The Financial Reporting Council Limited
8th Floor
125 London Wall
London
EC2Y 5AS

5 February 2021

Dear Sir or Madam

A Matter of Principles - The Future of Corporate Reporting

Thank you for providing the opportunity to comment on the above discussion document[1].

1. Background to our concerns

We write as directors of the Corporate Accountability Network[2] and as Professor of Accounting and Society (Adam Leaver) and Visiting Professor of Accounting (Richard Murphy) at Sheffield University Management School, where Adam Leaver directs CRAFiC, the Centre for Research into Accounting and Finance in Context[3].

[1] https://www.frc.org.uk/news/october-2020/frc-publishes-future-of-corporate-reporting-discus
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www.corporateaccountabilitynet.work
Registered at the above address. Registered number 11791864
[3] https://www.sheffield.ac.uk/crafic

The Corporate Accountability Network[4] campaigns for improved accounting for the benefit of all the stakeholders of a corporation. Richard Murphy[5], who directs its work, created country-by-country reporting, which is now used for corporate reporting[6] for tax purposes in more than seventy countries in 2003, and sustainable cost accounting[7], which is intended to bring the cost of climate transition onto corporate balance sheets, in 2019.

CRAFiC studies accounting and finance issues within the contexts in which they arise. CRAFiC examines the wider impact of accounting and finance practices on organisations, markets, society and the environment. The aim is to influence the ideas and behaviours of organisational stakeholders in order to change policy and practice, and to provide a voice to all segments of society affected by accounting and financial decisions at local, national and global levels.

We bring these mutual concerns to the comments that we make in this submission.

We comment on the questions that raised in the discussion document in Appendix 2 to this letter. However, as will be noted from the comments that follow, most of our concerns are more broadly based. As such we make them in the body of this submission.

Appendix 1 to this submission sets out our understanding of some of the more basic needs that many stakeholders have for data that should as a consequence be included in financial statements. That understanding informs much of what else we have to say in this submission.

2. Summary of our submission

We are pleased to note that the FRC thinks the future of corporate reporting a matter worth considering. We are also pleased to note that there is a recognition of the need to respond to the demand for reform implicit within the Brydon Review[8].

These points being noted, we believe it underestimates the challenges of this moment. We also believe it fails to address key issues raised in the Brydon Review. Our principal concerns are as follows:

- The consultation notes that there are failings with regard to current reporting, and yet embraces the current structure of financial statements as being at the core of future corporate reporting.

[4] http://www.corporateaccountabilitynet.work/
[5] https://www.taxresearch.org.uk/Blog/richard-murphy/
[6] https://www.internationaltaxreview.com/article/b1f7nbbytrk83b/no-9-richard-murphy
[7] http://www.corporateaccountabilitynet.work/wp-content/uploads/2019/12/SCANov2019.pdf
[8] https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

- The review suggests that its focus is upon the need to meet stakeholder expectation. However, the consultation document suggests that the identification of the stakeholders in a Public Interest Entity (PIE) be left to their discretion. This raises a basic tension: PIEs are defined as such because of their broader public impact and significance can be defined objectively; however it is left at the discretion of PIE's management to define the stakeholder groups to whom they report. This appears to be contradictory. Stakeholder groups should be defined and not left to PIEs discretion. Similarly, since by definition a PIE undertakes activity of public interest, the content of the corporate reporting of a PIE must be defined by public need. We do not think that the approach outlined by the FRC can resolve any of the existing deficiencies with regard to stakeholder reporting within corporate reporting as a consequence because of this conflict within the proposoal made. We believe that the minimum likely stakeholders of all PIEs must be mandatorily defined and that the minimum information that must be supplied to meet their needs must also be mandatorily defined. Please see Appendix 1 to this latter for elaboration on the nature of those needs.

- Appropriately identifying the boundaries of a PIE is an issue fundamental to accounting and audit. At no point does the consultation document question what those boundaries are and which entities within a PIE corporate network should be obliged to disclose full reports. For example, at no point is it suggested that the PIE be required to disclose its membership in detail or that its organisation chart be supplied so that hierarchies of control within it are known. Neither does the consultation, despite the fact that almost all the stakeholders of a PIE will actually deal with or be employed by a subsidiary entity of that PIE, ask that the accounts of all the subsidiaries of a PIE be made available free of charge on public record, or that full country-by-country reporting be provided to ensure that stakeholders can understand the activities of a PIE in the place that they are. These are, in our opinion major omissions that mean that the proposals made cannot meet stakeholder needs.

- We note that the word subsidiary is not referred to once in the consultation document yet assessing the sustainability – or even legality - of the payment of dividends from subsidiary entities to the parent company is virtually impossible under current reporting standards and that this issue has been identified as a problem in many contemporary corporate collapses.

- The consultation document presumes that the reporting concerns of a PIE are primarily microeconomic. We do not agree. In a great many sectors PIEs now undertake roles, or supply goods and services, that are fundamental to the national interests of many of the countries that host their activities. As such they are

integrated into the macroeconomic management framework of those countries, and the decisions that they make on the resources that they deploy may, by definition, have significant macroeconomic as well as microeconomic impact upon the countries that host their activities. As a consequence, it will no longer be appropriate to assume in the future that the corporate reporting of PIES is only of interest to the shareholders and suppliers of capital to a company. It must instead be assumed that the reporting in question must provide sufficient information to indicate the true impact of the PIE on the countries in which they operate. Importantly, that impact is not only microeconomic, and therefore relating to turnover, profit, tax paid and investment, but also relates to the way in which the PIE expends its funds in that society and the consequences of that expenditure. We elaborate on this issue in appendix 1 to this letter where we suggest additional disclosures that might be required to truly understand the impact of a PIE.

- Although the consultation proposes the extension of corporate reporting to embrace stakeholder concerns, it does so by introducing the idea of separate reports, distinct from the financial statements. Stakeholder interests are core, internal concerns of the entity and this relegates their importance. The view suggested by the consultation document is based upon concepts within contract law, but that the obligations of a PIE are more accurately defined by the limits of its liability within tort. In other words, the PIE has the obligation to at all times consider the potential harmful consequences of the actions that it might undertake, and to therefore report upon those risks, and the steps taken in limiting them, to all potentially affected by them. This does necessarily mean that the interests of civil society are, in particular, brought within the scope of financial reporting, and are not relegated to separate reports, as the consultation document proposes. There is a singular PIE for which financial statements are prepared, and only one set of accounts can show a true and fair view of its affairs. Consequently, that set of financial statements must meet the needs of all stakeholders of the PIE, irrespective of its resulting length, and it must be subject to audit as a whole, but with materiality with regard to every single disclosure being determined through the eyes of the potential user, and not from the perspective of the PIE itself.

- We were surprised to note that the consultation document does not make any reference to capital maintenance, or to the capital maintenance concept that might underpin corporate reporting in the future. The two issues are not the same, but are of course, related. Many of the problems that have arisen with regard to corporate reporting have been the consequence of the misunderstanding of the importance of capital maintenance, and in particular the conflict that arises between the perspective of the shareholder in the parent company of a PIE as distinct from the

interests of the other suppliers of capital in the activities of the PIE as a whole. Shareholders may want managers to increase distributions whilst lenders may want managers to retain earnings and preserve the capital base of the firm to avoid default risks or bankruptcy. Without providing information that meets both of these differing interests, the risk of future audit failures remain significant. At the moment, the issue of capital maintenance outlined in company law is not only inadequately enforced, the information and tools available to make that enforcement are absent. There is no current duty on the part of PIEs to report their distributable reserves and thus evaluating the sustainability or even legality of distributions is difficult.

- There may be other aspects of capital which we think of as significant - and we draw attention to the need to undertake the activities of the PIE on a net zero carbon basis as evidence of this, and believe that this must be integrated into thinking on capital maintenance concepts if they are to meet the reporting needs of all the stakeholders of a PIE in future.

- There is a lack of attention to audit within the proposals, which is surprising given that they arise as a response to a review of audit failure. It is our opinion that a revised view of the obligations of the auditor of a company is a necessary part of any review of the future of corporate reporting, with it being required that the auditor ensure that all the information that they think might be needed by all the users, including all stakeholders, of the financial statements is provided, with an obligation imposed upon them to make good that deficiency if the PIE does not wish to do so itself. If the comprehensiveness of this task might delay the time scale for financial reporting, so be it: in an era when a company can make interim financial reports and financial markets appear more than capable of developing their own forecasts of a PIE's financial performance this delay is not, of itself, of consequence when traded against the benefits of a materially correct true and fair view of the activities of the PIE as a whole, as defined in this submission.

These general issues having been noted we next turn to more detailed concerns.

3. Primary concerns

As co-directors of CAN we campaign to ensure that the information supplied within the accounts of corporate entities meets the needs of all their stakeholders.

a. Stakeholder neutrality

The modern, large corporation, or public interest entity (PIE) cannot be considered as value free. The consultation suggests otherwise. We note that the business reporting network that is proposed would be 'stakeholder neutral' (pages 3 and 8). We do not believe that this is possible within the framework proposed.

The management and senior staff of PIEs are amongst its stakeholders and yet have a considerable information advantage over all other stakeholders. They can decide who the appropriate audience for accounting data should be, and traditionally that decision has heavily favoured the providers of capital to a company, and to shareholders in particular. The notion of shareholder primacy, whether explicit or implicit, challenges the claim of stakeholder neutrality. Recommendations which demand additional reports outside of the financial statements reinforce that hierarchy – shareholders come first, other stakeholders second and separate. This is our first objection to the proposals in the consultation document. That document assumes that the core of financial reporting as it now stands is fit for purpose, and given the stated purpose of the review we think that assumption is inappropriate.

We will return to issues relating to the financial statements, but before we do so must address another issue.

b. Stakeholder interests

We note that it is suggested that 'In our view, it is for the company to determine its key stakeholders' (Page 7). In our opinion it is not possible for the directors of an entity, who are a privileged stakeholder group possessed of particular self-interest, to decide what the other stakeholders of a PIE might be. To suggest that this might be acceptable is to reinforce existing relationships of power, preference and advantage within accounting hierarchies.

We also note that there is apparent bias within the consultation document where it is noted that (Page 4):

> We believe that the objective of an individual network report should drive its content. This is a move away from the distinction between different user groups and their needs. Our evidence suggests that shareholder and other stakeholder expectations converge on many issues and that all users' needs are best served by structuring reporting around the purposes for which they seek information from a company.

This reminds us strongly of the opening paragraphs of the International Financial Reporting Standards Foundation Conceptual Framework[9] where the following said:

> *1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about:*
>
> *(a) buying, selling or holding equity and debt instruments;*
>
> *(b) providing or settling loans and other forms of credit; or*
>
> *(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.*
>
> *1.3 The decisions described in paragraph 1.2 depend on the returns that existing and potential investors, lenders and other creditors expect, for example, dividends, principal and interest payments or market price increases. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and on their assessment of management's stewardship of the entity's economic resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.*

They then add:

> *1.5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.*
>
> *1.6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.*

Nothing suggested changes this inherent bias towards the suppliers of capital within the financial statements proposed. Instead, the recommendations offered, implies that the principle of shareholder primacy is appropriate, and shared universally. We do not agree

[9] https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/

and suggest there should be mandatory identification of stakeholders within the proposal made. The likelihood that the proposals made will address the concerns of civil society unless this issue is addressed is low.

There is one very particular reason for this. It is our opinion that of all the stakeholders of a corporation the shareholders are best protected from the moral hazard that it creates, and can walk away from it most easily. For them their relationship with the company in whose capital they have a stake is almost inconsequential. They can terminate it at almost any moment, with no longer term implications. For every other stakeholder the risks arising from engagement with a PIE are much higher. This is the reality that financial reporting must now face.

c. The stakeholders of a PIE

In our opinion the stakeholders of a PIE (the nature and extent of which we discuss later in this submission) will always include, at a minimum the following groups:

- Suppliers of capital, including shareholders, but recognising that some of these groups have differing interests;
- Trading partners of the PIE, including both customers and suppliers;
- Employees, past present and future
- Regulators
- Tax authorities;
- Civil society including local authorities, concerned individuals, journalists, academics, researchers, politicians and others[10].

It is our opinion that the consultation document fails by not identifying who the stakeholders of PIEs are, and by suggesting that there should not be mandatory recognition of the claims of those stakeholders, and by instead suggesting that this matter be devolved to PIEs who, for reasons already noted cannot be objective on this issue.

d. The information requirements of the stakeholders of a PIE

Having identified the stakeholders of a PIE, we think it vital that their likely information needs also be identified. We do not see how the future of corporate reporting can be decided upon if the information needs that such reporting fulfil are not known, most

[10] These groups were all identified as stakeholders of accounting data in a recent BEIS consultation https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-improving-the-quality-and-value-of-financial-information-on-the-uk-companies-register

especially when it is acknowledged that the discretion now available to the senior management PIEs is not resulting in those requirements being met.

We note that in the final paragraph of the consultation document (Page 33) it is said with regard to the findings of the Citizen's Juries that were consulted:

> In addition, the jurors were surprised that non-financial information, including on sustainability, was not mandatory for companies to include. In particular, they considered information on environmental concerns and employee treatment should be mandatory, given the possible impact large companies can have in these areas. Jurors also acknowledged the burden on companies to produce annual reports, and the challenge of providing useful and up-to-date information in a fast-moving political and economic environment.

Despite this no attempt appears to have been made to address this key finding within the consultation document. Rather than overly expand the body of this letter we address what we think the information needs of the various stakeholder groups that we identify might be in Appendix 1 to it. Some of the matters referred to therein are key to matters referred to in the following paragraphs. It is our opinion that all the needs that we identify should be addressed within the financial statements produced in the future of corporate reporting, and that this should be mandatorily required with auditors being given the responsibility to make good omissions if the PIE fails to supply the information required.

e. The focus of reporting concern

Whilst the consultation recognises that such a thing as a public interest entity (PIE) exists it fails to draw the obvious inference of it doing so. That inference is that these entities have ceased to be of purely microeconomic concern. They are, instead, entities that have macroeconomic consequences, and must be treated as such.

It is our view that the literally age-old assumption within accounting that all reporting entities have only limited economic impact, meaning that the externalities that they create might be ignored because of their individual inconsequence, no longer holds true, if it ever was. Both accounting and auditing in the UK raise to prominence as a result if the rise of the railway company in the Victorian and Edwardian eras[11]. Many of these companies were of enormous strategic significance[12]. Despite this, and influenced by microeconomic theories of the firm,

[11] See Matthews, D. 2006. *A History of Auditing*. London: Routledge

[12] The mainly English based London and North Western Railway was reportedly the largest joint stock company in the world in the late 19th century. Ferneyhough, F. 1975. *The history of railways in Britain.* Reading: Osprey.

which mostly take an abstracted view of reality, this fact has been ignored within almost all aspects of the financial reporting hierarchy to date. That is not, however, an appropriate course of action anymore. The idea that many PIEs, and even auditors themselves, are 'too big to fail' became commonplace during and after the 2008 financial crisis[13]. That idea has been reinforced by the current crisis, and the considerable support that this crisis has required that governments provide to save what may well be the majority of private sector entities[14]. And yet, accounting still assumes that even the largest of such companies, of PIEs have only microeconomic consequence. That argument is now unsustainable.

In that case we suggest that it should be recognised that the corporation has in many cases outgrown the limited reach of contemporary accounting frameworks. The evidence for that is clear:

i. Some entities now have turnover larger than countries and have net asset worth sufficient to destabilise the economies of the countries that not only host their parent entities but also their operating subsidiaries as well;
ii. Some PIEs have the capacity, through their scale, monopoly position or networked character to disrupt financial markets (e.g. the banking system); labour markets (e.g. large outsourcing firms); environmental sustainability (e.g. large fossil fuel companies); the provision of foundational services (e.g. privatised water utilities); media dissemination (e.g. Facebook/Twitter); transport (e.g. Uber) and security (companies with access to health information or data on military defence). The assumption that these entities are solely responsible to shareholders is to ignore the scale of their influence over the citizenry, and their disruptive potential;
iii. The macroeconomic position of these PIEs threatens social justice if forms of reporting fail to meet the needs of those actors potentially affected by that firm's activity;
iv. Unless we correctly identify the boundaries of the entity at which these risks might be recorded and valued we cannot appropriately account for these PIEs because there is resulting risk that not all the impact of their activities will recorded within existing accounting frameworks that are defined purely by contractual obligations. It then follows that there is consequent risk of audit failure arising as well because it is the obligation of the auditor to check that the entity has correctly identified that boundary but existing accounting frameworks prevent successful completion of that task;

[13] https://www.investopedia.com/terms/t/too-big-to-fail.asp
[14] By December 2020 around 1.5 million entities, most of them limited companies, had received state support to survive the coronavirus crisis. Corporation tax data implies that the majority of UK companies will by now have received some government support. https://www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics accessed 25 January 2021.

v. This necessarily requires that existing accounting framework be reframed to ensure that a revised framework does consider the risks that we note by extending the recognised boundaries of the entity to encompass all the effects of its activity; and to ensure that firms are accountable for them.

We address this issue further in the next section.

f. The identity of the PIE

Within the noted information requirements of stakeholders is the suggestion that many stakeholder groups require data on the identity, operations and location of the entities that make up the PIE, as well as those other entities, such as associates, closely related to it.

It is surprising how little this issue has been considered by accounting. Since the onset of consolidated group accounting it has been assumed that the perspective that this consolidated data supplies is the single view of the entity that will meet the needs of all users. If there is a single, critical, false assumption within accounting then this is it. For many reasons consolidated financial reporting does not meet the needs of most users of the financial statements of a PIE. Those reasons are noted in the following paragraphs.

i. Shareholders

Most people involved in accounting presume that the purpose of a company is to make profit even if s172 of the Companies Act 2006[15] makes it quite clear that this is not the case. They do then presume that the presentation of consolidated financial statements provides indication to the shareholders of the directors' fulfilment (or otherwise) of their duty to undertake this task on behalf of those members. There are, however, good reasons for thinking that this is not true.

It can be entirely reasonably argued that a company is not owned by its shareholders. What the shareholders do instead own is the equity share capital issued by the corporation. They enjoy the privileges of ownership towards what they own – i.e. those shares[16] but what is very clear in law is that they have no claim on the underlying assets of the firm. That is the quid pro quo of their limited liability: in exchange for limiting their debt liability with regard to the corporation shareholders relinquish any direct claim that they might have upon the assets of that corporation, excepting when the directors may wish to grant that to them by way of payment of dividends or buy back of their shares, and in the event of liquidation if,

[15] https://www.legislation.gov.uk/ukpga/2006/46/section/172
[16] Robé, J.-P., 2011. The Legal Structure of the Firm. Accounting, Economics, and Law: A Convivium 1.

perchance, there are excess funds available for that purpose[17]. The essential nature of the peripherality of their claim is implicit within that explanation: it is only when or if others consent that the shareholder has a claim upon a company. In that case there is very good reason for thinking that the consolidated group accounts of the PIE are of relatively limited consequence to the shareholder, and the fact that this is known by some at least is acknowledged in UK company law by the requirement that the balance sheet of the parent company entity of the PIE be published within the group consolidated financial statements.

Although few seem aware of it, by far the most important statement of concern to any shareholder of a PIE is this parent company balance sheet because it alone determines the extent of the profits available for distribution by the PIE to its equity membership. This is the case because for the purposes of equity share distributions it is the retained reserves of the group parent company and not those of the group as shown by its consolidated financial statements that determine the extent of realised reserves available for this purpose.

We are aware that there are many companies, PIEs included, where the retained reserves as shown on the balance sheet of the group parent company are substantially different from, and almost invariably higher, than those shown on the balance sheet in the group consolidated accounts. It is our belief that shareholders, other suppliers of capital and other stakeholders might all want to know why this situation might happen and whether, as a consequence of the capacity that it implies for the group parent company to pay dividends in its own right prejudices the interests of creditors and others who have interest in the group entity surviving as a going concern.

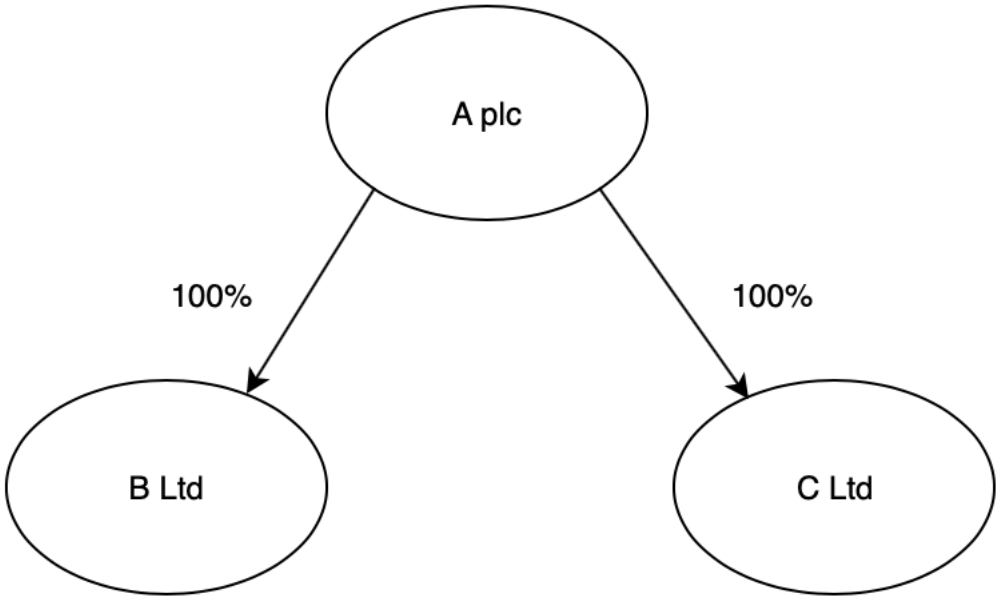
There is a particular dimension to this for the shareholders alone though. If they can only benefit from the distribution of reserves calculated within the accounts of the group parent company, and not the group itself, then the shareholders only need the consolidated data to indicate the capacity of the PIE as a whole to raise loan funding to make dividend distributions in excess of either the retained income or the cash generating capacity of the group as a whole. The consolidated accounts of the PIE are of incidental concern to them in that case, but the absence of information on the actual trading of the parent company, and more particularly, the distributable reserves of each of the subsidiary companies that it has, as indicated on their balance sheets, might be of much greater concern because these distributable reserves are what provide the capacity for the payment of dividends to those shareholders of the parent company of the PIE. As such it is quite reasonable to presume that having available the individual accounts of the subsidiary companies within the group, and an organisation structure that reveals how the reserves of those subsidiaries might be

[17] We are aware that there are a few occasions in standard Articles which might suggest shareholders do have power over the directors, but we consider these inconsequential in the case of PIEs because there is little evidence of such powers being capable of use.

distributed to the parent company of the PIE, could be of considerably greater advantage to the equity shareholders of the PIE than the group consolidated accounts, excepting the latter's ability to indicate the capacity for leverage to supply cash flow to enable dividends to be paid whether or not overall declared realised profits have actually been generated within the PIE.

What this perspective also suggests is that there are significant regulatory and audit issues that also require consideration as a result of this situation. Once it is appreciated that the ability of a PIE to pay dividends is not dependent upon its ability to generate profits, but is instead dependent upon its ability to generate distributable reserves within the group parent company and to provide cash resources to make distribution of dividends possible (with borrowing being at least as likely to provide the latter as profit generation) then the ability to create artificial distributable reserves becomes a significant issue of concern, not least when the matter of protection of creditors is taken into account, as should be the primary requirement of any capital maintenance concept.

This is easy to demonstrate. Presume that there is a group parent company of a PIE, called A plc. A plc has two subsidiaries. B Ltd sells the products that the group creates, and C Limited makes them. This is the group structure:



A plc does not trade. It is a holding, and if necessary, borrowing company.

Now suppose C Limited makes product that costs £100 million which it sells to B Limited for £80 million, which B Limited then sells to third party customers for £110 million. These are the only transactions for the year.

B Limited has retained reserves of £30 billion at the end of the year. A plc has retained reserves of £10 million in its consolidated accounts, and C Limited has retained losses of £20 million, all stated before dividends are taken into account. None had reserves brough forward.

Then assume that A plc borrows £20 million which it in turn lends to C Limited, leaving B Limited with funds to match its supposed retained reserves having settled the price charged by C Limited. The £30 million of funds in B Limited are then paid as a dividend to A plc as the group parent company, and it in turn then pays a dividend to the shareholders, which it can because this dividend received will then constitute its sole distributable reserves in its capacity as a parent company, and not as a group entity.

As a consequence B Limited and A plc (as a parent company) have no reserves, and the group has negative reserves of £20 billion, as does C limited, whilst dividends have legally been paid that have never represented a real profit arising, but which were nonetheless recognised as realised and distributable within the group structure that has been created, despite the fact that most of the retained reserves used to manufacture that dividend arose as a result of the use of transfer pricing mechanisms, which might have to be adjusted for tax purposes but which do not require alteration for corporate reporting purposes. The creditors have now funded a legal dividend to shareholders which has not, in large part, been earned. The accounting rules in use permit that, albeit that the figures used are exaggerated.

The point of this example is threefold. First it shows how peripheral to the interests of the shareholders the group consolidated accounts of a PIE really are. Second, it demonstrates how easy it is to manipulate the reported capacity of a group of companies to pay dividends within the existing framework for both determining those dividends and reporting the activities of the group in question, both of which lay themselves open to enormous risk of being arbitraged. Third, the point is made that if the creditors of the entity being audited are to be protected from exploitation by shareholders, which this example demonstrates to be completely possible, then it is essential that risks of this type not only be made apparent, but be audited and reported upon. However, existing frameworks of accounting and related disclosure requirements, do not permit this. As such the inherent risk of audit failure within existing accounting frameworks is significantly increased and when the purpose of this review of corporate reporting is, in no small part, to assist the improvement in audit quality

then it would appear imperative that this issue be taken into account in considering the disclosures to be required within the accounting by PIEs in the future.

The conclusions of this analysis should now be obvious. The first is that the consolidated accounts of a PIE may not even be the primary concern of its shareholders. Second, those shareholders may be much more interested in the activities of the parent company in its own right, rather than as a group entity. Third, the shareholders have very good reason to secure information on the activities of the subsidiary companies of the PIE. And last, for these shareholders the only real interest that they have in the group accounts is whether, or not, it can provide the loan raising capacity to provide them with returns not necessarily related to the underlying performance of the group from which they receive dividends.

ii. Other providers of capital

The above points having been noted, there are stakeholders who do have an interest in the view presented by the consolidated financial statements of the PIE. These are, almost entirely, the providers of loan capital to the PIE. Before exploring why this is the case it is, however, necessary to make some opening observations on the nature of group consolidated accounts.

Just as the notional control of PIEs by their membership has long been seen to be little more than a convenient fiction for reasons noted above, so too are the consolidated group accounts of that entity - to which the entire focus of attention is given within the consultation document - nothing more than a work of fiction. This is a claim that does require explanation, and which can be justified in a number of ways.

Firstly, there is no entity that undertakes the transactions that are recorded within a PIEs' group consolidated accounts. It is rare that the PIE does itself trade, of course. In that case the consolidated accounts represent transactions undertaken by entities other than the PIE.

Secondly, it is not even the case that all the transactions undertaken by the companies making up the PIE are reflected within the consolidated accounts. Instead, a subset of those transactions is reflected within them, with all those transactions that take place on an intra-group basis being removed from view. As such the perspective offered is decidedly selective.

Thirdly, not only are those transactions removed from the accounts, they are also quite deliberately hidden from view within the accounts of the subsidiary entities as well, so that there is no possibility of understanding the risks that exist within this intragroup trade, the consequences of which or potentially noted above. These transactions are clearly between

related parties, and yet accounting standards choose to describe them otherwise, which is very obviously incorrect, as a matter of fact.

In that case it very hard to see how it can be claimed that a single view of the entity as seen through the lens of the consolidated accounts represent a true and fair view of the affairs of the PIE. It is a view, but a decidedly selective and incomplete one. As we have noted previously with regard to shareholders, and will do again in the sections that follow, unless information on the subsidiaries of the PIE, and their trading in those places in which they are located is also provided then it is very unlikely that the data required by the users of financial statements that meets their needs is available in that case, with the possible exception of the one stakeholder group now being considered, which is the providers of financial capital to the PIE as a whole (whether directly or through cross guarantees).

It so happens that for these stakeholders, alone, the consolidated view of the PIE as a single entity may be of use because that view, alone of all those that might be available, provides the information that these loan capital providers require on the likely total assets that the PIE is able to offer as security for the borrowing that it seeks to secure. That is because this view of the entity reveals the total assets that's the directors of the PIE are able to control through their majority ownership or control of the entities that make up that organisation which they can pledge for this purpose.

It is indisputable in the era when most providers of capital to an entity are loan financiers that the interests of this group of stakeholders are of significance, which might explain why they appear to dominate reporting even more than the interests of the shareholders do. But, to suggest that their quite peculiar needs, and those of the communities from which they come, should dominate all financial reporting must be wrong.

We also suggest something else, of at least as much significance. It would appear that it is the needs of these other suppliers of capital that defines the boundaries of the PIE. This is because for the purposes of granting security the contractual (and controlling) relationships between the parties within the PIE is a paramount importance. Therefore, it is that contractual relationship which defines the PIE's limits. It is indisputable that this perspective may also be of value to shareholders, because from their viewpoint the ability of a subsidiary to distribute profits upwards to the entity from which they receive their dividend is also an indication of the relevant boundary of the PIE, and is in turn contractually based. However, this is, once more, a quite particular view. As we note in the sections that follow this contractual relationship is not as significant to other stakeholders of the PIE, who might even when they have contractual relationships with it also have relationships of concern that might best be defined in tort.

iii. Other stakeholders

It is convenient for the sake of brevity to consider the other stakeholders (trading partners, employees, regulators, tax authorities and civil society) together for the remainder of this consideration.

The first thing to note is that almost none of these stakeholders will have a relationship with the PIE itself. For example, very few parent entities trade; it is exceptionally unlikely that a person will be employed by the parent entity of a PIE, because they will instead be employed by one of its subsidiaries; regulators will look at the activities of an entity owned by the PIE within the place in which it is actually located, which may be far from the location of the parent company of the PIE; tax is charged up on the individual entities that make up the PIE, and not upon groups as a whole, while civil society will usually (but not always) be interested in the particular impacts of the PIE on issues where it undertakes its activities. It does, therefore, follow that the singular view that is presented by the current accounting framework adopted for use by PIEs fails to meet many of the needs of these stakeholder groups. All of them would be better served by a perspective that guaranteed the provision of information on the trading of the individual entities that make up the PIE, which few, if any PIEs do at present make available, or by the perspective provided by country- by- country reporting, which provides consolidated information by jurisdiction on the activities that are PIE undertakes in that place.

That said, if even those views are restricted to the basic contractual relationships of outright control within the PIE then it will fail to take into consideration the full extent of the nature of the concerns of these stakeholder groups. So, for example, trading partners might wish to know about the nature of the relationship between the PIE and those entities that are critical to its supply or customer chains, including most especially, insurers who might provide warranties and other support to those who have to rely upon the products that the PIE has delivered. Employees might also be concerned about the nature of the relationship between the PIE and outsourcing agencies where that relationship might be a direct threat to their own status within it. It is also very likely that employees will require information to be disclosed on any pension relationships that exist, whether accounted for within, or outside the structure of the PIE. Regulators will always be seeking to determine whether obligations have been evaded by moving activity beyond their reach, and so will have particular interest in what look to be, but may not defined as, related party transactions, and this type of association is always of particular interest to tax authorities, because they are aware that value shifting into and out of an entity is likely to be a source of particular tax risk. Finally, since, by definition, most with an interest in the PIE from within civil society do not have a contractual relationship with it, but do nonetheless feel themselves to be at risk from its

activity, relationships defined by tort may be of particular interest to this group if they are identifying mechanisms for remedy for wrongs done.

g. Summary of section 3

This section suggests that the consultation document fails to identify the nature and extent of the accounting data required by most stakeholders of a PIE even within existing accounting frameworks. As a consequence we suggest that the proposals made cannot address that need and as such are not a suitable basis for corporate reporting in the future.

We shall be pleased to meet with you to provide elaboration on any of the issues that we have raised or to provide further evidence if required.

You may publish this submission on your website without redaction of any part.

Yours faithfully (signed)

Prof Richard Murphy Prof Adam Leaver

Appendix 1

The information needs of the stakeholders of Public Interest Entities (PIEs)

It is our opinion that the information needs of the stakeholders of PIEs are as follows:

a. Suppliers of capital, including shareholders, but recognising that some of these groups have differing interests

Background comments

We refer to section 3 of our covering letter, which provides comment on the background to the issues referred to in this section.

We draw particular attention to the fact that we differentiate the information needs of shareholders from those of the providers of other capital when considering this issue. Shareholders have a particular interest in the trading and other activities of the parent company of a PIE in its own right which means that their separate entity accounts should be provided for their benefit. in contrast, the other providers of capital are the only stakeholder group of the PIE for whom it can definitely be said that the consolidated accounts provide the most objective measure of the interests that they might have in the activities of the PIE because that data's singular purposes is to provide an indication of the scale of the assets under the control of the PIE that might be available for pledge as security for loan finance.

Both groups do, however, also have very particular reasons for wishing for information on the trading activities of the subsidiary entities of the PIE. In the case of shareholders this is because the dividends that each of those subsidiaries might be able to route to the parent entity are the singular source of their potential economic gain from engagement with the PIE, which is otherwise remarkably limited. In the case of the other providers of capital, the balance sheets of those subsidiary entities indicates the assets available to the PIE to be pledged as security for borrowing and therefore the scale, location, and existing charges within those subsidiaries are all matters of particular concern to lenders meaning that even though they have most interest in the consolidated accounts that view is insufficient by itself to satisfy their information needs by itself.

Information needs

For the PIE as a whole	For the jurisdiction in which the stakeholder is located

The return on capital requiring disclosure of:
• An operational review;
• An income statement and related statements on other movements in equity, if appropriate;
• A cash flow statement;
• A balance sheet;
• Appropriate notes to the accounts to explain the foregoing;
• Disclosure of the name, place of incorporation, place of trading and trading activity of each of the subsidiaries of the PIE, also indicating that place where the accounts of the subsidiary in question might be found, free of charge, on public record for further inspection;
• An organisation chart demonstrating lines of control within the PIE so that the means of establishing its boundaries are made clear;
• Country-by-country reporting data with an explanation for its basis of preparation and a reconciliation with the other financial statements;
• On balance sheet accounting for the impact of climate change on the reporting entity, with supporting data to enable appraisal of the sufficiency of the provisions made[18];
• Disclosure of inherent but unprovided risk, including that arising from:
  ○ uncertain positions;
  ○ taxation whether current or deferred;
	• Information on the constituent members of the PIE trading within each jurisdiction in which it trades, as preciously noted;
	• Information prepared on a country-by- country basis showing the consolidated trading activities of the PIE within the jurisdiction prepared on the basis of the recommendations of the Global Reporting Initiative (GRI) With the addition of:
	  ○ Data on intragroup sales and purchases, with indication of the locations with which those transactions occur without materiality limit being applied;
	  ○ The total cost of employment incurred within the jurisdiction split between gross pay, employer Social Security and pension costs and other liabilities incurred;
	  ○ A country-based tax reconciliation;
	  ○ Total sums due in each year in each location in which the PIE trades with regard to sales taxes, taxes on employment and taxes on profit as well as land taxes and taxes due from the extractive industries, with comparators sufficient to appraise the reasonableness of the data supplied being made available in each case;

[18] See http://www.corporateaccountabilitynet.work/projects/sustainable-cost-accounting-the-essential-guides/

○ risk created by intra-group transactions; ○ geographic and supply chain risk; legal non-compliance; ○ climate related risks; ○ related party transactions and ○ political donations. • A parent company balance sheet, income statement and cash flow statement with full supporting notes to those accounts; • Reserves split between those available for distribution: ○ As shown within the group accounts; ○ As shown within the parent company accounts; ○ Available for distribution to the parent company within the subsidiaries of the PIE.	

b. Trading partners of the PIE, including both customers and suppliers

Background comments

Appraising the financial viability of the entity with which they engage is a key issue for trading partners, for which they reason they require the data reasonably expected by the suppliers of capital to the company, already noted. However, many will also want data to appraise supply chain and other risks for social, environment and governance reasons.

There is a very particular aspect to the needs of this stakeholder group though, which is that few, if any trading partners of a PIE trade with its parent entity. Instead, they deal with a subsidiary of that PIE in the place that they, as a stakeholder, are located. For that reason trading partners have significant needs for local information with regard to the transactions of the PIE.

Information needs

For the PIE as a whole	For the jurisdiction in which the stakeholder is located
• Details of the average period of credit taken by the PIE from its trade creditors; • Details of the average time taken by the PIE to resolve customer disputes; • Data on credit worthiness, solvency, cash flow, lines of credit, compliance with banking and other loan covenants and risks inherent in contingent liabilities that may have impact upon ability to pay not otherwise readily apparent within the balance sheet; • Assurance that the entity is not distributing reserves in a manner likely to prejudice the interests of its trading partners, and creditors in particular.	• Which entities make up the PIE; • Which entities are related to the PIE but are not for accounting purposes included within its boundaries; • Where the accounts of those entities might be found, free of charge, in full and on public record if not provided by the PIE itself; • What the financial results of the PIE as a whole might be within the territory in which the trading partner is located, for which purpose country-by-country reporting can provide the necessary data; • Details of the average period of credit taken by the PIE from its trade creditors within the jurisdiction in which the trading partner is located; • Details of the average time taken by the PIE to resolve customer disputes within the jurisdiction in which the trading partner is located.

c. Employees, past present and future

Background comments

This section deliberately notes that employees past, present and future might all have interest in the financial reporting of the PIE. All are likely to have an interest in the overall state of the finances of the PIE as a whole because the credibility of the pension funds to which they have contributed, and the benefits that they might have been offered, will very often be dependent upon the overall financial credibility of the PIE. As such they are interested in the consolidated financial statements of the entity in the same way that the external providers of capital to the PIE might be, not least because in very many cases they share a perspective with those external providers of finance because their pension funds will, quite often, be creditors of the entity as a whole and they will be seeking security for the shortfall in contributions due to it.

This overall point having been noted, there are other issues of concern to employees. In particular, many will wish to identify with their employer's contribution to society, and as a consequence they will wish to be able to assess this this means that they will have concern about what are often called environmental, social and governance issues.

Employees will also, and quite obviously, have concern about the financial risks that they take in working for the entity. Of all the stakeholders of any PIE it will normally be the case that the employees have the highest overall level of financial risk inherent in their relationship with the organisation because for many of them this entity will be their sole source of income, and no other stakeholder is likely to be in that position. For that reason the supply of information to meet their very particular needs is a matter of priority if stakeholders are to be at the centre of future corporate reporting.

What is particularly important to note in this context is that very few, if any of the employees of the PIE will be employed by the parent company of that concern. They will instead be employed by a local subsidiary. They do therefore have very particular local needs for information, based upon both the company which engages them and the overall activities of the PIE within the jurisdiction in which they work.

It is also important to note that the information that employees require will not just be with regard to their position as creditors, which has conventionally been assumed to be the case, although separate disclosure of information as to liabilities owing to staff, and related obligations with regard to tax, have rarely, if ever been separately disclosed within financial reporting despite the fact that the risk that employees face as suppliers of capital has been recognised. The additional data that employees (and their representatives) will also require will embrace average and comparative pay information, both within their entity, and between PIE entities. It will also require disclosure of data on social aspects of employment, including gender and other pay gaps which are of significance. The nature of these other pay gaps may vary by location, but they could, for example, relate to pay gaps by ethnic group where differentiation on this basis could be a cause for social or economic friction, as well as discrimination.

Information needs

For the PIE as a whole	For the jurisdiction in which the stakeholder is located
Information on: • The number of employees an entity has, providing analysis of:	• Information as required for the PIE but split by: ○ Jurisdiction;

○ Their gender split; ○ Their geographic location; • Their aggregate pay, analysed by: ○ Gender; ○ Geographic location; With analysis split between: ○ Gross pay; ○ Benefits in kind ○ Social security contributions; ○ Pension contributions; • Their average pay, split by: ○ Gender; ○ Location; ○ Gender by location; • Gender pay gaps; • Other pay gaps if deemed appropriate; • Outstanding wage liabilities ○ In total ○ By location; • Outstanding pension liabilities ○ In total ○ By location; • The surpluses and deficits of all pension funds related to the PIE and in particular the means by which any deficits are to be made good, and when; • Outstanding tax liabilities due with regard to employment related liabilities and whether any of these might be subject to recourse from the employees if not paid by the entity itself.	○ Subsidiary.

d. Regulators

Background comments

Much of the data that regulators might require can be demanded by them from those from whom they require it, but sample selection of those they wish to investigate requires data in addition to that already noted.

Information needs

For the PIE as a whole	For the jurisdiction in which the stakeholder is located
• The data noted previously on the entities that constitute the PIE is critical to regulators; • So too is data on intra-group transactions since these are the way in which many PIEs seek to avoid regulatory responsibilities; • For this reason the subsidiary entities of PIEs must be required to record their intra-group transactions as if they are related party transactions (which as a matter of fact they are).	• In this case likely to be covered by that noted for the PIE as a whole.

e. Tax authorities

Background comments

The data required by tax authorities is to some extent similar to that required by the trading partners and regulators of PIEs. There are however additional information requirements peculiar to this sector if they are to properly appraise the risk that they face when engaging with PIEs. The same data will also be of use to many in civil society who wish to appraise the contribution that PIEs make to their communities.

Information needs

For the PIE as a whole	For the jurisdiction in which the stakeholder is located
• Total liabilities owing in a period for critical taxes (sales taxes, payroll taxes, land-based taxes, corporation taxes on profit); • Comprehensive data on the drivers of these liabilities (sales, payroll costs, land use, profits);	• Total liabilities owing in a period for critical taxes (sales taxes, payroll taxes, land based taxes, corporation taxes on profit) by location; • Comprehensive data on the drivers of these liabilities (sales, payroll costs,

• Cash flow data on the settlement of these liabilities; • Clear balance sheet disclosure on these liabilities, by tax; • Full country-by-country reporting as a mechanism to promote change in corporate behaviour; • Full disclosure of group structures since this information is not available to all tax authorities as yet; • The accounts of all subsidiary companies in public record since these are not available to all tax authorities; • The disclosure of infra-group transactions by subsidiaries.	land use, profits) by location and subsidiary; • Cash flow data on the settlement of these liabilities subsidiary; • Clear balance sheet disclosure on these liabilities, by tax by location and subsidiary.

f. Civil society including local authorities, concerned individuals, journalists, academics, researchers, politicians and others

Background comments

Civil society has been the most ignored group within financial reporting. The reason is, almost certainly, that the identity of the PIE is defined by contractual relationships, whilst accounting is almost entirely focussed upon measuring the transactions that cross the boundaries of that PIE as defined for contractual purposes, with auditing supposedly substantiating the truth and fairness of the consequences that arise from those transactions. In varying ways all the other stakeholders previously noted share contractual relationships with the PIE. Civil society does not.

The whole point about civil society, and the way in which it is defined within this context of stakeholding, is that it is constituted by those that are interested in the PIE without having a contractual reason for doing so. Theirs is a relationship based not on contract, but on an awareness of tort. Tort is the branch of law where protection is sought from harm caused to a person by a party with whom they do not have a contractual relationship. The vast majority of civil society interest in the action of PIEs arises because of concern about the risk of such harm happening. The most common way in which such harm might happen would be as a consequence of what an economist might call an externality i.e. as a result of an unpriced third party consequence to an otherwise legal contact for which compensation is not paid

contractually. Other abuses might arise from the abuser following the letter but not the spirt of the law.

The information that civil society wants from a PIE is, as a consequence, varied, and much has been covered by other concerns already noted e.g. with regard to the extent of the PIE, its local activities, its taxes paid, and liability to employees and those it trades with. There are, however, other requirements, as noted below.

Information needs

For the PIE as a whole	For the jurisdiction in which the stakeholder is located
• Accounting for the consequences of climate change; • Data on actions to indicate mitigation of racial, gender, orientation and age bias; • Compliance with international conventions e.g. on trade, the environment and other issues. • Context specific information relevant to the activity of the PIE; • Contingent liabilities and inherent uncertainties within the accounting of the PIE.	• Location specific data on the issues noted for the PIE as a whole.

Appendix 2

Answers to questions asked in your consultation document

Overview

1. What are your views on our proposals as a whole? Are there elements that you prefer over others?

We think that the proposals in the consultation document fail for these reasons:

a. At the heart of the proposed new reporting framework are the existing financial statements of the PIE as prepared under IFRS without seeking to reform the required disclosures within them in any apparent way. These financial statements are not produced to meet existing shareholder needs, as we have shown in this submission. Nor do they meet the needs of almost any other stakeholder. To do so substantial reform of their content would be required. As such at the heart of the proposal is a failed mechanism of accounting and that means that the proposed reporting will fail to deliver what is required by the stakeholders of PIEs;

b. Because it is suggested that the entities creating the new reports that are proposed might define their own stakeholders, and might pursue their own view of those stakeholder's needs, the essential discipline that is required to ensure that stakeholder needs are met in future corporate reporting are absent from the proposals made;

c. It is not clear what parts of the proposed reports might be audited, and therefore be proven to be of value;

d. The focus of the consultation is on process when that is not in our view the issue of concern with regard to financial reporting at present. The issue is its failure to meet stakeholder need. Reforming the way that information that does not meet stakeholder need is delivered will not address that failure, it will simply repackage information that does not meet that need in different ways.

In summary, we suggest that the consultation proposals report do not address the issues that are of concern in future corporate reporting and as such is not a suitable basis for reform.

Implementation

2. **What do you see as the key practical challenges of implementing our proposals? Do you have any suggestions on how these could be overcome? What do you see as the costs and benefits of the new model?**

We do not think that the proposals made will meet stakeholder needs. The way to overcome that deficiency is to:

a. Define stakeholders as part of the standard setting process;

b. Define basic stakeholder need that must be met as part of that same process;

c. Require that auditors provide the information that stakeholders require from a PIE if the entity will not do so itself, and that they use their judgement to determine what that need is if they consider it extends beyond the minimum required by standards;

d. Incorporate all this data into a single audited report;

e. Require that the PIE's reporting embrace the external risks that it creates to those with whom it might have a liability in tort as well as in contract law;

f. Reframe the reporting requirements of PIEs to reflect their status as entities of macroeconomic, rather than microeconomic significance;

g. Require that the PIE report on the activities of all its subsidiaries in full, free of charge and on pubic record;

h. Require that the PIE produce full country-by-country reporting;

i. Require that the PIE account for climate change on its balance sheet rather than off balance sheet[19].

These are the practical challenges that we think any reform must face, but they are not addressed within the suggestions in the consultation document. If confidence is to be retained in financial reporting the cost of transitioning to the basis we propose is an essential price worth paying. Since it is not clear that the proposals made meets stakeholder requirements we do not suggest that further expense be incurred on it.

[19] See http://www.corporateaccountabilitynet.work/projects/sustainable-cost-accounting-the-essential-guides/

Objective Driven

3. Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

Please see our accompanying letter and the answers to question 1, above. The needs of all stakeholders must be met in a single set of financial statements. Stakeholders other than the suppliers of capital do not want a reduced form of reporting: they want reporting that meets their needs.

One set of principles

4. Do you consider the set of principles (system level attributes, report level attributes and content communication principles) in section 2 would be helpful in improving the quality of corporate reporting today and in the future?

We do not think that this proposal makes sense. The principle that should be followed is that the needs of stakeholders must be mandatorily addressed in a single set of audited financial statements.

Reporting Network

5. Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

We do not think that this proposal makes sense. The principle that should be followed is that the needs of stakeholders will be mandatorily addressed in a single set of audited financial statements.

Materiality

6. We are proposing that there should no longer be a single test for materiality that is based on accounting standards but instead materiality will be dependent on the objective of a report. Do you agree with this approach, please explain why?

We do not agree that there should be multiple reports making up what will not, as a consequence, be financial statements.

What we do suggest is that materiality with regard to any single item of disclosure in the single set of financial statements that meets stakeholder needs that is required must always be appraised through the lens of the stakeholder. For example, if the stakeholder needs local information then they should then get it, wherever they are, and however immaterial to the whole that data might be. And if zero happens to be material (as it can be, for example, when indicating non-payment of tax) then that determines the level of materiality required. Audit must ensure that this stakeholder-determined approach to materiality is always applied within financial statements.

Non-financial reporting

7. Do you believe that there is a need for regulatory standards for non-financial reporting? If so, what do you consider the scope of the information that should be covered by these standards?

We do not understand the notion of non-financial reporting. It assumes that anything not recorded as a debt or credit in the general ledger is an externality to the primary concern of the PIE, when by definition a PIE is of public interest precisely because its impacts over, above and beyond the level of transactions recorded in its general ledger are of significance, and therefore material.

Nor do we accept that many of the issues considered to be appropriately addressed by non-financial reporting are of that nature. For example, there appears to be a growing consensus that there should be reporting upon the sustainability of an enterprise and yet it is also clear that whether or not a firm can undertake its trade in a net zero-carbon compliant manner will in the future determine whether or not it is a going concern for financial reporting purposes. As such the suggestion that this reporting is a matter for consideration outside the financial statements is inappropriate. If sustainability is a matter that determines whether or not an entity is a going concern that information should be reported within the framework of the financial statements. That is most particularly the case if it is accepted that one of the primary uses for those financial statements is in determining whether or not the allocation of capital resources to the enterprise is something that the stakeholders wish to partake in, or not. We suggest that similar arguments can be presented with regard to many of the other items referred to in what are supposedly non-financial statements.

It is, as a consequence, our suggestion that there should be regulatory standards for all financial reporting and that all this reporting should be included within the scope of the audited financial statements. This is most especially true if it is accepted, as we think necessary, that a PIE has, by definition, macroeconomic rather than microeconomic impact and that, as a consequence, the nature and impact of its expenditure on the economies in

which it operates is a matter that is of at least as much significance to many of its stakeholders as is any information supplied as to its turnover, profit or balance sheet worth.

8. Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?

Since by definition a PIE undertakes activities that are of public interest we are not sure why it was necessary to ask this question. We would also suggest that section 172, Companies Act 2006, makes it clear that this obligation exists and as such we are surprised that it necessary to ask this question. However, for the elimination of doubt we suggest that it is the primary reporting obligation of a PIE to account to its stakeholders for the way in which they have acted in fulfilment of their public interest obligations.

9. Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?

We do not agree, for the reasons already noted. We think that the need is for a single set of audited financial statements prepared in accordance with the principle that the public interest obligations of a reporting entity are of paramount importance to all its stakeholders, and that they must be given priority as a result. In our opinion the suggested content is in conflict with our opinion as a consequence.

Technology

10. Do you see any other ways that current and new technology could be used to facilitate the proposed model, and support the system level attributes of corporate reporting identified in section 2?

We think that this is an inappropriate question until the required format and content of audited financial statements is resolved.

Proportionality

11. Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

We do not agree because we do not think the proposed model fit for purpose.

Other

12. What other areas do you see being necessary or relevant to the development of a model for corporate reporting that is fit for the future?

Please refer to our covering letter.