Clear & Concise

Financial Reporting LAB

Lab case study report:

WM Morrison Supermarkets PLC

Supplier relationships and emergent issues reporting

January 2017

FRC Financial Reporting Council

Contents

What is the Lab

The Financial Reporting Lab (the Lab) was set up by the Financial Reporting Council (FRC) to improve the effectiveness of corporate reporting in the UK.

This report is the latest of the Lab's series of case studies. Lab case studies focus on challenging aspects of reporting and the response by a company or companies. Findings of Lab case studies are typically based on the views of investors that directly follow or cover the company.

The Lab case studies are designed to highlight good reporting practice. We believe that many of the lessons are widely applicable however other companies should take into account the views of their own investors, the complexity of their own business and structure, materiality considerations, the dynamics of the sector and the accounting standards and other requirements in place at the time. Our reports and further information on the Lab's activities can be found on the FRC's website: www.frc.org.uk/financial-reporting-lab

Do you have suggestions to share?

The Lab encourages readers of this report to provide comments on its content and presentation. As far as possible, comments will be taken into account in shaping future projects. The Lab can be contacted via email at: FinancialReportingLab@frc.org.uk

Quick read

This report focuses on two areas of disclosure of WM Morrisons Supermarkets PLC's (Morrisons) supplier arrangements, commercial income and relationships with suppliers.

Disclosures: Commercial income

Reporting by a company to investors is often a fine balancing act between providing too much information and not enough detail. This is especially the case in areas where there is limited guidance, regulation, and practice.

In 2015 Morrisons found itself managing this balance when responding to increased investor interest in the nature and impact of commercial income (a type of payment between suppliers and retailers), following recognition issues identified at Tesco plc.

In the 2014/15 company's annual report Morrisons adopted a level of disclosure of commercial income which was more comprehensive than others in the sector.

Through its disclosure, Morrisons sought to:

- Improve understanding of the context of commercial income by:
  - providing the background to and describing the nature of commercial income; and
  - providing details of the impact on profit, debtors, and creditors.
- Generate a level of comfort over commercial income by:
  - describing the controls and processes in place around commercial income, concentrating on the recording, accrual, and collectability;
  - describing the work of the Audit Committee, focusing on what they did in gaining comfort over commercial income.

Morrisons approach in 2014/15 was viewed as successful by investors in providing sufficient understanding and assurance to conclude on the key judgmental areas.

In 2015/16 the focus of value to investors of the Morrisons disclosures changed, with the initial concern of investors having been satisfied the importance of trend and industry comparative information came to the fore. The disclosures provide additional insight into the Morrisons business, and over time add to investors' understanding of margins and how the company works with suppliers.

Adoption of similar disclosure from others in the sector in 2015/16 increased investors' perception of the value of Morrisons' disclosure, as this allowed some comparison to be made across the sector. However, without specific guidance or sector-wide definitions, investors continue to have questions about the consistency of commercial income and other common retail metrics.

A model for reporting of emergent issues

Investors consider that the approach that Morrisons adopted could be a useful model for others when reporting on an emerging industry issue (see box on next page).

Disclosures which are made on an emergent or one-off issue can often be seen as adding clutter to the accounts once their initial purpose has passed.

Companies which seek to produce clear and concise accounts consider on a regular basis whether the information they are producing continues to meet an investor or regulatory need.

Disclosures: Relationships with suppliers

Information on commercial income provides some insight into how a retailer works with suppliers. This feeds into the broader desire from investors to understand the quality of supplier relationships and their place in a food retailer's wider business model. Investors recognise that the multi-faceted nature of relationships can be difficult to report in the confines of the annual report. However, by drawing out the differential aspects of its relationship with the supply base, Morrisons' business model disclosure helps investors understand the importance of these relationships to the company.

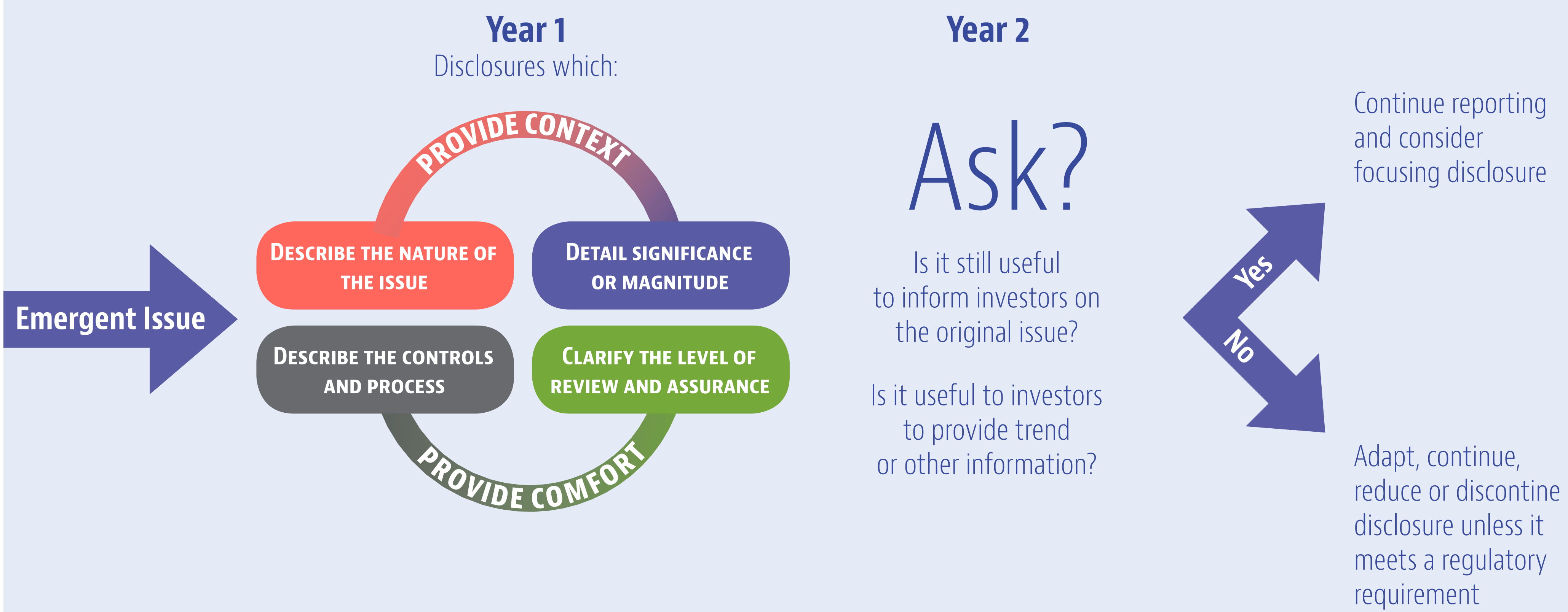
Appendix: Annual reporting cycle

What is reported is one driver of transparency for investors; however, timing can also be important. During the case study process we considered investors' views on the unique approach that Morrisons has to the release of its annual report.

Morrisons release the financial statements and note elements of their annual report alongside their results presentation. By doing this Morrisons provides a level of detail which allows investors to more fully understand the results in context of the full set of financial statement information.

Investors praise Morrisons' approach to the annual reporting process and consider that the overall timing of release helps to build confidence in the company.

Figure 1: A model for reporting of emergent issues



Investors consider that the approach adopted by Morrisons in tackling commercial income disclosure provides both a good level of understanding and ultimately comfort. The disclosures seek to answer investors' questions on nature and magnitude, and provide some reassurance about the processes and procedures which mitigate risk. While perhaps not universally applicable, investors feel the approach could provide a useful model of disclosure for companies to consider when faced with a significant emergent disclosure theme or issue.

Companies adopting the above approach should consider at what point (in subsequent reporting periods) the full detailed disclosure could be reduced or removed. For example, investors consider that for Morrisons, the control description while valuable for the first year of reporting need not be included in the same level of detail every year.

Background and focus

Background

In late 2014 the use of supplier arrangements became an area of interest to investors, regulators and stakeholders following accounting issues identified at Tesco Plc[1] (Tesco).

Supplier arrangements (more specifically several types of rebate and other promotional payments and discounts between companies and suppliers, often collectively called commercial income) is an area on which there has traditionally been limited disclosure by companies within the food retail sector. Therefore, many investors in the sector were unclear if issues identified at one company were more endemic.

The Financial Reporting Council's (FRC) Conduct Committee released a press notice[2] which provided further impetus to companies in the sector to consider the level of disclosures they made. The notice called on boards of retailers, suppliers and other businesses to provide investors with information on their accounting policies, judgements and estimates arising from complex supplier arrangements.

Given the issues identified by Tesco, retailers were the focus of many questions from investors. Against this backdrop, companies across the sector responded by providing information and disclosure focusing on different aspects of commercial income. In the first year (2014/15) that the issues came to the fore, the depth of disclosure varied considerably. Disclosures ranged from details of the impact of commercial income to the respective company's profit, to increased disclosure in accounting policies which explained the types of income without identifying the overall impact. Morrisons provided a comprehensive set of disclosure covering the nature of commercial income, its size, controls, and the processes surrounding recording and review.

Lab project initiation

Morrisons received limited feedback on the enhanced disclosures from the investment community. The company approached the Lab regarding a case study around their enhanced disclosure of commercial income with the aim of obtaining insight into investors' use of, and views on, the disclosures.

The Lab initially conducted interviews with seven of the company's investors focusing on the 2014/15 disclosures. In order to provide additional context, the Lab revisited some of the investors to discuss the 2015/16 disclosures, asking investors how disclosures and their value might evolve against the changing industry background.

While the focus of the interviews and therefore this report is on Morrisons' disclosures, some investor views on the sector more widely have been included. This reflects the fact that investors often consider the food retail sector holistically and make a comparison between individual companies.

1 https://www.tescoplc.com/news/news-releases/2014/trading-update-1/

2 https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2014/December/FRC-urges-clarity-in-the-reporting-of-complex-supp.aspx

Report focus

This report focuses on two areas:

1) **Commercial income** - Reporting of commercial income in the UK supermarket industry and specifically the approach adopted by Morrisons.

2) **Relationships with suppliers** - Wider reporting and disclosure of the nature of relationships between retailers and suppliers, and connections to the business model.

The Appendix picks up some interesting observations over the annual reporting process, focusing on the approach adopted by Morrisons.

While the report focuses on an issue of most relevance to the retail industry, its themes are applicable more widely. The report provides valuable insight into how investors' views on reporting and disclosure on emergent issues evolve over time and notes a strong opinion from investors that confidence in a company's finance processes and approach to transparency translates positively into confidence in the company.

Profile: WM Morrison Supermarkets PLC

WM Morrison Supermarkets PLC is the overall parent company of Morrisons supermarkets. The FTSE 100 company was founded in 1899 as a retailer of butter and dairy products in Bradford. Today the company has grown to become the UK's fourth biggest supermarket chain, with circa 500 stores and £16.1 billion in revenue (2016). The investor base is a mix of large institutional, founder holdings, and retail shareholders. The company reports a single segment, being retail, which encompasses physical and online grocery retail, petrol retailing and manufacturing of food products.

Commercial income

What is commercial income?

Volume discounts, rebates and promotional co-funding are relatively common practice between retailers and suppliers across sectors and across the globe. In the grocery sector those type of concepts are often called commercial income. These amounts are often (although not always) tied to certain retail sales performance or other conditions which must be met by the retailer.

Commercial income is not a defined concept under IFRS or any other convention. Therefore it is subject to various definitions and interpretations by companies.

Within the UK food retail sector, different types of commercial income exist. The main types are:

- Volume rebates – paid dependent upon the retailer buying or selling an agreed amount of supplier product.
- Discounts and incentives – relating to specific items on promotion and calculated on individual sales.
- Fixed amounts – representing payments from suppliers to help fund marketing, advertising and in some cases promotional funding activity by the retailer.

Investors' reaction to commercial income

Investors note that commercial income had not been a significant area of focus for the sector before the issues identified by Tesco in November 2014.

Investors had an understanding at a high-level of the nature of commercial income but had limited visibility on the magnitude of commercial income or its importance to the sector.

Once Tesco made an announcement about the acceleration of commercial income recognition and delayed accrual of costs, investors first wanted to establish if others in the sector had similar issues. They then wanted to:

- understand the nature and magnitude of commercial income; and
- understand the controls and processes in place that would limit the potential for a similar issue to develop at other unaffected retailers.

As limited disclosure had historically been made by UK retailers about commercial income, and Tesco's announcement was outside the normal reporting cycle, investors had to look to other sources such as non-UK retailers or supplier financial statements for some direction on wider industry applicability. The lack of readily available information led to numerous questions from analysts at company briefings and meetings.

Regulatory response

The FRC issued a press notice calling on boards to add clarity in the reporting of complex supplier arrangements by retailers and other businesses. The notice set out the FRC's expectations around disclosure and noted specific elements of IFRS guidance (see the box opposite) which warranted consideration.

Guidance on disclosures – FRC press notice (December 2014)

IFRS provides relevant guidance on both accounting policies and disclosure. In relation to complex supplier arrangement, the following standards in particular may warrant detailed consideration, depending on the precise facts and circumstances:

a) IAS 1 provides overarching guidance on what should be included in a set of accounts - including significant accounting policies; disclosure of judgements; disclosure of sources of estimation uncertainty; prohibition on netting unless expressly permitted; and sub-classification of balances by nature in the notes.

b) IAS 2 deals with the cost of inventories and when they should be expensed.

c) IAS 8 contains principles on the selection of accounting policies, including how to apply judgement in developing a policy where an item is not specifically covered elsewhere in IFRS; an explicit requirement to consider standards dealing with similar and related issues.

d) IAS 18 specifies what can be included in revenue and how it should be measured.

e) IAS 34, which is concerned with interim financial reporting, addresses the allocation of amounts under complex supplier arrangements between periods, and the disclosure of the effect of a change in an interim period accounting estimate.

f) IAS 37 addresses accounting for contingent liabilities and contingent assets.

g) IAS 39 addresses accounting for financial assets and liabilities arising from performance under contracts where cash flows may be subject to revision other than for credit risk.

Increasing disclosure

Responding to the growing focus from investors and the FRC, the big three listed supermarkets, J Sainsbury, WM Morrison and Tesco added disclosure in their 2014/15 annual reports. Morrisons was the first of the big three to report and focused disclosures on providing both the income generated through commercial income as well as the material aspects of both assets and liabilities. Tesco focused disclosures on the balance sheet aspects of commercial income and Sainsbury focused on a description of supplier income (their term for commercial income).

In the 2015/16 disclosures, Sainsbury increased their disclosures covering a similar scope to Morrisons. Tesco's scope remained constant and Morrisons added some further disclosure related to liabilities.

Comparing apples and pineapples?

The limited industry or accounting guidance on how to define commercial income appears to have led to a lack of consistency in the way that companies define and describe commercial income.

Investors feel that at a high level, the overall definitions provided by the three main listed supermarkets are prima facie, similar. However, they remain unclear as to whether retailers operate and account for the income in a consistent way.

Investors consider that a clear definition of commercial income (if adopted across the industry) would be helpful. Lack of consistency in description and calculation of metrics is not just an issue that investors attach to commercial income. Many note inconsistencies across retail, focusing on definitions of key Non-GAAP measures such as like-for-like or same store sales and margins.

Investors consider that the potential lack of consistency across such measures reduce comparability and therefore usefulness of disclosure. This is especially pertinent when considering trends which are impacting the UK supermarket sector, such as the move to internet shopping which impacts like-for-like sales.

Notwithstanding the call by some for greater consistency of definitions, many investors note that the significant differences in the structure, focus and operations of the listed supermarkets would potentially make any standard-defined metrics difficult to be truly comparable. There is also a concern expressed by some that standard metrics potentially lead to a loss of company specific trend information.

It should be noted, recent changes to reporting guidance (see box) may provide investors with additional useful information in this area.

Alternative Performance Measures

In June 2015, the European Securities and Markets Authority (ESMA) published Guidelines on Alternative Performance Measures ("the Guidelines"). The Guidelines apply to relevant communications released on or after 3 July 2016 by issuers of securities on a regulated market and to preparers of prospectuses. Through these Guidelines, ESMA aims to promote the usefulness and transparency of Alternative Performance Measures (APMs) such as like for like sales and other non-GAAP measures presented to investors. ESMA calls for companies to reconcile the APM utilised to a GAAP measure and to provide an appropriate description of the APM and the rationale for its use. The FRC provided additional FAQ on the topic of APMs following on from the ESMA guidelines.

Morrisons’ disclosures on commercial income

Investors consider it to be positive that Morrisons decided to disclose details regarding commercial income. They view this as being consistent with the company’s approach to reporting which they describe as ‘transparent.’

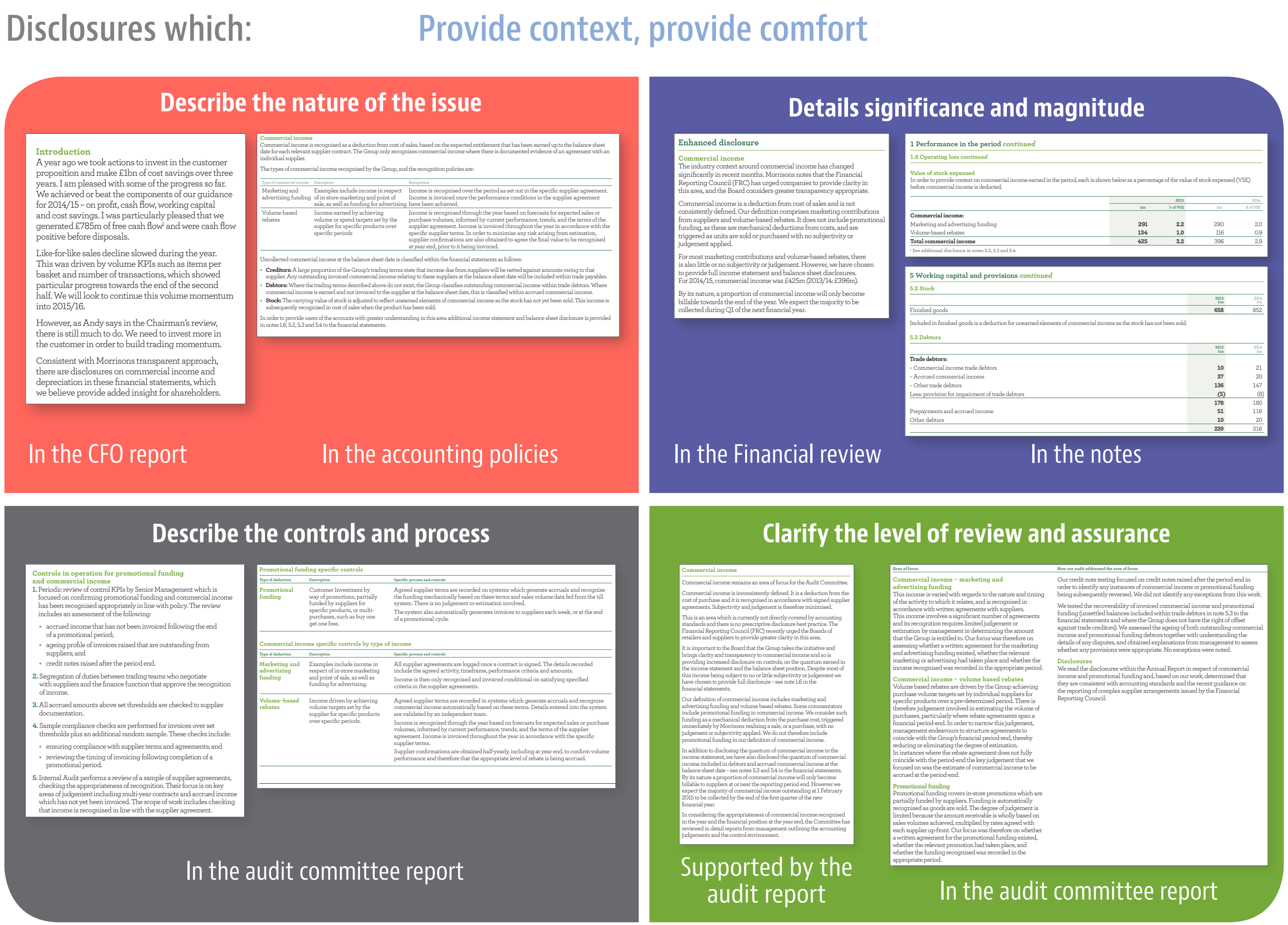
Investors describe the Morrisons’ disclosures of commercial income within the annual report as successful in answering their key questions. As such they can be seen to serve the company’s disclosure objectives.

Through its disclosure, Morrisons:

- Generated understanding of the context of the commercial income by:
  - providing the background and describing the nature of commercial income;
  - providing the details of the impact on profit, debtors, and creditors and thereby allowing investors to judge the magnitude and importance in comparison to the business and the current year results.
- Generated a level of comfort over commercial income by:
  - describing the controls and processes in place around commercial income, concentrating on the recording, accrual, and collectability;
  - describing the work of the Audit Committee and focusing on what they did to gain comfort over commercial income.

Investors consider that the above disclosure objectives might be a useful set of considerations for all companies when dealing with an emergent disclosure issue. We use these objectives as a way of exploring each of the disclosures in detail.

Figure 2: Morrisons disclosure of emergent issues



Providing context

The first objective of Morrisons' disclosure was to provide some context as to the nature of the commercial income issues and the drivers of additional disclosures.

Describing the nature

Investors appreciate the approach to disclosure of a headline number upfront with more detailed disclosure within the remainder of the report. By providing a reference to the additional disclosure within the Chief Financial Officer's report, investors are alerted to the additional disclosures.

The additional disclosure is also flagged in the Audit Committee report. By detailing at a high level the nature of commercial income, key areas of judgement and the overall magnitude, the disclosure serves to provide investors with a concise understanding of the issue.

Categories of income

Morrisons provided a description of commercial income in the accounting policies and in the Audit Committee report.

Morrisons have categorised commercial income into two types:

- Marketing & Advertising,
- Volume-based.

Whilst recognising the possible lack of consistency of categories across the industry investors consider that providing a description of the nature and characteristics of each type of income is helpful. It enhances their understanding and provides context for their consideration of the strength of the control environment.

The CFO report and the 'Review of the year' helps to provide context – 2014/15 Annual Report

Introduction

A year ago we took actions to invest in the customer proposition and make £1bn of cost savings over three years. I am pleased with some of the progress so far. We achieved or beat the components of our guidance for 2014/15 – on profit, cash flow, working capital and cost savings. I was particularly pleased that we generated £785m of free cash flow[1] and were cash flow positive before disposals.

Like-for-like sales decline slowed during the year. This was driven by volume KPIs such as items per basket and number of transactions, which showed particular progress towards the end of the second half. We will look to continue this volume momentum into 2015/16.

However, as Andy says in the Chairman's review, there is still much to do. We need to invest more in the customer in order to build trading momentum.

Consistent with Morrisons transparent approach, there are disclosures on commercial income and depreciation in these financial statements, which we believe provide added insight for shareholders.

What investors found helpful

Disclosures flagged upfront in the CFO report that extra disclosures have been added

Enhanced disclosure

Commercial income

The industry context around commercial income has changed significantly in recent months. Morrisons notes that the Financial Reporting Council (FRC) has urged companies to provide clarity in this area, and the Board considers greater transparency appropriate.

Commercial income is a deduction from cost of sales and is not consistently defined. Our definition comprises marketing contributions from suppliers and volume-based rebates. It does not include promotional funding, as these are mechanical deductions from costs, and are triggered as units are sold or purchased with no subjectivity or judgement applied.

For most marketing contributions and volume-based rebates, there is also little or no subjectivity or judgement. However, we have chosen to provide full income statement and balance sheet disclosures. For 2014/15, commercial income was £425m (2013/14: £396m).

By its nature, a proportion of commercial income will only become billable towards the end of the year. We expect the majority to be collected during Q1 of the next financial year.

What investors found helpful

Disclosures provide the industry context and broad nature of commercial income, including some indication on the level of judgement.

Disclosures provide information on the size of commercial income and indication as to how it runs off.

Key

- Context / Background
- Key information / Conclusion

Detailing the size

Disclosure of a commercial income number

The second objective for Morrisons was to provide detail of the magnitude and impact of commercial income.

Morrisons chose to provide disclosures of the magnitude of commercial income (as a component of overall performance) and details of the material debtor and creditor balances.

Disclosure included narrative and numerical elements. Of the listed UK supermarkets, Morrisons were the only company in 2014/15 to disclose the size of the commercial income as a component of performance.

Investors view Morrisons' provision of disclosure on the full contribution to profits from commercial income as positive and consider that it adds to the clarity of the annual accounts in a relatively concise manner.

2014/15 income disclosures

Investors considered that by providing the income number (and comparator) for commercial income Morrisons helped to quickly answer unambiguously their questions about the overall magnitude of commercial income.

Many considered, however, that in the absence of similar numerical disclosures in 2014/15 from other food retailers, it was difficult to put the numbers into context.

Some investors thought that even in the absence of disclosure from others in the sector (in 2014/15), there was significant value in Morrisons' disclosure.

Investors considered that by maintaining the level of disclosure Morrisons would provide valuable trend information (of its own business) facilitating a better understanding of commercial income stream and its run off across the cycle.

Some investors also considered that commercial income numbers might provide some context to the components of cost of goods sold and margins (an area in which they considered the sector could improve transparency).

While investors valued the numerical disclosures provided by Morrisons in 2014/15, they recognised that without wider industry adoption, the company needed to make a decision on continued disclosure. Opinions were divided on the need for the information going forward: some felt that removal of the information would be a backward step for transparency, others felt that the information had served its purpose and therefore could be removed.

2015/16 income disclosures

With the publication of the 2015/16 Morrisons disclosures, investors reiterated their views on the usefulness of information for assessing trends. Detailed numbers provide somewhat of a proxy for how a company is operating with suppliers and supports management commentary on the approach to commercial income.

Investors highlight that with the introduction in 2016 by Sainsbury's of the income statement impact of commercial income, the value of Morrisons' disclosure is enhanced. The provision of a comparator allows investors to consider how the scale of the number compares to that of Sainsbury's and what that communicates about the differing business models of the companies.

However, some investors note that the differing magnitude of the commercial income/supplier arrangement income continues to raise questions in their minds about the consistency of definitions.

Debtor and Creditor disclosures

While the income statement disclosures are deemed helpful, many investors feel that the disclosures of the relevant debtor and creditor numbers combined are the most useful element of disclosure.

Debtor and creditor disclosure deals directly with the major concerns of investors, namely the risk with commercial income being subject to accelerated recognition (as was the case with Tesco), rather than its ultimate size.

One investor particularly highlights valuable disclosure that the company makes around the run-off of the debtor balance post year end (see page 12) noting that this provides some indication of recoverability.

Some investors consider that the debtor/creditor disclosure alone is sufficient to ensure appropriate understanding of commercial income and provides a useful flag with which to monitor any future concerns.

As well as providing disclosures in the annual report, Morrisons also provides the same numerical disclosures in the interim report. Views on having the information in the interim is mixed: some feel that annual disclosure is sufficient, others consider that having half-year is helpful when looking to understand trends, timing and conversion of commercial income assets into cash.

Disclosure from the Operating profit/ loss note which provide context of the size – 2014/15 & 2015/16 Annual Reports

What investors found helpful

More detailed income statement information provided within the notes to the accounts shows how commercial income compares to overall stock expensed providing a reference point for the importance (or otherwise) of commercial income to the business.

1.6 Operating loss *continued*

Value of stock expensed

In order to provide context on commercial income earned in the period, each is shown below as a percentage of the value of stock expensed (VSE) before commercial income is deducted.

	2015 £m	2015 % of VSE	2014 £m	2014 % of VSE
Commercial income:				
Marketing and advertising funding	**291**	**2.2**	280	2.0
Volume-based rebates	**134**	**1.0**	116	0.9
Total commercial income	**425**	**3.2**	396	2.9

[1] See additional disclosure in notes 5.2, 5.3 and 5.4.

1.6 Operating profit/(loss) continued

Value of stock expensed

In order to provide context on commercial income earned in the period, each is shown below as a percentage of the value of stock expensed (VSE) before commercial income is deducted.

	2016 £m	2016 % of VSE	2015 £m	2015 % of VSE
Commercial income				
Marketing and advertising funding	260	2.1	291	2.2
Volume-based rebates	143	1.1	134	1.0
Total commercial income	403	3.2	425	3.2

For additional disclosure see notes 5.2, 5.3 and 5.4.

Disclosure from the Accounting policies and the Debtor / Creditor notes – 2014/15 Annual Report

Uncollected commercial income at the balance sheet date is classified within the financial statements as follows:

- **Creditors:** A large proportion of the Group's trading terms state that income due from suppliers will be netted against amounts owing to that supplier. Any outstanding invoiced commercial income relating to these suppliers at the balance sheet date will be included within trade payables.
- **Debtors:** Where the trading terms described above do not exist, the Group classifies outstanding commercial income within trade debtors. Where commercial income is earned and not invoiced to the supplier at the balance sheet date, this is classified within accrued commercial income.
- **Stock:** The carrying value of stock is adjusted to reflect unearned elements of commercial income as the stock has not yet been sold. This income is subsequently recognised in cost of sales when the product has been sold.

In order to provide users of the accounts with greater understanding in this area additional income statement and balance sheet disclosure is provided in notes 1.6, 5.2, 5.3 and 5.4 to the financial statements.

5.3 Debtors

	2015 £m	2014 £m
Trade debtors:		
– Commercial income trade debtors	**10**	21
– Accrued commercial income	**37**	20
– Other trade debtors	**136**	147
Less: provision for impairment of trade debtors	**(5)**	(8)

As of 5 March 2015, £7m of the £10m commercial income trade debtor balance had been settled and £21m of the £37m accrued commercial income balance had been invoiced and settled.

5.4 Creditors – current

	2015 £m	2014 £m
Trade creditors	**1,493**	1,568
Less: commercial income due, offset against amounts owed	**(96)**	(132)
	1,397	1,436
Other taxes and social security payable	**96**	58
Other creditors	**241**	315
Accruals and deferred income	**487**	463
	2,221	2,272

As of 5 March 2015, £83m of the £96m commercial income due above had been offset against payments made.

What investors found helpful

The accounting policy note provides some detail about where commercial income will be within the balance sheet and why.

Cross references to the relevant notes aid the reader in finding the relevant information.

Provision of additional information on the run-off of the balances was seen by investors as particularly useful.

Key

Context / Background

Cross Reference

Providing comfort

Supporting the numerical and narrative disclosures describing commercial income and its magnitude, Morrisons (and its auditors) provide disclosures which:

- Describe the controls and processes, including
  - a description of the key controls in place around commercial income; and
  - a description of the nature of the income itself.
- Describe the level of review, including
  - the work the Audit Committee had done in relation to commercial income;
  - the work that the auditors had done to assess commercial income.

Describe the controls and processes

The third objective of Morrisons' disclosures is to provide insight into the controls and processes around commercial income and ultimately generate some comfort and assurance for the investors.

Details of controls

Investors consider that it is helpful to detail the controls in place at Morrisons.

The overall concern for investors from commercial income is that it has been subject to management manipulation: acceleration of recognition leading to overstated profits. Investors consider that the Morrisons disclosure on controls, by focusing on the controls around recording and recognition of commercial income, provide comfort to allay their potential concerns.

"You read it all, and you think, oh, ok, well it is not a problem is it... It provides some comfort"

Investor

The location of the disclosures on controls (being within the Audit Committee report) aids investor review by being prominent and provides context for the wider Audit Committee report. Locating the disclosure within the Audit Committee report also demonstrates that controls are part of the company's overall governance structure.

Investors consider that while helpful in the first year they would not expect to see the same level of detail in following years. If the control environment or processes change significantly, however, then investors expect that this is highlighted prominently in the annual report. For the second year of disclosure, Morrisons reduced the description of the controls.

Disclosure from the Audit Committee report helps provide comfort – 2014/15 Annual Report

Specific process and controls

All supplier agreements are logged once a contract is signed. The details recorded include the agreed activity, timeframe, performance criteria and amounts.

Income is then only recognised and invoiced conditional on satisfying specified criteria in the supplier agreements.

Agreed supplier terms are recorded in systems which generate accruals and recognise commercial income automatically based on these terms. Details entered into the system are validated by an independent team.

Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms.

Supplier confirmations are obtained half-yearly, including at year end, to confirm volume performance and therefore that the appropriate level of rebate is being accrued.

What investors found helpful

In the Audit Committee Report, a description of the processes over commercial income and promotional funding provides context.

Controls in operation for promotional funding and commercial income

1. Periodic review of control KPIs by Senior Management which is focused on confirming promotional funding and commercial income has been recognised appropriately in line with policy. The review includes an assessment of the following:
   - accrued income that has not been invoiced following the end of a promotional period;
   - ageing profile of invoices raised that are outstanding from suppliers; and
   - credit notes raised after the period end.
2. Segregation of duties between trading teams who negotiate with suppliers and the finance function that approve the recognition of income.
3. All accrued amounts above set thresholds are checked to supplier documentation.
4. Sample compliance checks are performed for invoices over set thresholds plus an additional random sample. These checks include:
   - ensuring compliance with supplier terms and agreements; and
   - reviewing the timing of invoicing following completion of a promotional period.
5. Internal Audit performs a review of a sample of supplier agreements, checking the appropriateness of recognition. Their focus is on key areas of judgement including multi-year contracts and accrued income which has not yet been invoiced. The scope of work includes checking that income is recognised in line with the supplier agreement.

Key

Context / Background

Key information / Conclusion

What investors found helpful

The Audit Committee Report details the key controls in place.

This provides some level of comfort to the reader and suggests a well controlled process.

Providing this detail in the Audit Committee report also provides context for the review conducted by the Audit Committee (See next page).

Clarifying the level of review

Audit Committee report

There is an assumption from investors that the Audit Committee (AC) by its very nature focuses on the most significant and challenging areas. Where a potentially large industry issue such as commercial income comes to the fore, investors expect that it will be addressed in the AC report and the report will reflect work undertaken to address the issue.

The Morrisons 2014/15 AC report provided a good level of detail and investors considered the overall approach (discuss the issue, link through to the rest of the document, discuss the controls and what the AC did) was comprehensive. The approach adopted by the AC was also consistent with what investors identified as good practice in the Lab's *(Reporting of Audit Committees)* project report (see box).

Investors considered that having both the detail of relevant processes and controls, together with the work of the AC in the AC report, was beneficial in the first year of reporting as it allowed the full story to be told without having to 'wade through' the document.

The 2015/16 disclosures reduce the control descriptions and instead focus fully on the actions of the AC; in reviewing the appropriateness of controls and the recognition of commercial income.

Investors consider that this is wholly appropriate given that commercial income is now a known quantity. As such, it is of less concern and therefore a less significant piece of the AC's work, even though it remains material.

Auditor report

In the context of commercial income, investors considered that the 2014/15 auditor report provided comfort over the commercial income by laying out the work they undertook and the conclusions they reached.

One investor noted that the auditor report highlights some very small misstatements which total approximately £14,000. This is a level of detail that they consider borders on too much information in the context of £425m commercial income.

Similar to AC report, investors would not necessarily expect to see as much detail going forward unless it was a very significant focus of the audit. However, one investor notes that given the issues in the sector there was a presumption (by investors) that this was, and would also be in future, a key area of auditors' work and therefore investors could take confidence that this area was 'reviewed' and as such did not need to be an area of significant concern for investors unless highlighted by the auditors.

"Now we know that the auditors look at this our focus has moved to other areas."

Investor

Lab project report:

Reporting of Audit Committees

In October 2013 the Lab published a project report *Reporting of Audit Committees*. Among other aspects of AC reports this considered what investors wanted from Audit Committees in relation to significant financial statement reporting issues.

The investors felt good disclosure covered two key areas:

Context of the issue:

- specific description of each issue and how it relates to the company;
- quantification of the issue, business unit and geography impacted and how it relates to specific policies of or judgements made by the company.

What the AC did:

- demonstration of how the Audit Committee fulfilled its role and the robustness of the steps it took; and
- highlights of the key areas of debate and challenge and the source of the Audit Committee's assurance.

The full report is available on the Lab's web page: https://frc.org.uk/lab/reports

Disclosure from the Audit committee report helping to provide comfort– 2014/15 Annual Report

Commercial income

Commercial income remains an area of focus for the Audit Committee.

Commercial income is inconsistently defined. It is a deduction from the cost of purchase and it is recognised in accordance with signed supplier agreements. Subjectivity and judgement is therefore minimised.

This is an area which is currently not directly covered by accounting standards and there is no prescriptive disclosure best practice. The Financial Reporting Council (FRC) recently urged the Boards of retailers and suppliers to provide greater clarity in this area.

It is important to the Board that the Group takes the initiative and brings clarity and transparency to commercial income and so is providing increased disclosure on controls, on the quantum earned in the income statement and the balance sheet position. Despite most of this income being subject to no or little subjectivity or judgement we have chosen to provide full disclosure – see note 1.6 in the financial statements.

Our definition of commercial income includes marketing and advertising funding and volume based rebates. Some commentators include promotional funding in commercial income. We consider such funding as a mechanical deduction from the purchase cost, triggered immediately by Morrisons realising a sale, or a purchase, with no judgement or subjectivity applied. We do not therefore include promotional funding in our definition of commercial income.

In addition to disclosing the quantum of commercial income in the income statement, we have also disclosed the quantum of commercial income included in debtors and accrued commercial income at the balance sheet date – see notes 5.3 and 5.4 in the financial statements. By its nature a proportion of commercial income will only become billable to suppliers at or near the reporting period end. However we expect the majority of commercial income outstanding at 1 February 2015 to be collected by the end of the first quarter of the new financial year.

In considering the appropriateness of commercial income recognised in the year and the financial position at the year end, the Committee has reviewed in detail reports from management outlining the accounting judgements and the control environment.

What investors found helpful

Context / background to the issue and why it is a focus of the Committee.

Integration into overall disclosure via cross reference.

Description of judgement made by the Committee.

Integration into overall disclosure via cross reference with additional clarification of expectations.

In reviewing the assumptions made by management, the Audit Committee challenged and understood the key assumptions and judgements including:

- commercial income accrued but not invoiced at half year and year end; and
- recoverability of outstanding invoices.

The Audit Committee considered the effectiveness of the operation of key controls as set out below, through review of management's work and that of Internal Audit. The Committee considered the frequency of the operation of controls, the size of samples and challenged management on how controls could be further improved.

The controls in operation provide assurance over:

- completeness of supplier agreement documentation;
- accuracy of income recognition in line with agreed policies and the supplier agreements; and
- recoverability of commercial income.

What investors found helpful

Details of the Audit Committees actions in the year illustrating how the Committee satisfied itself.

Conclusion / Outcome – giving a clear explanation of comfort.

Key

- Context / Background
- Integration or cross reference
- Point of judgement
- Actions undertaken
- Key information / Conclusion

Disclosure from the Auditor's report which helps to provide comfort – 2014/15 Annual report

Area of focus

Commercial income and promotional funding

Refer to note 1.1 (Accounting policies), page 75 (Critical accounting estimates and judgements) and notes 1.6, 5.2, 5.3 and 5.4.

The Group has two categories of commercial income: marketing and advertising funding and volume based rebates on purchases.

Commercial income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers, as disclosed in the Group's accounting policy on page 76. The total income recognised in a year is therefore based on the expected entitlement earned up to the balance sheet date under each supplier agreement.

The Group separately recognises promotional funding on promotions that are partially funded by suppliers.

Promotional funding is an automated deduction from cost of sales, triggered when a sale is recognised. The funding is recognised when the transaction occurs in accordance with the terms of supplier agreements. The amount receivable is wholly based on sales volumes achieved, multiplied by rates agreed with each supplier up-front.

We focused on commercial income because of the significance of the amounts to the Group's gross profit, the significant number of transactions and agreements in place with suppliers covering a range of periods and the industry-wide focus on this area of accounting.

We focused on promotional funding for the same reasons, although we acknowledge that the level of judgement and subjectivity in the calculations is negligible because of the level of automation.

The amount to be recognised in the income statement for commercial income requires management to apply judgement based on the contractual terms in place with each of its suppliers together with estimates of amounts the Group is entitled to where transactions span the financial period-end.

The relative level of judgement in each of the categories of commercial income and promotional funding is considered below:

What investors found helpful

Background information which is consistent with the explanation of management and the AC.

Area of focus

Commercial income – marketing and advertising funding

This income is varied with regards to the nature and timing of the activity to which it relates, and is recognised in accordance with written agreements with suppliers.

This income involves a significant number of agreements and its recognition requires limited judgement or estimation by management in determining the amount that the Group is entitled to. Our focus was therefore on assessing whether a written agreement for the marketing and advertising funding existed, whether the relevant marketing or advertising had taken place and whether the income recognised was recorded in the appropriate period.

Commercial income – volume based rebates

Volume based rebates are driven by the Group achieving purchase volume targets set by individual suppliers for specific products over a pre-determined period. There is therefore judgement involved in estimating the volume of purchases, particularly where rebate agreements span a financial period-end. In order to narrow this judgement, management endeavours to structure agreements to coincide with the Group's financial period-end, thereby reducing or eliminating the degree of estimation.

In instances where the rebate agreement does not fully coincide with the period-end the key judgement that we focused on was the estimate of commercial income to be accrued at the period-end.

Promotional funding

Promotional funding covers in-store promotions which are partially funded by suppliers. Funding is automatically recognised as goods are sold. The degree of judgement is limited because the amount receivable is wholly based on sales volumes achieved, multiplied by rates agreed with each supplier up-front. Our focus was therefore on whether a written agreement for the promotional funding existed, whether the relevant promotion had taken place, and whether the funding recognised was recorded in the appropriate period.

What investors found helpful

The description of the Auditors' rationale for their programme of work.

Key

- Context / Background
- Integration or cross reference
- Point of judgement
- Actions undertaken
- Key information / Conclusion

Disclosure from the Auditor's report which helps to provide comfort – 2014/15 Annual Report

How our audit addressed the area of focus

Our audit work in respect of commercial income and promotional funding comprised a combination of controls testing, substantive testing of a sample of income and funding recognised during the period, testing of amounts recognised in the balance sheet and an assessment of the Group's disclosures in this area. Each element of our work is considered in more detail below.

Controls testing

Our controls work encompassed understanding, evaluating and testing management's key controls in respect of the recognition of both commercial income and promotional funding. These key controls included the monitoring of invoices raised and the accuracy of confirmations from suppliers. We found no significant deficiencies in these key controls, and our testing of management's key system controls contributed to our evidence in determining whether commercial income and promotional funding had been recorded appropriately and in the correct period.

Income statement testing

We requested confirmations directly from suppliers, in respect of a sample of commercial income and promotional funding. This sample included 141 different suppliers covering 342 individual transactions. The confirmations received allowed us to evaluate whether commercial income or promotional funding had been appropriately recognised in the period, as well as assessing the validity of accruals made at the period-end. We found three exceptions, all of which were manual input errors and not areas of judgement. Two of these exceptions resulted in an under recognition of promotional funding of £34,000 and one resulted in an over recognition of promotional funding of £20,000, giving a net position of £14,000 under recognition.

We also analysed commercial income and promotional funding recognised each month and compared it to the previous period to identify whether there were any unusual trends in the amounts or timing of commercial income and promotional funding recognised in each period. We also considered management's own Key Performance Indicators in this analysis. No unusual trends were identified.

Balance sheet testing

We wrote to a further sample of suppliers, and obtained independent evidence of the value and timing of commercial income and promotional funding to evaluate that it had been recognised in the correct period. We also agreed the accrued income to evidence of post-year end cash receipt, or offset from trade creditors, where relevant.

We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of both commercial income and promotional funding. Cut-off work involved testing a sample of commercial income and promotional funding recognised both pre and post the period-end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate.

What investors found helpful

Details of the work performed with a explanation.

How our audit addressed the area of focus

Our credit note testing focused on credit notes raised after the period-end in order to identify any instances of commercial income or promotional funding being subsequently reversed. We did not identify any exceptions from this work.

We tested the recoverability of invoiced commercial income and promotional funding (unsettled balances included within trade debtors in note 5.3 to the financial statements and where the Group does not have the right of offset against trade creditors). We assessed the ageing of both outstanding commercial income and promotional funding debtors together with understanding the details of any disputes, and obtained explanations from management to assess whether any provisions were appropriate. No exceptions were noted.

Disclosures

We read the disclosures within the Annual Report in respect of commercial income and promotional funding and, based on our work, determined that they are consistent with accounting standards and the recent guidance on the reporting of complex supplier arrangements issued by the Financial Reporting Council.

Some detail of the outcome of the tests, building comfort within the overall context of the audit opinion.

Key

- Actions undertaken
- Key information / Conclusion

Relationships with suppliers

The way that a company interacts with its supply chain is often identified as being a source of competitive advantage. However, it is also an area in which the level and nature of disclosure made in annual reports are variable in quality and depth.

Morrisons consider that relationships with suppliers are an important element of their business model. Through the Lab, Morrisons wanted to understand investors' views on supplier relationships in general and specifically on how they report.

To set the context for consideration of Morrisons' disclosures, the Lab asked investors their opinion on the overall importance of supplier relationships and quality of disclosures across the supermarket sector.

The value of relationships

There is a high-level recognition from investors that the relationships between companies and suppliers are fundamentally important to a company's ability to prosper and its licence to operate.

One investor identifies supplier relationships as the key driver of competitive advantage for those in the retail sector, through pricing and access to innovative products. They view it as a long-term driver of sustainable growth and core to a company's business model. They consider that a longer-term holistic relationship between a company and its suppliers improves the quality and innovation of products on offer, which ultimately is in the best interest of customers and shareholders.

The value of disclosure

Investors express a mix of views on the value of supplier relationship disclosures. Some investors consider disclosures on supplier relationships as always useful. However, many investors do not value the current level of supplier relationship disclosures (either of Morrisons or the sector more widely) within the annual report.

Those who question the value of disclosure do so as a reflection of the complexity of relationships between a company and its suppliers. They consider that disclosures within the annual report could never be detailed enough to provide a full and comprehensive understanding.

One investor notes that when companies (across the sector) discuss supplier relationships, it is in economic terms. It is often described as an opportunity to reduce costs, but this is not always in the interests of shareholders in the long-run. They feel that there is an opportunity for companies to reframe the discussion by providing a clearer link (from the discussion of supplier relationships) to other parts of the Annual Report and Accounts (AR) such as strategy, business model, and key risks.

Other sources of information

There is a feeling from many investors that much of the most valuable information about relationships comes not from disclosures in the AR but from other information sources (e.g. company and supplier visits by analysts). However, disclosures in the AR are viewed as corroborating of those other sources of information and therefore have a confirmatory value.

"Identifying a standard set of information, well it is difficult because supplier relationships are qualitative… supplier relationships are just one measure of how a business behaves."

Investor

Importance of supplier relationships in Business model disclosures

In the 2006 revision to the Companies Act the requirement to include a description of an entity's strategy, objectives and business model was introduced. The Lab published a project to identify good practice in business model reporting. Some of the findings are relevant to the consideration of disclosure of relationships with suppliers.

Investors want to understand what a business does and how it does it. Central to this is being able to identify and articulate the nature of key relationships and dependencies. For many retailers the relationships with suppliers is a crucial foundation of the business and in some cases a competitive advantage.

Investors also want to understand how relationships and other aspects of the business actually drive value. Value for investors ultimately means financial value. While they understand that companies have a wider concept of 'value' (including wider purpose and value to society as a whole) they consider the best disclosures link this wider definition explicitly to the ongoing delivery of financial value.

The *Business model reporting project* report is available at: https://frc.org.uk/lab

Morrisons' approach to disclosure

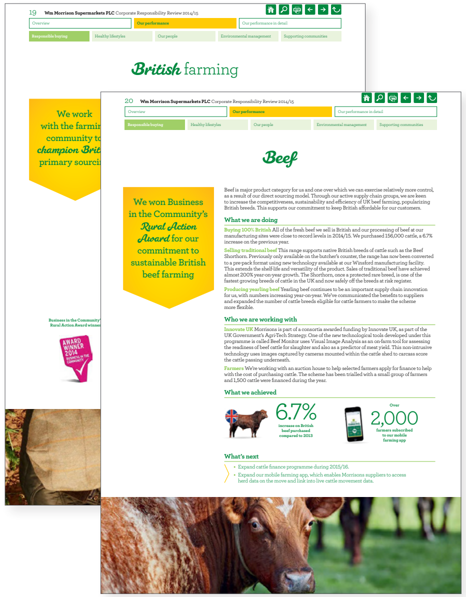
Morrisons' approach to disclosure of relationships with suppliers in 2014/15 was similar to most of the food retail industry. They provided a high-level description of the overall approach to relationships in the annual report. The Annual Report disclosures were supplemented by additional case studies focusing on how relationships operate in practice, within a separate sustainability report.

Investors considered the detail and balance of supplier disclosure in the AR 'were about right' and felt that the Corporate Social Responsibility report would be the preferred location for more detailed disclosure.

Disclosure from the Annual Report and CSR report 2014/15

The Annual Report notes the importance of supplier relationships, identifying them as a key input into the business model

The Annual Report gives some further, high level detail regarding supplier and relationships as well as details on compliance with the groceries supply code of practice.



The Corporate Responsibility Report provides further details via case studies.

Opportunities for enhancement

One investor considers (in their opinion) that Morrisons appeared to have a good quality relationship with suppliers and good controls over those relationships. They consider that this is a key differentiator for Morrisons and something which could be brought to the fore in supplier relationship disclosures.

Other investors identify the uniqueness of the Morrisons business model: by having a relatively high level of own production and supply. They felt that this was an area that the company could highlight.

Some investors feel that more measurable KPIs on relationships might be helpful but note that it is a difficult area for which to identify relevant KPIs. Quantitative disclosures such as 'payment terms,' 'overall churn' or 'duration of arrangements' fail to communicate such a complex area.

Developing the story

For the 2015/16 Annual Report, Morrisons highlight their unique supply and production model as a key differentiator of the business. Changes include:

- enhancing business model disclosure of the supply approach; and
- using more dynamic language to help show how their 'integrated' model drives value for the company.

Investors consider the enhanced disclosure is helpful as it serves to highlight the integrated supply business as being a key differentiator. Most consider the level of detail while limited is sufficient.

The Lab's recent Business model project (See box on page 19) identified that statistics in the business model can be helpful in highlighting relative importance of components of a companies business, especially as they evolve over time.

Comparison of 2014/15 and 2015/16 business model disclosures from the Morrisons' Annual Reports

2014/15 disclosure

How we are different

Fresh

- **From field to fork in hours**
  Controlling food provenance, safety and quality. Getting food onto our shelves fresher and faster.
- **Prepared by us**
  Making more fresh food than any other supermarket.
- **Consistently excellent**
  Delivering our fresh-focused customer experience in stores and online.
- **Monitoring to our standards**
  Through our Ethical Trading Code and Manufacturing Standard.

2015/16 disclosure

HOW WE ARE DIFFERENT

Food maker

- We buy direct from farmers and fishermen, so we have more control over the provenance and quality of the food we sell.
- We own our fresh food factories.
- We prepare and make half of the fresh food we sell.
- Owning the supply chain means we get food onto the shelves faster and fresher.
- Customers trust us and our food because they see us making it in store.
- We have more butchers, bakers, fishmongers and other in-store skilled colleagues than anywhere else in UK food retail.
- Our skilled craftspeople can prepare what customers want, when they want it.

Links overall approach to outcomes for the company and its customers

Changes made

Morrisons has refocused the 'how we are different' component of their business model disclosure bringing a clearer understanding of how their more direct supply business makes them different.

The language in the 2015/16 disclosure has also become more action orientated, by making the link between the overall approach to supply and how it translates into a positive outcome for the company.

Appendix 1:

Annual reporting process

UK listed companies often have a similar process for the reporting of year-end financial results. Results are generally released via a press statement supported by a preliminary statement. Fuller disclosures are then often released some weeks later in the Annual Report. The timetable for a listed company is bounded by the requirement that the Annual Report must be released within four months of the year end.

The significant gap between the preliminary statement and the full Annual Report is often identified by investors as impacting the usefulness of the Annual Report as much of the analysis has already been completed by investors before the Annual Report is released.

During this case study, we noted that Morrisons operated a non-traditional model for the Annual Report. Morrisons release their results in the traditional press release and preliminary statement. However, they also release the primary financial statements including supporting notes as a PDF on the day of the press notice. The company has done this for a number of years as they consider it adds to transparent reporting.

This approach is not common, and as such the Lab sought the views of investors on this.

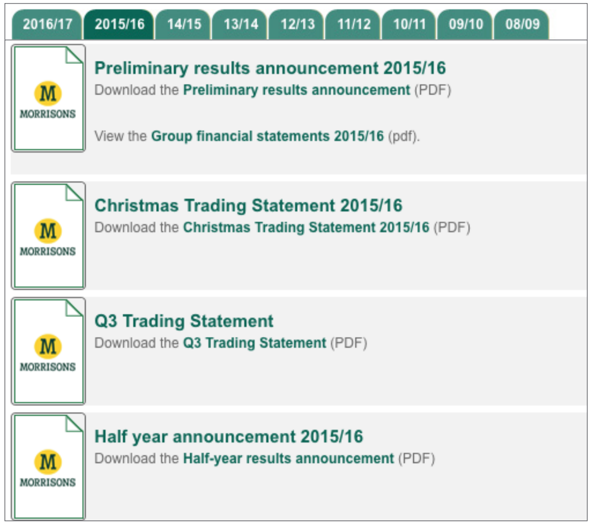
Investor views

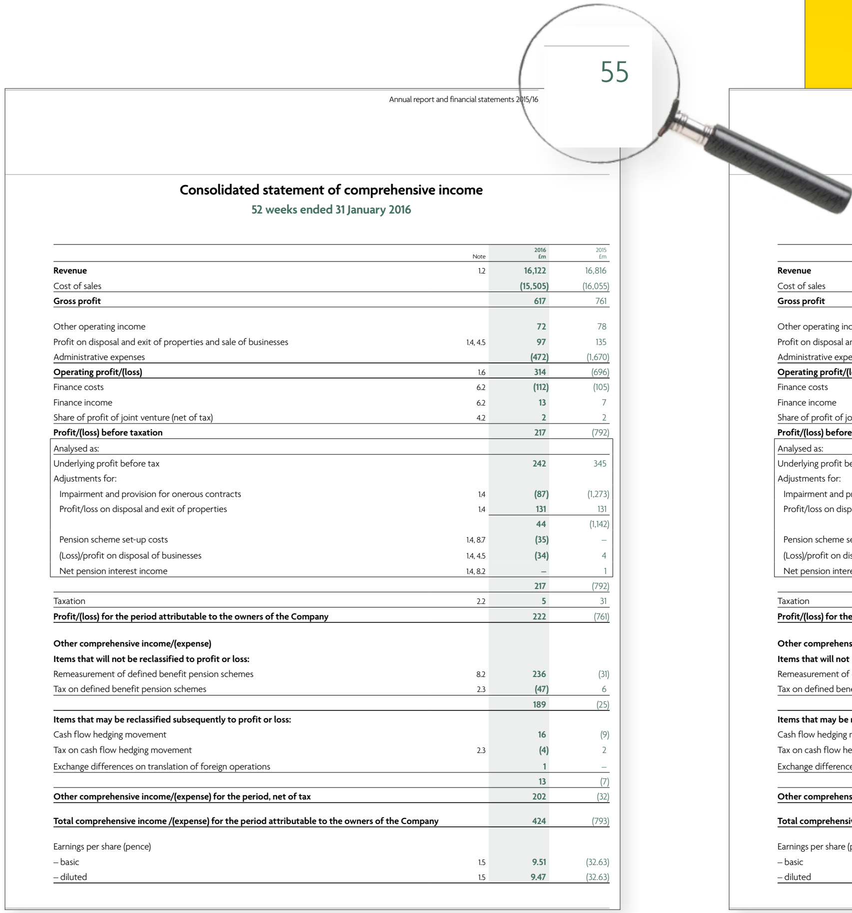
Overall feedback from investors on the approach was very positive. There was a universal commendation for the release of the primary statements and notes PDF on the results day. Many consider that it creates a positive perception of the company's processes. Some investors consider that it adds to their confidence in the company.

Some analysts believe that it improves the utility of the financial statements because they can use complete information for their analysis and models, which they consider must lead to overall cleaner estimates and analysis.

Some investors also consider that the approach Morrisons adopted would benefit from being more widely adopted. They consider that early release was an example of good governance and transparency as it allows analysts and investors to raise questions during the results window when company's management are more readily available.

Other investors feel that while helpful to have the Annual Report and Accounts released on the results day, it was not crucial.





Annual report and financial statements 2015/16 55

Consolidated statement of comprehensive income

52 weeks ended 31 January 2016

	Note	2016 £m	2015 £m
Revenue	1.2	16,122	16,816
Cost of sales		(15,505)	(16,055)
Gross profit		617	761
Other operating income		72	78
Profit on disposal and exit of properties and sale of businesses	1.4, 4.5	97	135
Administrative expenses		(472)	(1,670)
Operating profit/(loss)	1.6	314	(696)
Finance costs	6.2	(112)	(105)
Finance income	6.2	13	7
Share of profit of joint venture (net of tax)	4.2	2	2
Profit/(loss) before taxation		217	(792)
Analysed as:			
Underlying profit before tax		242	345
Adjustments for:			
Impairment and provision for onerous contracts	1.4	(87)	(1,273)
Profit/loss on disposal and exit of properties	1.4	131	131
		44	(1,142)
Pension scheme set-up costs	1.4, 8.7	(35)	–
(Loss)/profit on disposal of businesses	1.4, 4.5	(34)	4
Net pension interest income	1.4, 8.2	–	1
		217	(792)
Taxation	2.2	5	31
Profit/(loss) for the period attributable to the owners of the Company		222	(761)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	8.2	236	(31)
Tax on defined benefit pension schemes	2.3	(47)	6
		189	(25)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		16	(9)
Tax on cash flow hedging movement	2.3	(4)	2
Exchange differences on translation of foreign operations		1	–
		13	(7)
Other comprehensive income/(expense) for the period, net of tax		202	(32)
Total comprehensive income /(expense) for the period attributable to the owners of the Company		424	(793)
Earnings per share (pence)			
– basic	1.5	9.51	(32.63)
– diluted	1.5	9.47	(32.63)

Annual report and financial statements 2015/16 55

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On results day Morrisons release the preliminary statement alongside a PDF of the primary statements and notes.

The statements are clearly numbered with reference to their location in the full Annual Report.

When the full Annual Report is released investors know they have already seen the financial statement pages.

Participants and process

A key requirement to ensure a successful case study is to obtain participation from a company that has or is improving reporting clarity or conciseness, and to obtain support from the investors in the company.

Involvement of investors

The Lab held interviews (face-to-face and via telephone) with a number of investors on this project. The interviews took place between October 2015 and September 2016. In total the Lab spoke to 12 individuals from 8 institutions all of whom were UK based.

Institutions taking part included Shore Stockbrokers Limited, Macquarie Capital (Europe) Ltd and Moody's Investors Service.

We thank all those who took part for their time.

Project process

A meeting was held with the Company to understand the motivation for the enhanced commercial income disclosure and the process the Company undertook.

A list of questions to ask investors was then developed and sent to the institutional investors together with relevant extracts of Morrisons' Annual Reports, in advance of each investor interview.

The term 'investors' is used in this case study report as shorthand to refer to the investment community participants in this case study, which includes a range of individuals in their capacity as investors or their role in analyst organisations.

The investors do not represent a statistical sample and results cannot be extrapolated to reflect views of a wider population.

The individual views described are not necessarily supported by all participants.

The reporting suggestions provided in this report should be considered by companies in the context of their circumstances and audience for reporting.

Lab project reports

The Lab's project reports provide practical suggestions on reporting from our work with the corporate and investment communities.

Each of the following suggests reporting that is focused on meeting the needs of the investment community for consideration by companies.

Thematic:

- Digital Present
- Towards Clear & Concise Reporting
- Disclosure of dividends – policy and practice

Governance:

- Reporting of Audit Committees
- A single figure for remuneration
- Reporting of pay and performance

Financial Reporting:

- Accounting Policies and integration of related financial information
- Business Model Reporting
- Debt terms and maturity tables
- Net debt reconciliations
- Operating and investing cash flows
- Presentation of market risks disclosures

Clear & Concise Case Studies:

- William Hill plc – accounting policies

Financial Reporting Council

Reports and information about the Lab can be found at:

https://www.frc.org.uk/Lab

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