

## Strategic Report: Section 172 Reporting Requirements

The Companies (Miscellaneous Reporting) Regulations 2018 became effective for companies with year ends starting on or after 1 January 2019.

We received some questions around the applicability of the section 172 reporting requirements to medium-sized companies and consequently we identified a few areas where the appendices in our Guidance on the Strategic Report would benefit from clarification. We are therefore issuing the editorial amendments attached which primarily relate to the scope of the new requirements. The editorial amendments that we have made are explained below.

### 1. Strategic Report – section 172(1) statement

Section 414CZA of the Companies Act 2006 ('the Act') requires all large companies to provide a section 172(1) statement as part of their Strategic Report.

The FRC's Guidance on the Strategic Report defines a large company in the glossary (page 66) as follows:

*A company that does not qualify as medium-sized under section 465 of the Act or is excluded from being treated as medium-sized as it is ineligible under section 467 of the Act.*

Therefore, a company that meets the medium-sized criteria in section 465 of the Act but is excluded from being treated as medium-sized because it is ineligible under section 467 of the Act, is required to produce a s172(1) statement.

Section 467(1) of the Act excludes the following companies:

- (a) a public company,
- (b) a company that—
  - (i) has permission under Part 4 of the Financial Services and Markets Act 2000 (c. 8) to carry on a regulated activity, or
  - (ii) carries on insurance market activity, or
  - (iii) is a scheme funder of a Master Trust scheme within the meanings given by section 39(1) of the Pension Schemes Act 2017 (interpretation of Part 1), or
- (ba) an e-money issuer, or
- (c) a member of an ineligible group.

### 2. Directors' Report – engagement with employees

When determining whether a company has to disclose matters regarding employee engagement under Schedule 7.11(1) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, consideration must be given to the number of UK based employees in both the current and preceding year, unless a company is in the first year of operation.

## **Additional editorial amendment**

### **3. Strategic Report - trends and factors**

We have identified an error in Appendix II relating to disclosure of trends and factors. The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016, removed the requirement for Public Interest Entities (PIEs) to disclose trends and factors.

This remains a requirement for quoted companies with less than 500 employees and the FRC encourages reporting of this information by PIEs as best practice.

The definition of a PIE and quoted company are included in the glossary in the Guidance on the Strategic Report.