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Wider Corporate Reporting Cover Note

Objective

- 1 The objective of this session is to provide an update on the IASB's discussions on Wider Corporate Reporting. Wider Corporate Reporting (WCR) is a broad term used to refer to any reporting by companies that falls outside the financial statements. It includes integrated reporting, sustainability reporting, environmental reporting, and risk reporting.

Background

- 2 Initial research by the IASB Staff has indicated that WCR is growing in prominence and importance, although much of it is prepared on a voluntary basis. The IASB Staff noted that currently there is a general consensus that companies should report on a broader range of factors beyond purely financial results. However, the main problems are:
 - (a) the lack of a generally accepted framework/standard for WCR; and
 - (b) the lack of alignment and integration between WCR and financial reporting.
- 3 At its March meeting, the IASB Board generally agreed that they should be playing a more active role in WCR. However, some IASB members cautioned that creating more guidance without fully understanding its purpose and what problem it is trying to solve would just add to the existing confusion and render the guidance meaningless. As a start, the IASB has decided to explore updating the Management Commentary Practice Statement (MCPS).
- 4 In the June 2017, EFRAG TEG-CFSS meeting, members were of the view that the IASB's primary focus should remain on financial reporting. However, members considered that it was important that the IASB continue to monitor the WCR debate so that it is fully aware of any developments and can take steps, if and when appropriate, to maintain the relevance of IFRS Standards as narrative corporate reporting develops. Members were generally not in favour of updating the MCPS because it was not widely used in their jurisdictions. However, some members noted that there could be jurisdictions outside Europe that use the MCPS.
- 5 In the November 2017 EFRAG Board meeting, the same message was reiterated. There was a need for more structure and general principles for WCR, but the Board was of the view that the IASB as currently structured should not play the leading role in this space. The main focus of the IASB and allocation of its resources should remain with "traditional" financial reporting. There would also not be considerable value added with updating the MCPS from a European perspective.

Updating the MCPS

- 6 The IASB Staff observed in their research that a limited amount of companies made explicit reference in their financial reports to the MCPS. They also noted that the MCPS has been an influence in the development of other frameworks and guidance. It is also used by academics as a benchmark to assess the quality of companies' reporting outside financial statements. Various other meetings at IASB highlighted a range of views, from those in favour of the IASB taking no action to calls for the IASB to do more than just updating the MCPS.
- 7 Therefore the IASB Staff was of the view that there was a case for revising the MCPS:
 - (a) to reflect the many new developments that had taken place since its release in order to remain relevant; and
 - (b) to answer the calls from those suggesting that the IASB should play a more active role in WCR.
- 8 The IASB Staff propose that a revised MCPS should remain non-mandatory as this would reduce the risk of creating conflicts with other frameworks and codes and could give the IASB scope to work with other bodies, such as regulators, to encourage more formal adoption at jurisdictional levels.

IASB November 2017 meeting

- 9 At the meeting the IASB decided to revise and update the MCPS because it:
 - (a) would help to address deficiencies in financial reporting;
 - (b) is a pervasive and important issue to users that affects all entities; and
 - (c) would fit well with the "Better Communication" theme of the IASB's current work.
- 10 The IASB agreed that the MCPS work should be limited to the provision of other financial reporting to meet the needs of existing and potential investors, lenders and other creditors, as defined in the *Conceptual Framework*.

Questions for EFRAG TEG-CFSS

- 11 Do you have any comments and suggestions on the scope and the areas that should be covered in the project to revise and update the MCPS?
- 12 Do you have any other views, comments or suggestions?

Agenda Papers

- 13 In addition to this cover note, agenda paper 14-02 (ASAF agenda paper 4) *Wider Corporate Reporting and the IASB* – for background only, has been provided for this session.