



Association of Accounting Technicians response to the Financial Reporting Council consultation document “Corporate Reporting Research Activities”

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Financial Reporting Council (FRC) consultation document “Corporate Reporting Research Activities”, published on 9 December 2016.
- 1.2. **AAT is the UK’s leading qualification and membership body for accounting staff.** AAT awards around 90% of all accounting vocational qualifications in the UK. Of AAT’s 140,000 plus members and students in the UK, two-thirds work in businesses or accountancy practices.
- 1.3. **AAT is customer focused, we collaborate, we care about what we do and how we do it.** AAT supports the work of the FRC in identifying and assessing opportunities for improving the quality of financial reporting. The FRC’s corporate reporting research influences and promotes high quality corporate reporting at all levels in the UK, including reporting by small and medium-sized businesses where accounting technicians play a particularly important role.
- 1.4. **AAT is a member of the International Federation of Accountants (IFAC) and is committed to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics.** The IESBA Code, reflected in the AAT Code of Professional Ethics, provides useful guidance on the need for research in developing new corporate reporting guidance and regulation.

2. Executive summary

- 2.1. **Research is a valuable part of the FRC’s work but some changes to research procedures could be useful.** These include clarifying the objectives of research activities, and working more closely with universities, audit firms and accountancy bodies to jointly meet those objectives.
- 2.2. **For any projects planned by the IASB there is likely to be a need for research to identify the relevance of the topic in the UK.** The IASB’s planned research into SMEs that are subsidiaries is an example of a topic where the potential impact in the UK needs to be understood at an early stage.
- 2.3. **Ongoing empirical research is needed into the state of financial reporting in the UK.** The way in which financial reports reflect investment in workforce training and development is an example of a factor that could be useful to monitor.

3. AAT response to the consultation document

Question 1: Section 1 provides background to the FRC’s research activities in relation to corporate reporting. In your view, should the FRC continue with its research activities at the current level, or increase or decrease the extent of its work in this area?

- 3.1. AAT agrees with the background analysis in Section 1. Collecting evidence on the nature and extent of what is perceived to be a financial reporting problem is not only good regulatory practice, it is also consistent with the objectivity principle of the IESBA Code of Ethics. High quality research can help ensure that the development of new standards is not affected by bias or by the undue influence of any group of stakeholders.
- 3.2. AAT considers it useful to consider two other factors, alongside those set out in the consultation document, concerning the FRC's research activities in relation to corporate reporting. These are outlined below under the headings "Objectives of research" and "Fit with other research".

Objectives of research

- 3.3. In addition to research into specific possible changes to financial reporting arrangements, AAT considers there is also a need for ongoing high-level research into the state of financial reporting in the UK.
- 3.4. The FRC has conducted important reviews in the past, including *Louder than Words*¹ in 2009, *Cutting Clutter*² in 2011, the various projects conducted by the Financial Reporting Lab such as *Accounting policies and integration of related financial information*³ in 2014.
- 3.5. These projects, together with others conducted by professional bodies, such as the ICAEW's *Information for Better Markets*⁴ programme or CIMA's *Tomorrow's Corporate Reporting*⁵, have raised important questions and challenges around improving financial reporting in the UK.
- 3.6. To help build on the findings of these previous studies, it would be valuable for the FRC research to monitor the state of financial reporting in the UK on an ongoing basis. Please see the answer to Question 3 below for more details of how this could work.

Fit with other research

- 3.7. The second additional factor is how the FRC's research activities fit with other research taking place in the market, including that conducted by universities, audit firms and by the professional accountancy bodies. Paragraph 1.15 of the consultation document refers to this but AAT considers there is scope to go further in co-ordinating research for the following reasons:
 - 3.7.1. Although the FRC has great expertise and experience, its resource is inevitably modest in scale compared to the overall investment in financial reporting research taking place across the market.
 - 3.7.2. There is a substantial amount of research into different aspects of financial reporting being conducted across many UK universities but much of this is based only on publicly available information, e.g. published accounts. The papers could be more policy-relevant if the researchers had better access to preparers, auditors and users of accounts.

¹ <https://frc.org.uk/getattachment/7d952925-74ea-4deb-b659-e9242b09f2fa/Louder-than-words.aspx>

² <https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Cutting-Clutter.aspx>

³ <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2014/July/FRC-publishes-Lab-report-on-Accounting-Policies-an.aspx>

⁴ <http://www.icaew.com/en/technical/financial-reporting/information-for-better-markets>

⁵ <http://www.cimaglobal.com/Pages-that-we-will-need-to-bring-back/Old-site-pages1/Old-site-pages/Thought-leadership/Research-topics/Financial-reporting/Corporate-reporting-is-no-longer-working/>

- 3.7.3. AAT is aware that the FRC already supports the British Accounting and Finance Association's Financial Accounting and Reporting Special Interest Group (SIG). Further co-ordination of research between the FRC, researchers in universities and firms could help, in the medium to long-term, to maximise the combined value of corporate reporting research in the UK.
- 3.7.4. The European Financial Reporting Advisory Group is in the process of establishing similar arrangements for research collaboration at a European level. This might form a useful model for closer working with universities, audit firms and accountancy bodies to help maximise the relevance of research to financial reporting policy making.

Question 2: Section 2 considers projects that might be undertaken in the future with the aim of influencing the IASB. It identifies four potential projects: variable and contingent consideration; defined benefit pension schemes; non-exchange transactions; and intangible assets. Which, if any, of these potential projects do you think the FRC should undertake? In your view, what are the relative priorities? Are there other topics that you believe the FRC should undertake with a view to influencing the International Accounting Standards Board (IASB)?

- 3.8. It is important that when any projects are planned by the IASB the relevance of the issues being addressed to UK firms and users of their accounts is fully understood. AAT considers this is necessary for all elements of the IASB's Work Plan.
- 3.9. The criteria for whether the FRC considers undertaking research should simply be the relevance of the topic to UK entities. If the topic is relevant, the FRC should take the opportunity to contribute research to the IASB's work.
- 3.10. The IASB's planned research into SMEs that are subsidiaries is an important example of a topic that is not currently prioritised by the FRC in the consultation document but could be of major relevance to UK companies. It is unclear whether current and planned IFRS disclosure requirements are problematic for UK SME subsidiaries of listed companies. Research is therefore needed to contribute to the IASB's planned work on this topic.

Question 3: Section 3 discusses the potential for the FRC to undertake research: (i) with a view to assessing how corporate communications as a whole might better serve the needs of investors; and (ii) to develop proposals on how corporate reporting might serve the needs of stakeholders other than investors. Do you believe that the FRC should undertake further research in these areas? On which specific topics do you consider such research might be fruitful?

- 3.11. AAT supports research in these areas. It is important that any such research is empirical and builds on the substantial conceptual work already completed by the FRC and other bodies (see response to Question 1, above). Some questions that the research might consider, based on the FRC's objectives and building on previous work, could include:
 - 3.11.1. Length of accounts: Are accounts becoming clearer, more concise and less cluttered?
 - 3.11.2. Needs of users: Are accounts becoming more useful to investors and supporting more effective engagement between them and companies?
 - 3.11.3. Economic growth: Is financial reporting promoting the efficient operation of capital markets and helping to attract investment into the UK? For example, are the benefits of workforce training and development, including apprenticeship schemes, apparent from company reports?

- 3.11.4. How are new market developments, such as fintech⁶ and blockchain⁷ technology, likely to affect financial reporting needs and solutions?
- 3.12. As empirical research, the priority should be to identify and monitor a wide range of issues, rather than developing solutions for a few specific issues. This approach should maximise the value of the research in the subsequent policy making stages at the FRC and IASB.

Question 4: Are there any other aspects of the FRC's research on corporate reporting on which you would like to comment?

- 3.13. AAT has no other comments.

4. About AAT

- 4.1. AAT is a professional accountancy body with over 50,000 full and fellow members⁸ and 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 members who are licensed to provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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⁶ Computer programs and other technology used to support or enable banking and financial services

⁷ A digital ledger in which transactions made in bitcoin or another cryptocurrency are recorded chronologically and publicly