



Financial Reporting Lab Newsletter

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Celebrating the Lab's tenth anniversary

I am delighted to introduce this edition of the Financial Reporting Lab's newsletter. As we celebrate the ten-year anniversary of the Lab, I am extremely proud of the contribution that it has made as it has enabled the FRC to provide market-led solutions to reporting issues and to help companies improve the usefulness of corporate reporting.

When the Lab was formed in 2011 the FRC did not know whether the experiment would work – a regulator seeking to find market-led solutions rather than regulatory solutions to reporting challenges was a bold step to take. However, it has proved to be a concept that has worked effectively and become increasingly influential on the international stage. Much credit for this should go to Sue Harding, the first Director of the Lab, the Lab Steering Group and all of the FRC staff that have been involved in making the concept a success.

However, the Lab would not have been successful without the many participants that it has had for the 30 projects that it has carried out (see next page). The Lab has worked with over 130 companies and 110 investment organisations over the last ten years and the reports produced represent their views on better practice reporting. I would like to personally thank all of those involved and continue to encourage more to get involved in our future work (more on which later in the newsletter).

I hope you enjoy reading this newsletter, including some of the reflections from our project participants and will be inspired to get involved in the future.



For the last ten years, the Financial Reporting Lab has been at the forefront of our efforts to engage investors, preparers and other stakeholders in driving up the quality and usefulness of corporate reporting. As we transition to ARGA, this approach to innovation in reporting will be fundamental in ensuring decision-useful information is provided to the market.



Phil Fitz-Gerald
Lab Director



Sir Jonathan Thompson
FRC Chief Executive
Officer

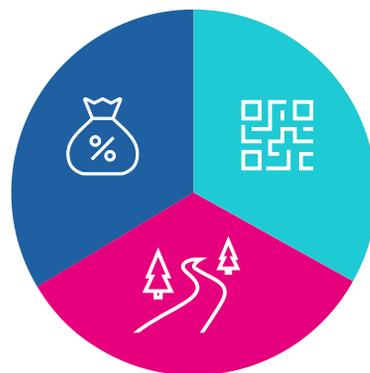
Overview of the Lab's work 2011–2021

The Lab's work has centred around three main themes:

Financial reporting

Innovation & digital

Strategy & sustainability



Recent publications

The second half of 2021 has been a busy period for the Lab with the finalisation of three projects:



Reporting on risks, uncertainties, opportunities and scenarios

Whilst many companies are beginning to change and improve the way they manage risk, uncertainty and opportunities, this is not always translating into useful disclosure that meets investor needs.

In September, the Lab published a [report](#) that outlines what investors want to understand from corporate reporting on risks, uncertainties, opportunities and the use of scenarios. It provides several practical examples of corporate reporting that better meet investors' needs and includes high-level insight into how investors would like reporting on resilience to develop.

TCFD disclosures: ahead of mandatory reporting

This year premium listed companies will need to report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations on a comply or explain basis in their annual reports, with other companies following in the future.

The Lab published a [report](#) in advance of these requirements to help companies prepare for mandatory TCFD reporting. It includes practical advice and examples that better address aspects of TCFD reporting from those companies already adopting the framework on a voluntary basis.

Alongside the report, the Lab also published a [snapshot](#) of the status of current reporting against the TCFD framework in the UK which highlights the increased uptake in the last year.

Structured reporting: an early implementation study

Under the Disclosure Guidance and Transparency Rules, certain companies are required to start producing their 2021 annual financial reports in a structured electronic format. As a result, electronic data for thousands of companies will become available for automatic extraction, analysis and comparison. However, as highlighted in the recent [Dear CEO letter](#) from the FCA and the FRC, the data will only be useful if it is of high quality.

The Lab reviewed 50 early structured reports and found that many reports fell short of the quality that will be expected for companies' official filings. The Lab published a [report](#) with its review findings, as well as key considerations and tips for companies in the move towards high-quality digital reporting.

Listen to the podcast:



Listen to the podcast:



Sign up for the webinar on 7 December:



Stakeholder reflections

The Lab's work reflects the views of the many stakeholders that it engages with. For this newsletter we asked some of them what they thought of the Lab and the contribution it has made to improving reporting. We always welcome thoughts on the Lab's work and would really like to hear from you as well (see page 8).

Investor views



The Lab has been an exceptionally successful innovation at the FRC, helping to shape best practice reporting by highlighting areas of leadership in the market and actively seeking to match them with the needs of the end user of the report and accounts, the investor.

By bringing together companies and investors' views, and shining a light on emerging areas and topics of interest, the Lab has been instrumental in ensuring that corporate reporting in the UK remains world-leading.

As the group of stakeholders interested in corporate reporting continues to expand, and innovations continue to develop in how companies communicate, the Lab will undoubtedly play a leading role in ensuring that best practice evolves accordingly to support the move towards a more purposeful and more inclusive form of capitalism.

As investors we greatly appreciate the work that the Lab has put in over the last decade to improve the communications from companies to all stakeholders, including the owners of their securities. From the general, such as reporting on strategy, to specifics like workforce and climate reporting, we have seen a significant improvement in the information we receive over the last decade. That information is critical as it forms the basis for our analysis of and engagement with the companies in which we invest our clients' capital.



By engaging investors on its projects, the Lab bases its work in the real-world requirements of the users of corporate reports.

We have also found this to be a two-way process; engaging with the projects of the Lab has helped us to understand where we can improve our own analysis and engagement practices, and what we can reasonably expect of companies' reports. The Lab has kept pace with emergent trends like digital reporting and big issues like climate change, helping companies and investors to communicate effectively as the world changes at a rapid pace.



Freddie Woolfe
Equities Analyst,
Jupiter Asset
Management



Ben Peters
Fund Manager,
Evenlode Investment
Management Ltd

Can company reports and accountants save the world? Economists argue that markets have been vital in enabling prosperity and liberty to flourish. An important underpinning of functioning capital markets is having reports and accounts that people can trust and that properly reflect the state of the world. What people value, how people value and our ideas on what is important continue to progress. As this progresses, it is crucial that financial reporting progresses and can keep pace with what people value.

The Financial Reporting Lab has been on the innovative frontier of corporate reporting. These innovations and ideas have spanned extra-financial data ideas about human capital, social capital, natural capital; climate reporting; and reporting on ESG data. Ideas include the forms reporting should happen in, for instance, the availability of digital forms, video and virtual formats of communication; and design. Research has often been quick and responsive, for instance on how COVID impacts reporting and has involved multiple types of stakeholders.

All this has helped move forward what and how companies should report and in doing so help the functioning of capital markets. If my initial contention is true that these markets are vital for prosperity to flourish then the FRC lab and its work has been a valuable piece of that work.

When I first started talking to companies and investors about the idea of the Lab it was clear that there was a need to be more responsive to emerging reporting issues. Those at the coal face, both those who spend their days trying to make their reports useful, and those trying to use the information reported, were ideally placed and willing to roll up their sleeves to work with the Lab to achieve this.

The Lab could build a more collaborative approach to identifying and fixing specific issues with reporting and since it started 10 years ago it has more than met those goals. But goal posts continue to shift and it will be interesting to see how the Lab responds in the future.

A view from standard-setters



The Lab has championed innovative approaches to tackling practical financial reporting challenges and emerging issues, helping to foster a better understanding between investors and companies. Congratulations to all that have been involved in its work over the last 10 years.



Ben Yeoh
Senior Portfolio
Manager,
RBC Global Asset
Management



Alison Thomas
Consultant



Nick Anderson
IASB Board member

Views from companies

I have been involved with the work of the FRC Lab since the early days and cannot believe how quickly the past 10 years have gone by.

Smith + Nephew have participated in a number of Lab projects, covering a broad range of reporting topics. We have found the Lab gives us the unique opportunity to look in depth at how we can improve our reporting on key governance topics, by bringing together those who prepare and those who use Annual Reports.

The Lab has given us the opportunity to hear from investors and others about the information they seek from companies and why it is useful to them. In turn, corporates have had the chance to explain the challenges of providing some of that information. The Lab has provided an environment to debate these issues together and collectively improve the usefulness of reporting.

Personally, I am proud to have served on the FRC Lab Steering Group for the past four years and to have played a part in developing guidance, advice and tips for reporters, which has led to an enhancement in corporate reporting overall.

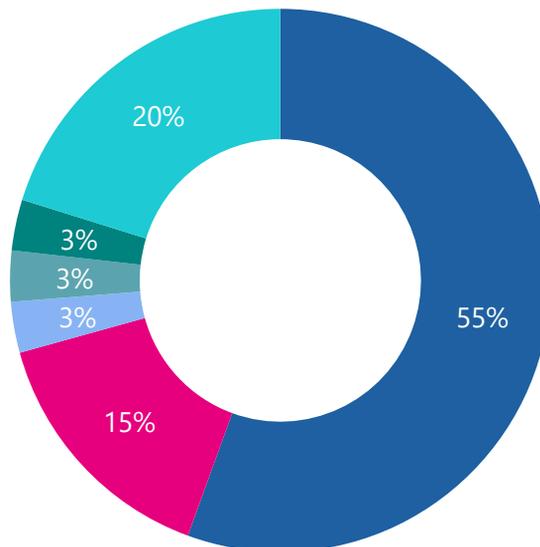


Susan Swabey
Company Secretary,
Smith + Nephew plc,

 **130+**

company participants,
of which:

- FTSE 100
- FTSE 250
- AIM
- Small Cap
- Other LSE segment
- Not listed on LSE



The 100 Group values our collaborative relationship with the FRC Lab. Our members regularly participate on projects, and as a Group, we see the Lab as an excellent example of one of the most proactive aspects of our relationship with the FRC.



The 100 Group

An academic perspective

Everybody knows that reporting must keep pace with changing business environments, unpack the potential of innovative technology, and respond to escalating demands for corporate accountability on ESG issues. The challenge is to put theory into practice.



As the Financial Reporting Lab celebrates its tenth anniversary, it has set a shining example for the use of dialogue between companies and investors as a pragmatic solution to complex reporting challenges.

During those years, we have learned that even investors do not always know what they need. Especially, when reporting falls outside the comfort zone of traditional financial reporting.

The Lab's forums have offered the reporting community unique opportunities to find a common language and have more meaningful conversations on issues such as climate and workforce. The Lab's method of translating insights into "questions that companies can ask themselves" has accelerated the development of best practices. Reports, such as "Stakeholders, decisions, and section 172", have given boards practical conversational tools to develop their understanding of the nature and value of their company's relationships with stakeholders and identify useful improvements to their reporting.

Looking into the future, lab-type environments will continue to play a vital role in cutting the costs and risks of innovation and reducing the need for regulatory intervention. Instead of being yet another talking shop, Lab projects are delivering the evidence that shows how novel reporting contents and formats benefit actual users, stakeholders, and society.

Views from former Lab team members

Sue Harding – Managing director, Harding analysis – Director of the Lab 2012 to 2016

The Lab is a place for market participants to 'press pause' on day-to-day imperatives. This is key in allowing time to listen and understand each other, and to work together on both practical and effective ways of communicating information that actually matters to the functioning of markets.

The results speak for themselves in presenting actionable ideas that are well-vetted, openly shared, and can readily be brought into the flow of a company's reporting cycle.

Carl Renner – Executive Director, International Forum of Independent Audit Regulators – Lab Project Director 2013 to 2017

When companies and investors are able to discuss disclosure items and share their perspectives, they are able to agree on disclosure that is relevant to the company and satisfies investor information needs.



Dr Yasmine Chahed
Alliance Manchester
Business School



Looking forward

Over the Lab's ten years it has expanded from a focus purely on financial reporting to the wider aspects of corporate reporting. However, as the FRC transitions into a regulator with expanded powers (the Audit, Reporting and Governance Authority), the Lab model is also adapting, by exploring new ways to bring innovation and wider outreach to today's reporting challenges. Those challenges include ESG reporting and technology, which are key drivers of our work in 2022.

ESG reporting

Investors and other stakeholders are increasingly interested in disclosures on the environmental and social impact of companies' activities and their governance arrangements. The Lab's recent work on TCFD has helped show what good disclosure in this area looks like. As set out in the [FRC's ESG statement of intent](#), there are a number of challenges that companies face in producing decision-useful data. In this context, the Lab recently launched a project to build understanding around production, distribution and consumption of ESG data. The first phase of the project will focus on the production of ESG data, and we are calling for companies to come forward and share their thoughts and views on the challenges in this area.

Technology

With the introduction of digital reporting for public companies this year, the annual report is finally moving from a paper-based to a digital format. In the future we can expect to see the digitisation of a wider range of corporate reporting areas. As this area develops we will continue to explore how an effective digital reporting system can work.

As technology affects many aspects of a company's operations, investors and other users of reporting also need disclosure that supports their understanding of these changes. To help companies deliver better disclosure in this area the Lab is inviting companies, investors and other interested parties to participate in a new project that seeks to understand disclosure on Digital & Data risk. This project will consider how companies can best set out how their processes and controls are changing to respond to that risk.

Read the ESG data production call for participants:



Read the Digital & Data risk call for participants :



Get involved

Do you want to help develop pragmatic solutions to today's reporting needs, test new ideas and learn from others facing similar challenges? Then get in touch via financialreportinglab@frc.org.uk to participate in the work of the Lab or fill out [a 5 minute survey](#).

Thank you to all project participants

including:

3i Group plc 4imprint Group Aberdeen Standard Investments
Adnams plc Allianz Anglo American plc Antofagasta plc
Artemis Investment Management Ashmore Group Asset
Management One Assura plc AstraZeneca plc Auto Trader
Group plc Aviva plc BHP Group BlackRock Blancco Technology
Group BMO Global Asset Management BP plc British Columbia
Investment Management Corporation Brunel Pension Partnership
Burberry Group plc Carnival Corporation & plc Castlefield
Investment Partners LLP CCLA Investment Management CFA
Institute Chesnara plc Church Commissioners for England
Coastline Housing Coca-Cola European Partners plc Coca-Cola
Hellenic Bottling Company Croda International plc Data User
Workshop Group Deltex Medical Group plc Drax Group plc DS
Smith plc Evenlode Investment Federated Hermes
FirstGroup plc Franklin Templeton Fresnillo plc Fujitsu
Laboratories of Europe Glass Lewis Go Investment Partners
Halma plc Hill & Smith Holdings plc Howden Joinery Group plc
HSBC HSBC Global Asset Management IAG Istock plc IFM
Investors Institutional Investors Group on Climate Change
InterContinental Hotels Group plc Invesco IP Group plc ITV plc
J Sainsbury plc Japan Stewardship Forum Johnson Matthey plc
Jupiter Asset Management Keller Group plc Land Securities
Group plc Lazard Asset Management Legal & General Group plc
Legal & General Investment Management LGPS Central Limited
M&C Saatchi plc M&G plc Man Group plc Martin Currie
Investment Management Mears Group plc Merian Global
Investors Mizuho International plc Moody's M.P. Evans Group
plc National Employment Savings Trust (NEST) National Grid plc
Nationwide Building Society NatWest Group plc Nestlé S.A.
Neuberger Berman Norges Bank Investment Management
Northern Ireland Water NYC Office of the Comptroller Oil Search
Ltd Olam International Phoenix Group Holdings plc Polymetal
International plc Rathbone Brothers plc RBC Global Asset
Management Refinitiv Rio Tinto Group Royal London Asset
Management Royal Mail Group plc RPMI Railpen RSA Group plc
S&P Global Sarasin & Partners Schroders Investment
Management Shell International Limited Smith & Nephew plc
Spirax-Sarco Engineering plc SSE plc Sustainalytics Tesco plc
Thames Water Utilities Ltd Trucost UAW Retiree Medical Benefits
Trust UK Sustainable Investment Forum UK Shareholders'
Association Unilever plc Universities Superannuation Scheme
Vodafone Group plc Wellcome Trust Whitbread plc Wizz Air
Holdings plc

Financial Reporting



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