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Deepa Raval
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19 November 2013
Our ref: VP/ACS

Dear Ms Raval,

Exposure Draft: Guidance on the Strategic Report

Deloitte LLP is pleased to respond to the Financial Reporting Council's (FRC's) request for comments on the Exposure Draft: Guidance on the Strategic Report.

Overall, we support the FRC's proposed guidance. Our key comments, which we expand on within the Appendix to this letter, are as follows.

- It would be helpful to users if the guidance clearly highlights those requirements that apply only to quoted companies and clearly distinguishes between those items which are requirements of the law and those which are best practice recommendations.
- The guidance in respect of environmental matters, employees and social, community and human rights issues is rather brief compared to many of the content elements. Whilst for some companies meeting these requirements is just a statutory compliance exercise, for other reporters the issues will be fundamental to the business and the risks inherent in it. It would therefore be helpful if further guidance could be provided, particularly in respect of the newly introduced requirements such as human rights disclosures and employee gender balance.
- There is no mention of the option to send the 'strategic report and supplementary information' to shareholders as a standalone document. Specific guidance should be included for those companies intending to take advantage of this.
- In recognition of the International Integrated Reporting Council's initiative on 'integrated reporting' and the fact that many UK companies are already preparing annual reports which comply in many respects with the ideas within the IIRCs [draft] International Integrated Reporting Framework, we believe it would be helpful if the language used to describe non-financial information was consistent with the IIRC [draft] framework.

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In our view, many companies are already working to enhance the quality of their annual reports in advance of the introduction of the requirement to prepare a strategic report. This view is borne out by the results of our most recent survey of annual reporting, ‘A new beginning – Annual report insights 2013’, available at www.ukaccountingplus.co.uk. It is against this background that we have considered the FRC’s proposals.

In the Appendix to this letter we respond individually to the questions raised in the Exposure Draft and provide some additional comments on the draft guidance not covered by the specific questions posed by the FRC.

We would be happy to discuss our letter and the proposals further. If you have any questions, please contact Amanda Swaffield at 020 7303 5330 or aswaffield@deloitte.co.uk.

Yours sincerely,

Veronica Poole
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Appendix: Deloitte's responses to questions raised in the Exposure Draft

<u>Section 3 *The annual report*</u>

Section 3 of this draft guidance includes an illustration (Illustration 1) which is intended to clarify the purpose of each part of the annual report and help those that prepare annual reports to make judgements regarding where information would be best presented.

Question 1

Do you think that Illustration 1 is helpful in achieving this objective?

We agree that Illustration 1 is helpful in setting out an overview of the possible components and sections of a quoted company's annual report and the various sources of regulatory requirements in respect of the content of an annual report. However, we are concerned that its rigid structure may stifle innovation and encourage companies to see the different 'sections' of the report as being separate silos. This is contrary to the principle set out in paragraph 3.10 of the guidance that 'The placement of information in the annual report should facilitate the communication of the information contained in it'.

A continuing theme through the draft guidance is the importance of highlighting relationships and interdependencies (linkages) between information presented in different parts of the annual report. It would be helpful if this was also discussed in a third subsection of paragraph 3.3 of the guidance, or by including some indications of linkage within the illustration itself.

We also believe that it would be useful if Illustration 1 could incorporate an illustration of the 'core and supplementary information' approach as set out in paragraph 3.12 of the guidance. Refer to question 3 for further discussion.

Although paragraph 3.3(b) states that 'The illustration describes only the sections required by company law or other regulations' it includes no reference to either an auditor's report or a statement of directors' responsibilities, both of which are required to be included in an annual report (albeit that for unquoted companies a summary of directors' responsibilities may be made by the auditor in its report, rather than a separate statement of directors' responsibilities). It would also be helpful to acknowledge that companies frequently include a chairman's statement or separate corporate social responsibility report.

Question 2

Do you agree with the objectives of each component and section of the annual report which are included in Illustration 1?

We agree with the majority of the objectives set out in Illustration 1. However, we would suggest that certain of the objectives should be modified as set out below.

- The second objective for the narrative reports (To complement, supplement and provide context for the related financial statements) is incomplete. It should contain an explicit statement that the narrative reports should include discussion of the factors influencing a company's financial position, performance and development. This comment is also relevant to the definition of narrative reports in paragraph 4.1 of the guidance.
- The objective for financial statements should be more closely aligned to the objective of financial reporting as set out in the IASB's *Conceptual Framework for Financial Reporting*, paragraph OB2,

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which states that the objective of financial reporting is “to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit”. We also believe that it should incorporate the requirement set out in Section 393 of the Companies Act 2006 that “a company’s annual accounts must give a true and fair view of its assets, liabilities, financial position and profit or loss”.

- We believe that the overall objective of the strategic report should be more closely aligned to the purpose of the strategic report as set out in Section 414C of the Companies Act 2006, which is “to inform members of the company and help them assess how the directors have performed their duty to promote the success of the company”. The objectives for the strategic report should also incorporate an objective to provide insight into the entity’s business model.
- Given that the purpose of the strategic report overlaps with that of an integrated report, the objective of the strategic report could usefully be expanded to include some of the language used in the IIRC’s draft framework.

Question 3

Do you think the guidance on the placement of information in the annual report in paragraphs 3.10 to 3.14 will have a positive influence in making the annual report more understandable and relevant to shareholders?

We agree that the guidance should emphasise that the structure of an annual report should be tailored to a company’s specific circumstances (within the constraints that law and regulations impose). Its influence could be strengthened by incorporating further examples on issues such as the potential for linkage between disclosures on similar subjects which are included in different sections of the report due to legal requirements. A diagrammatic representation of some of the examples presented under paragraph 3.12 would, in our view, be helpful in assisting users of the document to visualise the ideas being proposed.

A clearer explanation of what is meant by ‘core information’ and ‘supplementary information’, as envisaged by the FRC, would be useful. As drafted, it is causing some confusion to users who are unclear whether:

- ‘supplementary information’ is that required by regulation but deemed to be less strategic so could be included as an appendix to the annual report rather than being included, for example, in the strategic report or corporate governance statement; or
- ‘supplementary information’ is detailed information not required by regulation but which a company chooses to include, such as detailed commentary on divisions. The second example in 3.12 seems to be encouraging this additional information despite calls to apply materiality appropriately; or
- it is suggesting that the strategic report should be a short summary document with cross-references to supporting detail elsewhere, notwithstanding the fact that the guidance is included within the section covering the annual report as a whole.

We also note the recent FRC press notice ‘FRC calls to action for improving disclosures’, which states that “Core information that is relevant for investors is separated from supplementary information that only meets the needs of a wider stakeholder group”. If this use of ‘core and supplementary’ is intended to be consistent with the draft guidance, it appears to contradict the assertion in paragraph 3.7 that issues of interest to other users should only be addressed in the annual report where they are also of significance to investors.

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Section 5 of the draft guidance discusses how to determine what information is material in the context of the strategic report. A link should be made between this discussion of materiality and how it influences how a company would determine which material should be 'core'.

The 'safe harbour' provision in the Act is referred to at the end of section 3 of the draft guidance. It would be helpful if the guidance set out some considerations for companies wishing to take advantage of this, as there is clearly tension between using a 'core' and 'supplementary' approach and the desire to scope information into the strategic report or the directors' report. This will need to be considered very carefully by companies wishing to issue the strategic report as a standalone document because 'supplementary' information scoped into the strategic report via a cross reference would need to also be sent out as part of the strategic report.

Section 5 *Strategic reports and materiality*

Section 5 of this draft guidance addresses the application of the concept of materiality to the strategic report, remaining as faithful as possible to the definition of materiality used in International Financial Reporting Standards (IFRSs).

Question 4

Do you agree with this approach? Is the level of guidance provided on the subject of materiality appropriate?

We agree with this approach. However the use of the words 'might reasonably be expected' in the definition of material information in paragraph 5.1 is not helpful in this regard. We suggest that these should be replaced with 'could' in order to make the definition consistent with the wording of IAS 1 paragraph 7, which defines material by stating that "Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

We note that this definition is different from the definition of material in the context of an audit, which in ISA (UK and Ireland) 320, paragraph 2, is defined by stating that "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements". Whilst we believe the difference in wording will not result in differences in interpretation in practice, we believe that it would be extremely unhelpful for the definition of materiality in the guidance to use a third form of words.

We also believe that it would be useful if the guidance could include some commentary on the potential needs of different investors and the impact these may have on materiality considerations in recognition of the fact that investors are not a homogeneous group. For example, a private investor may desire a shorter report with a more high-level summary of key issues than an institutional investor, who would be likely to want significantly more detailed information.

Although we appreciate that this guidance, and the concept of materiality defined in it, only applies to the strategic report, we believe that the FRC should avoid using terminology or examples that encourage companies to include immaterial information elsewhere in the annual report, as we believe this conflicts with the idea of a single disclosure framework for the annual report as a whole, incorporating the concept of materiality, as set out in the FRC's October 2012 Discussion Paper *Thinking about disclosures in a*

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broader context. For example, the second example under paragraph 3.12 states that “the strategic report should focus on business segments that are material to the group as a whole. More granular information could be included either in an appendix to the annual report or, to the extent that it is not required to meet company law or other regulatory requirements, outside of the annual report altogether.” We suggest amending this wording to indicate that such information should not be contained in the annual report unless it is required to meet company law or other regulatory requirements.

Section 6 *The strategic report*

Question 5

Do you agree with the proposed ‘communication principles’, set out in paragraphs 6.5 to 6.27 of the draft guidance, which describe the desired qualitative characteristics of information presented in the strategic report? Do you think that any other principles should be included?

We agree with the majority of the communication principles set out in paragraphs 6.5 to 6.27. However, we believe that these principles should apply to the annual report *as a whole* and not just to the strategic report and as such should be included in section 3.

Related to this, we understand that the FRC does not intend to introduce requirements into this guidance which go beyond the existing requirements of the law, the 2012 UK Corporate Governance Code (the ‘Code’) and other regulations. However, the principle set out in paragraph 6.6 that ‘The strategic report should be fair, balanced and understandable’ is, to us, going beyond the requirements of the law and the Code. It is only the annual report, taken as a whole, which needs to be fair, balanced and understandable in order to comply with Code provision C.1.1. While we support a recommendation that the strategic report should be fair, balanced and understandable in its own right and agree that its content will be key to the whole annual report meeting this objective, we believe that the guidance should make the situation clearer. The elevation of these communication principles to cover the annual report as a whole would eliminate this problem as this paragraph would then be in line with the Code.

We do not agree with the inclusion of the references in footnotes 11 and 12 relating to ‘fair’ and ‘balanced’. Referring to paragraphs 414C(2)(a) and 414C(3) does not give guidance on what ‘fair’ and ‘balanced’ means, nor is it the source of the requirement.

In our view, the guidance in paragraphs 6.12 and 6.15 is quite similar and should be condensed into a single paragraph. In particular, the example which follows paragraph 6.12 seems to be an example of the strategic report being comprehensive rather than being concise.

Question 6

In this draft guidance, we have aimed to strike a balance between the need to ensure that the structure and presentation of the strategic report is sufficiently tailored to the entity’s current circumstances and the need to facilitate comparison of the strategic report from year to year. Do you think the guidance in paragraphs 6.26 and 6.27 achieves the correct balance?

Yes, we agree that the guidance in paragraphs 6.26 and 6.27 achieves the correct balance. We believe that it would also be beneficial to include a specific paragraph recommending that, as part of this review, the directors should consider whether any new information of strategic significance needs to be presented and whether any information previously presented is no longer of strategic significance and can be removed.

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Question 7

The 'content elements' in bold type described in paragraphs 6.28 to 6.73 do not go beyond the requirements set out in the Act, although the precise wording may have been expanded to make them more understandable. Do you think this is appropriate? If not, what other 'content elements' should be included in this draft guidance?

We agree that the content elements should not go beyond the requirements of the Act but we do not agree that the precise wording in the Act should be amended. The guidance that follows the content elements is the appropriate place to explain what the requirement means and how it can be applied in practice.

In addition, as set out in the 'Other comments' section at the end of this letter, we believe that the guidance should give more clarity regarding which elements are legal requirements, which are derived from Code provisions and which are best practice recommendations. It would also be helpful to distinguish those which apply only to quoted companies.

Question 8

Appendix I 'Glossary' uses the same definition of a business model as the Code ('how the entity generates or preserves value'). Is the level of guidance provided on the business model description in paragraphs 6.38 to 6.41 sufficient?

We believe that the guidance in paragraphs 6.38 to 6.41 can be improved. Since the introduction of a provision regarding business model disclosures into the Code in 2010, companies have expended significant effort in developing appropriate business model disclosures[1]. The draft guidance may stifle innovation.

The guidance could be improved if it set out what the definition of a business model is and then built on that definition by explaining how a company could approach each element of the definition. We believe that an approach that sets out areas that an entity should consider when formulating its business model disclosure, rather than items which it should contain, would be more helpful. In our view, these areas include:

- What do we do?
- Where are we based?
- What market do we operate in?
- What do we sell?
- What is our unique selling point? What makes us different from our peers?
- How does the business operate?
- What are our key resources?
- How is the business sustainable?

More guidance on effective methods of presenting an entity's business model would also be useful. In particular, we believe that an acknowledgement of the fact that different ways of presenting the business model, such as a tabular format or visual representation as well as simple narrative, may be appropriate depending on the business in question. Using a visual representation is something that is already done by 41% of listed companies.

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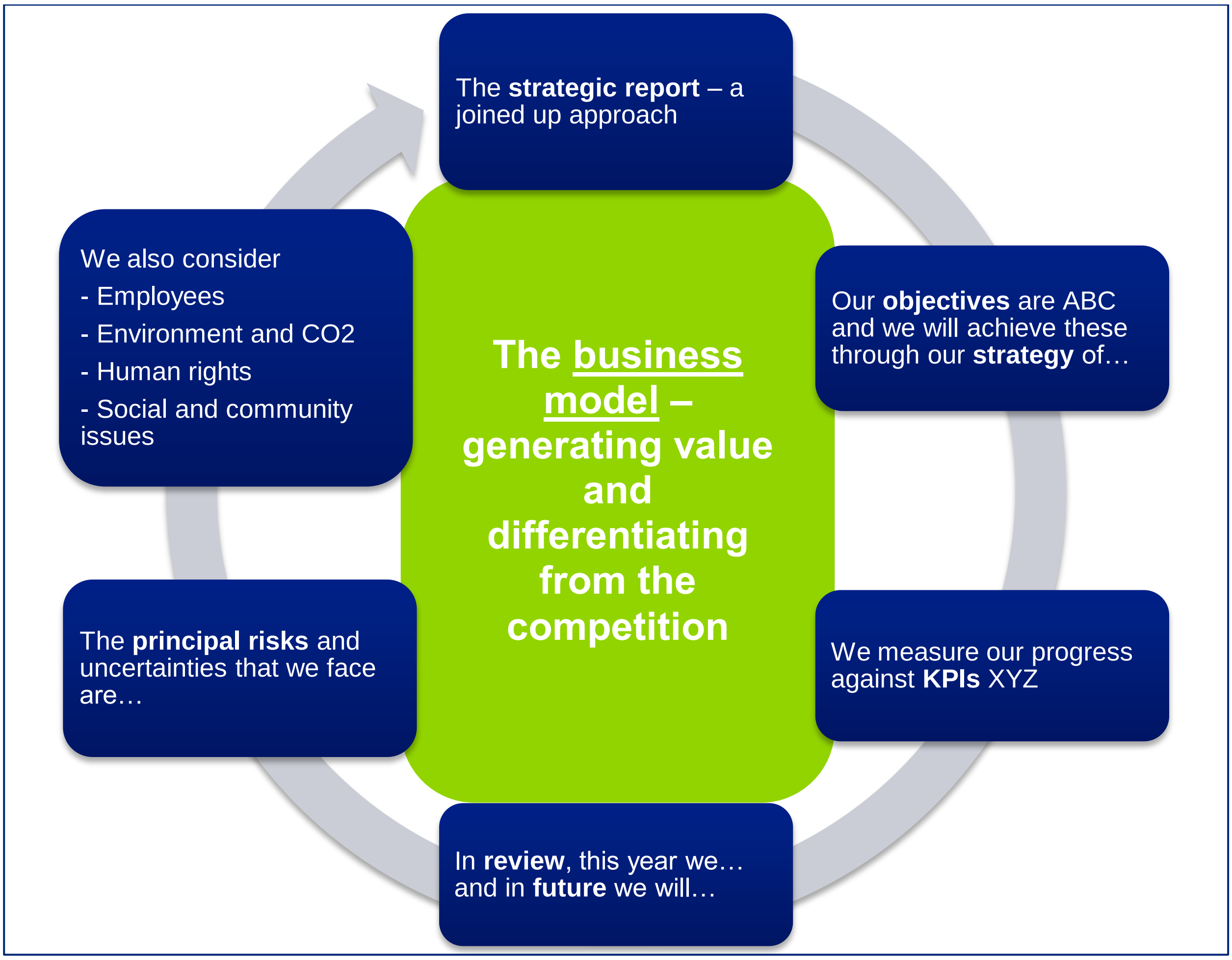
[1] See 'A new beginning – Annual report insights 2013' pages 36 to 39.

Question 9

Do you think that this draft guidance differentiates sufficiently between the concepts of business model, objectives and strategies? If not, why not and how might the guidance be improved?

No, we do not agree that there is currently sufficient distinction. In particular, the diagram below paragraph 6.29 and the text of paragraph 6.30 are in our view contradictory. We suggest that the description of the business model in this diagram is simplistic and should be more closely aligned with the definition in the Glossary of the guidance ('How the entity generates or preserves value over the longer term'). We also believe that the linkage between these three concepts should be illustrated in this diagram and that the diagram should be expanded to include other content elements such as principal risks and uncertainties and key performance indicators. We recognise that there are differences in views over how the business model links in with objectives and strategy. Our view is that the business model should be a backdrop to the company's operations, setting the scene on which to formulate objectives and the strategy to meet them, as set out in the following diagram:



Paragraph 6.30 states that 'An entity will apply its business model to its activities in pursuit of its objectives and strategies.' We would suggest that an entity's business model is an evolving structure, the evolution of which is influenced by the entity's strategies and objectives but is also influenced by, among other things, the risks faced by the entity and the effect that environmental issues, employee issues, social and community issues and human rights issues have on the entity. There is no consensus as to

how the business model, objectives and strategy relate to each other. We suggest the FRC articulates the three concepts and allow companies to explain how they apply these concepts in their business.

Question 10

This draft guidance includes illustrative guidance (the 'linkage examples') on how the content elements might be approached in order to highlight relationships and interdependencies in the information presented. Are these linkage examples useful? If not, what alternative examples or approach should be used?

Yes, we believe that these linkage examples are useful. However, we believe that more clarity on the distinction between using 'linkage' to illustrate how different components of the annual report relate to each other and using 'cross-referencing' to incorporate supplementary information into the strategic report would be useful.

In relation to the linkage example on page 23, we believe this example should be re-drafted as in our experience much of the information mentioned (the reporting and monitoring process for each risk, risk appetite and how often a risk is reviewed) would ordinarily be contained in a company's corporate governance report rather than its strategic report.

<u>Other comments</u>

Clarity over the distinction between legal requirements, Code requirements and best practice recommendations

We believe that the drafting of the guidance could be tightened to assist with the FRC's objective that it should not introduce new requirements beyond the law and the Code. For example, being consistent when describing requirements of the law (e.g. a company 'must'), as opposed to recommendations or best practice (a company 'should') would be helpful in making this distinction clear. For example, in respect of KPIs, paragraph 6.58 states that 'the following information should be identified and explained where relevant…'. It would be more appropriate to replace 'should' with 'could'. It would also be helpful if those requirements which apply only to quoted companies were distinguished from those applying to all companies required to prepare a strategic report.

In relation to this there are two specific areas where we feel that clarity around what is required by law is particularly needed:

In paragraph 6.31 it should be made clear that while the law requires a quoted company's strategic report to include 'a description of the company's strategy'[2] and the Code indicates that the annual report should contain a description of 'the strategy for delivering the objectives of the company'[3], neither of these contains an explicit requirement to set out the company's objectives themselves.

In relation to paragraph 6.49 there is no explicit requirement in section 414C(2) of the Act to include an explanation of how risks are managed or mitigated (although we note that the recently proposed new Code provision C.2.1 would require such an explanation on a 'comply or explain' basis). We would welcome clarity from the FRC around whether in their view this is a legal requirement, and the basis for this, or whether it is currently recommended content.

[2] Section 414C(8)a
[3] The Code, provision C.1.2

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We also note that in the ‘Summary of legal requirements’ in Section 2, the guidance paraphrases the requirements of the law somewhat, introducing the possibility of an unintentional change in meaning. We question whether this paraphrasing is necessary.

The components of the annual report

In our view the definition of narrative reports in the Glossary to the guidance and in paragraph 4.1, is too narrow – we would define narrative reports to include all of the information in the front half of a company’s annual report, including not just the strategic report and directors’ report but the corporate governance reports and other voluntary information such as a chairman’s statement. We also do not believe that use of the word ‘distinct’ in the statement in paragraph 3.2 that “an annual report often comprises three distinct ‘components’” is consistent with the objective of “promoting greater cohesiveness in the annual report” as stated in paragraph 1.1(c). Further to this, the description of linkage examples in section 1 should include an acknowledgement that links can and should be made between the strategic report and the other sections of the annual report, as well as between elements of the strategic report itself.

We question whether the content in section 4 is sufficient to be worthy of a separate section. As stated above, the definition of narrative reports is too narrow and we would challenge that the objective of the directors’ report is either of the two bullets in paragraph 4.1. Perhaps paragraphs 4.2-4.4 could be included within section 3.

In our view the content-related objectives of the strategic report set out in paragraph 6.2 should be more closely related to the content elements of the strategic report set out in sections 414C(2) and 414C(3) of the Act.

We believe that it would be helpful to include in paragraph 3.3(a) a statement reflecting the desire expressed by the Accounting Council in paragraph 17 of its Advice to the FRC that the Council “would encourage companies to consider and challenge the “traditional” structure of the annual report with an objective of organising information so that it is more informative to investors.” Providing some additional suggestions about how a company could structure their annual report would be helpful. For example, we note that one approach being pioneered by some companies, is the inclusion of narrative commentary alongside the related elements of the financial statements themselves.

Principal risks and going concern

We believe that it would be helpful for the FRC to monitor the consistency between the wording of paragraph 6.51 in relation to principal risks that may threaten the entity’s viability and the proposed changes to the UK Corporate Governance Code to implement the recommendations of the Sharman report on going concern on which you are currently consulting, in particular the proposed new Code provision C.2.1. In relation to this, we would recommend the addition of a final sentence to paragraph 6.51 to state that ‘An indication should be given of which, if any, are material uncertainties in relation to the company’s ability to continue to adopt the going concern basis of accounting.’

Recommendations regarding key performance indicators (KPIs)

We would support the inclusion in the guidance of a recommendation that ‘quantification or commentary on future targets should be provided’ in relation to KPIs, in line with the recommendation in paragraph 76 of the ASB’s Reporting Statement: Operating and financial review. We suggest that this should be included in the guidance on KPIs given in paragraphs 6.56 to 6.58. We believe that the inclusion of such targets would be particularly useful in relation to KPIs which form part of directors’ incentive plans. The

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linkage example given in relation to this area could also be expanded, to include an example of the linkage between future targets for KPIs and the benchmarks used to assess directors performance in relation to these incentive plans particularly given the increasing focus on this in light of the new requirements for the directors' remuneration report.

We are aware that the European Securities and Markets Authority is currently working on a project in respect of alternative performance measures. We encourage the FRC to ensure that, if possible, the guidance on presentation of 'adjusted measures' in paragraph 6.59 is consistent with the output of this, if it is available before final publication of the FRC guidance.

Analysis of resources available to the entity and linkage to Integrated Reporting

In recognition of the Integrated Reporting Council's (IIRC's) initiative on 'integrated reporting' we believe that it would be helpful if the wording of paragraph 6.63 were amended so that the terminology used and resources described were made consistent with the terminology used in the IIRC's [draft] International Integrated Reporting Framework, as the concepts appear to be very similar. In the UK many aspects of reporting on non-financial capital are already captured by the narrative reporting that forms part of a company's annual report, particularly following the new legislation introduced in 2013. UK companies are placing increased emphasis on issues other than financial performance, such as the environment, social impact and reputation, talent, supply chain and innovation. Using consistent terms with those used by the IIRC would help demonstrate that many UK companies are already preparing annual reports which comply in many respects with the IIRCs ideas. We also believe that further guidance or examples in relation to this paragraph would be useful.

Environmental matters, employees and social, community and human rights issues

The amount of guidance in respect of paragraph 6.64 is somewhat brief compared to the other content elements. We believe that it would be useful if the guidance contained more information about the potential topics that a company might need to include in its discussion of the areas set out in paragraph 6.64 as well as some examples of the type of information that might need to be disclosed. In particular, given the disclosure in relation to human rights issues is new, we would expect there to be some guidance in respect of this. For example, we would expect to see a company presenting information about supply chain assurance and monitoring of subcontractors in this area, something which those companies already presenting disclosures of human rights information tend to focus on. We have referred earlier in this letter to the Deloitte practical guide to the strategic report – this may be of help to the FRC in formulating guidance in this area.

We believe that more guidance in relation to environmental matters that should be disclosed would be helpful in ensuring that companies do not focus purely on greenhouse gas emissions when discussing environmental matters, something that we believe is occurring due to the current media focus on greenhouse gas emissions.

We also believe that a linkage example illustrating the link between a company's policies in these areas and any key performance indicators identified in relation to them would be useful.

Finally, the Act requires the information in section 6.64 to be disclosed 'to the extent necessary for an understanding…of the business'. Paragraph 6.66 implies that companies may disclose this information where it is not material and where this is the case this should be located outside of the strategic report. This conflicts with the view that information should be included in the annual report when it is material.

Paragraph 6.67 states that an entity should explain why the information is deemed to be necessary to be disclosed. This seems to be introducing unnecessary clutter into the strategic report.

Disclosure of gender balance

This is a new requirement and interpreting it seems to be causing some confusion with preparers. We believe that more clarity of language in paragraph 6.68 and 6.69, for example, clarifying that 6.68(a) refers to directors of the company only, whereas (b) and (c) relate to group numbers.

Section 414C(8)a.ii. of the Act requires ‘a breakdown showing at the end of the financial year the number of persons of each sex who were senior managers of the company’. The Act states that ‘senior managers’ include directors of all subsidiaries included in the consolidation. This has been questioned by preparers as not all directors of subsidiaries in the group are likely to meet the definition of a ‘senior manager’ in 414C(9). As such, a specific reference in paragraph 6.71 to the possibility of splitting the figure required into two sub-categories, identifying separately those persons who might, in due course, attain a position as directors of the company and those who are classified as senior managers purely because they are directors of undertakings included in the consolidation, would be useful. This is an area of concern for many large groups and would enable them to present meaningful information to shareholders as well as complying with the legal requirements.

The strategic report as a standalone document

There is no guidance provided to companies who are intending to take advantage of the option provided by section 426 of the Act to provide shareholders with a “strategic report with supplementary material”. Again, as this is a new requirement it would be helpful if the guidance set out specific considerations for preparers in relation to this. A company going down this route will need to consider even more carefully the structure of their annual report and what information is scoped into the strategic report.

For example, companies may wish to consider including some summarised financial information in a strategic report intended for such a purpose, in recognition of the fact that shareholders receiving this report will not receive any other financial information on the company’s position or performance. The extent to which information is scoped into the strategic report via a cross reference also needs to be considered, as a shareholder would need to receive the complete strategic report i.e. including all pieces of information scoped in via the cross reference.

Elevation of information from the directors’ report to the strategic report

Paragraphs 6.72 and 6.73 of the Act allow information to be elevated from the directors’ report to the strategic report if it is of ‘strategic importance’. It would be helpful to include some examples of when this might be appropriate. In particular it would be useful to acknowledge that there are some items required to be in the directors’ report but which link to items to be included in the strategic report, and in some cases it may make sense to discuss the requirements together, in the strategic report. For example:

- future developments - unquoted entities need to talk about future developments in the directors’ report but the rest of the review of the business is in the strategic report. Quoted companies are required to cover this in both the strategic report and directors’ report;
- greenhouse gas emissions – quoted companies need to discuss the environment in the strategic report but greenhouse gas emissions disclosures are to be made in the directors’ report;

- employee consultation – disclosure is required to be made in the directors' report for all companies, yet the strategic report also requires quoted companies to provide information on employee matters (and employee related KPIs for large companies, if relevant); and
- research and development – in some cases it would make sense for this to be discussed in future prospects or review of the business, rather than separately.

Definitions

We believe that items should not be included in the Glossary where the definitions quoted are reliant on the way in which these terms are defined in the guidance itself. In our view, the glossary should be restricted to definitions derived from external sources.

Items affected by this are the definitions of key performance indicators, materiality, objectives, principal risks and strategy.

Appendix III

The identification on page 47 of the companies covered by requirements of Schedule 7.13(2) & 14 of the Accounting Regulations by use of a tick and qualifying bracket is unhelpful – a clearer identification of the fact that this disclosure does not apply to companies listed only on NASDAQ or the NYSE would be preferable.