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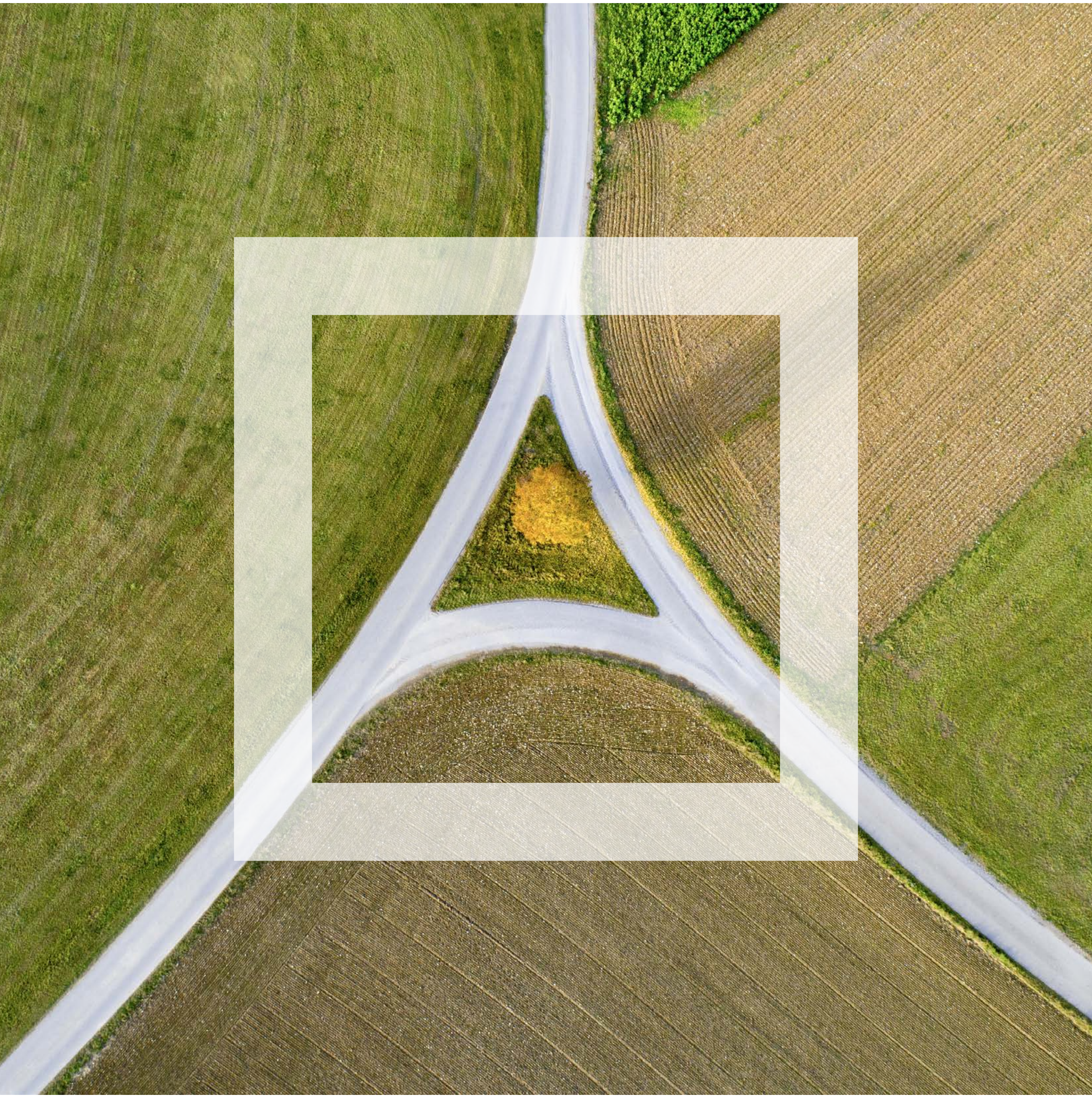

THE FUTURE OF FINANCIAL REPORTING 2021: NARRATIVE, NON-FINANCIAL REPORTING AND THE IMPACT OF BREXIT AND THE CORONAVIRUS

A discussion paper based on the British Accounting and Finance Association (BAFA), Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 8 January 2021.

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A discussion paper based on the British Accounting and Finance Association (BAFA), Financial Accounting and Reporting Special Interest Group (FARSIG) Symposium, 8 January 2021.

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About the Financial Accounting and Reporting Special Interest Group (FARSIG)

The 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 and practitioner thinking and outputs, in accordance with calls from the Economic and Social Research Council and Advanced Institute of Management for relevant and rigorous research combining practitioner and academic perspectives.

The authors would like to express their thanks to the four 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. 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 of the publication of this 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 and emeritus professor of financial reporting at the University of Bristol, UK. Andrea Melis is on the FARSIG committee and professor of corporate governance and management accounting at the University of Cagliari, Italy. Silvia Gaia is a senior lecturer in accounting at the University of Essex, UK and Simone Aresu is a senior lecturer in accounting at the University of Cagliari. Luigi Rombi is a lecturer in accounting at the University of Cagliari and Penny Chaidali is a lecturer in accounting at the University of Cardiff. Omiros Georgiou is lecturer in accounting at the University of Manchester.

Foreword

Richard Martin
Head of Corporate Reporting, ACCA

ACCA was pleased to host again (though this time on-line) the symposium of the Financial Accounting and Reporting Special Interest Group (FARSIG), an annual discussion of the future of financial reporting. The meeting continues to provide a valuable opportunity for discussion between two of the parties involved – principally academics studying and teaching the subject and those involved with its practical application in one form or another.

This year's presentations and discussion covered three of the major current issues – the Covid-19 pandemic, the development of non-financial reporting (especially linked to climate change) and Brexit.

The pandemic, which caused the symposium to be held virtually, has had major economic impacts and effects on company profitability and financial resilience which were set out here in a comparison of the corporate results in 2020 compared to 2019. The effects have also highlighted the need for more information than just the historical financial content – more forward-looking information about expected performance, solvency and the ability to weather such storms.

This is one example of why narrative reporting has become more significant and helped make for more complete corporate reporting. One of the clear conclusions of recent years has been that financial reporting, though it remains a key focus for many reading about and commenting on companies, cannot provide all the information that is needed. Knowledge of the context of the business, what it does, its strategy, the risks it recognises and its view of the future is vital, to supplement the financial statements. The impact of climate change and businesses' reaction to it have made that more important than ever.

In the symposium we had an overview of what academic research has told us about narrative reporting up to now. We also had a window on the major expansion of reporting outside of the financial statements that the European Union has planned (driven in part by climate change) and the part that the European Financial Reporting Advisory Group (EFRAG) is playing in terms of developing standards for a range of issues of sustainability.

Of course EFRAG, as its name makes clear, is also responsible for influencing the development of IFRS and for giving the endorsement advice to the Commission of any changes to them. Which brings us to the third key current issue of Brexit. This has meant that the UK is no longer covered by this EU endorsement system and so needed to set up its own endorsement board and we heard how that has progressed and the approach it will be taking to that work.

So some very topical issues were covered. Practitioners' discussion of their concerns and issues should be helpful for those in teaching and training to keep that instruction up to date and relevant, especially for students starting accountancy. The current concerns of those in practice can also help to direct academic research to topics that will have the greatest impact. Equally, academic research can provide evidence to inform the development of standards and regulations.

The need for interaction between practice and academics, such as provided by the FARSIG symposium, is therefore as important as ever.

I extend ACCA's thanks to FARSIG for organising the conference and to Simone Aresu, Penny Chaidali, Silvia Gaia, Omiros Georgiou, Mike Jones, Andrea Melis and Luigi Rombi for providing this discussion paper based on the event.

1. Introduction

In 2021, the world continued to face an extraordinarily challenging time. Not only are a growing number of complex and long-mounting risks turning into major problems, but new risks and issues are also rising.

The risk of a global pandemic has turned into a dramatic reality and governments, businesses and societies are assessing the social and economic damages inflicted over the last year. The continuing global pandemic situation started from the Covid-19 outbreak in March 2020 in Europe and has continued to bring sorrows and financial challenges to many, and immense changes and difficulties to the daily lives of all of us because of disrupted social interactions. It is, indeed, a time of disruption that has clearly shown how social, economic, political and environmental challenges are interconnected (World Economic Forum 2021).

The pandemic crisis has created new disparities in health outcomes and work opportunities, whose long-term impacts are extremely difficult to predict. At the same time, the crisis has widened pre-existing societal fragmentation within communities and between countries, exposing the lack of capacity of national healthcare systems and damaging weak safety nets and economic structures. This has manifested through persistent and emerging risks to health, rising unemployment rates, widening digital divides, and citizens' disillusion (World Economic Forum 2021). This divergence clearly manifested in the unequal access to Covid-19 vaccines among countries and the uneven performance of large firms with broad access to financial markets in contrast to the performance of small and mid-sized enterprises, which, with limited financing options, were more exposed to the pandemic crisis (International Monetary Fund 2021). Governments are at a fundamental crossroads, facing the strong demands to find a balance between managing the pandemic, disrupted social interactions and economic contraction. At the same time, they also need to create the new opportunities that are fundamental to social cohesion and economic development (World Economic Forum 2021).

Existing geopolitical and geo-economic tensions have been given renewed momentum by the Covid-19-related crisis. The world is continuing to evolve into a period of divergence, with nationally focused political agendas aimed at safeguarding health and safety and stemming economic losses due to the pandemic crisis (World Economic Forum 2021). Increased trade tensions between countries and widespread domestic discontent increased the risks of geopolitical turbulence, political instability and social unrest. An interesting case in point was offered by the medical masks used to protect individuals from Covid-19, whose export, in times of extremely high demand and relatively low supply, was sometimes blocked at national borders to prioritise the national interest. In Europe, heightened geopolitical tensions, including Brexit-related issues, could further disrupt supply chains. All this occurred despite a more pressing need for a collaborative approach to addressing global environmental, social and economic challenges (World Economic Forum 2021).

Importantly, there is a risk of an asynchronous and uneven global economic recovery, among both advanced and emerging economies, as well as within regions, economies, industries and companies (International Monetary Fund 2021). As economies will – sooner or later – emerge from the shock and stimulus of the pandemic crisis, businesses are likely to face another major shakeout due to technological transformation and changes in societal structure (including consumer behaviours and the nature of work). These could include a widening gap between large and small-to-medium enterprises, threatening a large cohort of companies and workers with being left behind. All this is likely to cause a reduction in market dynamism and, at the same time, an exacerbation of social inequality, making the achievement of a long-term sustainable development more difficult (World Economic Forum 2021).

In this uncertain social, economic and political scenario, environmental risks such as an acceleration in biodiversity loss, natural resource crises and climate action failure dominate in the five-to-ten-year horizon. Importantly, environmental-related risks (eg 'extreme weather' and 'climate action failure') remain the most likely and second most impactful (the greatest being 'Infectious diseases') long-term risks identified in the Global Risks Report by the World Economic Forum (2021). This is even though the pandemic-related lockdowns worldwide caused global emissions to fall. If environmental considerations (pollution of air, soil and water, biodiversity loss, etc.) are not properly addressed in the short term, the consequent environmental degradation is likely to intersect with societal fragmentation to bring about dramatic outcomes. The complexity of the climate system means that some impacts are difficult to predict (World Economic Forum 2021). The Covid-19 outbreak has fuelled the current debate on how the dramatic loss of biodiversity brings serious risks not only for the health of the planet but also for societies and economies (eg increased health spill-overs).

It was within this complex and unstable social, economic and political scenario that the latest annual BAFA FARSIG symposium on the 'Future of Financial Reporting' was held, with the support of ACCA, on a virtual platform for its very first time on 8 January 2021. Against a background of continuing social, economic and political major instability and problems there have also been continuing developments in financial and non-financial reporting. This occurred in areas such as the role of corporate reports as a tool for accounting for a company's performance during extraordinary times, the use of narratives in corporate reports, and the role in the UK of the Endorsement Board in the adoption of International Financial Reporting Standards (IFRS) at the national level. These themes were severely affected by the increased environmental risk and the social, political and economic crises. This extremely complex and disrupted overall scenario is also affecting the role of those bodies involved in accounting standard-setting, such as the UK Endorsement Board and the European Financial Reporting Advisory Group (EFRAG). Indeed, the principles, concepts and elements that characterise how companies do (and should) report their overall (financial and non-financial) performance are still under discussion. Relatively old questions (eg How are IFRSs converted into national accounting standards? What information is needed and used by stakeholders? What limitations does financial reporting have in providing a reliable representation of companies' performance in times of a systemic crisis?) are currently being discussed in almost ideal natural experimental settings: the UK Brexit and the Covid-19 pandemic crisis. These issues are debated together with relatively new questions: Why is narrative reporting important? How can narrative reporting change based on company's operations? Which standards could ensure reliability and credibility of non-financial reporting and how comparable would they be? Accounting could (and should) play a major role and help, by using all its potential, to provide an answer to these critical questions. Informed decision-making and proper stewardship of all the different resources employed in a company's activities would, therefore, be enhanced.

The title of the 2021 FARSIG symposium was 'The Future of Financial Reporting: Narrative, Non-Financial Reporting and the impact of Brexit and the Coronavirus'. This symposium brought together a series of high-profile speakers to discuss current and new developments and issues and their effect on the future of financial reporting. Four speakers attended the online symposium and provided their original views on significant current accounting issues, highlighting the future opportunities and challenges facing corporate reporting from the perspectives of the international and national accounting standard setters and academia.

For 2021, the symposium provided a forum for both practitioners and academics to hear and engage in the debate with the following well-informed speakers, listed in alphabetical order:

- **Seema Jamil-O'Neill**, Technical Director of the UK Endorsement Board: 'The UK IFRS framework, changes arising from EU exit'.
- **Andrea Lionzo**, Professor of Financial Accounting, Catholic University of Sacred Heart Milan, Italy: 'The effects of coronavirus on the performance of EU non-financial listed companies and the challenges for financial reporting'.
- **Giovanna Michelon**, Professor of Accounting, University of Bristol: 'Narrative Reporting: State of the art and future challenges'.
- **Saskia Slomp**, CEO of European Financial Reporting Advisory Group: 'EFRAG's contributions to the developments in financial and non-financial reporting'.

In line with the tradition of the symposium, which was held using a virtual platform for the very first time, each presentation was followed by an informed and lively question and answer session and an overall discussion among the symposium delegates.

Issues raised by the symposium

Before introducing the arguments raised in the presentations given during the symposium, the main themes presented and debated at the symposium are briefly summarised in Table 1.1, along with the key themes from previous symposia. During the symposium there was a critical examination of some of the basics of accounting and its profession together with some new frontiers of corporate reporting (eg the use of narratives in company's annual reports). Some of the issues discussed were 'classics' that continue to present standard setters, practitioners and academics with important challenges, such as the role of the international standard setter in national standard setting. But the speakers also provided their informed views on emerging issues and aspects, such as the effects of narrative reporting on corporate behaviour and practice, the changes in the UK IFRS framework arising from Brexit, and the limitations of financial reporting in providing a reliable representation of companies' performance in extraordinary times, such as during a global pandemic crisis. In the tradition of the symposium, the common themes that emerged during the event were discussed in more depth, with a Q&A session, after the commentaries.

Table 1.1. reports a summary of the key topics raised at the 'Future of financial reporting' symposia since 2012. Specifically, the main themes covered in 2021 were: the UK Endorsement Board, the reliability of financial reporting in extraordinary times, narratives in corporate annual reports, and standard setting for financial and non-financial information.

Some of the most important developments that have occurred in accounting and corporate reporting during the years 2020 and 2021 are discussed below. The harmonisation of the accounting principles and standards issued by different national and international standard setters remains of great importance in enhancing the comparability, consistency and, ultimately, the usefulness of the information contained in corporate reports. Although global standards could be the ideal solution, they do not appear to be a real one. Despite its importance, the process by which the two major standard-setters, IASB and the US FASB, have attempted to converge their respective financial reporting standards into one global set has, in fact, not shown any substantial progress in almost a decade. In the meanwhile, the IASB has continued to examine and discuss various accounting and reporting issues.

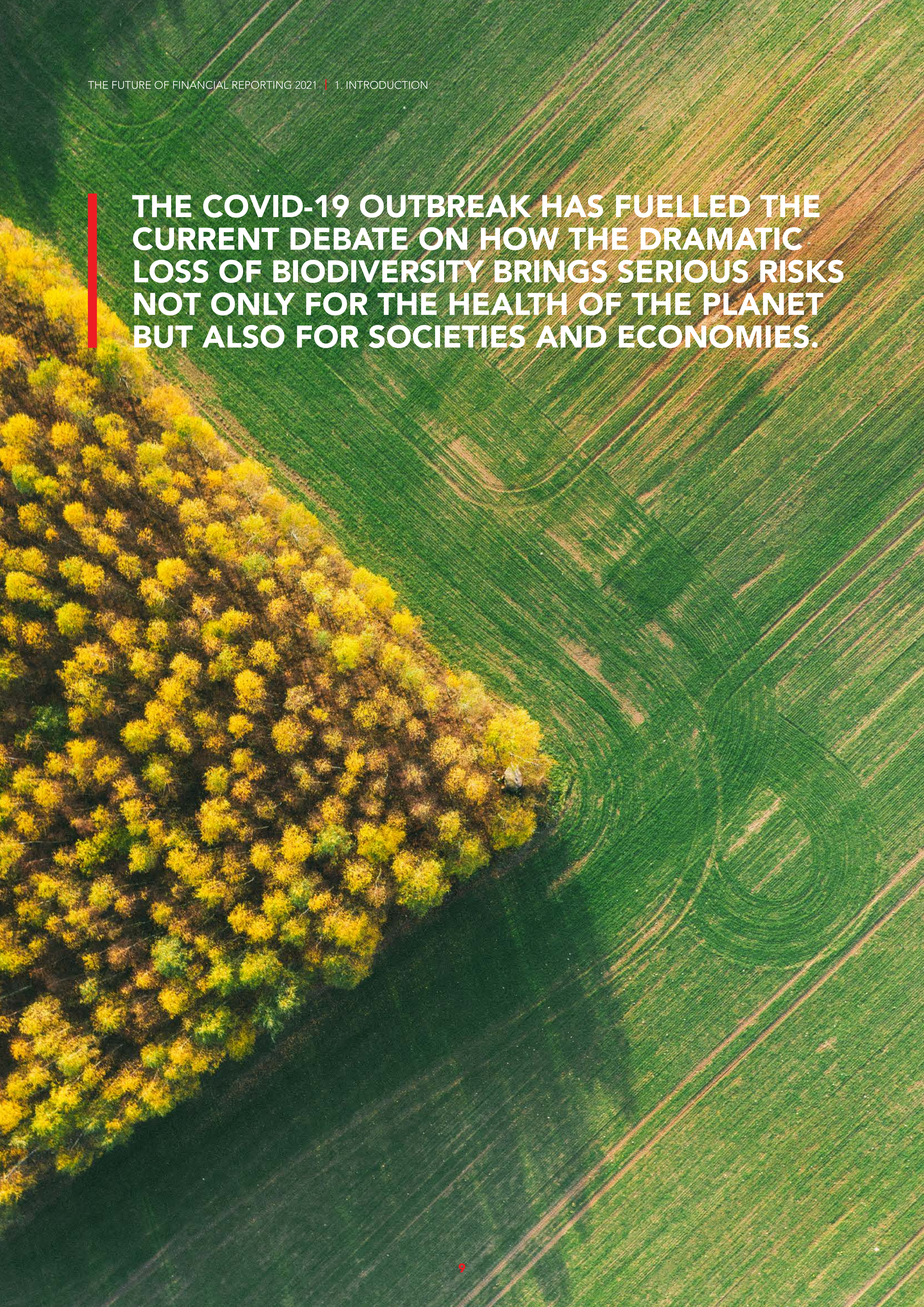
The IASB's agenda for 2021 includes several research projects. Specifically, the IASB's research pipeline includes projects on important topics, such as business combinations under common control, dynamic risk management, extractive activities, goodwill and impairment, and pension benefits that depend on asset returns. The IASB's agenda also contains some 'maintenance' projects, including amendments to International Accounting Standards (IASs) 19, 21 and 37 as well as to IFRS 16. Notably, the IASB is requesting feedback for post-implementation review of IFRSs 9, 10, 11, and 12. During this period, the IASB has also been working on other important standard-setting projects: the second Comprehensive Review of the IFRS for Small and Medium Enterprises (SMEs) Standard (Exposure Draft), financial instruments with characteristics of equity (Exposure Draft), 'Rate-regulated activities' (feedback on the Exposure Draft expected in mid-2021), management commentary (Exposure Draft feedback expected in the first quarter of 2022), a reduced-disclosure standard that would apply to subsidiaries that do not have public accountability (Exposure Draft expected in July 2022). Sustainability Reporting (Exposure Draft feedback expected by the end of 2021) represents the major current 'Strategy and governance' project, ie a project that focuses on fundamental work affecting the IFRS Foundation.

This changing scenario in financial and non-financial reporting is influencing company's preparers and users of corporate reports as well as the accountancy profession and all stakeholders (including academics). Many of these issues were, either directly or indirectly, presented and discussed during the 2021 symposium. Each of the four speakers provided a range of informed and interesting perspectives. The issues specifically addressed in the online symposium are now presented, and then discussed, in more depth in the following sections.

TABLE 1.1: Overview of key symposia themes, 2012–2021

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
The UK Endorsement Board	Accounting regulation for non-financial information	Conceptual framework	The role of accounting in shaping capitalism	The evolution of corporate reporting	The use of information by capital providers	Accounting for goodwill	Conceptual Framework, measurement	Conceptual Framework, recognition and measurement	Asset and liability recognition
Reliability of financial reporting in extraordinary times	Accounting for intangibles	Narratives in corporate annual reports	The role of Big Data and AI in corporate reporting and investment	Corporate reporting vs financial reporting	Conceptual Framework: measurement	Corporate governance	EU Accounting Directive for SMEs	Regulatory Framework, governance and 'balanced reporting'	Measurement, fair value and confidence accounting
Narratives in corporate annual reports	Accountancy profession	Accounting in the public sector	Digital reporting	Financial narratives	Transparent corporate reporting	Integrated reporting	UK FRS: tax implications	IFRS adoption and national accounting practices	Regulatory Framework and complexity of financial statements
Standard setting for financial and non-financial information	Integrated Reporting		Conceptual Framework	Accounting profession	Integrated reporting and the capital markets	Sustainability accounting	The use of information by capital providers	Nature and complexity of crises	Fraud and accounting scandals
			Integrated Reporting	Future of Chinese and Western auditing	The perceived role of the accountant in the society	IASB and politicisation of standard-setting	Compliance with mandatory disclosure requirements		

Sources: Jones and Slack 2012; 2013; Jones et al. 2014; 2015; 2016; 2017; 2018; 2019, 2020.



THE COVID-19 OUTBREAK HAS FUELLED THE CURRENT DEBATE ON HOW THE DRAMATIC LOSS OF BIODIVERSITY BRINGS SERIOUS RISKS NOT ONLY FOR THE HEALTH OF THE PLANET BUT ALSO FOR SOCIETIES AND ECONOMIES.

2. Symposium papers

The papers are summarised below in alphabetical order by author.

2.1 'The UK IFRS framework, changes arising from EU exit'

Seema Jamil-O'Neill

Seema Jamil-O'Neill is the technical director of the UK Endorsement Board, where she was appointed in June 2020. Seema started her career as an auditor of listed and investment banking clients. She worked as an accounting standard-setter at the FRC and its predecessor, the Auditing Standards Board (ASB), specialising in financial reporting standards for financial instruments and insurance contracts. She worked at the Department for Business Energy and Industrial Strategy (BEIS) as the head of Accounting and Reporting Policy, leading the team responsible for maintaining the integrity of the UK accounting and reporting framework as the UK exited the EU. In that role, she also represented the UK at the European Commission's Accounting Regulation Committee as well as European Council working groups. She is also a fellow of the Institute for Chartered Accountants in England and Wales.

Seema presented the UK IFRS framework and the changes that have arisen after the UK's EU Exit. Specifically, she introduced the purpose of the UK Endorsement Board, its statutory functions, the adoption criteria for International Accounting Standards for use in the UK, and her thoughts on how the process is likely to evolve.

Seema started by highlighting how UK legislation, which has been effective since 1 January 2021, sets out the new framework for adopting IFRS for use in the UK. Specifically, she underlined that for financial years beginning on or after 1 January 2021, UK companies will be required to use the UK-adopted International Accounting Standards when preparing their annual group accounts for listing on a regulated market. Seema then highlighted the government's work to fix the UK accounting and reporting framework, which included onshoring all International Accounting Standards that have already been adopted in the EU at the end of the transition period. Until the end of the transition period, UK-listed companies were required to use IFRS as adopted in the EU. From 1 January 2021 the government had onshored all those standards, now to be referred as the UK adopted International Accounting Standards. This will provide companies with the ability to achieve a smooth transition. Seema also underlined that the legislation included two new statutory functions, the endorsement and adoption of any new or amended IFRS for use in the UK, as well as a new function of influencing the development of international financial reporting. In the first instance, these functions will be with the Secretary of State for BEIS, although there are provisions in the legislation for delegating them to another body. Seema underlined that, when the legislation was being passed, the government committed to setting up a UK Endorsement Board to take forward the endorsement and adoption work. Seema also highlighted that the objective for adopting IFRS in the legislation is to ensure a high degree of transparency and international comparability of financial statements and efficient allocation of capital. Seema then highlighted the other aspects included in the legislation relating to the role of the Secretary of State and UK Parliament, mainly ensuring that the Secretary of State has oversight over the technical work and provides a report to the UK Parliament.

Seema then proceeded by discussing the adoption criteria that have been included in the UK legislation itself. Specifically, she highlighted that, before adopting any standard, the UK Endorsement Board, or the body that will be required to adopt those standards, will need to ensure that the standard is not contrary to the principle that accounts give a true and fair view. In addition, it is likely to be conducive to the long-term public good in the UK and meets the technical criteria of understandability, relevance, reliability, and comparability that are required of financial information needed for making economic decisions and assessing the stewardship of management. She also added that the 'true and fair' principle is already well known in the UK as part of the EU legislation and the UK Companies Act requirements. Then, she highlighted the changes to the long-term public good assessment. Specifically, she mentioned how the EU legislation included consideration

THE OBJECTIVE FOR ADOPTING IFRS IN THE LEGISLATION IS TO ENSURE A HIGH DEGREE OF TRANSPARENCY AND INTERNATIONAL COMPARABILITY OF FINANCIAL STATEMENTS AND EFFICIENT ALLOCATION OF CAPITAL.

of European public good, but the UK test requires a review of the long-term public good in the UK. She also mentioned how, when developing this legislation, the government also decided to specify some aspects that should be considered when making an assessment, such as whether the use of the standard is likely to improve the quality of financial reporting, the costs and benefits that are likely to result from the use of the standard, and whether the use of the standard is expected to have an adverse effect on the economy of the UK. Although the European legislation doesn't specify these aspects, in practice, some of these aspects have been considered in the EU-adoption of particular standards.

Seema also proceeded to emphasise one area that, in her opinion, is almost entirely different from the European approach, which relates to the assessment of the costs and benefits of adopting a new standard. Specifically, the assessment of costs and benefits must be considered for every single new standard that is adopted. She underlined that there are very detailed government guidelines on impact assessments to be applied when passing legislation, some of which may also apply to adoption of new or amended standards. She emphasised the relevance of the objective, the change brought about by the standards and their intended effect, but then underlined that the more detailed aspect is related to the quantitative work on the direct costs and benefits to business, as well as consideration of broader impacts, the impact on competition, impact on trade and investment, etc.

Seema then continued by showing how, in her opinion, the two functions – the influencing and the adoption functions – are going to work in the UK. The idea is that the UK Endorsement Board will proactively influence the development of any new or amended standards by the IASB. It will take part in, and make sure that it's up to date with, the IASB's work by providing UK-specific input during the development phase of a new standard. Then, once the IASB has published a standard or an amended standard, the UK Endorsement Board's adoption function will come into play. At that stage, the UK Endorsement Board will formally consider the standard for endorsement and adoption and will then apply the statutory criteria previously mentioned. More importantly, in this phase, the UK Endorsement Board will draft its assessment of that standard against the adoption criteria, develop an impact assessment for adopting the standard for use in the UK and consult with stakeholders on those assessments. Once those steps have been completed and any stakeholder feedback has been considered, the UK Endorsement Board will formally adopt the standard for use in the UK.

Seema then highlighted that if the UK Endorsement Board has been effective in its influencing activities during the development stage, the endorsement and adoption of the standard should be a more straightforward exercise. Specifically, she underlined that it would mainly focus on reviewing the evidence developed during the influencing stage, checking the statutory tests have been met, and then performing a final consultation with stakeholders on the assessments specified above. She also underlined that the UK Endorsement Board would be expected to have a duty to report to the Secretary of State on its technical activities on an annual basis, and the latter is expected to lay that report before Parliament.

Seema then clarified changes she expected in the near future. For the new statutory functions mentioned at the beginning of the presentation, Seema thought that the legislation to delegate those functions would be made early in 2021. In her opinion, by spring, the board should be fully functioning and ready to fulfil its functions[1]. There are also likely to be terms of reference for the board, set by the Secretary of State, with which it will abide when fulfilling its functions. On the influencing objective, not only will the UK Endorsement Board be expected to engage with the IASB, but it will also be expected to conduct original research in the area of development of international standards and work in coordination with international partners, such as national standard-setters from other countries with similar views.

Seema then proceeded by giving an insight into the terms of reference that will incorporate guiding principles that the UK Endorsement Board will follow in all its activities. Specifically, she referred to accountability, independence, transparency and thought leadership. She then concluded by explaining that the government had already appointed Pauline Wallace as the inaugural chair in September of 2020; the recruitment of other board members was currently underway, and her expectation was that board members would be appointed during the first quarter of 2021, coinciding with the delegation legislation being made. She also added that the secretariat, of which she is a part, is already in place and will continue to grow in size as more people are appointed in the near future. Nonetheless, she underlined that the secretariat's primary role would be to provide technical support to the chair and the board in the decisions that they need to be making. The board's composition, as decided by the government, includes individuals that represent preparers of accounts, auditors, investors, as well as academics and economists. Seema also added that she would expect some official observers to be appointed in due course, mainly representing the other market regulators.

1 In May 2021, the UK Endorsement Board received delegated powers by the Secretary of State for BEIS and legislation to formally establish the UK Endorsement Board was passed in April 2021 (FRC, 2021).

Question and Answers

Pauline Weetman (University of Edinburgh) asked whether the consultation process could take a long time and if it will eventually be public. Seema answered that not only was responsiveness pivotal, but also that the development of a standard and a public consultation will be completed in line with the guiding principles of transparency and accountability, which require the board to be as transparent as possible in all its technical decision making and that this requires it to consult with stakeholders.

Ioannis Tsalavoutas (Glasgow University) asked whether the adoption, being in line with specific criteria, will lead to a different version from the EU-adopted IFRSs. Seema answered that this is unlikely, given the decisions made by the UK Endorsement Board, which will be guided by the objectives set out in the legislation for adoption of IFRS. These very much focus on the transparency and international comparability of financial statements, as well as the efficient allocation of capital.

Mahmoud Marzouk (University of Leicester) asked whether this process can end up with the UK not adopting some IFRSs. Seema answered that, in her opinion, this is possible since it has already happened in the EU. In practice, adoption does not occur in a vacuum but after consultation with stakeholders and once the entire process has been gone through.

Richard Martin (ACCA) asked whether the endorsement can start before the final publication of a standard. Seema answered that it is unlikely, since the UK Endorsement Board's intention will be that, at least at the Exposure Draft stage (ie when the proposals are clear), there is some consideration of the endorsement criteria, the costs and the benefits that arise from adopting that standard. So, some of that assessment could begin but she emphasised that the formal endorsement process could not commence until the final publication by the IASB.

Kevin Holland (Cardiff University) asked whether anyone will represent the public on the board. Seema answered that when deciding the individuals to appoint to the board, the chair will consider the stakeholders that have been missed out and, eventually, appoint representatives as appropriate.

Narayan Baser (Pandit Deendayal Petroleum University, Indonesia) asked how we should look at the UK's role in setting global benchmark standards for financial reporting after Brexit. Seema answered that UK's primary function is to influence the development of International Financial Reporting Standards, with the UK's Endorsement Board representing the UK voice in the international arena with both the IASB and others in the development of International Financial Reporting Standards.

Alina Sigel (University of Hohenheim) asked whether the UK Endorsement Board would consider the decision of the European Union on the endorsement of a new or amended IFRS. Seema answered that the board would have to keep an eye out for the approaches that other international bodies are taking for adoption of IFRS. These have been adopted in 125 different countries, all of which are taking a slightly different approach. Still, most of them have got their endorsement processes in place.

Omiros Georgiou (University of Manchester) asked whether the influencing function will prevail over their endorsement function. Seema answered that influencing is a formal statutory function that, when appropriately fulfilled, will help ensure that the endorsement and adoption will be that much easier. In that context, therefore, in her opinion, the influencing role is slightly more critical, but the two should be on par to some extent because one can't exist without the other.

Lindsay Tibbetts (University of Aberdeen) asked what the relationship will be between the UK Endorsement Board and the FRC/ASB. Seema answered that since the adoption of standards is so vital to the UK listed market, on a technical front, the UK Endorsement Board will remain entirely independent from all those influences, including government. Even so, Seema clarified that the FRC, reporting directly to the Secretary of State, would give the board both operational (eg consisting of the provision of premises, provision of IT, HR facilities) and oversight support (eg review of the adherence of the UK Endorsement Board to its due process procedures as well as any governance function in the appointment of board members).

2.2 The effects of coronavirus on the performance of EU non-financial listed companies and the challenges for financial reporting

Andrea Lionzo

Andrea, professor of financial accounting at the Catholic University of Sacred Heart Milan, Italy, discussed the effects of the coronavirus crisis on the reported performance of EU non-financial listed companies. Andrea started off by saying that his presentation relates to a wider project about the effects of Covid-19 on financial reporting and forecasting. He said that he was presenting some preliminary results about the consequences of Covid-19 on the financial performance of non-financial listed companies and reflecting on the challenges these consequences pose for financial reporting. Andrea explained that he was assuming the viewpoint of the users of financial statements, covering what users can see in financial statements and what limitations may reduce the informativeness of financial reporting in a time of crisis.

Context of the study

Two key research questions guided the study.

1. What are the key consequences of Covid-19 on the financial performance of a sample of EU non-financial companies between 2019 and 2020? This covers the main impacts of Covid-19 on performance in Quarter 1, Quarter 2, Half Year, and Quarter 3 of 2020 and the number of companies that will face a default risk in 2021.
2. What limits does financial reporting have in providing a reliable representation of companies' performance in a time of crisis?

Andrea discussed the three research methods used to collect and process data for the study, which are as follows.

1. Financial reporting analysis, comparing the main available performance data of Quarter 1, Quarter 2, Half Year, and Quarter 3 of 2020 and 2019 of a sample of companies from UK, Germany, France, and Italy.
2. The issuing of 400 questionnaires, of which 197 were collected from the sample companies.
3. Interviews with 24 top managers of the sample companies.

In total 1,346 companies were selected: 544 from the UK (40%), 320 from France (24%), 317 from Germany (24%), and 165 from Italy (12%). The largest number of companies operate in the manufacturing sector (43%) and the rest are from other sectors, excluding the financial, energy, and mining sectors.

Financial performance variations: Half Year (2020) vs Half Year (2019)

Andrea explained that listed companies are required to prepare half-yearly reports while quarterly reporting is not mandatory. He went on to present histograms comparing the results of the first half of 2020 with those of the first half for 2019 showing that:

- return on equity (ROE) (net income to net equity) is much worse for companies in all four countries; this is especially true for French (–68%) and UK companies (–56%).
- return on assets (ROA) (earnings before interest and taxes to total assets) is much lower for companies in all four countries; this is especially true for French (–44%) and Italian (–32%) companies
- leverage (net debt to net equity) increases in all four countries; this is especially true for Italian (+62%) and French companies (+55%).

Andrea noted that, overall, the profitability of the companies studied has significantly decreased, while their leverage levels have significantly increased.

Financial performance variations: Quarters (2020) vs Quarters (2019)

Andrea then presented his findings from comparing the first three quarters of 2020 with the first three quarters of 2019. Histograms were presented showing the following results.

- Net sales increased slightly in the first quarter by 6% but fell by 11% in the second quarter. In the third quarter, they increased slightly by 4%.
- Earnings before interest, taxes, depreciation, and amortisation (EBITDA) fell by 21% in the first quarter and by 71% in the second quarter, before making a 35% increase in the third quarter. Andrea explained that EBITDA fell significantly in the second quarter compared with net sales because it fell heavily in some of the sectors that previously generated most of the value added, particularly in the manufacturing sectors.
- Net income showed a dynamic that is similar to that of the EBITDA, amplified by the leverage effect.
- Net debt/EBITDA, a sign of the debt repayment ability of a company, grew significantly by 156% in the second quarter, and increased by 117% in the third quarter, showing the deterioration in the ability of companies to repay their debts.

Andrea went on to present histograms providing more detail on the above, including the following points.

- For net sales, Italian companies suffered the most in the first and the second quarters of 2020 because Covid-19 broke out earlier and more widely than in other countries. UK companies rebounded fastest in sales growth in the third quarter. French firms suffered a significant decline in sales in the second quarter and rebounded only slightly in the third quarter, while German firms experienced a more limited decline in sales in the second quarter and were relatively slower to recover in the third quarter.

- For EBITDA as explained before, the effect of Covid-19 is higher than the effect on net sales, with severe impacts in the second quarter and only marginal recovery in the third quarter. Andrea noted how German companies, which were slowest to recover sales in the third quarter, had the strongest EBITDA growth in the third quarter, reflecting a greater ability to react to the pandemic with efficiency and cost reduction. Italian companies, which suffered more than the others from the EBITDA squeeze in the second quarter, also showed a good responsiveness in the third quarter, while the highly diversified industry composition of UK companies mitigated both the negative impact in the second quarter and the recovery into the third quarter.
- The net debt/EBITDA ratio increased strongly in all countries apart from the UK, where companies seem to be managing this variable best. French and Italian companies showed an increase of this ratio in the first quarter, with a peak in the second quarter, and a reduction in the third quarter. German companies only partially contained the reduction in the level of debt sustainability.

Andrea noted that the picture emerging from the survey is one of companies having overall stability in sales, a sharp drop in profitability levels, a marked increase in the level of debt, and variation in the ability to recover in the third quarter. Andrea explained that the picture needed to be completed with the results of the fourth quarter of 2020.

Companies in a potential liquidity crisis

Andrea went on to consider how many companies might have to face a liquidity crisis, or would risk not surviving, in 2021. To examine this, Andrea explained that he applied forecasts of revenues taken from the most qualified databases, such as Bloomberg and Datastream, for the sectors identified, and worked out a base scenario estimate. He also estimated cash flows on the basis of the dynamics of EBITDA net working capital in 2019. Andrea presented a table showing that, as a result of the debt moratorium granted by the banks, the number of companies that could face a potentially severe liquidity crisis in 2021 ranged from about one-fifth to about one-tenth of the sample companies, distributed evenly among all the four countries. From this information, it could also be quite easy to estimate how many resources the governments would have to invest to save these companies.

Reporting practices and suggestions for improvement

In the final part of his presentation, Andrea presented his findings on the reporting practices adopted by the sample companies and suggested some improvements for the potential of financial reporting to inform users about corporate performance. Andrea found that most companies provided limited disclosures about revenues and profitability, even though these were greatly affected by Covid-19. Only 50% of the sample companies reported significant impairments and most companies stated that they had conducted a review and concluded that no impairment needed to be recognised. Andrea observed that there is a lack of data helping users to assess the risk of potential impairments as well as a lack of disclosure of the significant input factors and the sensitivity analysis. Only some companies provided information about the increase in their expected credit losses, but no details were provided on the quantitative effects of such expectation. Companies also provided little information on any mitigating actions put in place, such as cutting costs and corporate control chain activity. Nonetheless, most companies provided detailed explanations, especially in the half year reports, of the availability of additional funding to secure liquidity during the crisis.

Andrea summed up the situation as one in which the adopted reporting practices were demonstrating a sort of fear about the future and fear about the market reaction to information reported. This fear encouraged many companies to be less transparent. Andrea said that a possible explanation is that less transparency in the interim reports could allow for more room for discretion at the year-end reporting. Another possible explanation may be related to the limited amount of time to gather experience with the new challenges, given the high degree of uncertainty introduced by Covid-19.

Andrea concluded his presentation with some suggestions for improving financial reporting by the companies. He stressed the need for companies to provide additional information, both quantitative and narrative, to allow users to make better assessments of the drivers of performance in times of crisis and better projections about the future.

ONLY 50% OF THE SAMPLE COMPANIES REPORTED SIGNIFICANT IMPAIRMENTS AND MOST COMPANIES STATED THAT THEY HAD CONDUCTED A REVIEW AND CONCLUDED THAT NO IMPAIRMENT NEEDED TO BE RECOGNISED.

As Andrea highlighted, what emerges from his analysis is companies' resistance to, or fear of, providing more information, thereby making themselves less transparent. Companies commonly reported information using alternative performance measures (APMs), either by adjusting their existing measures or by introducing new measures to exclude Covid-19 effects from the financial results. Andrea recognised that it may be difficult to isolate the effects of Covid-19 on the financial results and recommended that, rather than reporting through APMs, it may be better for companies to extend their existing disclosure on issues such as asset impairment activity and business model changes.

Andrea highlighted that the management commentary can play a crucial role in providing more useful information. He suggested companies provide a summary giving the impacts of Covid-19 at the beginning of the financial information section. Finally, he suggested that, regardless of the estimation model adopted, the parameters applied for amortisation and depreciation must be regularly updated to recognise the effects of Covid-19 more accurately. Examples include updating the credit risk, the recoverable amount of assets, the amortisation period, and the amounts of provisioning. Andrea noted that his suggestion does not relate to changing the estimation models applied but to regularly updating the parameters used to make the models more effective in taking into consideration the effects of Covid-19.

Questions and answers

At the end of the presentation, participants had the chance to ask Andrea questions.

Mahmoud Marzouk (University of Leicester) wanted to know if there was evidence of any accounting manipulation around the Covid-19 period, such as increasing income with poor performance and decreasing income with good performance. Andrea explained that companies could be waiting for the final year report in order to put in place earnings-management activities, such as income smoothing or big bath accounting. Andrea referred to the example of impairment tests, for which only a few companies are providing information in their half-year reports. It is, however, difficult to say that this behaviour is due to earnings management or to the uncertainty introduced with Covid-19 and associated challenges with making forecasts.

Jimmy Feeney (Nottingham Trent University) wondered whether the figures presented in Andrea's presentation are stated before exceptional or one-off items. Andrea explained that all figures were selected before non-recurring, exceptional, and extraordinary items. He added that such items were reported by only a few companies and figures for analysis were taken excluding these.

Tamer Elshandidy (Ajman University) asked Andrea whether comparing accounting-based measures with market-based measures, such as stock prices, can inform us better about the effects of Covid-19. Andrea responded by saying that he is planning to conduct such a comparison between accounting-based and market-based measures. He noted the limitations with such an analysis as stock markets have not been reacting to Covid-19 in the same way as the companies reporting their accounting results.

Mahmoud Marzouk (University of Leicester) asked about how information from the interviews was used in the analysis presented and how it relates to the research questions. Andrea explained that he had presented some preliminary results of a wider study in which he is planning to integrate qualitative and quantitative analysis. Information from the interviews at this point of the analysis was useful for understanding what the reporting practices adopted are and for elaborating on the recommended reporting practices.

Richard Martin (ACCA) wondered whether any companies identified additional costs produced by Covid-19 in their income statements. Andrea said that he had found some evidence of companies disentangling the costs of coping with Covid-19 in the income statements. This was mostly by German and UK companies.

Andrea Melis (University of Cagliari) asked whether there was any difference in reporting between those firms with a bad financial performance and those with a positive financial performance. Andrea answered that he had discovered some differences in companies' approaches to transparency relating to their performance. He said that he is carrying out further analysis on these differences.

2.3 Narrative Reporting: State of the art and future challenges

Professor Giovanna Michelon

Giovanna is head of the Accounting Group at the School of Accounting and Finance, University of Bristol, where she is also coordinating the research group on Accountability Sustainability and Governance. Giovanna's research interests lie in the area of accounting and reporting, while her published work has focused on the governance process and systems that underpin corporate actions and accountability on sustainability issues, as well as on the role that sustainability information plays in capital markets.

Giovanna's presentation at the symposium revolved around the findings of a literature review of narrative reporting which she conducted with Professor Grzegorz Trojanowski and Professor Ruth Sealy (University of Exeter) for the Financial Reporting Council (FRC). The literature review was part of the FRC's Future of Corporate Reporting project, which aims to challenge existing thinking about corporate reporting and consider how companies should meet the information needs of shareholders and stakeholders[2]. The findings of the review informed the proposals in the Discussion Paper *A Matter of Principles: The Future of Corporate Reporting* (FRC 2020).

Why is narrative reporting important?

Over the past two decades, the amount of information that companies are producing has increased. As Giovanna explained, this increase is partly due to the existence of more guidance and the development of frameworks that can be used by companies for the reporting of their non-financial information. But it is also because there has been an increase in the number of regulations that accompany the reported information that is not necessarily financial or strictly financial. In a sense, all these mandates about more disclosure and more regulation can be seen as a way of steering the behaviour of companies towards improving their practices and performance upon those issues that they have to disclose (Spira and Page 2010; Christensen et al. 2017)

The literature review commissioned by the FRC aimed at understanding the information needs of corporate reporting users and their use of corporate reporting. The review takes a broad approach, which includes research papers and academic articles examining both financial and non-financial information disclosed in various corporate reports (Michelon et al. 2020). For the purpose of the symposium, Giovanna offered an overview of the academic literature on narrative information that appears in a wide range of corporate outlets such as annual reports, quarterly reports, restatements, earnings announcements, and other standalone ad hoc reports (for example, sustainability, CSR, integrated reports). Narrative reporting includes a variety of types of information, such as discussions about financial performance, narrative disclosures of risk (Elshandidy et al. 2018), intellectual capital (Beattie and Smith 2013; Beattie and Thomson 2007), governance (Ntim et al. 2012), biodiversity (Samkin et al. 2014), extinction (Atkins and Maroun 2018), greenhouse gas emissions (Comyns and Figge 2015), climate change (Ferguson et al. 2016), gender equality (Grosser and Moon 2008) and employee relations (Mäkelä 2013).

According to Giovanna, the literature review aims at offering an improved understanding of the following broad questions.

1. How has the quality of narrative reporting been defined in the academic literature?
2. What information is needed and used by stakeholders?
3. What are the real effects of narrative reporting on corporate behaviour and practice?

Giovanna discussed the findings of the review on these three key questions. As regards the quality of narrative reporting, Giovanna focused on the purpose of reporting, the attributes of meaningfulness, impression management, and other alternative conceptualisations of what quality could be. She then talked about the users and stakeholders' use of information, while the last part of her presentation was devoted to explaining 'what', 'why' and 'how' narrative reporting affects managerial behaviour.

The quality of narrative reporting

Purpose of reporting

The literature review pointed to two main purposes of narrative reporting. With origins in neoclassical economics and positive accounting theory perspectives, the first purpose relates to the concepts of valuation and stewardship (see, for example, Beyer et al. 2010). As Giovanna noted, valuation is essentially the idea of helping investors to assess the future value of an investment, while stewardship involves the provision of full and transparent information to enable the same capital providers to monitor the use of the capital invested. Academic studies within the realm of the positive accounting view of reporting were found to rely on the principles of agency theory to explain reality. In this context, investors were essentially conceived of as primary addressees and users of corporate information. Giovanna stated that because the valuation and stewardship

2 The paper upon which Giovanna based her presentation has now been accepted for publication (Michelon et al. 2021).

perspectives place investors as the primary users of corporate reports, most of the mainstream accounting literature focuses on financial information, either within the financial statements or as narrative information about financial performance.

The literature review identified a second, alternative perspective on the purpose of reporting, which is the idea of accountability. As Giovanna described, the corporate information provided by an organisation must account for the actions for which the organisation is responsible in the eyes of all stakeholders (Gray et al. 1997). The review showed that studies in this second stream of research are mostly interpretivist in nature and rooted in stakeholder theory, adopting, at times, a normative approach when explaining reality (eg Freeman et al. 2004; Harrison and van der Laan Smith, 2015).

Attributes of meaningfulness

Research on narrative information produced by organisations essentially aims at understanding whether the disclosure of this set of information conveys meanings to the users of corporate reporting. Studies have found that narrative reporting serves the purpose of interpreting, contextualising and assessing corporate (financial) performance. It also provides details of and context for the impact that corporate activities that are not strictly financial have outside the organisation itself (Cohen et al. 2012).

To this end, the quality of narrative reporting is therefore considered to be a complex and multi-dimensional concept (Beattie 2014) that, according to Giovanna, is hard to pin down, especially if one is trying to measure or observe it via the disclosure of particular items. Thus, the literature has used multifaceted frameworks that capture both the variety of information that is being provided (quantity), and the 'richness' or depth of reporting details (ie attributes of information such as quantitative/qualitative; historical/forward-looking) that provide meaningful information to the users (Beretta and Bozzolan 2008).

Drawing upon the dimension of the 'richness' of information, manual content analysis studies have demonstrated the association between disclosure quality and key principles such as accuracy, completeness, consistency, comparability, credibility, relevance, timeliness and transparency that exist in various reporting frameworks and guidance (see, for example, Toms, 2002; Bouten et al. 2011; Chauvey et al. 2015, Comyns and Figge 2015). The assessment of disclosure items on the basis of these principles allowed researchers to distinguish between boilerplate and truly meaningful information that satisfies users' needs. Most recent studies on narrative reporting use computational linguistics or computer-aided textual analysis that facilitates the investigation of larger sample sizes and the collection of increased amounts of information for further analysis (Kravet and Muslu 2013; Li 2008, 2010; Loughran and McDonald 2011, 2016; Muslu et al. 2014, 2019).

Impression management

Giovanna then addressed the topic of impression management in narrative reporting research. Impression management is defined as the attempt by an organisation to control or manipulate the impression conveyed to the users via the distortion of readers' perceptions of the organisation's performance (Clatworthy and Jones 2001, 2006; Merkl-Davies and Brennan 2007). As Giovanna explained, most of the impression management studies examine narratives in an attempt to identify specific strategies or techniques followed by organisations, such as the obfuscation of information or strong emphasis on good news. She noted, however, that the question of whether the practice of impression management is intentional or merely stems from the human nature, remains unanswered.

Studies in the impression management stream can be categorised into those that have tried to develop 'objective' proxies (eg Cho et al. 2010), while another body of research has used more interpretive methodologies to identify practices for symbolic management and rhetorical devices implemented by organisations (Merkl-Davies and Brennan 2011; Bujaki and McConomy 2012; Higgins and Walker 2012).

Building on the findings of the literature review, Giovanna stated impression management is more likely to occur in less regulated narratives, such as sustainability and CSR narratives (Cooper and Slack 2015). At the same time, it has been found that organisations may use a wide range of reporting techniques to communicate information. This is an important point, as organisations seem to be building their own reporting systems. Such a system might not be a holistic one that provides a consistent portrayal of the organisation. Giovanna recommended that researchers take into consideration the role of different media in narrative reporting as an alternative conceptualisation of quality.

Alternative conceptualisations

Linked to the point above, the literature revealed the potential of narrative reporting to develop an emancipatory role (Christensen et al. 2013) owing to its ability to develop good reporting practices that could transform the underlining corporate actions and decisions. In the same vein, the findings of the review showed that organisations can use narrative reporting as part of a participatory governance process where stakeholder engagement and production of accounts are closely intertwined (Brown 2009; Irvine and Moerman 2017; Thomson and Bebbington 2005).

The literature also pointed to the use of counter accounts, that is narrative accounts produced by stakeholders beyond the inner circle of an organisation, that can promote transparency and accountability (Gallhofer et al. 2006; Irvine and Moerman 2017). These external counter accounts, found in a wide range of communication outlets, allow the portrayal of the overall performance of the organisation (Georgakopoulos and Thomson 2008; Boiral 2013; Rodrigue 2014).

Alternative conceptualisations of narrative reporting were also identified in research work that explores power relations, eg discourse analysis (Beelitz and Merkl-Davies 2012), storytelling (Al-Htaybat and von Alberti-Alhtaybat 2017), sense-making and sense-giving (Merkl-Davies and Brennan 2011). Finally, the review identified cases where the quality of narrative information was evaluated via the investigation of the perceptions of the various groups involved, whether preparers or other stakeholders (see, for example, Chaidali and Jones 2017; Helfaya et al. 2019).

Users of information

Equity investors

In contrast with the extensive literature on financial disclosure, as Giovanna noted, research offering primary evidence on information needs of equity investors is quite limited. In general, the findings of the review highlight that narrative information is as important as the data contained in the financial statements (eg Cascino et al. 2016), although some studies have shown that excessive narrative financial reporting might not necessarily satisfy users' needs (Campbell and Slack 2008). As mentioned earlier, research has shown that narrative information is prone to managers' opportunistic behaviour, but research has also documented awareness among investors of impression management cases. With regard to narrative non-financial information and especially within environmental, social and governance (ESG) and sustainability reporting, recent studies have explored investors' perceptions of the usefulness of narrative information (Diouf and Boiral 2017; Slack and Tsalavoutas 2018). The findings suggest there is awareness of managerial greenwashing, that could be driven by the lack of established reporting standards (Amel-Zadeh and Serafeim 2018). In light of these findings, some investors have advocated the mandatory adoption of non-financial reporting (Stubbs and Higgins 2018).

Financial analysts

Studies on the decisions of financial analysts indicate that good-quality reporting is associated with a decrease in analyst forecast dispersion and an increase in analyst precision (Beyer et al. 2010; Christensen et al. 2019). Nonetheless, the literature shows that the effects of quality and quantity of disclosure can differ. According to Giovanna, such a differentiation is found in a particular type of reporting, that of risk reporting. While some studies find that the specificity of the quality of risk disclosure is beneficial and allows analysts to sense firms' fundamental risk better (Hope et al. 2016), other researchers show that extensive risk disclosures are associated with more dispersed forecasts revisions, suggesting that high volumes of information can increase the analysts' and investors' perception of risk (Kravet and Muslu 2013). As far as ESG reporting is concerned, the results are relatively mixed, possibly owing to its dependence on context-specific elements (eg Dhaliwal et al. 2012).

Creditors

Moving on to creditors' information needs and use of reporting, Giovanna stated that the bulk of the research focuses on financial reporting, especially financial statements rather than narrative reporting. On the reporting of narrative information, there is some evidence that the quality and the credibility of narrative reporting is reflected in the cost of debt capital (see, for instance, Cecchini et al. 2010; Bonsall and Miller 2017). Within this context, it was found that the linguistic properties of the narratives are related to changes in credit ratings and the likelihood of bankruptcies (Mayew et al. 2015).

As Giovanna noted, there is limited evidence on the relevance and use of non-financial reporting (such as corporate social responsibility reporting) in the context of credit markets (eg Gong et al. 2018). Giovanna's view was that, as credit rating agencies are entering the so-called ESG investment-rating market and acquiring the CSR ratings, credit ratings will increasingly incorporate an assessment of ESG risk and opportunities. Nevertheless, from a literature perspective, currently there is a need for more research on the implications of narrative reporting for access to credit, the cost of debt capital, the debt terms and bankruptcy predictions.

Other stakeholders

Regarding the literature on the information needs of stakeholders other than investors, analysts or creditors, Giovanna emphasised that most of the research work explored non-financial information, with a particular focus on ESG information and integrated reporting. The studies included in this research stream highlight the discrepancy between the information stakeholders expect and the contents of the disclosure standards and actual disclosures made by organisations (see, for instance, O'Dwyer et al. 2005; Diouf and Boiral 2017)

The review identified five stakeholder concerns. First, the idea that non-financial information in narrative reporting seems to be a box-ticking exercise diminishes the value of the provision of substantial information (Abdo et al. 2018). Second, the existence of standards that may not capture in full the information needs of specific types of stakeholders (Bradford et al. 2017). Third, the tendency of sustainability reporting to reflect impression management strategies that highlight positive aspects of sustainability performance and obfuscate negative outcomes (Diouf and Boiral, 2017). Fourth, the notion that narrative disclosures relate to financial performance with the scope to advance shareholders' interests and a general failure of managers to accept duties of accountability (Haque et al. 2016). Fifth, a general resistance to engaging in complete and credible disclosure (O'Dwyer et al. 2005).

Real effects

In the presentation of the real effects of reporting, Giovanna stated that the literature has looked at the following two aspects: first, what behaviour narrative reporting might affect and, second, why and how behaviour might change owing to the impact of narrative reporting.

What can narrative reporting change?

Giovanna briefly mentioned that the literature has shown that reporting can cause change in operations. In particular, academic studies have illuminated how reporting of certain sustainability issues seems to be tackled better by organisations (Christensen et al. 2017). Narrative reporting can also bring corporate governance changes (see, for example, Armstrong et al. 2010; Eccles et al. 2014) and changes in the internal decision making and thinking of organisations (Lai et al. 2018).

Why and how does narrative reporting affect behaviour?

Although the review revealed that mandating the inclusion of narrative non-financial information might not lead to social change (Leong and Hazleton, 2019), Giovanna noted that mandatory narrative reporting is preferable as it can be more homogeneous, comparable and offer more useful information than non-mandatory reporting.

> THE LITERATURE REVIEW ALSO REVEALED HOW SEVERAL RECENT POLICY INTERVENTION AND REGULATORY CHANGES, PARTICULARLY IN RESPONSE TO CLIMATE CHANGE AWARENESS, HAVE AMPLIFIED THE SCOPE OF REPORTING AND BROUGHT SOCIAL AND ENVIRONMENTAL ISSUES TO THE FOREFRONT OF INVESTORS' AGENDA.

Some studies have also found that the way organisations report narrative information might signal their internal identity and affect corporate behaviour (Busco and Quattrone 2017; Gibassier et al. 2018). Other research work emphasises the agenda-setting role of reporting (Camilleri 2018), which can cause significant change in managerial and organisational behaviour (Adams et al. 2019).

Nevertheless, the literature shows that when the costs of narrative reporting are considered too onerous or potential reputational damage of reporting exists (Gao et al. 2019; Goergen and Tonks 2019), organisations might employ avoidance strategies or adopt a tick-the-box compliance approach in their reporting.

Conclusion

In her concluding remarks, Giovanna referred again to the three purposes of reporting that seem to determine the quality of narrative information. These are: valuation, stewardship, and accountability. The literature review also revealed how several recent policy intervention and regulatory changes, particularly in response to climate change awareness, have amplified the scope of reporting and brought social and environmental issues to the forefront of investors' agenda. Consequently, more academics seem interested in the role of narrative information and how this type of reporting is used by shareholders and creditors in the assessment of corporate performance.

Even so, as Giovanna explained, the widening scope of narrative reporting should not lead one to consider that the purpose of reporting changes. Giovanna invited the audience to review and offer feedback to the recent consultation document by FRC, which prioritises the overall objectives of narrative reporting over the reporting practice designed for particular users. Proposals to the FRC consultation document might include deeper stakeholder engagement with narrative reporting, in that reports can be co-produced by stakeholders and organisations. Considerations of what material information is and what should be included in the corporate report are welcome. Similarly, questions could be raised about the focus (short-term versus long-term) of the information reported.

Giovanna ended her presentation with a call for further research that would address some of the future challenges of narrative reporting. Future research could adopt mixed-method or case-based approaches to investigate key challenges, such as the evolution of narrative reporting in relation to the purpose of corporate reporting and its widened scope; the design of comparability standards for non-financial reporting that would ensure reliability and credibility of narrative information; and the use of discretion in narrative reporting.

Questions and Answers

Giovanna's presentation was followed by questions from the audience.

Richard Slack (Durham University) emphasised that earlier research has primarily used hardcopy reporting, such as annual reports. Nowadays, he noted, reporting occurs through social media channels such as Twitter and Facebook. Richard asked Giovanna to comment on the implications associated with corporate reporting through social media and the reporting of ESG issues. Giovanna confirmed that the literature review did not investigate reporting via social media outlets. As she explained, however, social media may create governance issues, not just for organisations, but, in general, for society as a whole. Giovanna pointed to the literature that looks at how organisations communicate on social media in association with capital markets' reaction. She also referred to a smaller but important stream of research that explores the disclosure of social and environmental issues in social media. Giovanna argued that more research should be conducted on the consistency in the message organisations send out and the potential changes in the messages themselves, depending on the social media used by reporting organisation.

Mahmoud Marzouk (University of Leicester) asked Giovanna to reflect on the future of narrative reporting in light of the new proposed reporting framework developed by the FRC and its impact on the relevance and quality of narrative disclosure. Giovanna found the FRC's idea of the development of a system of reports that have to be holistic and serves different purposes, to be quite innovative and brave, to a certain extent. She supported FRC's use of the phrase 'public interest' as it acknowledges that organisations have a public interest role that they should be fulfilling. Consequently, their reporting should also follow the public interest approach to any type of reporting. Giovanna mentioned that the literature review also showed that organisations adjust their reporting policies to a set of incentives that may be company-specific and/or institutional. She believes that if organisations implement the type of reporting the FRC is proposing, the result will be the development of different reporting practices. The aspiration is that some of these will be best practices that can then be used to guide other organisational behaviours.

Jimmy Feeney (Nottingham Trent University) sought Giovanna's view on the competing research results for a few narrative topics. For example, the literature has highlighted debates in narrative reporting on the textual attributes that might relate to impression management practices but also, signalling purposes, or tensions in capital market reaction pricing issues. Giovanna answered that the discussion of several topics on narrative reporting can be deemed as a double-edged sword. For instance, with respect to discretion in reporting, organisations need to be given the flexibility required to provide a true and fair view. But, at the same time, this flexibility can be abused, leading to cases of accounting malpractice or even fraud. Giovanna argued that there is need for more research, which, admittedly, might lead to more diverse findings. Most importantly, Giovanna called for improved education, which will stem from discussions with students about discretion and other debates in accounting.

Omiros Georgiou (University of Manchester) noted that the literature review on the quality of narrative reporting did not include much evidence from qualitative studies. According to Giovanna, the literature review attempted to incorporate different views and a variety of research approaches. Although, questions about the quality of reporting seem to be primarily positivistic in nature, the review included research papers that took an interpretative perspective on the production of reporting and explored individuals' perceptions and understanding of reporting.

Stephanie Tiller (University of Worcester) wanted to know Giovanna's thoughts about how comparability standards to ensure reliability and credibility of non-financial reporting could be achieved. Giovanna explained that, for non-financial reporting, what really matters is the purpose of this type of reporting. In her opinion, the comparability standards would be very different from those that are currently used in financial reporting as they will serve a wide range of purposes rather than investors' information needs.

2.4 EFRAG's contributions to the developments in financial and non-financial reporting

Saskia Slomp

Saskia spoke as the CEO of EFRAG (European Financial Reporting Advisory Group). She spoke about EFRAG's contributions to the developments in financial and non-financial reporting. Saskia was appointed as EFRAG CEO from the first of April 2019, and she is responsible for its operations, finance, governance, and administration as well as for relationships with stakeholders and European institutions. She is also directly involved in the European Lab, which EFRAG established in 2018. At the beginning of her career, she worked with KPMG in the Netherlands.

Saskia described EFRAG's role and activities, with a focus on non-financial reporting activities.

About EFRAG

Saskia, first, explained EFRAG's main roles and purposes. EFRAG is a private not-for-profit organisation. The establishment of EFRAG was encouraged by the European Commission, to serve the European public interest. EFRAG's member organisations are interested in developing IFRS standards and in how standards and guidelines can contribute to the efficiency of capital markets. Since 2010, EFRAG has been over 50%-funded by the European Union. Its main role, in brief, is to influence the international standard-setting process, from a European perspective, in such a way that the standards coming out of the IASB can be used in Europe. Saskia then described EFRAG's core activities. It's first activity is exerting upstream influence, which can be considered as EFRAG's self-initiated research work. A second activity deals with improving IFRS standards. Saskia highlighted that EFRAG has been pursuing that activity for the last 20 years, influencing the IASB by reacting to the IASB exposure drafts, discussion papers, and draft interpretations with a very detailed due process for public consultation between each draft document and its final version. A third activity is advising the European Commission on the endorsement of the IFRS standards (so that standards are fit for Europe) and certain accounting aspects (eg non-financial reporting). Also, since 2018, EFRAG has been seeking to stimulate innovation in corporate reporting through European Lab's work.

EFRAG Financial Reporting Activities

Saskia briefly described EFRAG's current financial reporting activities, focusing on the prior year: 2020. One important activity, she explained, is related to IFRS 16, with a Covid-19 special amendment. Saskia argued that it is interesting to see that EFRAG is now allowed by the European authorities to do an accelerated endorsement so that the process can be much shortened, and companies can use it. Another activity relates to the primary financial statements project, a very important project in the last year. EFRAG has finalised its comment letter and published its feedback statement. A third project is business combinations, disclosure, goodwill, and impairment. EFRAG's board decided on the final comment letter in January 2021. A fourth project deals with IFRS 17. EFRAG has issued an endorsement advice to the European Commission that, interestingly, includes the differing views of the members of the EFRAG board, which generally operates by consensus.

Then Saskia explained a few EFRAG initiatives and research projects. She first stated that EFRAG is trying to develop its agenda consultation, so it is not directly linked to the IASB. For the agenda's development and content, EFRAG seeks stakeholders' views because, being financed with public money, it must make sure that its work is relevant to most European stakeholders. One initiative is 'better information on intangibles', and EFRAG hoped to produce a discussion paper in mid-2021[3]. On intangibles, EFRAG coordinated a literature review project run by a group of academics. Another project is accounting for crypto assets, which led to an EFRAG publication in 2020 (EFRAG, 2020). EFRAG has then given a comment period of one year and, as explained by Saskia, is very interested in getting all kinds of comments and academic input on this subject.

Saskia also talked about the current IASB project, for which EFRAG collects evidence and prepares early-stage analyses/planning outreaches. One project relates to rate-regulated activity. A draft comment letter came out (in April 2021) after the IASB exposure draft. Another project is on dynamic risk management. In this project, EFRAG is holding interviews with banks, in some cases together with the IASB and, in other cases, without IASB and not included in IASB sample. Another project is the post-implementation review of IFRS 10, 11, and 12, where EFRAG started to provide the views and comments to the IASB. Finally, and linked to non-financial reporting, is the management commentary project. For this project (postponed by the COVID crisis), EFRAG has prepared a draft comment letter.

3 The paper has been published in August 2021, with comments welcome by 30 June 2022 (EFRAG, 2021)

EFRAG Non-Financial Reporting Activities

Saskia clarified that EFRAG has been prominently active in non-financial reporting activities since 2018. In the action plan of the European Commission (financing sustainable growth), there were several requests to EFRAG. For instance, EFRAG has been invited to be an observer (and to give further guidance) on the Commission's platform on sustainable finance, which is working on the EU taxonomy on the areas not covered yet. Saskia argued that this is a new experience for EFRAG, as it was not involved in the European Commission's TEG (Technical Expert Group) on Sustainable Finance, which produced the taxonomy. Within this platform on sustainable finance, EFRAG is allocated to a subgroup called 'Data and Usability', whose purpose is finding out the problems of collecting the data and making it useful for the taxonomy that companies are required to produce.

Also, EFRAG was asked to establish a European Lab, inspired by the FRC Lab. The difference is that the European Lab should be a European-wide lab with a wider range of stakeholders (not only companies) involved. The European Lab should stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices that can help companies and users in reporting preparation and analysis. For this purpose, EFRAG has decided to establish a steering group in charge of governance, agenda selection (projects), the appointment of the project task forces, and oversight on the projects. The European Lab's good practices have no authoritative status. They are good examples that could be followed and, one hopes, will stimulate better reporting. According to Saskia, what is peculiar and different from the EFRAG financial reporting area is that the European Lab taskforce is responsible for the project results and for its final reports.

Then, Saskia illustrated some projects related to non-financial reporting. Generally, EFRAG is quite free to decide a project's content and how to pursue it. So, it held a public consultation on the Lab agenda to choose the future projects to be selected (after the first project on climate-related reporting, that had already led to an outreach document). As a result of the public consultation, EFRAG chose as the second project one on 'reporting of non-financial risks and opportunities and linkage to the business model'.

Saskia then provided the example of the first project on climate-related reporting and showed what the report looks like. The outreach document is an interactive report, as readers can click on examples and visualize them in an appealing way. The report is split into two parts: one on general disclosures, and the other on scenario analysis. In the report, there are examples and explanations from both the user side and the company side. So, according to Saskia, there is a lot of material in the report that could be of relevance to other companies to read, pick and choose from and to improve or be inspired for their own reporting. As she mentioned, the second project is on reporting non-financial risks and opportunities and linkage to the business model. A project task force runs this project with about 20 to 25 people working on it (eg through surveys), to envisage an outreach document by 2021/2022. The project should help companies, investors, and stakeholders understand how risks and opportunities that arise from the external operating environment impact of companies and how companies' business and operations might have an environmental or social impact, with the so-called 'double materiality' idea. Again, the project, being a European Lab project, aims at identifying and sharing good practices.

Then Saskia moved to the main, current work of EFRAG in the non-financial reporting area. The main task is related to the non-financial reporting mandate, which could be considered a parallel process with the non-financial reporting directive development. EFRAG was asked, at the end of June 2020, to provide recommendations to the European Commission on the elaboration of possible EU non-financial reporting standards, highlighting the form the standards should take, including a work programme. According to Saskia, the European Commission mandate was clear that no decision has yet been taken on whether EFRAG's suggestions would be used. A second mandate from the European Commission directly to the EFRAG board president Jean-Paul Gauzès aimed to elaborate on the EFRAG governance and finance changes needed if there are to be EU non-financial reporting standards, and if EFRAG were then to be the EU standard setter. Both mandates (to EFRAG and its president) had the same deadlines: a progress report by the end of October 2020 and the final report by the end of January 2021. So, as Saskia argued, EFRAG had to move quickly to pursue the two mandates. Thus, EFRAG established a project task force in September 2020, comprising certified members, including academics. Also, around 10 major European institutions acted as observers. Then, the European Commission was also involved because the project touches on many of its Directorate General functions (eg DG environment). Saskia argued that in the European Lab EFRAG needs to work on the assumption that there will be EU non-financial reporting standards. Still, ultimately that will be decided by the Commission, European Parliament and by the member states.

Saskia then added that, as stated in the mandates, EFRAG's work is not about reinventing the wheel, rather about building on existing initiatives, including international initiatives, but also the European specificities. Thus, the idea is to learn or take from available international standards and amend them as necessary

EFRAG'S WORK IS NOT ABOUT REINVENTING THE WHEEL, RATHER ABOUT BUILDING ON EXISTING INITIATIVES, INCLUDING INTERNATIONAL INITIATIVES, BUT ALSO THE EUROPEAN SPECIFICITIES. THUS, THE IDEA IS TO LEARN OR TAKE FROM AVAILABLE INTERNATIONAL STANDARDS AND AMEND THEM AS NECESSARY TO MAKE SURE THAT THEY ALSO INCLUDE ALL THE EUROPEAN SPECIFICITIES.

to make sure that they also include all the European specificities. The EFRAG project on non-financial reporting standards was split into three phases. The first phase is called the assessment phase, the second one the proposal phase, and the last one (phase three), the 'outreach and conclusion' phase. Saskia then explained the timeline. The assessment phase lasted till the end of October 2020 and provided input for the Progress Report. The Progress Report was submitted at the beginning of November 2020 to the European Commission and published a week later.

In the Progress Report, six different aspects of the future standards (workstreams) are highlighted. The first one is on the European initiative and aims to make sure that everything done in Europe on non-financial reporting is taken into account, considering both what currently exists and what is in the pipeline. The second workstream aims at mapping and assessing the international initiatives and then defining the relevant elements in close cooperation with the organisations concerned. Saskia stated that, as written in the Progress Report, over 100 initiatives have been identified. The other workstreams relate to the conceptual framework, interconnectivity, financial institutions, data availability, and taxonomy. Saskia then explained that, after the assessment phase, in Phase Two, the proposals were developed and submitted to the Commission at the end of January 2021. Given a tight timeline, there was no opportunity for public consultation on these proposals, and EFRAG decided to inform users about these proposals through seven webinars. Some of these webinars were country-specific, while two webinars (one on European organisations and other European countries, and one on financial institutions) were European ones. The outreach document, which includes the possible proposals to the European Commission, was published in January 2021. Then, a final report was published on March 2021, with a roadmap for developing a comprehensive set of EU non-financial reporting standards.

Saskia then explained the ad persona mandate to EFRAG board president Jean-Paul Gauzès. For this mandate, EFRAG had more time, meaning that it could have a public consultation. One consultation was conducted in October 2020, with interested stakeholders invited and a letter from the EAA (European Accounting Association) with inputs on the mandate. Then, at the end of November, EFRAG published a consultation document based on the Progress Report previously submitted to the Commission, with specific questions to constituents and open for inputs till January 2021. Finally, the final report of Jean-Paul Gauzès proposing reforms to EFRAG's governance structure and funding was published in March 2021. Saskia showed the EFRAG proposed new core structure (governance). The idea is to have two governance pillars: one would be the financial reporting pillar (unchanged since the previous structure), and the second being the non-financial reporting pillar. There would also be an overlapping board and then a general assembly of member organisations. Saskia said that EFRAG is seeking inputs on what people think EFRAG should be organised. She also added that, ultimately, the final proposal for the EFRAG structure has to be much more detailed, with a list of individuals sitting in each board or TEG or working group, their compensation terms, nationalities and backgrounds, etc. One issue on which particular input is sought, according to Saskia, is EFRAG funding, which is a major issue as a possible standard setter's role requires appropriate funding. The due process is also very important for EFRAG as transparency is one of the important issues on its agenda. The role of the European Lab is also an important issue: should it continue to exist in its current form? Another issue relates to the representation of the private sector, civil society, SMEs, and the cooperation with other standard setters. Saskia argued that there will be an interactive, interlinked process with the European Commission because EFRAG's specific structure will also depend on how the non-financial reporting standards will be organised.

Questions and Answers

Mike Jones (University of Bristol) wondered whether EFRAG would be interested in his model of biodiversity reporting. He is hoping that companies will report their biodiversity in their annual reports. Saskia replied that EFRAG would be very happy to receive it. She also underlined that EFRAG is responsible for preparatory work for the standards, but it will not deliver the standards. EFRAG will deliver a proposal on how standards should be developed, whether there should be sectoral standards, and which topics should be addressed.

Richard Martin (ACCA) asked whether these potential standards will be EU only, rather than global or IFRS-based ones. Saskia answered that EFRAG is working for possible EU non-financial reporting standards, but the final decision has yet to be taken. The EU idea, according to Saskia, is that the momentum is now with the Green Deal. Also, in a sort of ideal world, all the initiatives should be happening consequentially, so there should be a new non-financial reporting directive, then the work of the project task force, and then the work on EFRAG governance. However, according to Saskia, there will be no time for these consequential phases if the authorities seek to keep up the momentum. Therefore, the Commission has decided that these initiatives have to happen in parallel. According to Saskia, it is quite likely that the European Commission will propose EU non-financial reporting standards at least at the Commission level.

Jimmy Feeney (Nottingham Trent University) asked to what extent EFRAG is also providing metrics for climate reporting, which are recommended for companies. Saskia replied that EFRAG is working through the European Lab in the task force project on climate-related reporting and in the project related to non-financial opportunities and risk and the business model. In general, good practice examples include metrics. The report on climate-related reporting includes metrics. The second project related to non-financial opportunities and risk and the business model has not produced a report yet and, therefore, has not produced metrics for it. Another important task will be the non-financial Reporting Standards mandate. The outreach document (published in January 2021) focuses on the disclosures, and metrics will come in later. The document does not advise what kind of metrics should be used because that's the next standard-setting step.

Pauline Weetman (University of Edinburgh) argued that the concept of an EU accounting standard was mooted in the early 1990s and then dropped in favour of endorsing the international accounting standard, partly because it would take too long to get agreement on EU standards. Pauline asked whether the EU is going full circle in proposing the EU non-financial reporting standards without working internationally. Saskia replied that the purpose would be to start from the existing initiatives or the existing international standards. The EFRAG task force working on that had already identified more than 100 initiatives. Obviously, not all the initiatives are really standards, and some are sector specific. Saskia added that the Commission will decide what kind of process to follow, but it would be likely to be different from accounting directives. Indeed, an accounting directive would have to be implemented. Saskia argued that if there were to be non-financial reporting standards, those would be in the form of a 'level two' guidance for the Commission, as the European Securities and Markets Authority (ESMA) is also doing. Saskia then added that everybody supports global standards, and that would be the ideal solution but not the real one. She explained that she was involved, in the past, in the working group that had to choose between International Accounting Standards and US GAAP. At that time, it was not so surprising that the choice was IAS because of their stronger influencing role compared to US GAAP. Saskia also mentioned again that the momentum in Europe is very different from that in the rest of the world, as Europe is much more in favour of the Green Deal and of ESG reporting. Thus, Europe could take a leading role.

Simone Aresu (University of Cagliari, Italy) asked whether some companies may resist mandated non-financial reporting. Saskia replied that the public consultation (and the webinars) on non-financial reporting at the beginning of 2021 suggests there is very wide support and involvement. Companies consider the current requirements insufficient because they are not resulting in comparable and reliable information. Saskia argued that, thus, she could not see any general resistance to what is going on, although this may change when there are concrete standards or draft standards on the plate. Companies appear very interested and want to report adequately.

Tamer Elshandidy (Ajman University UAE) highlighted that many different local, regional initiatives are being discussed today and wondered to what extent publications from the European Lab will be harmonised with other initiatives. Saskia argued that Europe is in a fairly advanced place for non-financial reporting. Before 2000, there was nothing on non-financial reporting, but now the situation is different. The European Lab has two main outputs: projects and good practices and there is no harmonisation with standards in the European Lab's work. On the other hand, harmonising with other standards plays an important role in the outreach document on non-financial reporting standards.

Salma Ibrahim (Kingston University) wondered whether the UK still has a voice in EFRAG following Brexit and whether the consultation table is open to the UK. Saskia replied by first saying that every consultation is open to everybody and that EFRAG often gets inputs from the rest of the world, such as Japan and China. As far as the Brexit agreement is concerned, Saskia argued that EFRAG has not yet assessed what the impact on EFRAG would be, as the Brexit agreement had not been finalised yet. Given that in some of its activities, notably in its endorsement activities, EFRAG has to work in the European public interest, some divergence between European and UK public interests may occur in future. Saskia suggested discussing this with the FRC and with the UK Endorsement Board to see how cooperation should occur in the future, hoping that close collaboration will continue (although the specific form of this cooperation is uncertain).

3. Discussion

Summary of speakers' presentations

The four speakers presented a variety of diverse topics and ideas, although with some commonalities. There was a particular focus on discussing the process in place for the development and adoption of accounting standards for financial and non-financial reporting, the role of corporate reporting in a time of crisis and the use of narratives in corporate reports. A summary of the respective views of the speakers is given below, followed by a brief synthesis of the themes.

Seema Jamil-O'Neill (UK Endorsement Board)

Seema Jamil-O'Neill is the technical director of the UK Endorsement Board, which is responsible for endorsing and adopting the International Accounting Standards issued by the IASB for use by UK companies. In her presentation, Seema explained the process followed by the UK Endorsement Board in endorsing these Standards and her thoughts on how this process will evolve.

Seema started her presentation by explaining the work of the UK government in fixing the UK accounting and reporting framework by including onshoring all International Accounting Standards already adopted by the EU at the end of the transition period. Two statutory functions have been added to the UK legislation: i) the endorsement of any new or amended IFRS in the UK, and ii) a function of influencing the development of international financial reporting. The UK Endorsement Board was set up to take forward the endorsement and adoption work, by focusing on transparency and international comparability of financial statements and efficient capital allocation.

Seema illustrated the adoption criteria that have been included in the UK legislation itself. Before adopting any standard, the UK Endorsement Board ensures that the standard is not contrary to the true and fair view principle; that it is likely to be conducive to the long-term public good in the UK; and that it meets the technical criteria of understandability, relevance, reliability and comparability. Seema highlighted the differences between the EU and the UK legislation in this process. Whereas the EU legislation includes consideration of European public good, the UK legislation requires a review of the long-term public interest. When developing this legislation, the Endorsement Board discussed what might be included in the long-term public interest assessment. Seema highlighted that the analysis of costs and benefits from the adoption of a standard is one of the areas of the endorsement process that is done entirely differently in the UK. Every new adopted standard is assessed against its costs and benefits. This assessment focuses on the direct costs and benefits that arise from the adoption of the standard for businesses and on the broader impacts on competition, trade and investment.

Seema then explained the process followed by the Endorsement Board in adopting the standards. The Endorsement Board is expected to proactively influence the development of any standards by the IASB, by taking part in IASB work through the development phase to influence it as far as possible. This phase is very important because, if the UK Endorsement Board is effective in its influencing activities during the development stage, the endorsement adoption in the UK will be more straightforward. Once the IASB has published, or amended, a standard, the Endorsement Board needs to consider the standard for endorsement and formal adoption by applying the statutory criteria previously mentioned. In this phase, the Endorsement Board needs to develop an impact assessment for adopting the standard in the UK and consult with stakeholders. Once stakeholder feedback has been considered, the Endorsement Board will formally adopt the standard for use in the UK.

Seema then explained what the Endorsement Board will do in the near future. In her opinion, by mid-2021 the board would be fully functioning[4]. She focused on the new two statutory functions assigned to the Endorsement Board. In fulfilling the first function (ie the endorsement of the adopted standards) it will follow the legislation and the terms of reference set by the Secretary of State. For the second function (ie influencing the development of the standards), the Endorsement Board is expected to engage with the IASB, conduct research in the area of international standards' development and work in coordination with international partners.

4 As written before, in May 2021, the UK Endorsement Board received delegated powers by the Secretary of State for BEIS and legislation to formally establish the UK Endorsement Board was passed in April 2021 (FRC, 2021).

Seema concluded her presentation by highlighting that Pauline Wallace was appointed as the inaugural chair of the Endorsement Board in September 2020. The recruitment of other board members was, at the time of this presentation, under way and was expected to be completed during the first quarter of 2021[5]. The board members are expected to be individuals who represent preparers of accounts, such as auditors, investors, but also academics and economists.

Andrea Lionzo (Catholic University of Sacred Heart Milan, Italy)

Andrea speaks as professor of financial accounting at the Catholic University of Sacred Heart Milan, Italy. In his presentation he discussed the preliminary results of a study that investigated two key research questions: i) the consequences of Covid-19 on the financial performance of EU non-financial companies and ii) the limits of financial reporting in providing a reliable representation of companies' performance in times of a crisis. To investigate these research questions, the study used a mixture of methods to analyse the financial reports from 2019 and 2020 for a sample of 1,346 companies from the UK, Germany, France, and Italy, questionnaires filled by 400 sample companies and interviews with 24 top managers of the sample companies.

Andrea illustrated the main results of the study, focusing first on the impact of Covid-19 on corporate performance. His findings show a strong reduction of return on equity (ROE) and return on assets (ROA), and an increase in leverage in all the four countries studied. He then provided an overview of the variation in financial performance by comparing the first three quarters of 2020 with the equivalent quarters of 2019. Net sales slightly increased in the first and third quarters of 2020, in comparison with 2019, but decreased strongly in the second quarter. Whereas EBITDA and Net Income strongly decreased during the first and second quarters and slightly recovered during the third quarter. Andrea highlighted how Italian companies suffered the most in the first and the second quarters of 2020, because Covid-19 had affected Italy earlier than other European countries. UK companies rebounded fastest in sales growth in the third quarter. French firms suffered a significant decline in sales in the second quarter and rebounded only slightly in the third quarter. German firms experienced a lower decline in sales in the second quarter and a slower recovery in the third quarter. Andrea also discussed issues of liquidity and the risk of not surviving in 2021 caused by the Covid-19 pandemic. Between 10% and 20% of the companies analysed faced a potentially severe liquidity crisis in 2021. Andrea stressed the importance of these estimates as they help to identify the resources needed to save these companies and to monitor their level of indebtedness.

Andrea then presented the findings on the reporting practices adopted by the sample companies. He outlined a limited recognition of impairment losses and very limited narrative disclosure on revenues and profitability, even though these were greatly affected by the pandemic. He also highlighted the lack of data allowing users to assess the risk of a potential impairments, the lack of disclosure on the significant input factors used on the sensitivity analysis performed and on the actions in place to mitigate risks. According to Andrea, this lack of transparency might be due to a fear of a negative market reaction to the information reported and to the high degree of uncertainty introduced by the pandemic.

Andrea concluded his presentation with some suggestions on how to improve financial reporting. He stressed the need for companies to disclose more information to help users assess both the drivers of performance in times of crisis and projections about the future. He also recommended companies to extend their existing disclosure on issues such as asset impairment and business model changes, rather than using alternative performance measures aimed at excluding the Covid-19 effects from the financial results. In his view, the management commentary can play a crucial role in providing more useful information.

Giovanna Michelon (University of Bristol)

Giovanna is a professor of accounting at the University of Bristol. She presented the findings of a literature review on narrative reporting, commissioned by the FRC, and conducted with Professor Grzegorz Trojanowski and Professor Ruth Sealy from the University of Exeter. At the symposium, Giovanna offered an overview of the academic literature on narrative information disclosed in a wide range of corporate outlets. The literature review aimed at investigating: (i) how the academic literature defines the quality of narrative reporting (ii) the information needed and used by stakeholders; and (iii) the real effects of narrative reporting on corporate behaviour and practice.

In discussing the findings related to the first research question on the quality of narrative reporting, Giovanna explained that, according to the literature review, narrative reporting has a threefold purpose: i) valuation, as it helps investors to assess the future value of an investment; ii) stewardship, allowing investors to monitor the use of

5 The UK Endorsement Board comprises between 8–14 independent Board members, appointed by the Chair, with a right of veto from the Secretary of State for BEIS following an open competition (UK Endorsement Board, 2021).

the capital invested; and iii) accountability. She clarified that the main aim of research on narrative reporting is to understand whether it conveys meaningful information. Because of this, the literature uses multifaceted frameworks that capture not only the variety of information that is being provided but also the 'richness' or depth of reporting details that provide meaningful information to the users. She emphasised the importance of this dimension of 'richness' of information, which has been found to be associated with the key principles of accuracy, completeness, consistency, comparability, credibility, relevance, timeliness and transparency. According to Giovanna, using these principles to assess disclosure items allows researchers to distinguish between boilerplate and meaningful information that satisfies users' needs. In evaluating the quality of reporting, Giovanna explained the concept of impression management, defined as the attempt to manipulate the impression conveyed to the users by distorting their perceptions of organisational performance. She illustrated the different impression management techniques used by organisations and commented that it still unclear whether the use of these practices is intentional or merely stems from human nature. Giovanna concluded the discussion of studies on financial reporting quality by discussing alternative conceptualisations of narrative reporting, such as discourse analysis, storytelling, sense-making, and sense-giving.

Giovanna illustrated the findings related to the second research question on information needs by focusing on four groups of users: equity investors, financial analysts, creditors, and other stakeholders. She outlined that research on the information needs of equity investors is limited. This research has shown the importance for investors of the data contained in the financial statements, with narrative information found not able to satisfy users' needs when excessive. Studies that have explored investors' perceptions of the usefulness of narrative reporting highlight their awareness of managerial greenwashing, with some investors advocating the mandatory adoption of non-financial reporting. Studies on the information needs of financial analysts indicated that good quality reporting is associated with increases in analyst precision but the effects of quality and quantity of disclosure differ. While some studies have found that the specificity of the quality of risk disclosure is beneficial, others show that extensive disclosures are associated with more dispersed forecast revisions. Results on non-financial reporting are relatively mixed. Moving on to creditors' information needs and use of reporting, Giovanna stated that most of the research focuses on financial statements rather than narrative reporting. The few studies on narrative reporting show an association between the quality of such reporting and the cost of debt, credit rating and the likelihood of bankruptcy of corporations. Giovanna noted limited evidence on the relevance and use of non-financial reporting in the context of credit markets. Regarding the literature on the information needs of other stakeholders, Giovanna emphasised that most of the research explored non-financial information. Areas of concern about non-financial disclosure for stakeholders are related to: i) its use as a box-ticking exercise; ii) the existence of standards that do not capture the information needs of specific type of stakeholders; iii) the adoption of impression-management strategies; iv) a general failure of managers to accept duties of accountability and v) a resistance to disclosing by the organisations.

In the last part of the presentation Giovanna discussed the real effects of narrative reporting. She first illustrated the behaviours that narrative reporting has been found able to affect, such as corporate governance practices, internal decision making and the thinking of organisations. She then highlighted that the review revealed that mandating narrative reporting for non-financial information is unlikely to generate social changes. Even so, it is still preferable as it is homogeneous, comparable and offers useful information. She also outlined that studies have found that the way organisations report narrative information and the emphasis placed on the agenda-setting role of reporting can cause changes in organisational behaviour.

In her concluding remarks, Giovanna invited the audience to review and offer feedback to the recent consultation document by FRC, which prioritises the overall objective of narrative reporting over the reporting practice designed for particular users. She called for further research that addresses some of the future challenges of narrative reporting, such as: the evolution of narrative reporting in relation to the purpose of corporate reporting; and the design of standards for non-financial reporting that ensure reliability and credibility of narrative information.

STUDIES THAT HAVE EXPLORED INVESTORS' PERCEPTIONS OF THE USEFULNESS OF NARRATIVE REPORTING HIGHLIGHT THEIR AWARENESS OF MANAGERIAL GREENWASHING, WITH SOME INVESTORS ADVOCATING THE MANDATORY ADOPTION OF NON-FINANCIAL REPORTING.

Saskia Slomp (CEO of EFRAG)

Saskia spoke as CEO of EFRAG and provided an overview of EFRAG's contributions to the developments in financial and non-financial reporting. EFRAG is a private not-for-profit organisation, established to serve the European public interest in contributing to the development of IFRS standards and examining how standards and guidelines can contribute to the efficiency of capital markets.

Saskia illustrated EFRAG's current financial reporting activities, which are mostly related to IFRS 16, with a Covid-19 special amendment, the primary financial statements project, business combinations and IFRS 17. She also clarified that EFRAG is trying to develop its agenda consultation, seeking stakeholders' views to make sure that its work is relevant to most European stakeholders. She illustrates two main initiatives currently in place in relation to intangibles and crypto assets. Saskia also talked about current projects with IASB, such as the projects on rate-regulated activity, dynamic risk management and the post-implementation review of IFRS 10, 11, and 12.

Saskia then focused on EFRAG's activities in relation to non-financial reporting. Currently, EFRAG has been invited to be an observer (and to give further guidance) on the Commission's platform on sustainable finance, where it is allocated to a subgroup on data and usability. Its purpose is finding out the problems of sourcing the data and making that data useful for the taxonomy that companies are required to produce. EFRAG was also asked to establish a European Lab to stimulate innovation in the field of corporate reporting in Europe, by identifying and sharing good practices that can help companies and users in report preparation and analysis. Saskia then illustrated some projects related to non-financial reporting, such as the project on climate-related reporting and the one on the reporting of non-financial risks and opportunities, and linkage to the business model.

She then focused on the non-financial reporting mandate that EFRAG received in 2020 to provide recommendations to the European Commission on the elaboration of possible EU non-financial reporting standards. In order to perform this mandate, the EFRAG project on non-financial reporting standards was split into three phases: an assessment phase, a proposal phase, and an outreach and conclusion phase. A Progress Report on this project has been produced, highlighting six different workstreams for the future standards. The first one is on the European initiative to ensure that everything done in Europe on non-financial reporting is considered. The second workstream aims at mapping and assessing the international initiatives and defining the relevant elements in cooperation with these organisations. The other workstreams relate to the conceptual framework, interconnectivity, financial institutions, data availability, and taxonomy. Saskia stressed that because of the tight timeline for the completion of the project, there was no time for public consultation on these proposals, and EFRAG decided to inform users about them through seven webinars. She then illustrated an additional mandate that was given directly to EFRAG board president Jean-Paul Gauzè to elaborate the EFRAG governance and finance changes needed if there are to be EU non-financial reporting standards. For this mandate, EFRAG had more time and was able to have a public consultation with interested stakeholders, resulting in a consultation document with specific questions to constituents.

She concluded her presentation by seeking inputs on how EFRAG should be organised and funded, on the role of the European Lab, and on the representation of the private sector, civil society, SMEs, and cooperation with other standard setters.

Overview

Three main central themes were discussed at the 2021 symposium: the development and adoption of standards on financial and non-financial information, major changes occurring in the international sphere, and the use of narratives in corporate reporting. An overview of these themes is reported in the following table.

TABLE 3.1: Thematic overview of presentations by theme

THEME	DISCUSSION
Development and adoption of standards on financial and non-financial information	Issues associated with the development and adoption of accounting standards were widely covered at the 2021 symposium with a focus on both financial and non-financial information. Seema Jamil-O'Neill discussed the adoption of accounting standards in the UK after its exit from the EU, whereas Saskia Slomp discussed the role of the EFRAG in developing and revising accounting standards, particularly in relation to non-financial information. As the technical director of the UK Endorsement Board, Seema explained the new process that is in place in the UK, after Brexit, for adopting the International Accounting Standards issued by the IASB. Seema illustrated the role of the UK Endorsement Board in the adoption of new or amended IFRSs in the UK. Firstly, she explained the adoption criteria that have been included in the UK legislation itself and how they differ from those of the EU legislation. Then she discussed the role played by the UK Endorsement Board in influencing the development of international financial reporting and how this role is important in facilitating the subsequent adoption of the standards. She then concluded by explaining the procedure that leads to the formal adoption of the standards in the UK. Saskia's presentation focused on the role that the EFRAG plays in advising the IASB on the development and revision of standards. She discussed the role of EFRAG in relation to the development and revision of standards such as IFRS 16 and IFRS 17 and important projects like the primary financial statements project, business combinations and the post-implementation review of IFRS 10, 11, and 12. Saskia discussed the non-financial reporting mandate that EFRAG received in 2020 to provide recommendations to the European Commission on the elaboration of EU non-financial reporting standards. She also explained the additional mandate given to the EFRAG board president Jean-Paul Gauzè to elaborate the EFRAG governance and finance changes needed in case EU non-financial reporting standards are issued.
Changes occurring in the international sphere	In their presentations, Seema Jamil-O'Neill and Andrea Lionzo discussed important changes that have occurred at international levels. Seema discussed an important international theme, by analysing the impact of the UK's departure from an international organisation such as the EU in relation to the adoption of the accounting standards issued by the IASB. In her presentation, she highlighted the difference between the UK and the EU in the endorsement process and in the legislation that regulates this process. Andrea's presentation covered the implication of the COVID-19 pandemic on corporate performance and reporting of a large sample of international companies from France, Germany, Italy and the UK. In his presentation, Andrea highlighted that companies in all the four countries studied recorded negative impacts on their performance and capital structure as the result of COVID-19. However, he showed that these negative impacts manifested in a different time frame in the four countries. Italian companies suffered the most in the first and second quarters of 2020, because Italy had an earlier COVID-19 outbreak than the other countries. French firms suffered mostly in the second quarter of 2020, but slightly rebounded in the third quarter. UK companies rebounded fastest in sales growth in the third quarter. German firms experienced a lower decline in sales in the second quarter and a slower recovery in the third quarter.

THEME	DISCUSSION
Narratives in corporate reports	The theme of narratives in corporate reporting was extensively covered by Giovanna Michelon and discussed in Andrea Lionzo's presentation. Giovanna presented the findings of a literature review on narrative reporting commissioned by the FRC. Giovanna explained the threefold purpose of narrative reporting (valuation, stewardship, and accountability). She clarified that the main aim of research on narrative reporting is to understand whether this reporting conveys meaningful information, which has been found to be associated with accuracy, completeness, consistency, comparability, credibility, relevance, timeliness and transparency. She explained the concept of impression management and of some alternative conceptualisations of narrative reporting, such as discourse analysis, storytelling, sense-making and sense-giving. Giovanna also discussed the information needs of users, by distinguishing between financial and non-financial information and focusing on four groups of users: equity investors; financial analysts; creditors; and other stakeholders. She concluded by illustrating the real effects of reporting on corporate practices and calling for further research on narrative reporting on issues related to the purpose of corporate reporting and the design of standards for non-financial reporting. Narrative reporting was also covered in Andrea's presentation in relation to the impact of COVID-19 on corporate practices. Andrea outlined that companies provided limited narratives to explain revenues and profitability, despite these being greatly affected by the pandemic. He also highlighted the lack of explanations allowing users to assess the risk of potential impairments, the sensitivity analysis performed, and the actions adopted to mitigate risks. Andrea recommended that companies extend their existing disclosures on issues such as asset impairment and business model changes, rather than using alternative performance measures aimed at excluding the COVID-19 effects on the financial results. Andrea stressed the importance of the management commentary as a tool for providing informative narrative disclosure to help users understand the driving effects of performance and support their decision-making process in times of crisis.

4. Conclusions

The symposium was held in January 2021 at an exceptional time of important economic, social and political changes and continuing challenges to accounting and financial reporting.

The stable economic growth that had characterised the previous decade has been abruptly interrupted by the Covid-19 outbreak in March 2020. The pandemic has caused an economic crisis without precedent since the Second World War: 150 million people have fallen below the extreme poverty line since the beginning of the crisis. The situation is expected to improve in 2021 and 2022, with global growth projections being more optimistic after the progress obtained in the first half of 2021 in the vaccination campaign (UN 2021). However, such growth prospects vary greatly around the globe owing to the different degrees of progress achieved in the vaccination campaign in different countries, and the different governmental and economic policies put in place to support the economic recovery. The poorest countries are expected to recover much more slowly than rich countries and to record larger losses (UN 2021).

Even before the Covid-19 outbreak, social inequality had reached unprecedented levels, with more than 70% of the global population living in countries with a growing wealth gap (UNDESA, 2020). The pandemic crisis has caused an increase in health and socio-economic inequalities in many countries, by disproportionately affecting more the individuals in the most vulnerable conditions. Hundreds of millions of people have been forced into poverty, while the wealth of billionaires rose to a record high of $10.2 trillion during the pandemic (Neate 2020). In addition, the changes that the pandemic has caused to consumer behaviours and the nature of work are likely to threaten more vulnerable workers and SMEs, raising alerts about an extensive increase in social inequalities. The pandemic has also resulted in an intensification of gender and racial discrimination, with women and ethnical minority being affected the most by the pandemic (ONS 2020; UN 2020).

Political tensions around the world have also emerged and consolidated during the pandemic, with governments focusing more on national agendas to safeguard national health and safety (World Economic Forum 2021). Geopolitical instability has become widespread across the globe in 2021, affecting not only politically fragile countries but also those characterised by years of political stability. Tensions between the US and China persist in 2021, although the new US President Joe Biden has sought to cool most of the international tensions that arose during Donald Trump's mandate. The UK finally left the EU on 31 December 2020, but tensions between the two bodies persist and stem mostly from the Northern Ireland protocol. Unprecedented changes in climate and reductions in biodiversity have become even more acute during the pandemic, with an increasing number of natural disasters occurring around the globe that are threatening the environment, livelihoods and well-being in various countries.

As for accounting and financial reporting, there have also been some very important changes. Among these, the IASB's Sustainability-related Reporting project represents the most important and debated one. The IFRS Foundation Trustees have recently issued an exposure draft that outlines proposed changes to the Foundation's Constitution to accommodate the creation of the International Sustainability Standards Board (ISSB) to set IFRS sustainability standards. At the time of writing, this exposure draft (July 2021) is open for comments. The IASB's ambition is to announce the creation of the new board before the United Nations Climate Change Conference (COP 26) in November 2021[6].

There were three main central themes discussed at the 2021 symposium: the development and adoption of standards on financial and non-financial information, reliability of financial reporting in extraordinary times, and narratives in corporate reporting.

6 On 3 November 2021, the IFRS Foundation Trustees announced the creation of this new standard-setting board - the International Sustainability Standards Board (ISSB).

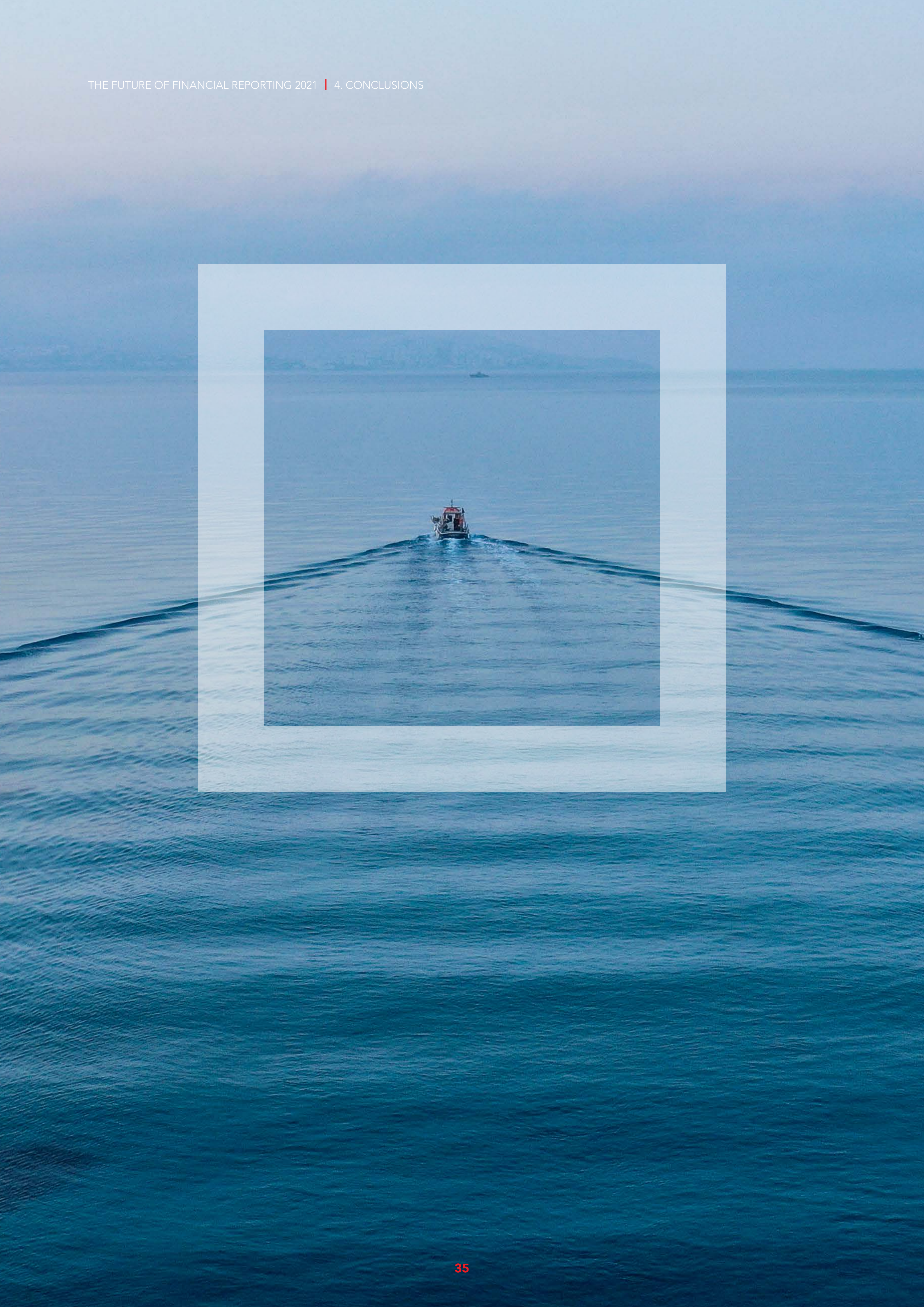
The symposium addressed issues related to the development and adoption of accounting standards in relation to both financial and non-financial information. It has analysed the endorsement process in place in the UK for adopting the accounting standards issued by the IASB, after the UK's departure from the EU. It has also discussed the process in place for the creation on non-financial reporting standards by the IASB, by providing an overview of the role played by EFRAG on this matter.

The reliability of financial reporting in extraordinary times was another important topic discussed at the symposium. By discussing the results of a study that investigated the impact of COVID-19 on corporate performance and reporting, the symposium has outlined the need for providing more transparent information in the corporate reports in times of crisis to allow information users to understand more fully the performance of the company concerned and to predict future developments.

Lastly, the symposium has also provided a review of studies on narrative reporting highlighting the relevant aspects to be considered when assessing the quality of reporting. It has also overviewed the information needs of annual reports' users and their use of information and identified instances of how narrative reporting can change corporate behaviours. The symposium has also outlined the importance of corporations' disclosure of narrative information in times of crisis to explain their performance, and the potential role that the management commentary can play on this.

The symposium discussed issues of key importance in financial and non-financial accounting and reporting. The regulation of non-financial information and the creation of accounting standards to regulate non-financial reporting, the use of narratives in corporate reports and the role of corporate reporting in times of crisis are important and controversial topics that are likely to be debated in the future.

BY DISCUSSING THE RESULTS OF A STUDY THAT INVESTIGATED THE IMPACT OF COVID-19 ON CORPORATE PERFORMANCE AND REPORTING, THE SYMPOSIUM HAS OUTLINED THE NEED FOR PROVIDING MORE TRANSPARENT INFORMATION IN THE CORPORATE REPORTS IN TIMES OF CRISIS TO ALLOW INFORMATION USERS TO UNDERSTAND MORE FULLY THE PERFORMANCE OF THE COMPANY CONCERNED AND TO PREDICT FUTURE DEVELOPMENTS



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