

A new era for corporate reporting?

The gap between current reporting and business value needs to be filled if the annual report is to stay relevant. A more focused approach to narrative reporting could provide the solution.



Are we asking too much of financial reporting?

It plays an essential role in explaining past performance but on its own it cannot provide a complete picture of business value.

More is needed to help readers understand how management is driving the business forward and how changes in the business environment might present new opportunities and challenges.

The reporting gap is increasingly being filled by investor presentations where a more forward looking perspective on business value is provided.

There is a danger with this approach, though. The quality and content of these presentations varies, and they may address only some aspects of business value. Boards may also be concerned with the communication of some of their most price-sensitive messages being driven through less formal reporting channels without the backstop of the annual report.

A better approach lies in the narrative reporting content of the annual report. It is time for this to evolve to provide a picture of how business value is being developed and protected. We need to see reports built around a company's unique business model, addressing the unique factors that drive long term value for that business.

In practice this means more focus on the operational drivers of performance; it means more focus on the resources on which the business depends; and it means providing readers with the information to form their own views on future performance.

Companies are saying they are frustrated by investor short-termism. This is an opportunity for them to help the capital markets take a longer term view of their business prospects by providing the information to support that view.

In an environment where 'business as usual' modes of operation are increasingly being challenged, it is likely that investors themselves will increasingly push for better reporting of business value as individual companies demonstrate the additional insight that good reporting can deliver.

A major obstacle to achieving better reporting has been the compliance focus of many report preparers who have come to regard the annual report primarily as a regulatory burden.

We need a cultural shift that recognizes the annual report as a platform for business to explain what drives underlying value and how management has acted to develop and protect this value.

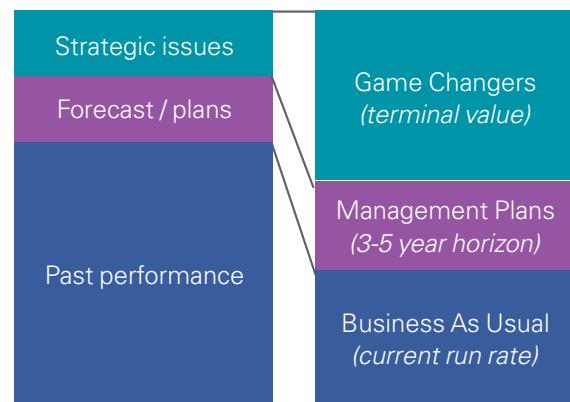
A new reporting framework, Integrated Reporting, offers the potential to drive change. It provides a basis for determining report content that focuses on the five or six of key drivers that cut to the heart of business value. It does this by building the report around the business model rather than a compliance framework.

Encouragingly, we are now seeing a growing number of ad hoc elements of current reporting which demonstrate Integrated Reporting values. However, if those examples are to become the norm, traditional reporting silos will need to be dismantled.

We believe change will happen. For businesses investing in their long term future, the potential reward of a lower cost of capital and better dialogue with the capital markets is too great to ignore.

The reporting gap

Reporting content Business value



Contact us

David Matthews

KPMG in the UK

T: +44 (0) 207 311 8572

E: david.matthews@kpmg.co.uk

Michael Bray

KPMG in Australia

T: +61 3 9288 5720

E: mgbray@kpmg.com.au

Yoshiko Shibasaki

KPMG in Japan

T: +81 3 3266 7670

E: yoshiko.shibasaki@jp.kpmg.com

Matt Chapman

KPMG in the UK

T: +44 (0) 207 311 3236

E: matthew.chapman@kpmg.co.uk

Nick Ridehalgh

KPMG in Australia

T: +61 2 9455 9312

E: nridehalgh@kpmg.com.au

Nina Straume Stene

KPMG in Norway

T: +47 4063 9851

E: nina.straume.stene@kpmg.no

Wim Bartels

KPMG in the Netherlands

T: +31 206 56 7783

E: bartels.wim@kpmg.nl

Etienne Butruille

KPMG in Spain

T: +34 914 565 953

E: ebutruille@kpmg.es

Bill Murphy

KPMG in Canada

T: +1 416 777 8998

E: billmurphy@kpmg.ca

Oliver Beyhs

KPMG in Germany

T: +49 30 2068 4485

E: obeyhs@kpmg.com

Mark Hoffman

KPMG in South Africa

T: +27 82 496 3697

E: mark.hoffman@kpmg.co.za

Hans Peter Lindegård Buhrkal

KPMG in Denmark

T: +45 2529 3921

E: hpbuhrkal@kpmg.dk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2013 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. Printed in the United Kingdom.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

RR Donnelley | RRD-281222 | March 2013 | Printed on recycled material.