



## Response to the FRC Exposure Draft: Guidance on the Strategic Report

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## **INTRODUCTION**

ICAS welcomes the opportunity to comment on the FRC's Exposure Draft: Guidance on the Strategic Report.

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Corporate Reporting Task Force has considered the Discussion Paper and I am pleased to forward their comments.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy and Secretary to the Corporate Reporting Task Force.

## **RESPONSE TO THE EXPOSURE DRAFT**

### ***GENERAL COMMENTS***

We welcome the FRC issuing this guidance which we believe will be useful to entities drafting a strategic report. ICAS is strongly supportive of the concept of a concise, high-level narrative report as part of the annual reporting package. While the changes introduced in the strategic report regulations are relatively modest, we believe that they should still be capable of enabling a more radical change in corporate reporting.

Although we think that the FRC's proposed guidance will be useful to companies, there will be further work to do to assist companies in making more significant changes in their reporting. Therefore, the guidance should evolve and develop over time – for example, the strategic report should link to the concepts of integrated reporting, and guidance will be required on how companies can best make use of e-reporting.

### ***RESPONSE TO EXPOSURE DRAFT QUESTIONS***

#### **Section 3: The annual report**

Section 3 of this draft guidance includes an illustration (Illustration 1) which is intended to clarify the purpose of each part of the annual report and help those that prepare annual reports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?

#### **Response**

We find the information in Illustration 1 helpful in clarifying the purpose of each part of the annual report; however the title 'Illustration' is somewhat misleading as it suggests that there could be alternative ways of presenting this information. This should perhaps simply be entitled 'Table 1.'

#### **Question 2**

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

#### **Response:**

We agree with the objective of each component and section of the annual report detailed in Illustration 1. We would suggest that the directors' report could be located within the corporate governance section rather than narrative reports.

**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?

**Response:**

We believe that the guidance on the placement of information in the annual report will be helpful and will encourage preparers to think about the placement of information in more innovative ways rather than simply following the order of regulatory requirements. We note that the document uses both of the terms 'placement' and 'location' without explaining whether there is a distinction between the two.

**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?

**Response:**

Materiality is a vital consideration in enabling entities to report more effectively and concisely and we agree that consistency with the definition used in IFRS is a practical approach. However, we believe that there may be merit in future consideration of the meaning of materiality in the context of narrative reporting as opposed to financial statement in order to reduce clutter and enable more cogent reporting. For example, ICAS has considered the matter in its discussion paper on the provision of positive assurance on management commentary – 'Balanced and Reasonable'.

**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?

**Response:**

We agree with the proposed 'communication principles' set out in paragraphs 6.5 to 6.27. We also suggest that a further principle could be added to the effect that 'the strategic report should highlight the information that has changed in the period.' The strategic report may necessarily include information that does not change year-on-year, for example, aspects of the business model; we believe that it would be useful to a user of the annual report that the information that has changed materially is highlighted.

**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?

**Response:**

We agree with the guidance in paragraphs 6.26 and 6.27.

**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?

**Response:**

We support the guidance on the 'content elements' which are straightforward and simple.

**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?

**Response:**

We believe the level of guidance provided in the business model description is sufficient.

**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?

**Response:**

We believe that there is a good deal of overlap between the concepts of business model, objectives and strategies, and that the guidance adequately reflects this.

**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?

**Response:**

We find the linkage examples useful.