

past < reporting
NOW > future

Sir Win Bischoff

Chairman
Financial Reporting Council

Phil Fitz-Gerald

Director
Financial Reporting Lab

Financial Reporting Lab

Market led

Safe
environment

Practical

76 companies

85 investment
organisations

Project reports

Strategic Report

- > Business Model reporting
- > Risk and Viability Reporting
- > Disclosure of dividends - policy and practice
- > Towards Clear and Concise

Remuneration Report

- > Single Figure for Remuneration
- > Reporting of Pay and Performance

Governance Reporting

- > Reporting of Audit Committees
- > WM Morrisons Supermarkets PLC

Technology

- > Digital Present
- > Digital Future Framework
- > XBRL
- > Blockchain

Financial Statements

- > Net Debt reconciliations
- > Operating and investing cash flows
- > Debt terms and maturity
- > Accounting policies and integration of related financial information
- > William Hill: Accounting policy
- > HSBC: Presentation of Market risk reporting

Business Model Reporting

Attributes of good business model disclosure

Most Investors want the company to explain:

- What the company does
- Key inputs
- Key revenue / profit drivers
- What makes the company special
- Supporting material

Many Investors want the company to explain:

- Market share
- Direct threats

Some Investors want the company to explain:

- Purpose
- Investment plans/cashflow
- ROE/ROCE/ROA
- Market information
- Capital allocations

What we've seen so far...

More disclosure of:

- Purpose, what makes the company special and information about the market



Less development on:

- Disclosure of key revenue, profit drivers, investment plans and cashflow, and most significantly a simple explanation of what the company does

Trends toward business model disclosures of 'inputs, business activities, outputs' format and moving elements out of the business model disclosure into an 'at a glance' or 'overview' section.

Principal Risk Reporting

Attributes of good principal risk disclosure

What entity-specific information is important to investors about risk?					
Information that helps investors to understand the risk			Information that helps investors to understand how the company is managing risk		
• Presentation of risks as gross or net of controls	• Likelihood & impact	• Priority	How important is it?	How does it link to the company's story?	• Link to rest of annual report
	• Categorisation		What type of risk is it?		• Risk appetite
	• Movement during year		How is it changing?	What is the company doing about it?	• Mitigating actions
					• Responsible person
					
			More important to investors		

What we've seen so far...

More disclosure of:

- How the risk is changing throughout the year and year-to-year
- Clear prioritisation of principal risks
- Linkage between risk and the rest of the report

Less development on:

- Detailed disclosure on likelihood and impact of principal risks
- Disclosure of risk appetite for different risks and categories

Trend towards more consideration of Brexit and cybersecurity in the risks disclosure

Viability Statement

Two-stage process in developing a viability statement

Assessment of prospects

Taking into account:

- Current position
- Robust assessment of principal risks
- Business model

Assessment of viability

Taking into account:

- Stress & sensitivity analysis
- Linkage to principal risks
- Qualifications and assumptions
- Level of reasonable expectation

What we've seen so far...

Increased disclosure of the scenario modelling

- Describing scenarios at a high level
- Less frequently, the severity of the scenarios tested and a rationale for the conditions modelled

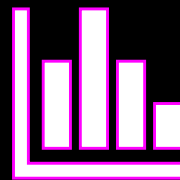
The two-stage process is a developing practice

- Some disclose longer-term business and strategic planning time horizons, then limit the viability statement
- Most commonly covering a 3 year time horizon

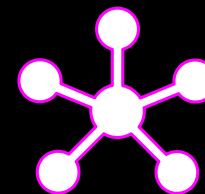
Reporting of Performance Metrics



Non-GAAP



GAAP



Wider Metrics

Performance metrics – an investor perspective

Transparent

Reliable

**Aligned
to
Strategy**

**In
Context**

Consistent



Panel One

- Susan Swabey, Company Secretary, Smith and Nephew
- Freddie Woolfe, Head of Responsible Investment and Stewardship, Old Mutual Global Investors
- Andrew Tusa, Managing Director Corporate Broking, Barclays
- Panel moderator – Thomas Toomse-Smith, Project Director, FRC Lab

Viability Statement Example

Smith & Nephew plc Annual Report and Accounts 2017 p48

2017 SCENARIOS MODELLED

Scenario 1 – Pricing

Link to Strategy

Link to Principal Risks

- **Pricing and reimbursement pressures or currency exchange volatility (Principal Risk)** – leading to a major loss of revenues and profits.
Action taken: We have modelled a 1% reduction in annual price growth/decline for each year from 2018.



- Pricing and Reimbursement

Scenario 2 – Operational risk



- **Execution risk** – our inability to launch new products losing significant market share to the competition.
Action taken: We have modelled a 1% reduction in annual volume growth rates each year from 2018.
- **Product liability claims** – giving rise to significant claims and legal fees.
Action taken: We have modelled a one-off significant product liability claim in 2019.
- **Temporary loss of key production capability** – resulting in our inability to manufacture a key product for a period of time.
Action taken: We have modelled the loss of a factory, resulting in the loss of production and sales of a key product for two years from 2019.

- New Product Innovation, Design & Development (including Intellectual property)
- Commercial Execution

Scenario 3 – Legal regulatory and compliance risks



- **Regulatory measures** – impacting our ability to continue to sell key products.
Action taken: We have modelled the complete loss of revenue from a key product for each year from 2018.
- **Bribery and corruption claims** – giving rise to significant fines.
Action taken: We have assumed a one-off significant fine in 2019.

- Legal and Compliance
- Quality and Regulatory

Scenario 4 – Cyber security



- **Inability to issue invoices or collect money for a period of time.**
Action taken: We have modelled one of our key regions being unable to invoice sales and collect cash for one month in 2019.

- Cyber Security

Other



- **Political and economic forces** – for example political upheaval, which could cause us to withdraw from a major market for a period of time.
Action taken: We have modelled the loss of revenue and profits from a medium sized business due to withdrawal from a market from 2019.

- Business Continuity and Business Change

- Linkage to principal risks
- Detail on stress and scenario analysis

BREAK

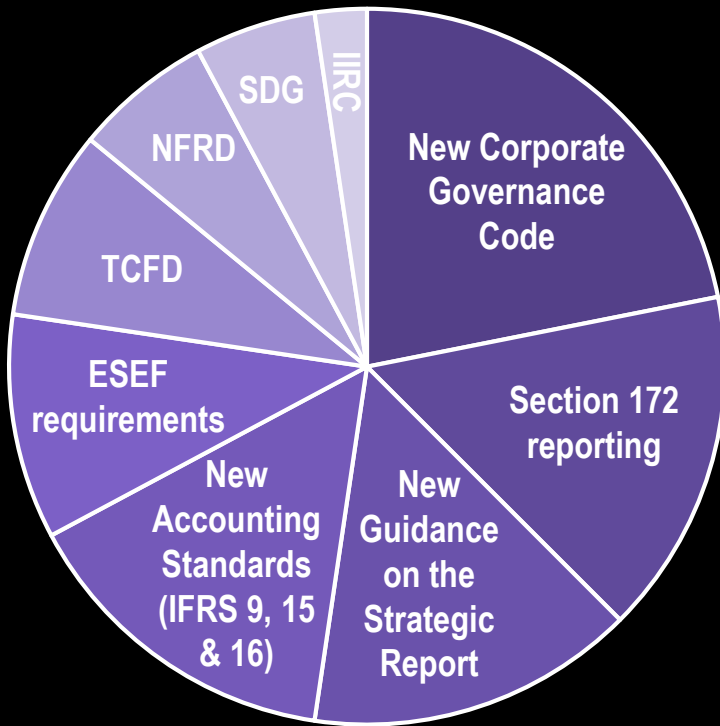
< reporting **FUTURE** >

Panel Two

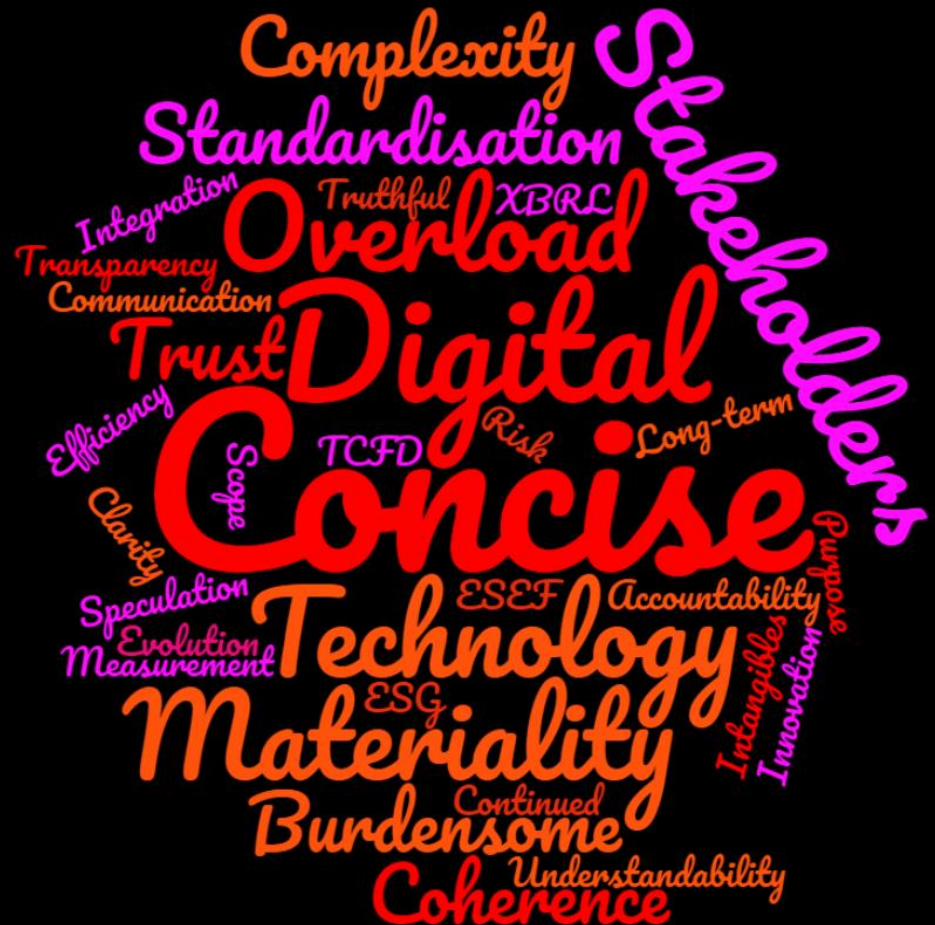
- Ben Yeoh, Senior Portfolio Manager, RBC Global Asset Management
- Stephanie Maier, Director, Responsible Investment, HSBC Global Asset Management
- Douglas Radcliffe, Group Investor Relations Director, Lloyds Banking Group plc
- Panel moderator – Sallie Pilot, Director, Black Sun Plc

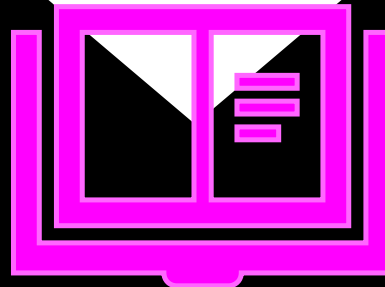
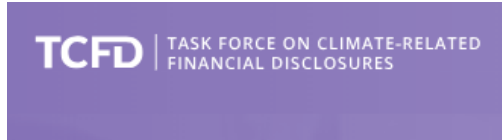
Pre-conference Survey Responses

Impact of reporting requirements or guidance



Main reporting challenges





Digital Future

Thomas Toomse-Smith
Project Director
Financial Reporting Lab

Digital Future

In 2016, the Lab launched the **Digital Future** project, an initiative to investigate the impact of technology on corporate reporting communications to the investment community.



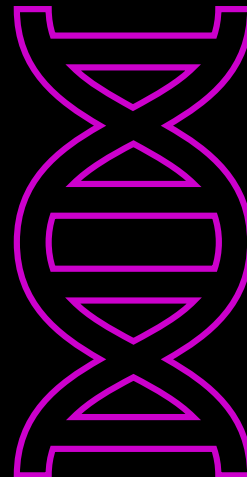
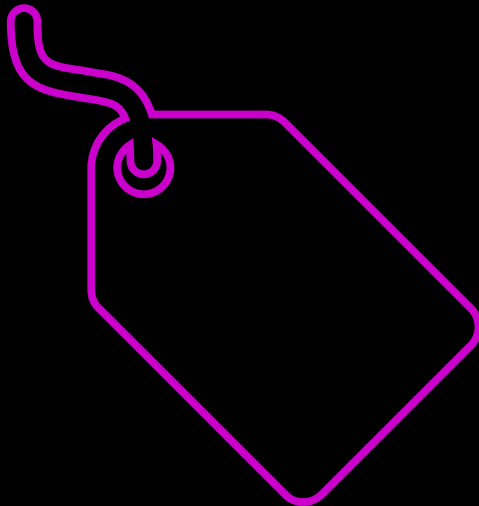
Characteristics

As part of this project we have released a framework of characteristics that are important for a system of digital reporting.

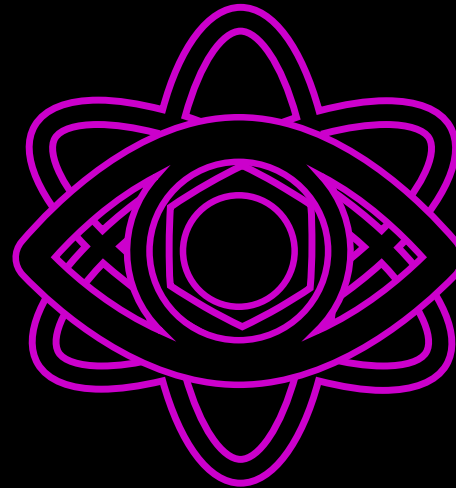
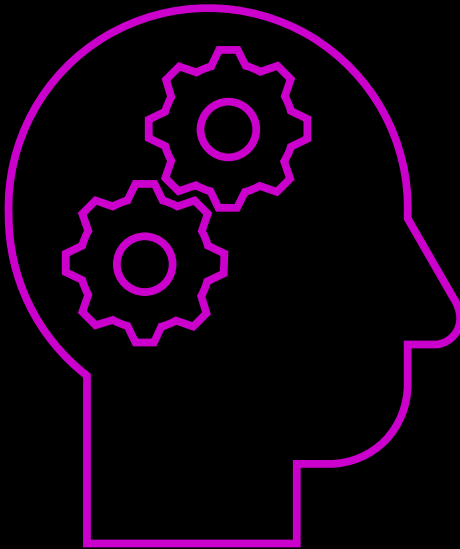


Digital Future so far

- We released a deep dive report on how XBRL fits into corporate reporting.
- And explored the possibilities of Blockchain in the corporate reporting process.



And now



Closing Remarks

Phil Fitz-Gerald

Thank you for joining us

We hope to have you take part in a Lab project or event soon
Please come and have a chat with the Lab team

