FRC - New FRC Discussion Paper on the Future of Corporate Reporting, October 2020 – 12 consultation questions due for 5 Feb 2021

The FRC has now published its much anticipated discussion paper setting out proposals for a new framework for corporate reporting. The proposals envisage an unbundling of the current ARA [Annual Report & Accounts] and replacing it with a network of interconnected reports centred around a business report. The additional 'network reports' would include a mixture of both mandatory and voluntary reports. In a shift towards acknowledging information needs of a wider stakeholder audience, these reports would cover financial and non-financial information.

Discussion paper – principles-based framework for corporate reporting – long term focus on corporate reporting towards 2030. Does the traditional concept of the annual report remain fit for purpose? How to balance need for more concise reporting against demands for transparency? Proposing a multi-report model.

Comments are most helpful if they indicate the specific section to which they relate, contain a clear rationale and, where applicable, suggest an alternative approach.

1. What are your views on our proposals as a whole? Are there elements that you prefer over others?

We welcome the development of mandatory reporting requirements recognising that voluntary measures on corporate governance and sustainability factors are yet to significantly change the way companies manage their impacts.

We agree with and support the aim to put non-financial reporting on a par with financial reporting and the placing of ‘transparency’, ‘consistency’ and ‘accessibility’ (p. 4) as three of the four key system level attributes.

We welcome the inclusion of anti-corruption as part of corporate reporting and reference our *Open Business* report which puts forward a set of transparency principles for corporate disclosure regrading anti-corruption risks. The recommendations in the report are applicable across multiple corporate sectors and companies of varying size, and cover five identified high-risk anti-corruption areas. www.transparency.org.uk/publications/open-business-anticorruption-governance-disclosure-guidance

We encourage the shift in thinking away from a primary user focus. Anti-corruption disclosures allow investors, civil society organisations, and the public at large to monitor whether the company’s approach is effective and how the company is mitigating its corruption risks. Transparency drives internal improvements of policies and procedures: if a company knows that it needs to disclose policies and procedures publicly, it will focus its attention on making sure that these policies and procedures are fit for purpose.

Where the FRC calls for an objective-driven approach (5.16), we call on companies to take an impact driven approach so companies can see if their approach is achieving its intended aim. Transparency International UK will be publishing more information on measuring the effectiveness of the corporate approach to anti-bribery and corruption in May and encourage the FRC to consult this report when it launches.

We encourage the communication of self-reflection and learning. Specifically relating to anti-corruption, we recommend companies to demonstrate how they monitor and review their policies and programmes and to report on how a company deals with incidents (as asked for in our *Open Business* report, principles 1.10 on 'Monitoring and Review' and 1.12 on 'Dealing with incidents) (ref. page 11, 2.6 (ii)).

As the Advisory Group progresses thinking in this area, we would gladly work with the Group on the specific of anti-corruption corporate reporting.

Implementation

2. What do you see as the key practical challenges of implementing our proposals? Do you have any suggestions on how these could be overcome? What do you see as the costs and benefits of the new model?

Regarding the proposal of both mandatory and voluntary reporting - without enforcement, those companies who aren't bought in to the new model of disclosure will not have any reason to disclose the voluntary information (p. 3). For a level playing field there must be a set of legal requirements that companies should report against including comprehensive anti-bribery and corruption disclosures. This can then be complemented by industry specific information which may not be applicable across the board for all companies.

However, if the FRC encourages corporate reporting to be too company-specific in order to avoid 'boilerplate' reporting (p. 12) and/or to be too qualitative in its style, then the comparability of the information risks being lost.

Objective-driven

3. Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

Yes, as addressed in Section 1.6, corporate reporting should focus on a range of stakeholders both in terms of who companies consult with when assessing their risks, and who they report to at the reporting phase. This needs to take into consideration stakeholders beyond shareholders, including civil society organizations, trade unions, work councils, sector initiatives using tools such as advisory bodies.

We use the definition of stakeholders as defined by AccountAbility, AA1000 Stakeholder Engagement Standard 2015, p. 36: Those groups who affect and /or could be affected by an organisation's activities, products or services and associated with performance. This does not include all those who may have knowledge of or views about an organisation. Organisations will have many stakeholders, each with distinct types and levels of involvement, and often with diverse and sometimes conflicting interests and concerns.

Reports should be provided in an easily accessible and publicly available way.

One set of principles

4. Do you consider the set of principles (system level attributes, report level attributes and content communication principles) in section 2 would be helpful in improving the quality of corporate reporting today and in the future?

N/A

Reporting network (p. 14)

5. Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

N/A

Materiality

6. We are proposing that there should no longer be a single test for materiality that is based on accounting standards but instead materiality will be dependent on the objective of a report. Do you agree with this approach, please explain why?

N/A

Non-financial reporting

6. Do you believe that there is a need for regulatory standards for non-financial reporting? If so, what do you consider the scope of the information that should be covered by these standards?

Yes, we believe that there is a need for regulatory standards for non-financial reporting.

At Transparency International UK we agree that the current, fragmented reporting landscape confuses stakeholders and limits the quality and quantity of corporate reporting data available. We support regulatory standards for non-financial reporting and, ultimately, the development of global standards for non-financial reporting. We agree with the statements set out in the 'Setting standards for non-financial reporting' section (p. 25). At a time when there is no global corporate reporting standard, this review offers the chance to align with the development of legislation, such as the EU Non-Financial Reporting Directive, and together create a best-in-class global standard mandating comprehensive financial and non-financial reporting for companies.

Research carried out by the Alliance for Corporate Transparency, including anti-bribery and corruption assessments by our colleagues at Transparency International EU, found that, with regard to existing evidence concerning corporate anti-corruption reporting, according to the research of the Alliance for Corporate Transparency, a majority of the companies included in the research describe anti-corruption policies in their reports (88.1%) but only 19.7% disclose key issues and objectives.[1]

When looking into specific aspects addressed by companies in their policies, while a relatively high percentage express commitment to anti-corruption and bribery (76.1%), only a few companies are specific about who their policies apply to; only 39.5% refer to the application of policies to non-controlled persons or entities under contract, and even fewer companies (25%) include people authorised to act on behalf of the company. Only 33.7% of companies describe main elements of their anti-corruption programmes, that is, processes through which they implement policies in practice. Furthermore, over half of all companies do not report on policy outcomes (54% vs. 88.1% of businesses reporting on policies) and most of those that do are vague about it (40.1%). Similarly, less than 10% disclose evidence of effective management of cases and incidents (6.7%). A result worth noting is that less than 1 in 5 companies report on how they assess risks of potential areas of corruption (18.3%), which is striking compared to the great majority of companies addressing anti-corruption as a material issue.

For a comprehensive overview of what information should be disclosed relating to key high-risk anti-bribery and corruption topics, we reference the principles contained on pages 9-12 in our *Open*

---

[1] Alliance for Corporate Transparency, 2019 Research Report: An Analysis of the Sustainability Reports of 1000 Companies Pursuant to the EU Non-Financial Reporting Directive (Alliance for Corporate Transparency, 2020)

Business report as best practice in. This information meets the 'relevance' principles of the content communication principles guidance (p. 12).

The five high-risk anti-corruption areas identified for corporate disclosure are:
- Anti-corruption programme transparency
- Beneficial ownership transparency
- Organisational structure transparency
- Corporate political engagement transparency
- Country-by-country reporting transparency

www.transparency.org.uk/publications/open-business-anticorruption-governance-disclosure-guidance

7. **Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?**

N/A

8. Do you agree with the introduction of a Public Interest Report and the suggested content as set out in **Section 6**?

As recognised by section 6.20, it would be too simplistic to state that all anti-bribery and corruption matters fit in the Public Interest Report. Instead, there may be some overlap between anti-corruption reporting within the Business Report, Financial Report and Public Interest Report. We would welcome further discussions deep diving into which metrics are placed where and into how these principles could translate into impact metrics, in line with our upcoming white paper on measuring the effectiveness on the corporate approach to anti-corruption.

Open Business report: www.transparency.org.uk/publications/open-business-anticorruption-governance-disclosure-guidance

Technology

9. Do you see any other ways that current and new technology could be used to facilitate the proposed model, and support the system level attributes of corporate reporting identified in **section 2**?

With regards to digitalising corporate reporting, data should be open data, and machine-readable. It should be up-to-date, and updated when new material becomes available, and be accurate. To ensure accuracy, where there is a fixed number of options a value could be i.e. country, nationality, date etc. a drop down or fixed value input system should be used.

Proportionality

10. Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

We propose that the model could be applied to entities beyond the group defined by the FRC (p. 30).

It would not be useful to exclude SMEs per se. There are some SMEs (or rather micro enterprises) with fewer than ten employees, which may potentially have a devastating impact on anti-corruption, human rights, environment etc. in certain sectors and are not engaging with stakeholders as suggested in section 8.3 (p. 31). However, the legislation should foresee additional support for SMEs, such as capacity building / supporting initiatives as most of them do not have sufficient capacity to deal with reporting requirements in-house.

Other

11. What other areas do you see being necessary or relevant to the development of a model for corporate reporting that is fit for the future?

N/A