Bruce Pounder, CMA, CFM, Editor

A Wealth of Ideas for Improvement

Recent publications suggest many ways to improve corporate financial reports and the reporting process.

Everybody has an opinion about what's wrong with corporate financial reporting. But some observers go beyond mere criticism to offer constructive suggestions for improvement. In this month's column, I'll summarize four recent publications that both identify opportunities for improvement in corporate financial reporting and recommend numerous specific actions to foster positive change.

A Better Supply Chain

As an "organization of organizations," the International Federation of Accountants (IFAC) and its member bodies support the accountancy profession around the world. On March 9, 2011, IFAC issued the report *Integrating the Business Reporting Supply Chain* (www.ifac.org/frsc). For the report, IFAC interviewed prominent business leaders representing preparers, auditors, and users of financial statements and other business reports to solicit their opinions on what should be done to improve:

- The financial reporting process,
- Financial audits,
- Usefulness of business reports in the aftermath of the financial crisis, and
- Corporate governance.

The report provides a summary of interviewees' recommendations in each area and highlights some of IFAC's related initiatives. With regard to the financial reporting process in particular, interviewees recommended ensuring relevance and understandability to users of financial reporting, reducing complexity in financial reporting standards, easing the burden of financial reporting on smaller and/or nonlisted companies, and using a single set of principles-based, high-quality financial reporting standards in global capital markets.

Less Is More

The United Kingdom's Accounting Standards Board (ASB) is a national standards-setting body similar in nature and operation to the U.S. Financial Accounting Standards Board (FASB). On April 6, 2011, the ASB issued the report *Cutting Clutter: Combating clutter in annual reports* (www.frc.org.uk/asb/press/pub2566.html). The ASB uses the term "clutter" to refer to two widespread problem areas in corporate annual reports: (1) immaterial disclosures and (2) explanatory information that remains unchanged from year to year. According to the ASB, "Clutter undermines the usefulness of annual reports and account[ing] by obscuring important information and inhibiting a clear understanding of the business and the issues that it faces."

Furthermore, the ASB observes that, "Due to the time and effort involved in preparing…disclosures, clutter is also a big issue for preparers." Addressing this issue head-on, the ASB's report provides preparers of annual reports with practical aids for reducing clutter, ideas for how disclosures might look without clutter, and factors to consider when planning the annual report process.

The report also contains three calls for action:

- Encourage continuing debate around what "materiality" means from a disclosure perspective,
- Investigate how to tackle long-standing explanatory material in printed annual reports, and
- Engage with other stakeholders around their information requests.

In addition to these calls for action, the U.K. Financial Reporting Council (the ASB's parent organization) is planning to create

a "financial reporting lab" where constituents can develop and test innovative reporting ideas.

A Systemic Approach

On May 19, 2011, *Tomorrow's Corporate Reporting: A Critical System at Risk* (www.businessandleadership.com/reports/partner/73-pwc/report/197-tomorrows-corporate-report) was published by the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers (PwC), and the "think-and-do tank" Tomorrow's Company. Unlike other initiatives that focus on the specific contents of corporate reports, the focus of *Tomorrow's Corporate Reporting* "is on the overall architecture, culture and behaviours of those engaged in the corporate reporting system—and how they might play a role in changing it to meet the demands of the modern market ecosystem and the changing needs of society."

The report defines the corporate reporting system as "all the individuals, organisations, institutions, rules and processes through which companies communicate their performance and activities." The metaphor of a jigsaw puzzle is used throughout to emphasize that the whole of the corporate reporting system is much greater than the parts that comprise it, yet most system participants see only their "piece of the puzzle."

In line with their distinctive point of view, the report's authors advocate a systemic approach that:

- Is concerned with comprehending the whole,
- Focuses more on interaction of elements,
- Focuses equally on the internal structure of the system and its interaction with the system's environment,
- Generates a dynamic model, and
- Embraces complexity.

Less Is More (Revisited)

On July 21, 2011, the Institute of Chartered Accountants of Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) jointly published *Losing the excess baggage—reducing disclosures in financial statements to what's important* (www.icas.org.uk/site/cms/contentviewarticle.asp?article=7612). The report is the result of the Institutes having been asked by the International Accounting Standards Board (IASB) to review the disclosure requirements in current International Financial Reporting Standards (IFRS) and to recommend an approach to reduce the volume of mandatorily provided information.

The recommendations in the Institutes' report echo several of the themes highlighted in the reports described above. For example, *Losing the excess baggage* notes, "the combined impact of the existing requirements has led to lengthy financial statements cluttered by excessive detail." Furthermore, the joint working group that wrote the report concluded that a systematic, holistic approach to their tasks was needed. The practical result of the working group's efforts was a set of specific recommendations for change—or not—to hundreds of existing disclosure provisions in IFRS.

On October 21, 2011, Bruce Pounder will present *IFRS: Update and Outlook for the USA* at the Fall Educational Conference of IMA's Mid-America Council in Rockford, Ill. For more information, visit http://midamerica.imanet.org.

Recommendations in Perspective

Although the four reports have great potential to improve financial reporting for all participants in the financial reporting supply chain, there are a few things to keep in mind about their recommendations. First, none of the recommendations is binding on policy makers or standards setters. In most cases, implementing the recommendations would require authoritative action by organizations such as the FASB and the IASB.

Second, while the ideas and recommendations in the reports have widespread support, that support isn't universal, and politics invariably plays a role in shaping financial reporting.

Finally, implementation of the reports' recommendations would have to occur within the highly uncertain context of the joint FASB-IASB project on financial statement presentation, which was originally aimed at overhauling the contents and formats of the principal financial statements (last covered in this column in November and December 2008).

In any case, we should be glad that, rather than just complaining about corporate financial reporting, folks around the world are actually trying to do something to improve it. **SF**

Bruce Pounder, CMA, CFM, DipIFR (ACCA), is vice president, Accounting Programs, for SmartPros Ltd. You can reach him at BrucePounder@SmartPros.com.