

Open letter to Sir Win Bischoff of the Financial Report...

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I sent the following letter to Sir Win Bischoff, chair of the Financial Reporting Council this morning:

Dear Sir Win,

I am writing further to the article you had published in City AM^{[ii](#)} and the speech you made^{[iii](#)} on 20 September. Both related to the Financial Reporting Council (FRC) conference^{[iiii](#)} on 'Culture to Capital: aligning corporate behaviour with long-term performance' that same day.

In the article you said:

With the government and others taking a close interest in issues that portray business as out of touch, firms face a wake-up call to look at their own cultures before winning back broad support from society. Companies must establish a culture that encourages good behaviour, which operates through all levels of the organisation and which becomes embedded in the minds of all staff. This subject will be explored in depth today at the Financial Reporting Council's (FRC) annual conference, where experienced business leaders will explore the relationship between culture, value creation, stakeholders, the economy and society.

You added:

Trustworthy behaviour throughout a company is as important as trustworthy information. It helps investors decide where to allocate their much needed capital and help deliver the jobs, growth and prosperity needed to drive the economy. Treating all stakeholders, including customers, staff and suppliers with respect makes companies more investable. Culture sits at the heart of this cycle.

In your speech you made clear that by stakeholders you said:

[C]ulture in business is a key ingredient in delivering long-term sustainable performance for all stakeholders including customers, communities, suppliers,

employees and shareholders — ultimately society itself.

In the process you defined what you mean by the term 'stakeholder'.

I agree with your sentiments and, broadly speaking, your definition. The difficulty I am writing to you about is in relating your concern and its related definition to the work of the FRC in overseeing UK financial reporting as well as in its relationship with the International Financial Reporting Standards Foundation (IFRSF).

Following the lead of the IFRSF and its International Accounting Standards Board (IASB) the FRC takes the very clear view that the financial statements (or accounts, as most people still think of them) of trading entities are prepared for the primary use of the suppliers of capital to that entity^{[\[iv\]](#)}. *As a consequence the interests of all other stakeholders are treated by the FRC as incidental: those stakeholders are explicitly expected to make do with that information designed to meet the needs of the users of capital or go without. It would seem that the FRC does quite explicitly not treat all stakeholders with equal respect. Indeed, the FRC even seems to limit its view of providers of capital to certain asset managers, rather than the actual financial stakeholders, being the members of the public who are beneficiaries.*

Nowhere has this become more apparent than in discussion on what is probably the most important accounting topic in the UK at present, which is that of country-by-country reporting (CBCR). I am sure I do not need to recount just what this issue is, or that current demands focus on the publication by multinational corporations of the OECD template for tax disclosure on this issue. I presume you are familiar with all these arguments.

My reason for writing is to instead point out that if your concern is for the supply of relevant and reliable information to stakeholders on which they can rely to provide a real indication of the impact of the company with which they are dealing on their own matter of concern then nothing could be more important than the publication of CBCR data in a standardised format for all to use.

In the interests of full disclosure I declare an interest: in 2003 I write the first proposal for CBCR^{[\[v\]](#)}. I admit that no one is more surprised than me that it has received such attention. The OECD has adopted it because it will help tax authorities appraise risk. The EU parliament wishes that it be adopted so that risk can be appraised on a broader range of concerns. The European Commission is considering the issue of publication. The UK's parliament has asked HM Treasury to prepare regulation for publication of this data, albeit without a timescale as yet. I think it is now very hard to refute the suggestion that a very wide range of stakeholders consider the publication of this information to be in their best interests.

Despite this the FRC appears to have avoided comment on this issue altogether: the subject was not referred to in your announcement on a review of the disclosure of tax

risk in financial statements in December 2015^[vi]. This would appear to be inappropriate: this is a very real issue in UK accounting, and is a task that must by default fall within the UK to the FRC given that the IFRSF also appears to be ignoring the issue.

I do, therefore, have the following questions to ask and would request that you reply taking into consideration the interests of all stakeholders, who you say are now your concern:

- * Why has the FRC not engaged on CBCR?
- * When will the FRC engage on CBCR?
- * How will the FRC engage on this issue when it does so?
- * Given that this issue has gained prominence from within civil society how will representatives from civil society with expertise in this area be integrated into the FRC's processes when considering this issue?
- * More broadly, when will the FRC revise its stated understanding of the primary users of financial statements to include all stakeholders?
- * When will the FRC begin a programme of reform to reporting standards so that these will really meet stakeholder needs, whether with regard to concerns on taxation or other issues such as pay, gender issues and the environment?

I am happy to meet with you to discuss these issues and presume that you would be happy for me to bring others with me, but I am asking for your specific reply in writing. Given the public duty mandate of the FRC I think you are obliged to supply it.

Yours sincerely

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^[i] <http://www.cityam.com/249679/sir-win-bischoff-trustworthy-information-isnt-enough>

^[ii] <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2016/September/Speech-by-Sir-Win-Bischoff-Chairman-FRC-at-the.aspx>

^[iii] <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2016/September/Culture-to-Capital-aligning-corporate-behaviour-w.aspx>

[iv] See, for example, the third paragraph of Baroness Hogg's evidence here <http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpCBS/27/27iv58.htm>

[v] <http://visar.csustan.edu/aaba/ProposedAccstd.pdf>

[vi] <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/December/FRC-calls-for-transparent-disclosure-of-tax-risks.aspx>