

Comment: Is financial reporting suffering from "hamster wheel" syndrome?

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A review of the International Accounting Standards Board's proposed work plan for the next three to five years informs us of the key projects identified by the standard setter to improving financial reporting.

Broadly split into three categories of research, standard development and review projects, the proposals focus on analysing financial reporting problems and identifying potential ways to improve financial reporting or remedy deficiencies.

Fortunately, the IASB's process for standard setting is very open and receptive to suggestions from stakeholders on how they should progress their role as the primary global accounting standard setter.

Our view is that while working on known problems is essential, it is also a somewhat reactionary approach to standard-setting. The IASB's work plan and strategic outlook would benefit hugely from developing and introducing a more proactive and aspirational set of objectives for improving financial reporting.

It has been almost a decade since International Financial Reporting Standards (IFRS) came to be accepted as a global platform for financial reporting by listed corporates. The IASB has done a truly commendable job in developing and promoting the IFRS framework, with more than 100 developed and developing economies adopting it for financial reporting by listed companies within their jurisdiction.

Many of the fundamental principles within IFRS predate the framework, having been previously established as the generally accepted norms for accruals based accounting and financial reporting. The IASB has made and continues to make significant changes to the IFRS framework to address identified areas for development. Recently introduced standards on financial instruments, revenue and leasing reflect this approach.

The IASB is obliged to take on board feedback on suitable projects from different stakeholder groups including investors, financial analysts, financial report preparers and corporate regulators. Sector-specific and jurisdiction-specific issues can also have an influence on the projects identified for further consideration by the standard-setter.

Needless to say the IASB has to prioritise the numerous proposed projects against the scarce resources at its disposal. However, the IASB is in a prime position to develop financial reporting beyond its current form - fit for the future. After all, as accountants we have been used to financial reports as they currently appear for many decades now, and it is time to challenge the status-quo.

While dealing with problems within the current framework of accounting standards is necessary, identifying initiatives that challenge the status quo is even more necessary.

We are said to be on the threshold of what is being touted as the fourth industrial revolution, characterised by smart technology, machine intelligence, significant processing power and access to knowledge. Sadly, financial reporting appears not to have even caught up fully with the third industrial revolution, characterised by information technology and electronic media. Financial reporting remains entrenched in delivering information through paper-based media, and the attendant accounting standards are largely developed to

meet the needs of financial reporting in that current form.

To its credit, the IFRS framework has embraced technology to some extent with the development of taxonomies to allow financial reporting using the eXtensible Business Reporting Language (XBRL). However the take up of XBRL-enabled financial reporting in IFRS-based reporting has largely been limited to [those jurisdictions that have mandated XBRL-based financial reporting](#).

The accounting profession is sometimes accused of adopting an inward looking approach to financial reporting and accounting standards, and the approach and content of the IASB's recent proposed work plan appears to back this up. This approach has to change if we are to transform and evolve financial reporting beyond its current limitations.

At its core, financial reporting is about providing valuable information to users. This is a surprisingly challenging concept. Have we recently identified the actual users and asked them whether this is the case? An emerging view suggests there is a real need for new empirical research to answer this question. While instinctively it is hard not to see technology playing a part in the evolution of financial reporting, we would be in a better position to determine how information on corporate performance should be packaged and delivered once we have a clear picture on who the users are and what information such users really want and value.

The IASB is well placed as the global leader on financial reporting to obtain empirical evidence on the usefulness of financial reporting in its current form and what should be done in evolving financial reporting to the next stage.

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