark observed that auditors were required to review not just a company's financial statements, but also (importantly) inconsistencies between the financial statements, the directors' going concern statement, the strategic report, parts of the remuneration report, the work of the audit committee, and more, under the Listing Rules and the UKCGC. Auditors' broad monitoring activity may be difficult to explain in one short report, and the usefulness of the report for shareholders must in any event be open to some doubt. As Mark pointed out at this stage, the advances in the professionalism of auditors and in the practice of good governance had no more prevented the recently uncovered problems at Tesco than (even if in different circumstances) they had the problems surrounding Robert Maxwell.

THE DIRECTOR'S REPORT

Second, the Director's Report was described. This report is now required to contain an extensive range of detailed information, mostly factual, including 'socially' related information, ranging from political/charitable gifts to greenhouse gas emissions. It also formally includes the 'Corporate Governance Report', required under the Disclosure and Transparency and (for premium listed companies) the Listing Rules (LR), whose detailed requirements for premium listed companies are set out over several pages in the UKCGC. The Companies Act (CA) Regulations 2013 (HM Government 2013) also retain a distinction between the Directors' Report and the new Strategic Report. The current form of the Directors' Report, according to Mark, shows some considerable change from the days when typically it used to say as little as possible, and 'satisfactory' was a key word in describing performance.

THE DIRECTORS' REMUNERATION REPORT

Third, the Directors' Remuneration Report was analysed. Since 30 September 2013, this report has been split into three parts: an annual remuneration statement from the chairman of the remuneration committee; an annual remuneration report on implementation of the company's policy, subject to advisory vote; and a forward-looking policy statement, subject to a binding shareholder vote every three years. Mark explained that the remuneration regime under UKCGC has been tightened up with effect from 1 October 2014, and that the EU has just proposed the introduction of EU-wide rules similar to the legal requirements for shareholder votes now applying in the UK. Shareholders have sporadically (eg the Shareholder Spring of 2012) taken action to moderate pay increases at board level and, although rates of increase have reduced since the financial crisis of 2007–8, there have no been overall decreases in levels of executive remuneration. To Mark's mind, it remained to be seen whether shareholder action of itself could be effective in dealing with what seemed as much a social problem as a corporate management or governance one.

THE CORPORATE GOVERNANCE REPORT

Mark's presentation then covered another annual report component: the Corporate Governance Report. The UKCGC sets out (in its Appendix B) a detailed schedule of requirements to be contained in a premium listed company's corporate governance report. This has underpinned the Listing Rules (LR) 7.2 requirements for a premium listed company to disclose how it has applied the Principles of the UKCGC and the extent to which it has complied with the Provisions, or to explain, when it has not complied with a Provision, how what it has done remains consistent with the Principles and with 'good governance'.

Mark explained that all other listed companies were required under DTR 9.8.6 to say how their corporate governance worked, and that since April 2014 AIM companies (which are quoted but not technically listed) were subject to a similar requirement under the AIM rules.

Concerns continue to be expressed, particularly within the EU, on the quality of disclosure in 'comply or explain' CG regimes; and proposals have been announced for tightening the rules on an EU-wide basis.

The strategic report allows companies to describe their strategy and business model, inevitably involving some forward thinking, and to 'showcase' themselves, thus not just to report on historic achievements and failures.

The Grant Thornton Corporate Governance Review 2013 has reported continuing improvement in the UK on the quality of disclosure (Grant Thornton 2013).

Production of the CG reports should help companies to focus on the effectiveness of their CG procedures. The Financial Reporting Council (FRC) has no enforcement powers in relation to the CG Report; nor do shareholders have any specific powers in relation to non-compliance with the UKCGC, although they may take issue with anything they do not like about it through action at general meetings or otherwise as part of the engagement process. Companies may also have to take account of the more general court of public opinion, perhaps pushed by comment from the FRC.

THE STRATEGIC REPORT

The Strategic Report is also part of the annual report 'package'. It was introduced through amendments to the 2006 Companies Act (CA). These amendments were effective from 30 September 2013, and extended to all companies other than those classified as 'small' under the audit regime. This Report has been described as 'the cornerstone of UK narrative reporting'. The requirement for the Strategic Report followed on from the less comprehensive rules for a 'business report' and previously aborted proposals for an 'operating and financial review'. Additional disclosures in the Strategic Report are required from 'quoted' companies, meaning in this instance UK companies officially listed in London or elsewhere in the EEA (but not quoted on AIM) or traded on the NYSE or Nasdaq.

The strategic report allows companies to describe their strategy and business model, inevitably involving some forward thinking, and to 'showcase' themselves, thus not just to report on historic achievements and failures. The strategy and business model disclosure has also been reflected in Provision C.1.2 in the UKCGC as it applied to premium listed companies.

In certain circumstances, normally where shareholders have agreed and requested this, companies may provide shareholders with a copy of the Strategic Report and selected financial information in lieu of the full report and accounts.

The impetus to introduce a requirement for a comprehensive narrative report has several sources with different strands. More specifically, the requirement for this report was influenced by the importance given to non-financial information, particularly for prospects, by sustainability reporting for stakeholders (GRI) and the Integrated Reporting initiative, and by social pressures (eg on diversity), which have led to increased disclosure requirements rather than rules to prohibit or mandate certain activity: the reason for this seems to be that by having to disclose its position on (say) the environment, companies will be 'shamed' into taking action to do things better. Other elements that have influenced the development of the Strategic Report include the political emphasis on primacy of shareholders as owners/providers of capital (on the view that better-informed shareholders will take better decisions for their company) and the fall-out from the financial crisis of 2007–8 (again on the assumption that more disclosure will result in better decision-making by companies and shareholders alike).

Mark was, however, uncertain how realistic this last assumption is: actual behaviour may not be improved by more disclosure. For instance, Barclays accounts published in the summer of 2008 had nearly 120 pages of notes on the bank's collateralised and similar debt obligations, but this did nothing to prevent the coming crisis within Barclays or elsewhere.

The purpose of the Strategic Report has been set out in the amended section 414C of the CA, being the same as for the former business report: 'to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company)'. Mark pointed out that this definition took us back to the starting point of giving shareholders responsibility for the directors' tenure in office (from Cadbury, as noted above), but with the catch that section 172 also sets out various factors that directors must have regard to in promoting the success of the company, introducing the idea that directors are in some way beholden to the interests of stakeholders other than shareholders when running a company. Mark noted, however, that no one other than shareholders has rights at law to enforce such obligations to other stakeholders and wondered whether shareholders are really up for this.

The presentation continued by summarising the content of the Strategic Report. It should contain a 'fair review' of a company's business, with a description of the principal risks and uncertainties faced. The review has to be a 'balanced and comprehensive' analysis of the development and performance of the business during a year and of the position at the year-end. An exception exists for information whose disclosure would, in the directors' opinion, be prejudicial to the company's interests, 'to the extent necessary for an understanding of

the development, performance or position of the company's business'. The contents requirements are detailed in section 414C (2), (3) and (14) Companies Act 2006, as amended by the Regulations.

The analysis should be made using financial and non-financial Key Performance Indicators (KPIs), including environmental and employee ones. In fact, the inclusion of non-financial KPIs has not been required for 'medium sized' companies (sections 414C (3), (4), (5) and (6) CA 2006, as amended by the Regulations). These companies should in any case explain trends and factors 'likely to affect the future development, performance and position of the company's business' and information about environmental, employee, social and human rights issues, including information about the company's policies (section 414C (7) CA 2006, as amended by the Regulations).

For quoted companies, the description of strategy, of the business model and of employee information, with a breakdown relating to gender, should also contain specific rules for groups (sections 414C (8), (9) and (10) CA 2006, as amended by regulation).

A lot of information is thus available to shareholders, on which they may make a range of potential decisions about a company, their investment in it, its management and the board supervision of its management. In case of wrong information, there may be circumstances where individual directors have liability to shareholders or groups or individuals among them, but under statute, putting aside potential criminal liability, the sole liability of directors would be to the company itself.

With this volume of information, auditors have a full range of reviews to make, on the back of a statutory requirement for directors to make proper disclosure of matters relevant to them. Nonetheless, Mark argued that this was no guarantee that scandals such as Maxwell and others might not occur.

Mark drew attention to the recent guidance from the FRC on the Strategic Report, published in June 2014, after a lengthy consultation period, at the request of the Department of Business, Innovation and Skills (BIS) (Financial Reporting Council 2014b). The FRC guidance is intended to set out best practice for all companies, not just those subject to UKCGC, in preparing the Strategic Report; it aims to ensure that the 'needs of shareholders' are met and that greater cohesiveness, experimentation and innovation in annual reports are achieved. Nonetheless, its 'non-mandatory' nature might not be appropriate, given the statutory regime in place. The IASB 2010 'Management Commentary' could also be useful as guidance, according to Mark, as a non-binding practice statement consistent with the Strategic Report, with an emphasis on the need for narrative reporting as an aid to the interpretation of financial information.

THE EU ROLE AND CONCLUDING REMARKS

Throughout the presentation, Mark mentioned the EU several times.

He thought it was fair to say that the EU or, perhaps more properly, its bureaucracy, was inherently suspicious of the UK tradition of the principles-based approach that goes back to Cadbury and the related 'comply or explain' regime. This suspicion was exacerbated by the financial crisis of 2007–8, which spurred on work for a common EU corporate governance regime – work that had started within the EU before the financial crisis. The EU approach, according to Mark, was more prescriptive in its detail than had been known in the UK, even if a number of specific ideas were the same. It also seemed very much focused on shareholder rights and the idea that shareholders could provide solutions in areas where problems have been identified. In recent years, the EU has encouraged, with a focus on larger companies, the disclosure of non-financial performance, with a directive on disclosure of non-financial and diversity information adopted in April 2014 and to be implemented from January 2017 (European Commission 2013).

Mark's presentation ended with some worthwhile concluding remarks. Problems of clarity might have to be faced in the future, despite the greater amount of information available.

Mark also wondered how much use shareholders will make of the extent of the information being provided to them in exercising their 'traditional' functions and in being drivers of social reforms related, for instance, to diversity and remuneration issues. Mark also concluded that the UK regime for shareholder engagement under the UK Stewardship Code may need some time to 'bed down'. Main changes in the UK will be a greater disclosure of anti-corruption and bribery issues.

QUESTIONS AND ANSWERS

Geoffrey Whittington (University of Cambridge) observed that the role of shareholders is critical. Shareholders want a free ride but may be helped if offered electronic voting. The institutions play a major role and a formal democracy would not work, although it is appealing. Mark agreed that voting facilities for shareholders were important: electronic voting was now possible in the UK.

Pauline Weetman (University of Edinburgh Business School) commented that more procedures might be necessary, although, according to John Roberts (2009), priority should be given to individuals' active participation and dialogue rather than procedures. Mark argued that directors are complaining about compliance taking over.

Richard Martin (ACCA) asked whether corporate communication should remain addressed solely to shareholders and whether the social dimension was too much to cope with. Mark replied that boards' effectiveness was improving and performance needed to be evaluated. He agreed that a lot also has to be done outside shareholder communication.

Kevin McMeeking (University of Exeter) suggested that too much disclosure on carbon and other environmental issues occurred. Mark agreed with the fact that there may be an overload of this type of information.

Mike Jones (University of Bristol) asked whether too much information exists nowadays to allow problems to be solved effectively. Mark answered that too much information could be a problem, particularly where its detail was beyond the expertise of those reviewing it and making decisions based on it (as with disclosures concerning greenhouse gas emissions, noted earlier).

Geoffrey Whittington (University of Cambridge) pointed out that calls for simplicity are all useful, but, at the same time, businesses have become global and more complicated. It was, according to Geoffrey, the nature of the world. Mark observed that it was possible for shareholders to receive less information, even if it might be appropriate for regulators to receive more. Companies faced the further difficulty that no international system for disclosure existed, so international companies might have to meet different requirements in different jurisdictions.

Jonathan Labrey provided an interesting presentation on the role and future of integrated reporting, by analysing the flourishing of this new reporting avenue. Jonathan leads the IIRC's global policy work and has travelled widely to build the knowledge and networks that will help integrated reporting to develop worldwide.

The future of integrated reporting

Jonathan Labrey, policy and strategy director, International Integrated Reporting Council (IIRC)

His presentation started with the consideration that Apple's market capitalisation has overtaken the Russian stock market capitalisation. Financial reporting, however, has not evolved as markets have. Global developments have certainly favoured the disclosure of accounting information, not only in financial reports but also in sustainability reports. Investors are not happy with separate sustainability reports that do not take into account the connectivity of information. Integrated thinking and reporting could help to take into account the range of factors that affect an organisation's ability to create value on a long-term basis.

Jonathan then provided a brief description of IIRC, which supervises the implementation and development of integrated reporting. IIRC is a coalition of interests brought together by the Prince of Wales, and comprises regulators, investors, standard setters, companies, accounting associations and NGOs. IIRC is chaired by Professor Mervyn King and the CEO is Paul Druckman. IIRC was formed to develop a framework and create an awareness of the importance of business models that connect, through reporting, the different business dimensions. The Framework was released, following extensive consultation and testing by businesses and investors worldwide, including the 140 businesses and investors that are participating in the IIRC Pilot Programme, in 2013. At its heart, there is a business model, disclosure' principles and a number of 'capitals'. Dimensions for six forms of capital have been identified: financial, manufactured, social and relationship, intellectual, human, and natural capitals. Jonathan then talked about the stewardship responsibilities, incorporated in the integrated thinking, to care for or use these six capitals responsibly. Asia, Japan and Malaysia have started to create a stewardship code. Investors need information to help them to fulfil company stewardship and to assess how value has been created, considering long-term value and the economic power of social and relationship capital.

Jonathan then showed, with a graph, the rise of intangibles assets, as based on Ocean Tomo statistics on the combined market value of the S&P 500. In 1975 intangible assets were 17% of total assets, in 1995 68% and in 2010 they represented 80% of them. Thus, the concept of value has changed and can no longer be reflected in traditional financial capitals. Patents are considered among the new capitals, as part of intellectual capital.

In addition to this constant change, investors have become more short-term oriented than they were in the past. Jonathan provided another figure on the average holding period for stocks by decade from 1940 to 2010. Behaviour in capital markets on holding stocks has fallen from seven years to seven months. A short-term perspective, according to Jonathan, leads to greater volatility and, thus, has a real impact. Considering, among other things, the gap in infrastructural investment of 500bn dollars, a long-term capital perspective has to be encouraged.

Jonathan then focused on the value creation process that should emerge via integrated thinking. This process is described in the Integrated Reporting Framework. The external environment sets the context within which organisations operate, in accordance with their mission and vision. Those individuals charged with governance provide oversight of the value creation process. The organisational strategy affects the whole value creation process and, in particular, the resource allocation plans, and can help to manage risks and maximise opportunities. The heart of the business model can be described as follows: first, the six capitals dimensions (financial, manufactured, social and relationship, intellectual, human, and natural) come as inputs. Business activities develop from these six dimensions and convert them to outputs (eg products and services). The organisation's activities and its outputs lead to outcomes, which are the internal and external consequences for the six capital dimensions. Finally, these outcomes again generate new inputs. The value creation could increase, be preserved or decrease through this process and the organisation's performance is constantly measured and monitored. The value creation process is not static as the organisation's outlook is subject to a continuous revision and refinement.

Jonathan also analysed the IIRC website. The IR Database provides examples of emerging practices in integrated reporting and shows how some businesses are leading the way with innovative approaches in this area. The website also contains the Integrated Reporting Framework and other sections such

> Jonathan concluded that we are living in an era of rampant transparency and firms need to tell stories that are based not only on positive news but also on negative news.

as the one for news and the IIRC blog. The different initiatives and established networks are also illustrated in the website (eg Banking Network and Public Sector Pioneer Network).

Jonathan concluded by observing that firms' reporting strategy will be orientated towards a reduction in the number of reports. On average, six reports are produced by companies while the aim is to reduce this to one report (eg the Strategic Report, in the UK). Conciseness is one of the guiding principles to be adopted in the preparation and presentation of an integrated report, together with a strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, reliability and completeness, consistency and comparability.

QUESTIONS AND ANSWERS

Alan Graham (University of Portsmouth) asked what role China had in this process. Jonathan replied by arguing that Chinese business and progression are in a development mode. More requirements on sustainability accounting will be introduced and banks will produce integrated reports. Overall, moves towards integrated reports are emerging.

Solomon Alienetor (Henley Business School) wondered how non-quantifiable non-financial information could be valued. Solomon provided the example of South Africa, which was a leader in integrated reporting development, although negative issues were not reported. Jonathan explained that investors needed information in context. IIRC was going to be relaxed about monetisation. Jonathan also said that natural capital could be monetised. The South Africa example was cited again. Jonathan observed that, in South Africa, mining companies use KPIs. Before integrated reporting, managers were assessed on resources mined, while now they are focusing on health and safety. Some resistance to corporate governance transparency exists. Jonathan concluded that we are living in an era of rampant transparency and firms need to tell stories that are based not only on positive news but also on negative news.

Richard Slack (Durham University) asked why a fund manager would need an integrated report when he or she could simply meet managers. Jonathan agreed but argued that in today's changing environment, investors are investing by anticipating trends, rather than just on the basis of information asymmetries. Moreover, the investors' audience is disparate: some investors are socially responsive investors and others seek to understand connectivity.

Richard Slack (Durham University) also questioned whether a shift in capital markets is needed for information to be demanded, not supplied. Jonathan replied that a longer-term perspective would shift capital markets. Many initiatives are in place around the world to try and change this.

Richard Martin is Head of Corporate Reporting at ACCA He is responsible for monitoring developments in integrated and narrative reporting and in financial reporting, analysing the impact of changes and developing ACCA's policy on these issues.

Stranded assets

Richard Martin, Head of Corporate Reporting at ACCA

INTRODUCTION

Richard started his presentation by providing some general information on the actual context of stranded assets. He stated that, as highlighted by the International Energy Agency's World Energy Outlook in 2012, to be able to limit global warming to 2°C around two-thirds of proven reserves of fossil fuels will have to stay put and never be burnt. He briefly illustrated the main initiatives developed with the aim of reducing the carbon footprint, such as the new legislation on air quality, carbon taxes, the emissions cap and trade scheme, and the use of alternative sources of energy, etc. Then, he introduced the 'carbon bubble' question, which is based on the claim that fossil-fuel company stocks are substantially overvalued because the real costs of carbon dioxide in intensifying global warming are not taken into account. The need to keep global emissions below certain carbon dioxide thresholds will generate stranded assets represented by the unburnable carbon in fossil fuel reserves. This, as explained by Richard, creates the need for fossil-fuel companies to disclose more information on such stranded assets because only by making the implicit carbon presence in financial statements more transparent would investors then be able to assess their exposure to fossil fuels and carbon risk.

ACCA AND CARBON TRACKER REPORT

Richard introduced the report produced by ACCA and Carbon Tracker (2013) on how the issue of unburnable carbon might be reflected in a company's financial statements. The report focuses on the disclosure of information on fossil fuel reserves that is material to investors in evaluating a company's carbon risk. The report analysed seven key jurisdictions (Australia, Canada, China, EU, Russia, South Africa and USA) and found that companies typically do not disclose material information. The authors recognise the need to encourage the provision to financial markets of value-relevant information and the growth of climate literacy, not only among investors but also among accountants in all their many business and professional roles.

FINANCIAL REPORTING

Richard illustrated the accounting treatment for fossil fuel reserves under IFRS and US GAAP, which are the financial standards adopted by the seven countries analysed. Under IFRS and US GAAP, fossil fuel reserves should be on balance sheet. They are not evaluated at fair value but recorded at the historical cost of exploration and development. Richard outlined that the reserves are recognised on the balance sheet not only if the related activities were carried out by the company, but also if the reserves are acquired from another company either as an asset purchase or as part of a business combination. Richard underlined that reserves' evaluation represents a key issue as there is no consistency on the method adopted for recognising costs. The successful efforts method allows companies to capitalise only the costs associated with successful projects. Costs associated with unsuccessful activity are written off. By contrast, the alternative approach, known as the full cost method, allows all operating expenses related to locating new oil and gas reserves (regardless of the outcome) to be capitalised. IFRS 6 *Exploration for and Evaluation of Mineral Resources* does not help to clarify this issue as it does not explain how to determine which costs should be capitalised. According to IFRS 6, certain events or conditions trigger an impairment test, at which point reporting entities must check whether assets have become impaired. The accounting rules on impairment should ensure that the cost of fossil fuel reserves never exceeds their current value. The IASB Discussion Paper promoted cost over fair value despite these problems but this Discussion Paper has been suspended so there is no answer to such problems.

INDUSTRY STANDARDS FOR RESERVES REPORTING

Coal reserves

With the sole exception of China, all the jurisdictions analysed in the report are included under the Combined Reserves International Reporting Standards Committee (CRIRSCO). This is the result of increased efforts to harmonise the national mineral reserves requirements. Before illustrating CRIRSCO's framework, Richard explained the difference between mineral resources and reserves, which is based on the extent to which the material identified is economically recoverable. The term 'resources' includes all those things that exist, while 'reserves' includes only the proportion of the resources likely to be recovered. He then explained that, under the CRIRSCO approach, mineral resources are further sub-divided, in order of increasing degrees of geological certainty, into inferred, indicated and measured categories. Inferred mineral resources are those for which quantity, grade and metal content can be estimated with a low level

of confidence. Indicated mineral resources are those resources for which contained metal, quantity, grade or quality, densities, shape and physical characteristics can be estimated at a reasonable level of confidence. Measured mineral resources are resources for which contained metal, quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated at a high degree of confidence. Mineral reserves have been then sub-classified by CRIRSCO into: proved reserves and mineral reserves. This distinction reflects modifying factors (e.g. economic, environmental and social). Richard pointed out that the framework is applied differently by individual jurisdictions, as each of them has its own version.

Oil and gas reserves

The PRMS (Petroleum Resource Management System) is an industry standard approach used to classify and categorise oil and gas reserves by most of the countries reviewed in the report. According to this approach the resources are classified in Discovered PIIP (Petroleum Initially In Place) and Undiscovered PIIP. Discovered PIIP are represented by commercial reserves (sub-classified into those that are proved, probable or possible) and contingent resources that represent resources potentially recoverable from known accumulations, but the project(s) are not yet mature enough for commercial development. Undiscovered PIIP are mainly represented by prospective resources. For each classification, three levels of estimates (low, best and high) are performed. Richard outlined that national differences exist also in the application of this approach. He then highlighted that sensitivity analysis to changes in assumptions is generally not required and that the information disclosed is crucial for investors (for example, reserve replacement ratios).

GREENHOUSE GAS REPORTING

Greenhouse gas reporting is characterised by fewer requirements and standards and more relevant national differences. The main system is the GHG (Greenhouse Gas) protocol, which classifies emissions into three different scopes of activity. Scope 1 account for all direct GHG emissions. Scope 2 account for only indirect GHG emissions from electricity consumption, heat and/or steam. Scope 3 account for other indirect emissions, such as those from outsourced activities, waste disposal etc. Richard outlined that such information is rarely included in main corporate reports. As a results some of the disclosures are inconsequential.

INTEGRATED REPORTING

Richard illustrated the importance of using integrated reporting (IR) to encourage organisations to identify and communicate the factors that influence their ability to create value in the short, medium and long term. Six different types of capital are relevant for the purpose of IR: financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital and natural capital. IR should show the connectivity between them and the probable future developments.

SURVEY OF COMPANY DISCLOSURES

Richard next discussed the results of an analysis of the levels of disclosure provided about reserves and climate change in listed companies' annual reports. He first described the sample, which was composed of 35 companies (five companies for each of the seven countries). Of these 35 companies, 21 were coal mining companies and 14 oil companies. Then, he provided information on the most important results. Information on reserves was not reported in 4 of the 35 annual report analysed. The majority of the companies analysed recognised climate change risk as an issue as well as its associated regulatory risk. Companies tend to provide information on the potential value of technological solutions, such as carbon capture, but very few referred to the risks of lost reserves or revenues. Some companies discussed their own greenhouse gas emissions, however, they did not categorise their emissions by scope.

SINCE THEN…

Since the report was published the stranded assets issue has had greater prominence, in particular for sustainability issues. Companies are beginning to provide information to investors on stranded assets. For example, both Exxon and Shell have published a statement of stranded assets. In these, both companies stated that none of their assets would be stranded. There has been increasing pressures by investors to disinvest and at the same time, oil prices have declined.

ACCA NEW PROJECT

Richard discussed the new project that ACCA is developing, which will look at the 2014 corporate reports. This new project needs a series of roundtable discussions to identify the key information that companies should disclose. Moreover, Richard stressed the importance of addressing some key issues, such as the fact that different fossil fuel reserves may have different risks (especially coal), the need to consider longer time horizons and the need to understand who owns the reserves at risk (the major listed companies or the national oil companies).

According to Richard, the main key disclosures or discussion issues that should be analysed for 2014 reports are related to:

- strategy – evaluation of the risks of stranded assets, investment and capital expenditure
- assumptions about climate change mitigation
- assumptions about future energy demand, prices and supply
- reserves – categories, embedded CO2 emissions, maturity profiles, and
- sensitivity analysis of reserves to these assumptions.

Richard concluded by illustrating the main goals of the study. First, it aims to compare the actual disclosures with the key disclosures. Second, it aims to understand whether there have been any improvements in comparison with the past, and, third, to investigate whether IR companies are doing better than the other companies.

QUESTIONS AND ANSWERS

Mark Cardale (Corporate lawyer) asked whether there is any work on political risks. He used Saudi Arabia as example and asked how it is possible to stop such an exploitation of resources. Richard stated that there is no agreement with the governmental authorities on how to do this. He outlined that capital and trade scenarios have proved ineffective and commented that, in China, air quality is a problem.

Mark Clatworthy (University of Bristol) wondered whether it is really a big misallocation of capital investment. Richard Martin was not sure whether it is the biggest misallocation in history.

Kevin McMeeking (University of Exeter) asked how the stranded assets issue could be enforced and how offenders should be punished. Richard stated that it was not clear how to enforce it but he explained that the investment in major coalfields is going down.

Geoffrey Whittington is an Emeritus Professor at the University of Cambridge, and a Life Fellow of Fitzwilliam College.

The IASB: Anglo-Saxon enclave or world standard-setter?

Geoff Whittington (University of Cambridge)

The theme of Geoffrey's presentation was related to the current debate about the role played by the IASB in the global market. Although the IASB argues that it serves global capital markets, it has been criticised for promoting 'Anglo-Saxon' accounting. Its critics are moved by the fact that as the IASB was started in English-speaking countries, it is dominated by what is called 'Anglo-Saxon accounting' (ie by English-speaking countries) (Whittington 2008). Geoffrey accepted that this was a fair criticism of the IASB's approach from 2000 to approximately 2007. Since then there has been a broadening of approach which had, he argued, brought new dangers.

Geoffrey next provided some information on the historical evolution of the IASB. He first discussed the role played by the IASC (International Accounting Standards Committee), which was the predecessor of the IASB. The IASC was a federation of professional bodies and regulators with 'Anglo-Saxon' origins (mainly UK and US), but with a wide membership among the developed countries. The IASC operated for 28 years, from 1973 to 2001. During the latter part of this period (1987 onwards), the IASC attempted to narrow the range of accounting methods permitted by its standards and adopted a Conceptual Framework (1989). In the 90s, four 'Anglo-Saxon' standard setters (from the UK, US, Canada and Australia) began meeting regularly to develop their thinking on issues they expected to come before the IASC. The group was known as the G4+1, where the 1 was a representative of the IASC who attended the meeting as an observer. This probably led to a strong Anglo-Saxon thought leadership.

The IASB was created in 2001 as the successor to the IASC. It was designed to be an independent world standard setter, reflecting the new needs of the International Organization of Securities Commissions (IOSCO), the European Union and the US Securities and Exchange Commission (SEC), which required international standards that were sufficiently robust to justify eliminating the requirement for overseas registrants listing on US exchanges to reconcile their financial statements to US standards.

The IASB is organised in a similar way to FASB. It has an independent, full-time, technical board, with well-funded technical support. The IASB is assisted by a board of Trustees responsible for the governance and oversight of the IASB. Like the IASC, IASB membership was at the beginning dominated by 'Anglo-Saxon' countries. Indeed 10 out of the original 14 members were from Anglo-Saxon countries. Geoffrey underlined that this was an important feature, although members were independent it was likely that their opinions were affected by their background. IASB membership in 2014 had a different balance: only seven members were Anglo-Saxons, meaning that they were no longer a majority.

Geoffrey then provided information on the main pressures and alliances that characterised the IASB's activities in the period 2001 to 2006. He focused, particularly, on the improvements project carried out to fulfil IOSCO's obligation to complete a 'stable platform' for 2005 adopters and on the alliance set up in 2002 with the FASB (Financial Accounting Standard Board) to work jointly on a convergence project with the hope that IAS would be recognised by SEC. The Memorandum of Understanding (MOU) agreed in 2006 between the IASB and the FASB was an attempt to accelerate this convergence.

Geoffrey then discussed the tensions between the IASB and the European countries that had adopted IAS in 2005: over IAS 39 (financial instruments), and the IASB's new Fair Value Option and hedge accounting. IAS 39 was criticised by most European banks, particularly because it did not provide adequately for macro hedge accounting. The IASB had attempted to address some of the banks' concerns, but an additional amendment on macro-hedging was made despite the well-known objections by the banks. The European Central Bank (ECB) also objected to the proposed 'fair value option', which allowed more financial assets and liabilities to be valued at fair value. In particular, it was concerned about the potential impact on financial stability of such an accounting policy. The IASB was disposed to accommodate the ECB's concern, but it did not issue an amendment before the European Commission, in November 2004, announced an endorsement with carve-outs of both contested provisions: macro-hedging and the full fair value option. Later, the IASB amended IAS 39 to accommodate the ECB's concern, but the other carve-out remains (see Whittington 2005; Zeff 2012). The period 2001–6 also saw discontent over the initial failure to develop a SME (Small and medium enterprises) standard.

Geoffrey then discussed the new standards developed in the period 2001–6. He first described the attempts of the IASB to use the prior technical work of the FASB in its development of IFRS 2 on Share-based Payment and IFRS 3 on Business Combinations. These involved joint meetings and projects carried out with the FASB, reinforcing the image of the IASB as an 'Anglo-Saxon' body.

Then he focused on the emergence of the 'Fair Value View' (FVV) by 2006 (Whittington 2008). This was strongly supported by several of the 'Anglo-Saxon' members of the IASB and by many of the technical developments produced by the FASB. Hence, support for the FVV and its expression in new and proposed standards was seen by many as an indication that the IASB was dominated by 'Anglo-Saxons'. Geoffrey explained the main assumptions of FVV: markets are complete and efficient ('deep and liquid') and that financial reports should report fair values derived from current market prices in order to meet the needs of investors. He illustrated the concept of 'Day 1 profit' arising from the adoption of fair value to measure obligations and assets when they are first recognised in the accounts. Examples of projects adopting a FVV were: Insurance, Revenue Recognition, Provisions and Liabilities, Financial Instruments (but not for all instruments) and the revision of the Conceptual Framework. Some standards using FV (eg IAS 39, 40 and 41) were inherited from the IASC.

Despite these initial attempts towards an FVV, the IASB has changed direction subsequently, reflecting a decline in the 'Anglo-Saxon' domination of the Board. Geoffrey discussed the retreat from the Fair Value View that characterised the period 2007–14. First, the liabilities project was abandoned. Then, both standards on revenue recognition and insurance changed direction from the Fair Value of obligation to an 'earnings' concept: event-based recognition rather than Fair Value. IFRS 9, which replaced IAS 39 (Financial Instruments), still required fair value in some circumstances but less aggressively than before. The Conceptual Framework review currently favours mixed measurement and accepts the concept that the board exercises stewardship for shareholders, in addition to decision usefulness for investors, as an objective of financial reporting.

CAUSES OF THE IASB RETREAT FROM THE FVV

According to Geoffrey, the IASB retreat can be attributed mainly to:

- the IASB's response to external pressure, including the global financial crisis of 2007 onwards, which eroded confidence in the 'deep and liquid markets' required to support the FVV
- the changing membership of the IASB, with fewer members from the 'Anglo-Saxon' group that tended to favour the FVV
- the institutional changes in the IAS (now IFRS) Foundation, making the Board more accountable to the constituency, and
- the need to recruit new countries and to retain the old, by producing standards that would be understood and supported in all those countries.

CONCLUSION

Geoffrey concluded by stating that until now the IASB (and the IFRS Foundation that supports it) has been successful in adapting to a changing environment. He believes that the record of its first 15 years shows that the IASB has evolved from its 'Anglo-Saxon' roots, epitomised by the FVV, towards being a global standard setter. Nonetheless, he cautioned that the greater politicisation necessary to achieve consensus across a broad international constituency could compromise the quality of its standards. A protection against this would be a robust conceptual framework that would challenge the acceptance of standards that did not maintain the qualities required of good financial reporting information. Hence, the current revision of the conceptual framework is of critical importance.

QUESTIONS AND ANSWERS

Mark Clatworthy (University of Bristol) asked whether there is great variety in the Anglo-Saxon world too. Geoffrey answered yes, stating that when he was an IASB member he spent all his time arguing with the US. The US were different on several issues. On the other hand, there were broad institutional and cultural similarities across the Anglo-Saxon countries, such as the relative importance of capital markets.

Elisavet Mantzari (University of Westminster) asked if there is a retreat from the financial accounting project (eg whether the banking industry is in retreat from Western thinking). Geoffrey does not think that accounting standards have been compromised by the 2007-08 financial crisis. He thinks that there is little relationship between accounting standards and financial crisis. Day 1 profits inflated the profits of the banks and the bonuses of bankers, but the underlying causes of the crisis lay in the behaviour of banks and bankers: blaming accounting is substantially a case of shooting the messenger.

3. Discussion

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

SUMMARY OF SPEAKERS' PRESENTATIONS

Anthony Appleton (Director, Accounting and Reporting Policy, FRC)

Anthony spoke from his background as director of accounting and reporting policy for the Financial Reporting Council and provided a critical review of the debate on accounting regulations covering goodwill. He first provided an overview of the evolution of the different national regulations relating to goodwill. In his analysis, he outlined that goodwill amortisation has been dominant in most jurisdictions from 1970 till the late 1990s and that it was only in the 2000s that both the US GAAP and the IFRS provide that goodwill should be submitted to an impairment test, by comparing its recoverable value (or fair value, in some standards) with its carrying value, rather than being amortised. He also outlined that capitalisation and amortisation of goodwill is still required for private companies by FRS 102 and the US GAAP for private companies.

Anthony then discussed the results of some studies undertaken by national and international accounting standard setters. First, he commented on the main issues arising from the Post-implementation Review of IFRS 3 Business Combinations. He outlined how annual report users have mixed views on the usefulness of the current accounting treatment for goodwill. On the one hand, the current model is considered useful as it allows an assessment of stewardship and permits an understanding of whether management has overpaid for an acquisition or whether it was successful. On the other hand, it is considered to be ineffective because the impairment losses are not recognised in a timely way and the market ignores the impairment test results. Anthony then illustrated the results of a survey conducted by the FRC to assess investors' views on intangible assets. The survey shows that the majority of the investors would prefer a different accounting model both on initial recognition and subsequent reporting. In particular, investors disagree with the IFRS 3 requirement that all the intangibles be identified separately.

Anthony then illustrated a research project, carried out by members of ASBJ, EFRAG and the OIC, that performed a survey to seek views on the usefulness of goodwill, in particular under the current IFRS 3 approach. The survey revealed that investors have several concerns about the timely recognition of impairment losses and over the cost of annual impairment reviews. Despite these concerns, Anthony does not believe there is a clear enough consensus to mandate a change to the accounting approach. The research project also explored possible approaches to provide a remedy for the shortcomings in the survey. Anthony was in favour of taking a top-down perspective that considers goodwill as a leftover component of a larger asset. He argued that even if this leads to a conclusion that goodwill is not a separately identifiable asset, a pragmatic exception to the usual recognition rules can provide useful and meaningful information. Anthony suggested that the main problem with goodwill recognition is represented by impairment reviews that need to be improved. Finally, Anthony reported the results of the IASB Post-implementation Review, which revised several published academic studies. These studies show that the information reported in corporate annual reports in accordance with IFRS 3 is useful for investors. They also provide evidence, however, that managers exercise discretion in the recognition of goodwill and impairment expense. Anthony concluded by stating that there is no clear call for a change, as users' views are mixed. He stressed the importance of improving the existing impairment test and, while generally supporting the current non-amortisation approach, concluded by questioning whether the recognition of very old goodwill is still useful if a business has been integrated into a new combination.

> The chair of the board, in particular, has a pivotal role in linking the board with the interests and requests of shareholders not involved in the management of the company.

Mark Cardale, editor of A Practical Guide to Corporate Governance

Mark is the editor of *A Practical Guide to Corporate Governance*, a book containing contributions from a number of leading experts in their field, which examines the best corporate governance practices for the long-term success of an organisation. In this speech, he focused on the corporate governance role in promoting shareholder communication.

Mark first clarified the definition of corporate governance, starting from the 1992 Cadbury code (Cadbury 1992). The role of shareholders was first limited to the appointment and control of directors and auditors. The Cadbury code was then revised (Cadbury 2000) and the responsibilities of shareholders and directors towards the corporation and the society were better assessed. Corporate governance, according to Mark, has a social dimension that goes beyond the mere application of Codes.

Mark then explained how directors should communicate with shareholders. The dialogue should be fair and based on the mutual understanding of objectives. The chair of the board, in particular, has a pivotal role in linking the board with the interests and requests of shareholders not involved in the management of the company. Shareholders were, in the past, considered as external investors. Now, Mark added, they can potentially participate actively in the company's affairs (eg by taking positions on issues with social ramifications, such as board diversity and directors' remuneration). In practice, as they have not traditionally played this sort of interventionist role, they might not yet be effective and tenacious enough to intervene and drive social reforms. Rather, they could merely comply with the board's majority decisions.

Mark also illustrated several communication channels. Traditionally, prospectuses, formal circulars and annual reports were dominant while, in recent years, informal briefings and social media are gaining momentum. Social media, in particular, are important for bringing shareholders up to date and for enabling them to interact with management. Nonetheless, they could be strategically used, as in the AirAsia example (see page 14 of this manuscript), to emphasise or hide certain information at the expense of the principle of neutrality.

The annual report is still considered to be the official communication channel linking the board and the corporation with shareholders. Its package includes the Auditors' and Directors' Reports, the Directors' Remuneration Report, the Corporate Governance Report and the Strategic Report. The last-named report has a useful role in highlighting the strategy and business model and the main risks and uncertainties faced for the future. The Corporate Governance Report serves to explain the effectiveness of corporate governance procedures, although shareholders have a limited power in case of a firm's non-compliance with the UK Corporate Governance Code. Through all these annual report documents, shareholders can benefit from an extensive range of detailed information. Nonetheless, there could be an information overload (as with disclosures concerning greenhouse gas emissions) and shareholders might find it hard to select appropriate, clear data to assist them in making their investments. Moreover, directors have a limited liability to shareholders or groups or individuals, in case of wrong information. Mark concluded by analysing the relationship between codified EU law and the UK tradition of a principles-based approach, and by giving some insights and suggestions for effective shareholder communication.

> Integrated Reporting is becoming a new interesting reporting avenue; it is intended to represent the range of factors, financial and non-financial, that affect the organisation's value creation on a long-term basis.

Jonathan Labrey, Policy and Strategy Director of the International Integrated Reporting Council

Jonathan Labrey spoke from his position as policy and strategy director of the International Integrated Reporting Council, a coalition of regulators, standard setters, accounting associations, NGOs, investors and companies, responsible for the implementation and development of integrated reporting (IR). IR is becoming a new interesting reporting avenue; it is intended to represent the range of factors, financial and non-financial, that affect the organisation's value creation on a long-term basis. Instead of disclosing financial and non-financial trends through separate documents, as sustainability reports do, the idea behind IR is to have a comprehensive tool where the business model and the distinct but interconnected capital dimensions are reported. In this way, firms and stakeholders should make their capital allocation decisions more effective and long-term oriented.

In his discussion, Jonathan provided examples on the importance of intangible assets and new capitals for a firm's success nowadays. Reporting has evolved, although investors have become more short-term in their outlook and, thus, firms find it hard to balance their interests with a long-term capital orientation. Jonathan then illustrated the aim and composition of the International Integrated Reporting Council (IIRC), formed to create a Framework encapsulating the main principles for the worldwide development of IR. The Framework was released in 2013 after ample consultation and establishes the guiding principles and content elements of IR: the business model, the connectivity of the six capital dimensions (financial, manufactured, social and relationship, intellectual, human, and natural capital) and the firm's stewardship role in achieving a sustainable development. The Integrated Reporting Framework was the core of Jonathan's presentation; he described the value creation process that should emerge from integrated thinking. This dynamic process is influenced by external and internal actors and the whole organisation should be engaged. In summary, the business model can be described as inputs (the six capitals' dimensions) that develop into business activities that convert inputs to outputs and generate a final outcome. The outcome, again, creates new inputs in a continuous iterative process.

In the second part of the presentation, Jonathan outlined the main initiatives of the IIRC, such as the creation of the IR database, with examples of best practices. He concluded by observing that IR is intended to favour connectivity and conciseness in the information provided for the benefit of stakeholders. Also IR will help to drive firms to explain their value-creation process and to account for both positive and negative emerging trends.

> Then he discussed the importance of using integrated reporting (IR) to encourage organisations to identify and communicate the factors that influence their ability to create value in the short, medium and long term.

Richard Martin, Head of Corporate Reporting at ACCA

Richard Martin spoke from his position as head of corporate reporting at ACCA. In his presentation Richard explained how the issue of unburnable carbon should be reflected in companies' financial statements. He first illustrated the concept of stranded assets, represented by the carbon in fossil fuel reserves that global emissions are to be kept below certain carbon-dioxide thresholds. Richards explained the need of disclosing information on such stranded assets in order to allow investors to assess their exposure to fossil fuels and carbon risk. He then introduced the results of a report produced by ACCA and Carbon Tracker (2013) on how company's financial statements should report information on this 'unburnable' carbon.

According to this report, companies typically do not disclose material information on stranded assets. This suggests the need to encourage the provision to financial markets of value-relevant information and the growth of climate literacy, among investors and accountants in all their many business and professional roles. Richard then discussed the accounting treatment for fossil fuel reserves under IFRS and US GAAP. Under both standards fossil fuel reserves should be on the balance sheet, recorded at the historical cost of exploration and development. In practice, however, no consistent method has been adopted for recognising such costs. According to Richard, this represents a key issue and there is no current answer to this problem. Richard then illustrated the industry standards for reserves reporting, such as the Combined Reserves International Reporting Standards Committee (CRIRSCO), the Petroleum Resource Management System (PRMS) and greenhouse gas reporting (GHR). Then he discussed the importance of using integrated reporting (IR) to encourage organisations to identify and communicate the factors that influence their ability to create value in the short, medium and long term.

Richard next discussed the results of an analysis of the level of disclosures provided about reserves and climate change in listed companies' annual reports. He reported that most of the companies analysed provided information on reserves and recognised climate change risk, as well as its associated regulatory risk, as an issue. Even so, very few companies referred to the risks of lost reserves or revenues. Richard underlined that since the publication of the ACCA/Carbon Tracker (2013) report there has been a greater prominence of the stranded assets issue and companies are now providing more information to investors on stranded assets. Richard discussed the new project that ACCA is developing, which will look at 2014 corporate reports. He stressed the need to address some key issues in the new report, such as the fact that different fossil fuel reserves may have different risks, and the need to consider longer time horizons and understand who owns the reserves at risk.

Richard concluded by illustrating the main goals of the study: to compare the actual disclosures with the key disclosures, to understand if there have been any improvements in comparison with the past, and to investigate whether IR companies are doing better than the other companies.

> Nonetheless, Geoff Whittington cautioned that the greater politicisation necessary to achieve consensus across a broad international constituency could compromise the quality of its standards.

Geoff Whittington, Emeritus Professor, University of Cambridge

From his background as a previous member of the IASB, Geoffrey gave his perspective on the current debate about the role of the IASB as a servant of the global capital markets or a promoter of 'Anglo-Saxon' accounting. Geoffrey accepted that this was a fair criticism up to 2007, but said that the IASB has now evolved from its 'Anglo-Saxon' roots and has become a global standard-setter. To provide support for this view, Geoffrey reviewed the historical evolution of the IASB. He first discussed the role played by the IASC, a federation of professional bodies and regulators, with 'Anglo-Saxon' origins but also with a wide membership among the developed countries, that had been the forerunner of the IASB. Then he discussed the role of the IASB, created in 2001 as a successor to the IASC, and which, like the IASC, was dominated by 'Anglo-Saxon' countries.

Geoffrey discussed the main pressures and alliances that characterised the IASB's activities from 2001 to 2006. He focused, particularly, on the improvements project carried out to complete a 'stable platform' for 2005 adopters and on the alliance with the FASB, set up in 2002, to work jointly on a convergence project. He commented on the initial failure to develop a SME standard and discussed the tensions with the European countries that had adopted IAS in 2005 over IAS 39 (financial instruments), its new Fair Value Option and hedge accounting. Geoffrey then discussed the new standards developed in 2001–6. He first described the attempts of the IASB to use the prior technical work of the FASB in its development of IFRS 2 on Share-based Payment and IFRS 3 on Business Combinations. Then he focused on the emergence of the 'Fair Value View' (FVV) in 2006, strongly supported by several of the 'Anglo-Saxon' members of the IASB. He stated that such support for the FVV was seen by many as an indication that the IASB was dominated by 'Anglo-Saxons'. Geoffrey then explained the main assumptions of FVV: markets are complete and efficient and financial reports should report fair values derived from current market prices in order to meet the needs of investors.

He illustrated the concept of 'Day 1 profit' arising from the adoption of fair value for measuring obligations and assets when they are first recognised in the accounts. He also illustrated some initial attempts towards an FVV, such as Insurance, Revenue Recognition, Provisions and Liabilities, Financial Instruments and the revision of the Conceptual Framework. Then he discussed the period 2007–14, characterised by the≠ retreat from the FVV. He focused on the abandonment of the liabilities project, the change of direction from the fair value of the obligation to an 'earnings' concept that occurred in both standards on revenue recognition and insurance, and the introduction of IFRS 9, which replaced IAS 39 (Financial Instruments). IFRS 9 required fair value in some circumstances but less aggressively than before. Geoffrey believes that the main causes of the IASB's retreat are to be attributed to the need for the IASB to respond to external pressure, including the financial crisis of 2007 onwards, the changing membership of the IASB, with fewer members from the 'Anglo-Saxon' group that tended to favour the FVV; the institutional changes in the IAS and the need to recruit new countries and to retain the old, by producing standards that would be supported in those countries. Geoffrey concluded by stating that until now the IASB has been successful by being adaptable to a changing environment, becoming a global standard setter. Nonetheless, he cautioned that the greater politicisation necessary to achieve consensus across a broad international constituency could compromise the quality of its standards. He believes that to avoid such loss of quality, the current revision of the Conceptual Framework is of critical importance.

Table 3.1: Thematic overview of presentations

PRESENTER	PERSPECTIVE	KEY ISSUES/FINDINGS
Anthony Appleton Director, Accounting and Reporting Policy, FRC	Regulator	A critical review of the debate on accounting regulations covering goodwill was provided. After a descriptive overview of the evolution of the different national regulations relating to goodwill, the main issues arising from some studies on the current accounting treatment for goodwill undertaken by national and international accounting standards setters were discussed. From these studies it emerged that annual report users have mixed views so that there is no clear call for a change. The main conclusion that arises is that even goodwill recognition usually provides useful and meaningful information and the existing impairment test needs to be improved in order to limit opportunities for management manipulation and provide a more timely information.
Mark Cardale editor of *Practical Guide to Corporate Governance*	Adviser	Corporate governance (CG) has a social dimension and a fair and permanent dialogue with shareholders is part of this social dimension. Traditionally, the shareholders' role in CG was limited to the appointment and control of directors and auditors. Nowadays, shareholders have greater responsibilities and CG codes are intended to promote their engagement with the board and, in particular, with the chair. Managers can provide shareholders with an extensive range of detailed information via different channels (eg annual reports, prospectuses, informal briefings and social media). Within the annual report, the Strategic Report is particularly important to connect shareholders with the firm's strategy and business model. Because of information overload and biased information, however, shareholders face problems in selecting the appropriate and neutral data for their investment decisions. Moreover, their participation in the company's affairs is more symbolic than effective, as they have not conventionally played an interventionist role.
Jonathan Labrey Policy and Strategy Director, International Integrated Reporting Council	Adviser	Integrated reporting can develop worldwide and become an enduring format that firms can follow to succeed in their business and contribute to a sustainable development of the society. Companies need to promote stewardship and to change their business perspective, moving towards a long-term orientation and connecting financial and non-financial goals. The International Integrated Reporting Council, a coalition of regulators, investors, companies, standard setters, accounting associations and NGOs, has produced the Integrated Reporting Framework. The main principles for an effective disclosure on the different capital dimensions (financial, manufactured, social and relationship, intellectual, human and natural capitals) and on the entire business model are provided in the Framework. Companies' reporting should be guided, as outlined in the Framework, by the principles of information connectivity, materiality, reliability, completeness, conciseness, consistency and comparability.
Richard Martin Head of Corporate Reporting, ACCA	Regulator	'Stranded assets' represent the amount of carbon in fossil fuel reserves that must remain unused to keep global emissions below certain carbon dioxide levels. The accounting treatment for fossil fuel reserves under IFRS and US GAAP and the main industry standards for reserves reporting are discussed. From this discussion emerges the need for more consistency in the method adopted to recognise the related costs. The results of an ACCA study on the level of disclosure provided by listed companies' about fossil fuel reserves were also reported. Companies typically do not disclose material information on stranded assets, even it seems that this increased after the publication of that ACCA study. A new project has been developed by ACCA, to investigate whether key information on stranded assets is disclosed, whether there have been any improvements in comparison with the past, and whether IR companies are doing better than other companies.
Geoffrey Whittington Emeritus Professor, University of Cambridge	Academic/ Standard Setters	An informed view of the current debate about the role of the IASB as a servant of the global capital markets or a promoter of 'Anglo-Saxon' accounting was provided by the former IASB member, Geoffrey Whittington. By reviewing the historical evolution of the IASB and the main IASB activities, Geoffrey supports its belief that in the past it was fair to argue that the IASB was a promoter of 'Anglo-Saxon' accounting, but that now the IASB has evolved from its 'Anglo-Saxon' roots and is becoming a global standard setter. Geoffrey cautioned that this had required greater politicisation, which is likely to compromise the quality of its standards. He concluded by outlining that the current revision of the Conceptual Framework is of critical importance in avoiding such a loss of quality.

5. Conclusion

This year's symposium was held at another interesting time of social, economic and political flux with continuing challenges to accounting and financial reporting.

This year's symposium was held at another interesting time of social, economic and political flux with continuing challenges to accounting and financial reporting. From an economic perspective there were some fragile signs of economic recovery across Europe, the latter dominated by Germany and tempered by continuing financial difficulties and the debt repayment negotiations of Greece with the social, economic and political implications of the so-called 'Grexit' option. At a political level, there continued to be protests against austerity, especially in southern Europe (Greece and Spain, above all), and government budget cutbacks.

As for accounting and financial reporting, there have been some important changes. For several years the IASB's major projects on the revision of the Conceptual Framework and IFRS for SMEs have been under way. Discussion papers, exposure drafts, supplementary documents and revised exposure drafts have abounded as these seemingly endless projects marched on. In May 2015 the IASB published an Exposure Draft that sets out the proposals for a revised Conceptual Framework. The IASB aims to finalise the revised Conceptual Framework in 2016. In the same period, a comprehensive review of the IFRS for SMEs was eventually completed. The new amended version will be effective from 2017, but its impact should be considered sooner rather than later, as earlier application is permitted.

There has also been a continuation of the development of social and environmental accounting. First, there was a move to sustainability accounting. Now a new era of integrated reporting is beginning. The idea, originating in South Africa, of a stand-alone integrated report is now being actively debated worldwide. At the heart of this is a desire to strengthen accountability on the different sources of capital (eg financial, human, natural) employed in a company's activities. This is still being much debated.

There were two central themes at the 2015 symposium. The first concerned the 'traditional' role of regulation in accounting and the second the wider role of accounting in organisations and society. Anthony Appleton's presentation provided a critical review of the debate on the different national accounting regulations covering goodwill. He concluded that even goodwill recognition tends to provide useful and meaningful information, the existing impairment test needs to be improved in order to limit opportunities for management manipulation and provide more timely information. The former IASB member Geoffrey Whittington provided an informed view of the historical evolution of the IASB and the main IASB activities. Geoffrey pointed out that while in the past it was fair to argue that the IASB was a promoter of 'Anglo-Saxon' accounting, now the board has evolved towards becoming a global standard setter. Nonetheless, Geoffrey cautioned that this evolution has required increased politicisation and that this is likely to compromise the quality of its accounting standards. He outlined how the current revision of the IASB's Conceptual Framework is of critical importance in order to avoid such loss of quality.

The second theme was the wider role of accounting in organisations and society, and the evolution of 'traditional' accounting towards a broader concept of stewardship of the different sources of capital (eg financial, human, natural) employed in a company's activities, and accountability for them. First, Mark Cardale discussed the social dimension of corporate governance and how this includes a fair and sustained dialogue with shareholders. Corporate managers can provide shareholders with an extensive range of detailed information via different channels (eg annual reports, prospectuses, informal briefings and social media). Within the annual report, Mark argued that the Strategic Report is particularly important for connecting shareholders with the firm's strategy and business model. He cautioned that shareholders face problems in selecting the appropriate and neutral data for their investments because of information overload and biased information.

Second, Jonathan Labrey illustrated how integrated reporting can develop worldwide and become an enduring format that companies can follow to succeed in their business and, at the same time, contribute to a sustainable development of their society. Integrated reporting is a process that results in a concise communication, via the integrated annual report, of how a company's strategy, governance, performance, and

The symposium discussed issues of key importance in accounting and corporate reporting.

prospects, in the context of its external environment, lead to the creation of value over time. In accord with the Integrated Reporting Framework, which provides the key principles for an effective disclosure on the different capital dimensions (financial, manufactured, social and relationship, intellectual, human and natural capitals), companies should promote stewardship and change their business perspective, moving towards a long-term orientation and connecting financial and non-financial goals.

In line with the perspective that accounting can play an active role in fostering sustainability, Richard Martin focused on a very specific new topic, within accounting and sustainability: stranded assets, i.e. the unburnable carbon in fossil fuel reserves t hat must remain unused to keep global emissions below pre-determined carbon dioxide levels. 'Stranded assets' are potentially of great present and future interest. Richard discussed the accounting treatment for fossil fuel reserves under IFRS and US GAAP, and the main industry standards for reserves reporting. He expressed concerns about their measurement and reporting in annual reports. In particular, he lamented the lack of consistency in the methods adopted to recognise these costs as well as the lack of material information disclosed by companies in their annual reports, although he acknowledged that disclosure had increased over time.

The symposium discussed issues of key importance in accounting and corporate reporting. Some of them are long-lasting problems that do not have simple short-term solutions (eg the economic consequences of accounting regulation and its politicisation), some others (eg the concept of stranded assets and their measurement and reporting issues) are emerging issues that are likely to be central in future debates about the role of accounting (and accountability) within organisations and society.

In the future these themes are likely to be developed. First, it is likely that a revised Conceptual Framework will emerge. This may then involve the reworking of many accounting standards. Second, the debate on environment/sustainable accounting is not likely to go away. Topics such as biodiversity accounting, ecological accounting, stranded assets and integrated reporting are likely to provide much work for practitioners and academics over the coming decades.

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EA-FARSIG-15

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The ISBN for the 2015 report is 9780900094927 which I am in the process of completing and sending a copy to the British Library etc.