

The Corporate Reporting Ecosystem

What it is and why it matters

Executive Summary

The corporate reporting ecosystem is the foundation for trust in markets. It is comprised of diverse but interdependent elements and participants sharing a common goal of delivering high-quality information to users. For regulations and standards to be most effective, they should embody a holistic mindset, approaching the corporate reporting ecosystem in its entirety rather than focusing solely on individual elements and participants. This also will help promote fair and balanced stakeholder expectations.

Discussion

Introduction

The corporate reporting ecosystem is a deeply interconnected network of participants with different roles and responsibilities sharing the common goal of delivering reliable corporate information and, ultimately, building and maintaining trust in markets. As in the natural world, ecosystem participants are reliant upon one another while also executing their own critical roles – the goal benefits all but a lapse at another level can lead to systemic failure. Despite this interdependence, the public perception of – and supervisory approach to – the responsibilities of the different elements and participants has not (yet) developed evenly.

While the corporate reporting ecosystem has long historic roots, significant evolution is occurring. Many shareholders, as well as a widening group of stakeholders, increasingly look for a broader range of relevant, reliable, and comparable information to understand the long-term risks a company faces as well as the value a company creates. This includes conventional financial information and, increasingly, environmental, social and governance (ESG) factors. As corporate reporting is evolving to meet these increasingly complex expectations and demands, it also affects the surrounding system, meaning that additional participants are being drawn into the corporate reporting ecosystem.

Policy makers are seeking to respond to increased stakeholder demands for reliable and trusted information by introducing further transparency and accountability requirements for businesses, be it because of the above-mentioned trend or in reaction to corporate failures. However, even new rules and policies do not always fully consider the role and responsibilities of all ecosystem participants, their interrelationships, and interdependencies. The results can be isolated or fragmented approaches to reforms that lead to confusion over participants' roles and responsibilities. To avoid such outcomes, policy makers should adopt and promote an effective understanding of the corporate reporting ecosystem in order to generate trust and accountability across the markets and enable constructive, balanced and efficient policy and regulatory responses to risks.

This paper aims to describe the elements and participants of the corporate reporting ecosystem; why a holistic approach to regulating the ecosystem matters; and the interdependence and interrelationships between the elements and participants involved.

Elements and participants in the Corporate Reporting Ecosystem

Accurate, complete, and transparent corporate disclosures enable markets to function properly and supply governments, regulators, investors and other stakeholders with appropriate information and disclosures. Achieving these outcomes relies on the constructive and effective functioning of all the ecosystem's participants. It is particularly important for users of corporate information to understand the elements of the reporting ecosystem and to

have ready access to clear information about the roles and responsibilities of the various participants via issuers' reports or additional materials.

All entities in the corporate reporting ecosystem have roles necessary to achieve the goal of delivering quality corporate information. For example, auditors deliver on a public interest mandate by providing independent, objective audit services with quality and integrity. Yet auditors do not function in isolation. The main elements of the corporate reporting ecosystem are:

- **Management:** Primarily responsible for corporate reporting by creating and implementing the processes and controls that support trustworthy data, fair presentation of financial and non-financial information, the internal audit function, and sustainable long-term value formation.
- **Those Charged with Governance (TCWG):** Responsible for overseeing strategic direction and accountability of a company, including its corporate reporting. Depending on jurisdiction, TCWG can include boards, audit committees, and others responsible for governance.
- **External Auditor:** Responsible for executing the requirements for a statutory audit of the annual accounts to provide reasonable assurance that there are no material misstatements and may include other assurance providers or specialists. Responsibilities may extend to various types of assurance (limited, reasonable, etc.) of non-financial disclosures.
- **Supervision:** Responsible for supervision of corporate reporting by companies to ensure the quality of corporate reporting, and supervision of statutory auditors, audit firms, and other assurance providers to ensure the quality of audits/assurance. Participants include regulators of securities, insurance and banking and other independent regulators or other entities such as professional bodies.
- **Policy makers and standard setters:** Responsible for defining and setting the framework and responsibilities under which preparers and those in corporate governance, audit or supervision operate. Participants include lawmakers, supervisory bodies and national and international standard setting bodies.
- **Users:** The ultimate audience of financial and non-financial information and relevant auditors' reports. Their ability to thoughtfully consume information is key to the overall functioning of the ecosystem. Participants include investors, lenders, suppliers, employees, consumers, governments, regulators, and society at large.

A holistic approach to the corporate reporting ecosystem

Understanding the corporate reporting ecosystem is fundamental for efforts to enhance reporting requirements and the quality of reporting.

What defines a 'holistic approach' to the corporate reporting ecosystem?

A holistic approach considers and includes all the elements involved in the corporate reporting ecosystem in determinations for policy, standard-setting, and regulation. It is aware of and respects the interdependencies and interrelationships of the ecosystem, while clarifying and demarking roles and responsibilities, including potential limitations, of the participants involved. A holistic approach is comprehensive but balanced, including proportionate accountability of all participants within their respective field of responsibility.

Finally, and importantly, a holistic approach promotes collaboration amongst participants, promoting learning from good practice or failures to make the corporate reporting system more robust and resilient.

What are the benefits of a holistic approach?

The benefits of a holistic approach are far-reaching, based in providing clarity regarding responsibilities for all elements, participants and the public at large. Clarity is key to preventing overreliance on a particular element or participant to produce high quality corporate reporting, as well as ‘expectation gaps’ that can develop between entities. A clear understanding of roles and responsibilities reduces regulatory holes and inefficiencies traced to overlap and redundancy. It also generates greater accountability, and enforceability, for participants. The result of a holistic approach is better corporate reporting and increased trust in capital markets through more efficient and effective regulations and standards. All stakeholders have a role to play in improving the quality and integrity of corporate reporting and must work together to achieve this result. A holistic approach would also help to enhance the dialogue between the different elements and players in the ecosystem – in terms of working together and learning together with a view to future improvements.

Examples

- Embodying the holistic approach to policy making - the European Commission (EC) [consultation on improving quality and enforcement of corporate reporting](#) which looks at the EC’s ‘three pillars’ of corporate reporting – corporate governance, statutory audit, and supervision
- Leveraging multi-lateral organisations to promote collaboration across ecosystem entities - the [International Forum of Independent Audit Regulators](#) convenes regulators but engages other key ecosystem participants - the auditing profession, standard-setters, audit committees, and investors - to promote a holistic approach to meeting evolving needs and expectations
- Recognising the importance of strong internal controls for companies to provide auditors with quality information - the revised [OECD/G20 Principles of Corporate Governance](#) strengthened language on internal controls, particularly in regards to the need for high-quality information on sustainability
- The enhanced prominence of stewardship codes in various markets strive to persuade investors to engage thoroughly and thoughtfully in the spirit of collaboration across ecosystem entities to achieve responsible management of capital. Stewardship codes, such as the UK Financial Reporting Council code, promote engagement with issuers to enhance value assets¹
- Tangible benefits to holistic approach to the corporate reporting ecosystem – the US Sarbanes-Oxley Act helped to sharpen and redefine the roles and responsibilities of management, boards, and external auditors, thereby improving overall quality, integrity, and reliability. A recent study revealed a clear correlation between well-defined responsibilities for internal controls, such as those established in the Sarbanes-Oxley Act, and improved quality of reporting and lower cost of capital²
- Outside of the corporate reporting ecosystem, other industries and professions have adopted and implemented holistic approaches for ‘collective learning’ in achieving mutually desired outcomes. An example is the aviation industry, where the goal of safety

¹ Financial Reporting Council (2020) *The UK Stewardship Code*. Available at https://media.frc.org.uk/documents/The_UK_Stewardship_Code_2020.pdf

² Oxera Consulting (2022) *An Analysis of the EU Governance Framework*. Available at <https://www.europeancontactgroup.eu/wp-content/uploads/2022/12/Oxera-EU-governance-framework-for-corporate-reporting-30-November-2022.pdf>

drives manufacturers, operators, users, and regulators to collaborate on robust but thoughtful regulations and standards³

Interdependencies and interrelationships

The elements of the corporate reporting ecosystem can be mutually reinforcing. At the same time, any weaknesses in one element can negatively impact other elements. For example, assigning appropriate responsibilities to and supervision of company boards (TCWG) provides clarity to these boards to focus on the quality of the company's corporate reporting. In turn, these boards are more likely to exercise effective oversight of management and see external audit and assurance as third-party confirmation of quality, rather than a compliance function. These results bolster high-quality reporting for users. However, where a company board's responsibilities are insufficiently defined, risks emerge that attention to reporting quality can be sporadic, leading to impacts such as delegation of auditor oversight to management or fewer resources provided for a proper external audit and, ultimately, to compromised reporting quality for stakeholders.

Examples of effective methods recognizing interdependencies and interrelationship include:

- Establishing strong risk management and internal controls in which management, audit committees and auditors each play a role and are accountable for it
- Developing key communication channels between audit committees and external auditors, so they can mutually support each other in their respective roles
- Regular dialogue of regulators with audit committees, auditors and other stakeholders to better understand, and where necessary proactively react to, potential risks in the ecosystem
- Establishing clear regulations and standards from policy makers and effective enforcement by supervisors to achieve coherent supervision that doesn't focus on single ecosystem participants in isolation, particularly in understanding failures. Enhanced collaboration amongst regulators and standard setters is key to providing mutually reinforcing regulations and standards for internal controls, reporting, and audit and assurance.
- Collaborative rulemaking and standard setting to promote best practices and high-quality regulatory frameworks

Conclusion

Understanding the corporate reporting ecosystem and the need for a holistic approach to achieve common goals is the crux of delivering high-quality information to users.

The GPPC supports a system-wide and holistic approach to regulation and standard-setting that recognises the importance of coherence and coordination between the elements of the corporate reporting ecosystem. The roles and responsibilities of Board directors, audit committees, management, external auditors, internal audit, public supervisors, and standard setters – as well as the perspectives of users – should be aligned and evolve in a consistent manner. The result is accomplishment of a shared objective – high-quality corporate reporting that instils trust in markets.

External auditors are committed to actively evolving to deliver high-quality audits befitting of a changing world. As all participants in the corporate reporting ecosystem continue to evolve,

³ Accountancy Europe (2023) *Multi-Stakeholder Analysis of Corporate Failure*. Available at <https://accountancyeurope.eu/wp-content/uploads/2022/12/230208-Multi-stakeholder-analysis-of-corporate-failures-2.pdf>

collaboration, understanding, clarity, and accountability will be the hallmarks of a robust ecosystem. The GPPC networks invite opportunities to engage broadly and constructively.