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Dear Sir Jon

Discussion paper: The Future of Corporate Reporting

Thank you for the opportunity to comment on the Future of Corporate Reporting discussion paper. I am writing on behalf of my firm, KPMG LLP in the UK (KPMG).

We welcome the FRC's paper and are supportive of the FRC taking a lead in reconsidering corporate reporting to better meet the needs of users. We agree that the traditional annual report has become cluttered, whilst at the same time users' needs continue to evolve and that there are valid demands from both investors and other stakeholders for additional non-financial information, such as intangibles and environmental, social and governance (ESG), that are not being met consistently. High quality, relevant corporate reporting, enhanced where appropriate by assurance, is an essential foundation for resource allocation, value generation and stewardship.

We agree that disaggregation of corporate reporting into separate reports (with enhancement) can better meet users' needs and support the FRC considering that approach further. We have some concerns regarding the appropriate disaggregation and future structure of the "network reports", although we consider these to be capable of resolution through further consultation and refinement of the proposals. Key areas that we consider warrant further consultation are:

- the proposed concise Business Report with limited financial statement information may be insufficient to meet stakeholders' needs in the absence of reference to other documents, and therefore may not meet the intended communication objective;
- the bifurcation of narrative and financial statements could both diminish the essential information in a full set of financial statements and reduce the usefulness of those financial statements in the absence of the narrative that as a whole results in an

annual report that is fair, balanced and understandable. The effect may be merely to create two documents that must be read together;

- the pivot to "communication-objective oriented reports" would benefit from much clearer elaboration if the resultant network reports are to meet the needs of any particular user and to allow preparers to identify, and report, relevant material information; and
- a network of reports may exacerbate duplication and introduce issues of incoherence between reports, particularly in the absence of concurrent reporting periods and reporting timetables. Careful thought will be needed to achieve the identified benefits.

These proposals come in the midst of numerous global initiatives and developments in corporate reporting, particularly non-financial reporting. We support an overall aim of achieving globally consistent, high quality corporate reporting for the benefit of users. Accordingly, we believe it is critical that any proposals on the future of UK corporate reporting allow for flexibility and responsiveness to global developments. However, we do not believe that this should be a barrier for progress in the development of high quality UK corporate reporting. We support UK leadership where suitable global approaches do not currently exist and support the UK actively contributing to, and influencing, global developments to enhance global reporting for the benefit of users.

We further believe that appropriate regulatory action, in particular regarding the existing Strategic Report, could, and should, deliver certain of the identified stakeholders' needs sooner, regardless of any longer term changes to the system of corporate reporting. The paper acknowledges that earlier, incremental improvements are possible and we strongly support that aim, specifically regarding non-financial reporting.

We strongly support the FRC addressing both financial and non-financial information reporting as a matter of priority. Non-financial reporting is of increasing relevance to both investors and other stakeholders and is an area where significant improvement could be achieved. We note that this is aligned with recent global developments, including the proposed merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) and the ongoing consultation by the IFRS Foundation on the potential creation of a new Sustainability Standards Board. We are hopeful that these developments may ultimately be a basis for globally consistent improvements, and encourage the FRC to progress proposals in this area as a matter of priority. If timely action is not taken globally, we would support the development of reporting standards in the UK.

We consider assurance to be key to achieving relevant and reliable corporate reporting and expect the demand for assurance to grow, covering areas not previously subject to audit. We do not believe it would be appropriate to prejudge other ongoing consultations on the approach to assurance, including market driven assurance.

However, we believe that it is important that audit and assurance considerations are incorporated into the development of reporting requirements to result in a cohesive corporate reporting system. The proposals include a number of issues that might affect assurance, notably that the scope and content of reports might be determined by "materiality" based on the communication objective and the bifurcation of information into separate reports. We believe that careful consideration and further consultation will be needed as to the role of audit and assurance in the network and how the potential for any new, or increased, expectation gaps might be avoided. We would welcome the opportunity to work with the FRC to identify appropriate solutions to these potential issues.

To achieve the described objectives in the paper, we believe that a new regulatory landscape for corporate reporting may be needed in which either one body has sole remit over corporate reporting, or multiple bodies exercise their standard setting powers within an agreed framework. As communicated in our previous relevant responses to consultations[1], we would be supportive of the extension of the FRC's (or ARGA's) oversight over the UK corporate reporting landscape, subject to the appropriate governance and controls being in place.

Some of the proposals within the paper represent significant step changes in UK corporate reporting, that will have implications on preparers, those charged with governance, regulators, and auditors and assurance providers. We expect there will be significant interaction with a number of other important initiatives - namely Sir John Kingman's Independent Review of the FRC; Sir Donald Brydon's Independent Review into the Quality and Effectiveness of Audit and the forthcoming BEIS consultation on the reforms of the audit sector. Each of these is an important component in ensuring the success of corporate Britain and the proposals cannot be considered in isolation. It is important that the proposals are progressed alongside, and in recognition of, other key developments in the corporate reporting ecosystem to ensure that they are implemented in a consistent and complementary fashion.

* * *

We look forward to working with you to progress these and other improvements in corporate reporting. If you would like to discuss any aspect of our response, please contact either myself on 0207 311 3513 or David Littleford on 0207 694 8083.

Yours sincerely

[redacted]

Michelle Hinchliffe
UK Chair of Audit

[1] Our response to the BEIS initial consultation on the Kingman Review (11 June 2019) and other relevant submission are on this webpage: https://home.kpmg/uk/en/home/about/our-future.html

Appendix 1 – Detailed Responses

Question 1

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

We welcome the FRC's paper and are supportive of the FRC taking a lead in reconsidering corporate reporting to better meet the needs of users. As noted in our response to Question 2, these proposals are one part of broader developments in the corporate reporting system, and therefore it is important that these proposals are progressed alongside, and in recognition of, other key developments in the corporate reporting ecosystem to ensure that they are implemented in a consistent and complementary fashion.

We agree that the traditional annual report has become cluttered, whilst at the same time users' needs continue to evolve and that there are valid demands from both investors' and other stakeholders for additional non-financial information, such as intangibles and ESG, that are not being met consistently. High quality, relevant corporate reporting, enhanced where appropriate by assurance, is an essential foundation for resource allocation, value generation and stewardship.

We agree that disaggregation of corporate reporting into separate reports (with enhancement) can better meet both investors' and other users' needs and support the FRC considering that approach further. We have some concerns regarding the appropriate disaggregation and future structure of the "network reports" (notably those highlighted in our response to Question 2), although we consider these to be capable of resolution through further consultation and refinement of the proposals.

We further believe that some of the identified stakeholders' needs could and should be addressed sooner through appropriate regulatory action, regardless of any longer term changes to the overall system of corporate reporting. The paper acknowledges that earlier, incremental improvements are possible and we strongly support that aim, specifically regarding non-financial reporting.

These proposals come in the midst of numerous global initiatives and developments in corporate reporting, particularly non-financial reporting, Integrated Reporting and consideration of global, holistic corporate reporting frameworks. Whilst we support the overall aim of achieving globally consistent, high quality corporate reporting, we also advocate UK leadership where suitable global approaches do not currently exist and the UK actively contributing to, and influencing, global developments to enhance global reporting for the benefits of users.

However, we highlight that a key outcome in the development of UK corporate reporting must be flexibility and responsiveness to future progress globally, particularly in relation to non-financial reporting, and changing users' needs. As a result, it is natural to expect that further consideration and possibly revisions will be required to UK corporate reporting developments as global developments and consolidation continues to support the aim of achieving global consistency, whilst maintaining high quality corporate reporting in the UK.

We strongly support the FRC addressing both financial and non-financial information reporting in UK corporate reporting. Non-financial reporting is of increasing relevance to both investors and other stakeholders and is an area where significant improvement could be achieved (see our response to Question 7). We note that this is aligned with recent global developments, including the proposed merger of IIRC and SASB, and the ongoing consultation by the IFRS Foundation on the potential creation of a new Sustainability Standards Board. We believe placing financial and non-financial information on a "level playing field" in corporate reporting will improve both the quality and consistency.

As detailed in our response to Question 10, we support the consideration of how technology can best support corporate reporting remaining relevant to users and enabling accessibility of information to a wide range of users, all with differing needs.

Implementation

Question 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?

We acknowledge that the current proposals represent initial, high-level thought leadership and that there will be practical challenges to overcome as they are further developed. Adequate consultation with stakeholders will help to ensure that the outcome achieves the objectives and we look forward to working with you to progress the proposals.

We agree that disaggregation of Corporate Reporting into separate reports (with enhancement) can better meet users' needs and support the FRC considering that approach further. We highlight below some of our key concerns regarding the appropriate disaggregation and future structure of the "network reports", which we consider to be capable of resolution through further consultation and refinement of the proposals.

Bifurcation of the existing annual report
In the current annual report, the strategic report plays an essential role in supporting users' understanding of the financial statements; and in turn an understanding of the financial statements is foundational for the strategic report. We believe there is a risk that the proposed concise Business Report with limited financial statement information may be insufficient to meet stakeholders' needs in the absence of reference to other documents, and therefore the Business Report may not meet the intended communication objective of providing information that "*enables users to understand how the company creates long-term value in accordance with its stated purpose*".

In addition, we are concerned that the proposed bifurcation of narrative and financial statements could both diminish the importance of essential information in a full set of financial statements and reduce the usefulness of those financial statements in the absence of the narrative.

The paper suggests that the "fair, balanced and understandable" requirement from the UK Corporate Governance Code would be retained. The UK Corporate Governance Code requires the annual report taken <u>as a whole</u> (being the "front end" and the financial statements) is "*fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy*". Similarly, in the FRC "*Guidance on the Strategic Report (July 2018)*" it is noted that the Strategic Report *"should provide essential context to the financial statements to support an understanding of developments in the year and the future financial performance and position of the entity"*. Therefore, we are concerned that the proposed bifurcation may merely create two documents that must be read together and that only together meet an (existing) regulatory requirement.

As a result, key areas that we believe would benefit from further consultation and refinement of the proposals include:

- the timing of the issuance of both the Business Report and the financial statements;
- how to achieve linkage between the Business Report and the financial statements;
- how the "fair, balanced and understandable" might apply across these two separate documents;
- whether a report level attribute should be developed for the Business Report which applies relevant aspects of the conceptual framework for financial reporting to the preparation of a narrative report; and
- ultimately whether the bifurcation in respect of the Business Report and the financial statements is the appropriate disaggregation to better meet users' needs.

Clearer elaboration of the pivot to "communication-objective oriented reports"
We believe that the proposals would benefit from much clearer elaboration on this aspect if the resultant network reports are to meet the needs of any particular user and

to allow preparers to identify, and report, relevant material information (see our response to Questions 3 and 6).

Reporting coherence should be a priority for the next phase of the project.
The separation of the existing annual report into different reports, with possibly different reporting cycles, may exacerbate duplication and introduce issues of coherence between reports, particularly in the absence of concurrent reporting periods and reporting timetables. For example, if material events emerge between the issuance of reports. The paper itself identifies areas of potential overlaps between the Business Report and the Public Interest Report. Similar issues will arise with, for example, ESG information that is relevant both to the Business Report and other network reports that have ESG-specific communication objectives.

In respect of the other proposed reports, careful implementation will be needed to ensure a consistent message is being communicated across the network and that appropriate focus remains on information that has been assured.

The Future of Corporate Reporting proposals are only part of the picture and cannot be considered in isolation.
Alongside the FRC's reconsideration of UK corporate reporting, there are a number of other important initiatives - namely the Sir John Kingman's Independent Review of the FRC; Sir Donald Brydon's Independent Review into the Quality and Effectiveness of Audit and the forthcoming BEIS consultation on the reforms of the audit sector. Each of these is an important component in ensuring the success of corporate Britain and the proposals cannot be considered in isolation. We consider that it is important that initiatives arising from each of these are considered together to ensure that they are implemented in a consistent and complementary fashion.

The existing regulatory landscape for corporate reporting may be a potential barrier to the objectives in the paper.
The existing landscape is disjointed with multiple sources of reporting requirements, for example Statutory Instruments, the Disclosure Guidance and Transparency Rules, Listing Rules and UK Corporate Governance Code. This has, in part, contributed to the lack of cohesion seen in the annual report today. These requirements drive the content of, and the auditors' responsibilities in respect of, the annual report that the paper would seek to change.

To achieve the described objectives, we anticipate a need for reconsideration and amendment of a broad spectrum of existing legislation, auditing standards and other regulatory body requirements. In addition, the UK corporate reporting system must allow for flexibility and responsiveness to changes in users' needs and global developments. Therefore, we believe that a new regulatory landscape for corporate reporting may be needed in which either one body has sole remit over corporate reporting, or multiple bodies exercise their standard setting powers within an agreed framework. The paper does not elaborate how this will be achieved. Consideration must be given now to enable successful implementation of developments in UK corporate reporting, and ensure high-quality and relevant corporate reporting is maintained in the long-term.

We believe that consideration of the regulatory landscape should be a priority.

In the context of all of the above, we would support the FRC taking a lead in setting corporate reporting requirements, within an overarching legal framework and with input from other bodies (e.g. FCA, HMRC, other regulators). As communicated in previous relevant responses to consultations[2], we would be supportive of the extension of the FRC (or ARGA) oversight over the UK corporate reporting landscape, subject to the appropriate governance and controls being in place.

The role of audit and assurance in the proposed reporting network will need to be carefully considered.
We consider assurance to be key to achieving relevant and reliable corporate reporting and expect the demand for assurance to grow, covering areas not previously subject to assurance. We do not believe it would be appropriate to prejudge other ongoing consultations on the approach to assurance, including market-driven assurance. However, we believe that it is important that audit and assurance considerations are incorporated into the development of reporting requirements to result in a cohesive corporate reporting system.

The proposals include a number of issues that we expect will affect audit, possibly significantly, and may affect assurance, notably:

- It is unclear how the separation of the existing annual report would impact the responsibilities of auditors. Auditors currently have responsibilities in respect of the other information included in the annual report (which is defined as all information included in the same document as the audited financial statements). If the existing "front-end" and financial statements are bifurcated into separate reports, would the scope be altered? If so, this would require significant alteration of the UK auditing standards and various legislation.
- The proposal envisages cross-referencing across the reporting network and possible non-concurrent reporting periods and timetables. This may include assured information cross-referring to unassured information and vice-versa. Careful consideration would need to be given as to how the potential for any new, or increased, expectation gap might be avoided.
- The proposals note that the scope and content of reports might be determined by "materiality" based on the communication objective. Further clarity on the

[2] Our response to the BEIS consultation on Kingman Recommendations (11 June 2019) here. (https://assets.kpmg/content/dam/kpmg/uk/pdf/2020/08/kpmg-response-to-beis-consultation-on-kingman-recommendations-11-june-2019.pdf)

application of this approach will be required if meaningful assurance is to be provided (see our response to Question 6).

The paper identifies one of the objectives of corporate reporting to be "holding management to account". However, in the context of the above, we are concerned that the proposals may result in less information being subject to audit or assurance, or will reduce the coherence of the assurance provided to the users, which we do not believe is an intended outcome. Shareholders and investors have told us they want an audit product (or suite of audit and assurance products) that enhances confidence across the range of disclosures made by a company, both in and around the annual report – not just financial but ESG, behavioural metrics, KPIs and alternative profit measures, together with other information presented at investor meetings.

As a result, we believe that careful consideration and further consultation will need to be given as to the role of audit and assurance in the network of reports. We welcome the opportunity to work with the FRC to identify appropriate solutions to these potential issues.

Costs and benefits of the new model
In respect of the costs and benefits of the proposals, we believe a more detailed analysis weighing up these up will need to be considered once the proposals are further refined to ensure the direction is cost-beneficial to stakeholders as a whole within the UK corporate reporting environment. Throughout our detailed responses we have highlighted benefits and our key concerns from the proposed new model. However, we highlight some additional potential costs if the proposals are implemented as described:

Costs:

- The separation of the existing annual report may not necessarily result in more concise and transparent reporting: it could result in repetition across various reports of the same data and/or information due to it being relevant to various communication objectives. This could result in each report becoming longer "standalone" reports, rather than becoming more concise, with increased risk of a lack of coherence.
- Additional, and more continuous reporting, at differing times of the years, may place more strain and cost on companies. There is a risk as a result that corporate reporting is viewed as a "tick-box" exercise rather than engaging companies to consider what is truly relevant for the company in order to meet the communication objectives.

Objective-driven

Question 3

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

We are supportive of the proposals to address other users' needs through a pivot from a primary user focused approach to multiple objective-driven reports, with a wider group of stakeholders, on the proviso that communication objectives are set specific to the relevant user's needs. We believe that if the proposals were implemented in this manner they should, in theory, address users' concerns in respect of the conciseness of reporting and users' informational needs not being consistently met by focusing preparers' attention on what the communication objectives are for the report, with the identification of relevant content being driven by this.

We believe that the pivot from a primary user focused approach to communication-objective led reports requires much clearer elaboration if the resultant network reports are to meet the needs of any particular user and to allow preparers to identify, and report, relevant material information. Particularly, were there to be multiple users for one report, we expect preparers may encounter difficulty in determining the content, and the level of detail required to meet the objective whilst remaining concise and relevant. Communication objectives can be user-oriented and there are examples of this in the paper. Without such objectives, there is a risk that boilerplate disclosures will be provided by companies and may undermine the application of materiality, limiting the assurance that could be provided.

We also draw attention to a need for greater focus on reporting coherence in the next steps of the project (see our response to Question 2). We expect some information will be relevant to multiple stakeholders, possibly in differing levels of disaggregation and may be required to meet more than one communication objective. For example, certain ESG information is likely to be of relevance to how the company generates value in the Business Report, different information on the same topic may be relevant to the Public Interest Report, and in additional network reports with a specific ESG communication objective. Addressing possible information asymmetry will need to be carefully considered as the proposals develop.

One set of principles

Question 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?

We support the use, as far as is applicable, of a common set of principles in the proposed corporate reporting system to support achievement of the objective of a more holistic, cohesive corporate reporting system. We believe that this will support a coordinated and consistent approach to corporate reporting across the network, as well as non-financial information being placed on a 'level playing field' with financial information.

We note that the content communication principles and some of the proposed system level attributes (e.g. transparency and consistency) are already overarching attributes for the existing annual report today, or represent best practice. We believe it therefore naturally follows that these would be applicable to the entire corporate reporting network. Further, we would welcome additional guidance on these principles as an earlier, incremental improvement to UK corporate reporting, particularly in areas where these principles exist in corporate reporting today but application is mixed.

We are particularly supportive of the retention of the "fair, balanced and understandable" report level attribute, but note that we believe further consideration is required as to how this might be applied across the Business Report and the financial statements (see our response to Question 2), and the entire reporting network.

We highlight that further consideration and guidance on the "comparability" and "relevance" content communication principles will be required considering the pivot to communication-objective led reports (see our response to Question 6).

We expect that there will need to be further consideration of how the set of principles can best be integrated into companies' reporting activities in practice if there is to be more continuous reporting at differing times. A more holistic controls approach, incorporating governance, over the corporate reporting system may be required to support the successful transition as envisaged by the proposals. We recommend this is further considered as the proposals develop, alongside other ongoing reforms on audit and corporate governance to ensure these are all progressed in a timely and co-ordinated way.

Reporting network

Question 5

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

As discussed in our response to Question 2, we highlight that reporting coherence should be a priority for the next phase of the project. We are concerned that the introduction of more reports may exacerbate duplication and introduce issues of incoherence between reports, particularly in the absence of concurrent reporting periods and reporting timetables. This could hinder the aim of more concise, relevant corporate reporting.

The paper envisages that this could be addressed by reports cross-referencing to one another, or standing data, to aid in brevity and reduce duplication. We highlight this could result in a lack of coherence and diminish the clarity of messaging. For example, if the financial statement and Business Report are released in March, and subsequently the Public Interest Report and other reports containing non-financial information are released in June, with cross-referencing between the various documents. Material events may emerge or new information may become available and be reflected in the June reports that is relevant to the value generation and/or the financial statements, but which is not reflected in the earlier documents due to differing points of reference. This could create further fragmentation and incoherent content.

We further highlight other practical challenges that may arise from the introduction of a network of reports:

- The paper foresees more continuous reporting, at differing times of the year. It is unclear how cross-referencing would practically work if reports and standing data are being updated in differing cycles. Would this require companies to regularly update the cross-references, or incorporate the data elsewhere as new data is published?
- We expect that not all of the reports will be subject to assurance. We consider that there is a significant risk that the lines between assured and unassured become blurred, with users placing misplaced confidence in unassured information.
- It is unclear what the responsibilities of auditors and assurance providers would be in relation to cross-referenced or linked information.

We believe all of the above require further consideration in the proposals to ensure the outcome is high quality, concise and relevant corporate reporting that is coherent.

Similarly, we welcome reconsideration of the accessibility of information to users, and how technology can assist in improving this. However, we do raise some concerns on how this is envisaged by the proposals (see our response to Question 10).

<u>Materiality</u>

Question 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?

We note that both the IFRS and the FRC 'Guidance on the Strategic Report'[3] definitions of materiality focus on whether the information would influence the economic decisions of users. We agree that this definition would not always be relevant in the context of specific network reports – for example the proposed Public Interest Report, where the communication objectives are in relation to the company's obligations in respect of the public interest. In this case, we would expect users to have different information requirements to support the different, not necessarily economic, decisions they make.

We therefore agree with the approach proposed of differing definitions of materiality at the report level, as well as a consideration in the context of the wider corporate reporting model.

The paper proposes that materiality "*should be judged with reference to the objective of that report"* and that the content of each report will be driven by the communication objective. We note that there are suggestions in the proposals that some communication objectives may be user oriented. We believe clear user-focused reporting objectives for each network report will be needed to allow preparers to identify, and report, material information and achieve the FRC's objective of concise, relevant reporting. Without user-focused reporting objectives, we believe there is a risk of boilerplate or immaterial disclosures to address all possible requirements for a wide range of users, particularly in relation to the Public Interest Report.

We note that assessing materiality with reference to the specific communication objective could result in mixed practice across companies, even within the same industries, if different communication-objectives are set. As a result, content within the reports may not be easily comparable for users, one of the content communication principles identified by the paper. In contrast, setting communication-objectives determined with reference to the users' needs could result in more meaningful and relevant company-specific information that is more useful in users' assessment of each

[3] FRC 'Guidance on the Strategic Report': https://www.frc.org.uk/news/july-2018/revised-guidance-on-the-strategic-report

company, despite differences in the exact content covered. Careful consideration needs to be given as to how these possibly contrasting objectives for relevance and comparability can be addressed and what is the appropriate balance to meet users' needs.

In summary, the proposed pivot from a primary user to "communication-objective oriented reports" requires much clearer elaboration if the resultant network reports are to meet the needs of any particular user and to allow preparers to identify, and report, relevant material information. Materiality will need to be clearly defined and explained, in order to achieve consistent application. Experience has shown that this is an area where more clarity is needed, and we expect guidance on the determination of report materiality will be critical.

Non-financial reporting

Question 7

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?

We believe there is a need for regulatory standards for non-financial reporting, and we strongly support the FRC addressing both financial and non-financial reporting. Non-financial reporting is of increasing relevance to both investors and other stakeholders, while noting that each has different information needs, and is an area where significant improvement could be achieved. We therefore support the proposals to place non-financial reporting on a similar statutory basis as financial reporting.

There are a number of voluntary frameworks in relation to non-financial reporting currently and we agree that this can create confusion for preparers assessing which to apply, resulting in mixed practice by companies, and may contribute to reduced comparability for users. One of the objectives of regulatory standards for non-financial reporting should be to improve consistency, enhancing the quality of reporting in this area across the market.

This is an area of global importance and urgency. We draw attention to some recent UK and global developments in non-financial information and reporting:

- Publication by HM Treasury of its Interim Report of the UK's Joint Government - Regulator TCFD Taskforce[4] ("Interim Report") which sets out a timeline for the expected adoption of mandatory TCFD-aligned disclosures, including introduction of

[4] HM Treasury: Interim Report of the UK's Joint Government-Regulator TCFD Taskforce (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933782/FINAL_TCFD_REPORT.pdf)

new listing rule in relation to this for premium companies with periods commencing on or after 1 January 2021;

- The proposed merger of IIRC and SASB;
- The ongoing consultation by the IFRS Foundation on the potential creation of a new Sustainability Standards Board, with the objective being to develop and maintain a global set of sustainability-reporting standards;
- The IASB's project to revise the IFRS Practice Statement 1 *Management Commentary;* and
- The ongoing project by the IAASB to develop relevant guidance for providing assurance on emerging forms of external reporting in its Extended External Reporting project.

We are hopeful that these developments may ultimately be a basis for globally consistent improvements and encourage the FRC to progress proposals in this area as a matter of priority. If timely action is not taken globally, we would support the development of reporting standards in the UK, provided it is done in a manner that would allow for responsiveness to other developments as they come to fruition in this area.

We acknowledge that the implementation of regulatory standards for non-financial reporting may need to be achieved through incremental developments as a stepping stone whilst a broader scope global non-financial reporting framework is developed. In our response to Question 2, we highlight that careful consideration of the regulatory landscape should be a priority to ensure successful implementation of any such developments.

In addition, we highlight that any developments in non-financial reporting regulatory standards should consider the role of assurance. We consider assurance to be key to achieving relevant and reliable corporate reporting and expect the demand for assurance to grow in relation to non-financial reporting.

We believe it would be desirable for regulatory standards on non-financial reporting to address a broad scope of information, rather than individual standards for differing areas. One set of non-financial standards should promote consistency and cohesion in the reporting network. We acknowledge that some initial focus may be required on the more urgent demands for ESG information, particularly climate and sustainability, but there are other topics of concerns within non-financial reporting that should be addressed. For example, investors regularly highlight they want more value-relevant information on intangible resources and relationships. We expect that users' needs will further develop over time in this area, and any proposed regulatory standards should be flexible to these changes, and therefore we believe a broader scope framework should allow for responsiveness to this.

Question 8

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

Firstly, we highlight that the term "public interest", although in common usage, is neither defined nor widely understood and means different things in different contexts. We note that the consultation on the Stewardship Code refers to "the economy and society"[5] and the UK Corporate Governance Code refers to "contributing to wider society"[6]. We would welcome further clarification as to what the paper would propose this encompasses.

Nonetheless, we note that good business practice (as well as company law) dictates that boards, when promoting the success of the company for the benefits of its shareholders, have regard to, amongst other things, the interests of employees, the need to foster business relationships with suppliers, customers and other stakeholders and the impact of the company's operations on the community and environment.

Disclosure of how a company views its obligations in respect of the public interest, and how decisions made consider this, are often relevant in the context of long-term value generation, and therefore relevant to shareholders, as well as other stakeholders, as identified by the introduction of the "Section 172(1) statement" disclosure requirement. We have been supportive of the amendments to the Guidance on the Strategic Report to assist companies in meeting this new requirement and achieving transparency in how they view, and act, in relation to their obligations in respect of the public interest. We therefore agree that there is a need for companies to provide information about how they view their obligations in respect of the public interest.

However, we believe that any requirement to provide such information must be on a proportionate basis for each company so that the needs of relevant stakeholders are achieved without it being onerous on the company. Similar to the size requirements introduced in relation to the "Section 172(1) statement" disclosure requirements, consideration will need to be given so that the final approach is cost-beneficial to companies, investors and other stakeholders.

[5] Introduction to *Proposed Revision to the UK Stewardship Code Annex A - Revised UK Stewardship Code.*

[6] Principle A of the *UK Corporate Governance Code 2018*.

Question 9

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

We are generally supportive of the proposals to have a separate report to address other stakeholders needs, in the context of the proposed communication objectives for the Business Report and the financial statements, alongside the overarching aim of relevant corporate reporting. We agree that information needs for other stakeholders will, in some cases, be significantly different to investors, in terms of focus or detail, or may not be material to meet the objective of explaining a company's value creation (and therefore not relevant in the proposed Business Report). We therefore support separation of this content into the Public Interest Report if it results in the network reports being concise, relevant and transparent.

We highlight that we expect there to be overlap between the proposed Public Interest Report and the Business Report, as indicated in the proposals, and therefore consideration of reporting coherence must be a priority, particularly on the communication-objectives. If implemented well, this should encourage companies to focus on what non-financial information is strategically relevant, and report in a cohesive, integrated manner in the context of value generation rather than including immaterial information to address multiple objectives.

We further highlight that much clearer elaboration is required in relation to the definition of "public interest" if the resultant Public Interest Report is to achieve the communication-objective and meet the needs of any particular user. We particularly expect there may be confusion and inconsistency with defining materiality in the context of a wide number of users, and therefore preparers being able to identify, and report, relevant material information. Without clear guidance, we consider there is a risk that the Public Interest Report could become burdensome for companies as they try to meet all stakeholders' needs, and may result in boilerplate disclosures. We also expect that developments in this area may be an area which companies wish to adopt early in respect of best practice, and therefore further clarity will be required to allow them to do so.

We are supportive of the proposal that the preparation of the Public Interest Report would not be applicable to all entities initially (see our response to Question 11).

Technology

Question 10

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?

We welcome further consideration of how technology can assist in accessibility and ensuring corporate reporting remains relevant to users' needs.

We believe developments in technology in the corporate reporting landscape should be led by users' needs. We note that the FRC's Lab report[7] from 2015 concluded that users prefer PDF annual report and identified a set of attributes that users value including a clear start and end of the annual report as it enables them clearly to understand what information has been subject to audit.

Any proposals in this area will need to carefully consider how technology-enabled reporting can deliver improved reporting to meet users' needs, whilst allowing users to clearly identify what information has been subject to assurance, and the level of any such assurance. We highlight, at the extreme end, that the ability to "build-your-own" thematic report (as envisaged by paragraph 7.8 in the proposals) could result in the lines being blurred between assured and non-assured information. This could further increase the expectation gap in respect of auditors' and assurance providers' responsibilities, and at worst result in users placing misguided confidence in a company's reporting. This also needs to be considered in the context of the proposed connecting and cross-referencing across submitted reports.

We welcome the consideration of technological solutions that seek to address these issues and we recommend the next steps should be the identification of the functionality that will result in the most relevant content for users, so that solutions can be identified, and cost-benefit analyses performed. Proportionality should remain a key focus.

Proportionality

Question 11

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

[7] FRC Financial Reporting Lab project report "*Digital Present*"

We strongly believe that any proposed changes to the UK corporate reporting landscape must result in proportionate reporting for companies, recognising the breadth of complexities in companies, and stakeholders' information needs. We do not believe that there is a one-size fits all approach in corporate reporting: the regime must result in reporting which is of value and relevance to investors and users, whilst not introducing unnecessary burden on companies.

For some companies, the proposals may result in incremental changes in their reporting; for others significant step changes may be required. In the context of the other ongoing developments and reforms in the UK in corporate governance and auditing, both the sequencing of implementation and the proportionality of these developments to small and medium-sized enterprises ("SMEs") must be carefully considered. Proportionality as introduced in the proposals through communication-objectives for reports being determined by the company specifics (within a framework) and application of materiality will be key in engaging these entities to prevent corporate reporting remaining a tick-box exercise.

We do not believe there should be separation of developments in corporate reporting for SMEs from those in relation to listed and other companies of societal importance as this may introduce an inconsistency in approach, leading to discontinuity as companies grow. We also consider that there is a benefit to business of the rigour introduced by external reporting and independent assurance. We therefore support the proposals addressing the entirety of corporate Britain, with appropriate focus and proportionality to address the wide range of entities. We particularly welcome the proposal that the Public Interest Reports will only apply to the very largest companies at first, using the defined "public interest entities". We welcome reassessment of whether the suggested initial scope remains appropriate as the proposals in relation to the Public Interest Report develop. However, we should not discourage other entities from providing this additional information and we would support this being identified as best practice, along with relevant guidance for companies.

Other

Question 12

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?

We have no other comments outside of our responses above.