



Effect of technology on the future of accounting and corporate reporting

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- Many aspects of technological change will affect the future of accounting and corporate reporting
 - the availability of Big Data
 - Blockchain and the accessibility of data
 - automation of work knowledge
- Each of these can have an effect on risk
- Technology can affect all aspects of the information supply chain
 - preparation
 - delivery
 - analysis

- Can be read, analysed and assimilated in vast quantities electronically
- Includes emails, social media, mobile data and websites
- Provides useful correlations between data
- But is not structured....

2012 Davos: 'Data is a new class of economic asset'

- Much more data available
 - non-GAAP data proliferates
 - individual entity's business model is emphasised
- Automated analysis supports making use of more data
 - makes disclosure overload less significant
 - frees up investors for research, not number crunching
- Could reduce the level playing field
 - sophisticated investors have access to more data
 - are smaller investors at a disadvantage?

Q1 How is financial reporting affected by the proliferation of data?

- How does Big Data affect financial reporting?
 - how should Big Data, the IFRS taxonomy and financial reporting interact?
 - what is the role of data warehouses and amalgamators?
- What is the future of the annual report?
 - the more information, the greater the need for comparability, standardisation and quality control
 - the annual report represents a reality check

Q1 How is financial reporting affected by the proliferation of data? *continued*

- Will annual compliance information, investor information and annual reports separate?
 - investor information could be based on real time Big Data, statutory/ prudential compliance activities based more on financial reporting?

- Blockchain is made up of decentralised ledgers, maintained across a network of computers ('cloud computing')
 - if both parties agree, could lead to open book accounting
- Information in Blockchain is locked
 - the data is not subject to manipulation, but is not necessarily correct
- The assurance level attached to the data is not clear to the reader

Effect of Blockchain and open accessibility

- Open book accounting is currently restricted to limited customers and their suppliers
 - could be open to all, including investors
- What effect could open accessibility have on IT platforms
 - unknown at present
 - eg can filtering be standardised?
- People may expect real-time updates
 - but some transactions are difficult to assess in real time eg business combinations

Q2 How can the market prepare for open accessibility?

- If some users have a comparative advantage in accessing information (ie sophisticated investors could derive real time updates; others would rely on formal reports) then what are the implications for:
 - efficiently priced securities in equity markets
 - a level playing field for investors
- Do you have any suggestions for balancing the efficiency of the market with a level playing field for all?

Q2 How can the market prepare for open accessibility? *continued*

- Would investors use more granular information about individual transactions?
 - cost of equity/ growth rate/ earnings/ cash flow (ie amalgamated figures) principally used to decide share price
- What assurance levels can be provided on data?
- How should users control updates to data that is constantly changing?

- Many processes are being standardised or automated, including the automation of work knowledge, eg
 - standard audit programmes
 - compliance and reporting checklists
- Automated audit processes include sample choice, detection of suspicious transactions, journal testing
- Robotics, data analytics, artificial intelligence leave humans to provide professional scepticism and judgement

- Automation could give rise to 100% sampling for any compliance testing
- But automation of work knowledge deprives individuals of the opportunity to develop their own professional judgement
- Automation combined with open accessibility could also lead to automation of trading activities
 - eg financial instruments, commodities or exchange transactions

Q3 What effect will automation have on the information supply chain?

- How do you account for autotraded activities?
 - will autotrading affect the unit of account used when applying our standards?
 - what effect will autotrading have on risk?
- As automation takes over simpler tasks, how will novice accountants, regulators and analysts build experience? How do you apply judgement if the simple tasks that build that experience are automated?
 - how can stakeholders address this?
 - what potential have we to support building the capacity for judgment?

- The effect of Big Data is to remove much systemic risk through cross-verification
 - eg credit risk can be reduced because of increased checks
- Some risk is increased due to increased volatility as information changes at an increased rate
- Is there a risk of automated trading creating a self-reinforcing price direction?
- Risk may also be decentralised
 - eg the financial industries supply chain has been disrupted by non-bank lending

Q4 Should changes to risk and technology affect our standard-setting?

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- Should the way that entities transact and report transactions affect how we develop our standards?
 - eg will more transactions need to be assessed on a portfolio basis?
- Will technology make reporting riskier?
 - will Big Data need to be reconciled to financial statements?
- How can you limit market volatility if misinformation is reported, or derived, from unregulated information?
 - how can you control price-sensitive Big Data?

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