Clear & Concise Reporting
Note of Discussion from Roundtable Event

13 January 2015
FRC, 8th Floor, 125 London Wall, EC2Y 5AS

This document summarises the key themes discussed during the Clear & Concise (C&C) Roundtable Event held by the FRC on 13 January 2015. The purpose of the event was to discuss the barriers to C&C reporting and how these could be reduced or removed. The attendees included preparers, lawyers, and representatives from investor organisations, the audit firms, the Department for Business, Innovation & Skills, the FRC, and other interest groups.

Aims of the Clear & Concise initiative

- The aim of the C&C initiative is to encourage clear communication, rather than a compliance driven/ checklist approach to financial reporting.
- Our stakeholders tell us that the annual report is trying to do too many things and there should be more of a focus on key messages. We believe that recent regulatory changes can act as a catalyst for change.
- C&C is a cross-cutting initiative, including work from the Accounting and Reporting Policy (ARP), Corporate Reporting Review (CRR) and Financial Reporting Lab (Lab) teams.

Investor Perspective

- The annual report should be for the investors, who provide the capital to companies and bear the residual risk. There is significant pressure from other stakeholders to include other information in the annual report, however this will make the document less relevant and will 'cloud' useful information.
- The annual report is published significantly after the end of the reporting period and is largely focused on historical information. Investors obtain forward looking information primarily from other sources such as preliminary announcements and analysts' presentations, although the narrative section of the Annual Report provides important prospective information.
- However, the annual report provides trust in other forms of communication with investors, because these can be 'tied back' to the audited results.
- Disclosures must be relevant. The increasing length of reports seems to be largely driven by new regulations, for example the new remuneration reporting requirements introduced in 2013. However, too many companies focus on compliance rather than communication.
- It is important for companies to provide entity-specific information on value creation and explain their strategy. Annual Reports are too long.
- Companies should: focus on materiality when deciding what to include in their annual report (for example, by disclosing only significant accounting policies); avoid rolling forward information without checking that it is still relevant; and reduce repetition through the use of cross-referencing.
- Investors should carefully consider their information needs and focus on asking for relevant, clear information (not just more information). Investors and preparers should work together more closely so that preparers know what kind of information investors require.
- Investors are engaging collectively with companies to try to address these issues.

Preparer Perspective

The impact of recent regulatory changes

- Some aspects of the new regulations were helpful, for example the emphasis on linkage between KPIs, risks and strategy. The regulations provided an opportunity for change.
- However, in some cases where a company was reporting on certain matters already on a voluntarily basis, the introduction of the regulations had a negative effect because the focus became one of compliance rather than communication.
- It is helpful for representatives of different companies to meet to discuss the challenges of reporting and share best practice.
- It seems that the reverse of 'concise' is actually happening because of the increasing volume of requirements and regulations e.g. the new disclosure requirements for directors' remuneration. The introduction of the viability statement will also be challenging.
- The FRC could push for a 'one in, one out' approach to regulation.

Investor engagement and digital reporting

- Investors need to be engaged about what they want to be included in the Annual Report. The investor group is not homogenous and different types of investors have different needs.
- Companies would like to put standing information/ boilerplate on their websites but auditors are uncomfortable with this because it could be replaced or overwritten.
- The Financial Reporting Lab's project on 'Corporate Reporting in a Digital World' was discussed.

Engagement with preparers

- It would be helpful if preparers were engaged at an earlier stage when regulations are being amended/ developed to ensure that they are cost effective and relevant.

Dual listed companies

- Dual listed companies face more complexity, with different reporting requirements in each jurisdiction and different regulators. International regulations need to be 'joined up'.
- Safe harbour provisions exist both in the UK and the US and this is contributing to long Directors' Reports.

Smaller companies

- There should be more segmentation of the reporting regime for smaller entities, and more flexibility and choice so that smaller entities can focus on reporting the information that investors want.
- Smaller companies lack the resources to focus on communication and instead focus on compliance. The directors have limited involvement in reporting and the Annual Report can become a 'tick box' exercise.
- The FRC should get groups of smaller companies together to discuss solutions to these issues. It was noted that CRR are reviewing the quality of FTSE 350 reports with a view to identifying issues and possible solutions.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2399 www.frc.org.uk

Materiality

- Materiality is applied in a very different way to the financial statements and the narrative reports. More guidance in this area is needed.
- Fear of CRR reviews stops companies applying materiality appropriately. Review letters from CRR are often perceived as indicating non-compliance rather than a request for further information.
- The introduction of viability statements will make companies more wary of ‘cutting clutter’ because they will want to disclose as much as possible to ‘cover’ themselves if the viability statement turns out to be wrong.
- The relevance of information is difficult to judge; different investors have different information needs. There is general support for the concept of ‘cutting clutter’ but when specific recommendations for removing a disclosure requirement are made there are often objections.
- It was noted that IASB is reviewing IFRS disclosure requirements through the Disclosure Initiative project. It was also noted that the Strategic Report requirements do include a materiality ‘filter’, but this is not always applied appropriately.

Next steps for the FRC

- The focus now should be on materiality and relevance, and most importantly engaging investors in this discussion.
- We need to look at the level of change in reporting requirements, and how our approach to materiality is received and understood.
- Some changes to the UK reporting framework must be made due to the implementation of EU Directives which affect auditing, accounting and reporting for non-listed companies, and non-financial reporting, however we are not planning any large scale changes to the reporting framework.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2399 www.frc.org.uk