

# Financial Reporting Developments Around the World

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# Journey of corporate reporting

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## **Notable Developments include:**

- ▶ **Great Depression (1930s) – creation of the US Securities and Exchange Commission (SEC)**
  - ▶ To regulate the stock market and in so doing increase public trust in the capital markets
  - ▶ Encourage the establishment of private standard setting bodies through the AICPA and later the FASB – helping to provide structure to the setting of accounting standards

# Journey of corporate reporting (cont'd)

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- ▶ Globalization and the establishment of the International Accounting Standards Committee (IASC – 1973)
  - ▶ Growing globalization of capital markets after WW II
  - ▶ Rise of multinationalism in the 1960s
  - ▶ Need to compare financial information across the world

# Journey of corporate reporting (cont'd)

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- ▶ **Environmental/Sustainability reporting (1980s – 2000s)**
  - ▶ In the early days, environmental reports were primarily done by chemical companies to improve their corporate image
  - ▶ Has expanded over the last twenty years, particularly as more investors are becoming more environmentally and socially conscious
  - ▶ Entities are realizing that increased transparency about their sustainability and impact on the environment, can have a positive impact on their profitability – in addition to the environment
  - ▶ EU proposal to require large companies to provide additional information on social and environmental matters

# Journey of corporate reporting (cont'd)

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- ▶ Enron Scandal – 2001
  - ▶ Corporate fraud and corruption
  - ▶ Brought into question the accounting practices of many entities in the US
  - ▶ Was a key factor in the creation of the Sarbanes Oxley Act of 2002 in the US
  - ▶ The UK also amended its Companies Act following the approval of a 2004 Bill which adopted SOX like provisions
  - ▶ Resulted in the accounting profession making concerted efforts to minimize off-balance sheet activities – increase transparency

# Journey of corporate reporting (cont'd)

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- ▶ **Global Financial Crisis (2007 – 2008) – highlighted the following**
  - ▶ Financial reporting is insufficient to enable investors to assess the full value of entities
  - ▶ Current financial reporting is very short-term focused
  - ▶ There is a wide range of factors that determine the value of an entity – financial and now more importantly, non-financial (e.g., intellectual capital)
  - ▶ Increased momentum for Integrated Reporting

# Financial reporting today

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- ▶ Compliance focused
- ▶ Voluminous disclosures
- ▶ Requires strong technical knowledge to be able to understand
- ▶ Does not provide the full picture

# Contribution of financial reporting to the value of entities

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- ▶ Proportion of the market value of companies on the S&P 500 Index represented by tangible assets
  - ▶ 1970s – approx 80%
  - ▶ 1990s – approx 30%
  - ▶ 2009 – approx 20%
- ▶ Many intangible assets are excluded from an entity's financial statements (intellectual capital, human capital; structural capital – e.g., patents, trademarks; and relational capital – e.g., customer and supplier relationships, franchises, licenses)

# Integrated reporting

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## **Why?**

- ▶ Companies are being challenged to communicate business value more effectively

## **What?**

- ▶ A clear and concise representation of how an entity demonstrates stewardship and how it creates and sustains value over the short, medium and long-term
- ▶ Explains an entity's business story more effectively

# Integrated reporting (cont'd)

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## **Benefits include:**

- ▶ Creating value for shareholders
- ▶ Better articulation of the strategy and business model
- ▶ Connecting the silos
- ▶ Improved internal processes leading to a better understanding of the business
- ▶ More broad consideration of risks and opportunities
- ▶ Lower cost of, and better access to, capital because of improved disclosure

An orange, multi-pointed starburst shape with a white outline, containing the text "Integrated Thinking" in a bold, black, sans-serif font.

**Integrated  
Thinking**

# Integrated reporting (cont'd)

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## **Challenges include:**

- ▶ Obtaining buy-in from stakeholders within the organization
- ▶ Articulating the business strategy
- ▶ Providing a balanced view – not a marketing document
- ▶ Selecting the right key performance indicators (KPIs)
- ▶ Determining whether assurance should be provided, and on what
- ▶ Defining materiality

# The World Bank's <IR> journey

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## **General**

- ▶ Represented on the International Integrated Reporting Council (IIRC)
- ▶ Strong proponents of increasing transparency in the private and public sector

## **Approach**

- ▶ Core working group established (Financial Reporting, External Communications, Corporate Sustainability)
- ▶ Education drive within the institution
- ▶ Gap analysis
- ▶ Pilot <IR> report
- ▶ Live



Questions?

