



The Financial Reporting Council Limited
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4 February 2021

Dear Sir/Madam

This submission is made by PricewaterhouseCoopers LLP (PwC), the UK member firm of the PwC network. From the publication of *'The Value Reporting revolution'* (2001) through to the ongoing investment in our Building Public Trust programme we have been committed to challenging the status quo and improving the quality and accessibility of corporate reporting, and so we welcome the FRC's initiative in looking at the future of the UK reporting model.

The *'Future of corporate reporting'* project was intended as the starting point in a broad and comprehensive discussion of the future of the UK reporting model, and we fully support the need for such an initiative. With businesses under pressure to report more meaningfully to a range of different stakeholder groups, we agree with the paper's proposal that the most appropriate model for the future is likely to involve a number of different forms of reporting tailored to the needs of each group rather than a single lengthy and increasingly complex annual report. This will, however, bring its own challenges and we believe that there are a number of important areas that will need to be considered as part of any change programme. Some of these could affect the structure of the network of reports that is proposed. We've summarised our thoughts on these areas below and given more detail in our response to Q1 and Q2 in the Appendix to this letter.

The *'Future of corporate reporting'* paper has been issued shortly before a significant consultation on the implementation of the recommendations from the Brydon and Kingman reviews, a number of which could themselves change UK corporate reporting significantly (subject to the consultation process). The paper refers to Brydon and Kingman in a number of instances, although there is no general comment about how these proposals might relate to the Brydon and Kingman recommendations in general. In our response we have worked on the basis that the timing and scope of the *'Future of corporate reporting'* initiative can work alongside and go beyond the implementation of the Brydon and Kingman recommendations, with the overall objective of bringing about effective and lasting change. Consistent with this, we believe it is important for the scope of the *'Future of corporate reporting'* initiative to be sufficiently agile to consider further changes to the law, as well as to regulatory standards and guidance as they arise. We appreciate that this might be a longer-term objective, but in the absence of such changes we doubt whether the aims of the project could be fully realised.

Priority areas for a future framework

As noted above, we believe there are a number of important issues that will need to be designed into the development of a potential future framework.

1) *The role of technology*: emerging technology creates a huge opportunity for transformation of corporate reporting, and we expect that new technology will be at the core of any future reporting model. As the reporting framework is developed it will be important to consider all aspects of how information is sourced, disseminated, accessed and analysed and how technology can be used to facilitate all of these activities

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2) *Objectives and accountability*: the paper sets out the potential high-level structure of a future reporting framework, with each element intended to have a different 'objective'. Given the focus on reporting to a range of different stakeholders, we believe that another layer could be added to the framework reflecting the stakeholders to whom the company and board are to be held accountable. The nature and extent of that accountability would need to be established, along with how it would be monitored and regulated. These considerations would form a natural part of the likely development of the Audit, Reporting and Governance Authority, as contemplated in Sir John Kingman's report.

3) *The building blocks of the wider framework*: a future corporate reporting framework will need to consider all significant sources and flows of information between the different market participants and stakeholders, particularly as some of them 'move the market' far more regularly than the annual report. The paper mentions preliminary announcements and interim reports, which are important, but the existing information chain is capable of being broken down and analysed much further than that. Analyst presentations are one example that has already been widely discussed, but there are many more.

4) *Forward-looking information*: many key areas of financial statement accounting, including several of those connected to recent corporate failures, rely on predictions of the outcome of future events so it will be important for any revised reporting framework to deal with this effectively and to provide sufficient insight into the risks and judgements concerned. It will also be important for it to consider actions to drive behavioural change and ensure companies and boards are more confident about the perceived risks of providing this kind of information.

We have explored these points further in our responses to Q1 & Q2 and would be happy to meet with the FRC to expand on any of them.

Other practical matters to consider

There are also a number of practical challenges to be considered, many of them connected to adopting a multi-report framework that could be quite different from the shape of the front half of a UK annual report today. These include:

- Creating a coherent and consistent narrative across the various pieces of reporting
- Ensuring an appropriate level of comparability between companies' reports
- Keeping the overall set of reports concise

We'd suggest that these challenges should be addressed as part of the framework itself. The FRC's Reporting Lab could also have an important role in working with a number of pilot companies, given the extent of change being envisaged.

We'd also suggest further consideration of the following areas:

- The respective roles of management and the board in developing, maintaining and overseeing the network of reports envisaged in the paper
- How judgements should be made about the appropriate levels of assurance provided over the information within the network or reports both for the company and for external stakeholders
- The need for the framework to allow the broader value created by companies to be captured in narrative reporting that is not reflected in the current financial accounting framework

Changing behaviours - demonstrating the value of the project

We see one final area as critical to the long-term success of the project - its overall positioning and communication. In our experience, many companies and boards do not feel motivated to improve their reporting, some because they feel the annual report format is no longer fit for purpose and others because they receive little or no feedback on what they do. The '*Future of reporting*' project is an opportunity to regenerate buy-in and goodwill towards reporting, and thereby encourage continuous improvement. We would suggest that careful thought is given to how preparers, users and other stakeholders can be involved in the project in a way that creates energy and enthusiasm throughout the corporate reporting system.



Please see the appendix to this letter for our more detailed responses to your questions. We hope that the observations outlined help to move this important project forward.

If you have any questions about our response, please do not hesitate to contact me.

Yours faithfully

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Appendix - Question response

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

The *'Future of corporate reporting'* project was intended as the starting point in a broad and comprehensive discussion of the future of the UK reporting model, and we fully support the need for such an initiative. With businesses under pressure to report more meaningfully to a range of different stakeholder groups, we agree that the most appropriate model for the future is likely to involve a number of different forms of reporting tailored to the needs of each group rather than a single lengthy and increasingly complex annual report. This will, however, bring its own challenges and we believe that there are a number of important areas that will need to be considered as part of any change programme. Some of these could affect the structure of the network that is proposed. These points are set out in the response to Q2 below.

The *'Future of corporate reporting'* paper has been issued shortly before a significant consultation on the implementation of the recommendations from the Brydon and Kingman reviews, a number of which could themselves change UK corporate reporting significantly (subject to the consultation process). The paper refers to Brydon and Kingman in a number of instances, although there is no general comment about how these proposals might relate to the Brydon and Kingman recommendations in general. In our response we have worked on the basis that the timing and scope of the *'Future of corporate reporting'* initiative can work alongside and go beyond the implementation of the Brydon and Kingman recommendations, with the overall objective of bringing about effective and lasting change. Consistent with this, we believe it is important for the scope of the *'Future of corporate reporting'* initiative to be sufficiently agile to consider further changes to the law, as well as to regulatory standards and guidance as they arise. We appreciate that this might be a longer term objective, but in the absence of such changes we doubt whether the aims of the project could be fully realised.

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?

It is our understanding that the ideas set out in the paper are intended to engender a wider debate about the future of reporting. We have set out below a number of important issues that will need to be designed into the development and implementation of a future reporting framework.

Priority areas for a future framework

1) *The role of technology*: emerging technology creates huge opportunities for transformation of corporate reporting and we expect that new technology will be at the core of any future reporting model. While the paper quite rightly suggests technology will need to be integrated, we believe it should also look beyond the benefits of tagging and consider how technology will radically transform how information is sourced, disseminated, accessed and analysed in the future, as we did in our own *'Reporting reboot'* paper (2018). There is particular demand from users for reporting to be more real time and easily accessible, which creates an opportunity to leverage the FRC Reporting Lab's digital project and to work with technology and communication specialists to apply their skills to these priorities.

2) *Objectives and accountability*: the paper sets out the potential high-level structure of a future reporting framework, with each element intended to have a different 'objective'. We believe that another layer could be added to the framework, reflecting the stakeholders to whom the company and board are to be held accountable. Companies and directors currently have a legal responsibility to report to the shareholders - in effect they are accountable to them as the addressees of the annual report. But they are also aware of a wide range of other stakeholders who also use the information they provide. It seems likely that some at least of these other stakeholder groups would want a revised reporting framework to create more explicit accountability to them. The nature and extent of that accountability would need to be established, along with how it would be monitored and regulated. These considerations would form a natural part of the likely development of the Audit, Reporting and Governance Authority, as contemplated in Sir John Kingman's report.

The position taken on this issue would also be likely to affect how materiality is judged, whether quantitative or qualitative: materiality should reflect the interests of those to whom there is accountability for a particular piece of



reporting, even though that reporting may be available to a wider range of users. Where a report assumes accountability to more than one stakeholder group the related judgements could become complex.

3) *The building blocks of the wider framework*: the paper recognises that the annual report is just one part of a wider information set produced by companies and that a revised overall framework will have to take account of this. In *'Reporting reboot'* we also looked at how the future reporting model might evolve and how the traditional flow of information from company to user might fit within this wider information ecosystem. We therefore strongly agree that a future corporate reporting framework should consider all of these sources and flows of information, particularly as some of them 'move the market' far more regularly than the annual report. The FRC's paper refers to "other" periodic reports, such as preliminary announcements and interim reports, but the existing framework is capable of being broken down and analysed much further than this. Analyst presentations are one example that has already been widely discussed, but there are many more, including the information flows between companies, brokers and their clients for instance.

4) *Forward-looking information, including judgements, estimates and forecasts*: if it is to succeed, a revised framework will need to find a better balance of reporting between backward-looking and forward-looking. Of course reporting needs to provide information on a company's performance and how the board is stewarding investors' funds, but many key areas of financial statement accounting, including several of those connected with recent corporate failures, rely on predictions of the outcome of future events, such as long term contracts, impairment assessments and determination of an entity's ability to continue as a going concern. Some accounting standards require disclosures about sensitivities and the range of possible outcomes, and potentially one of the most important parts of the financial statements is the note on critical accounting judgements and estimates. But the connection between these and the discussions of strategy and risk in the strategic report (including the viability statement) is seldom clear enough. To be clear, the current reporting framework does not prevent good disclosure (and FRC Guidance encourages it), but in practice it is still rare.

Where forward-looking information *is* provided in narrative reporting it is generally short term, something that has been brought into sharp focus by the current focus on climate change reporting. Our annual review of FTSE 350 reporting practice continues to show that only a small minority of companies are clear about the time horizon over which they disclose their strategic plans (and the risks that relate to them), and often those plans are first mentioned as forming the basis for a company's viability statement.

We believe that more work needs to be done to understand what drives these behaviours - a point we explore further below with the need to demonstrate the value of the project. We also believe that many companies need to be given confidence that they will not be punished for providing more information on their future prospects and plans. It would certainly be helpful for the legal protections under the Companies Act relating to forward-looking information to be clarified and tested, and either shown to be effective, or strengthened.

Other practical matters to consider

We also note a number of practical challenges to be considered, many of them connected to adopting a multi-report framework that could be quite different from the strategic/directors' report shape of the front half of a UK annual report today. These include:

- Creating a coherent and consistent narrative across the various pieces of reporting (this is already a challenge for the unified annual report, with the various authors that are often involved)
- Ensuring an appropriate level of comparability between companies' reports (objectives and chosen accountabilities could be very different)
- Keeping the overall set of reports concise (avoiding unnecessary duplication, for instance, though it is also likely that some content would need to be repeated)

We'd suggest that these challenges should be addressed as part of the framework itself. The FRC's Reporting Lab could also have an important role in working with a number of pilot companies, given the extent of change being envisaged.



We'd also suggest further consideration of the following areas:

- The respective roles of management and the board in developing, maintaining and overseeing the information
- Making judgements about the appropriate levels of assurance, both for the company and for external stakeholders
- The need for the framework to allow the broader value created by companies (e.g. for their employees, suppliers or wider society) to be captured in narrative reporting that is not reflected in the current financial accounting framework

Changing behaviours - demonstrating the value of the project

We see one final area as critical to the long-term success of the project - its overall positioning and communication. In our experience, many companies and boards do not feel motivated to improve their reporting, some because they feel the annual report format is no longer fit for purpose and others because they receive little or no feedback on what they do. The '*Future of reporting*' project is an opportunity to regenerate buy-in and goodwill towards reporting, and thereby encourage continuous improvement. We would suggest that careful thought is given to how preparers, users and other stakeholders can be involved in the project in a way that creates energy and enthusiasm throughout the corporate reporting process.

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?

We agree with the need for reporting to speak meaningfully to a wider range of stakeholders about the issues that matter most to them, both in terms of its content and accessibility. But we do have concerns over accountability (see our comments under **Priority areas for a future framework** > 2) Objectives and accountability in the response to Q2 above), and how objectives and consequently materiality will be determined.

We also foresee possible overlaps and repetition as stakeholders' objectives increasingly coalesce around key issues/information needs, as well as the potential for information to fall between the reports. It may also be that the same information needs to be presented in different ways to meet the needs of different audiences.

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?

The proposals are broadly consistent with the principles that are already applicable in UK reporting (including in the FRC '*Guidance on the strategic report*'), where we fully support them. The overall standard of existing reporting, however, suggests that there is more to be done to make them effective. We would also like to see more emphasis placed on the importance of transparency and accountability as overriding principles (accompanied by appropriate incentives). See our comments under **Changing behaviours - demonstrating the value of the project** in the response to Q2 above.

Reporting network

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

Yes, we support the proposal for more concise reports across a reporting network, subject to the comments in response to Q2 above. Consistent with our comments under Q2 and Q10 about the use of technology, these reports should be permitted to be fully digital and interactive, with any printed versions as secondary considerations.



However, a future model should also recognise that some users continue to value the single point of reference that an annual report represents and allow for several elements of the framework to be drawn together where this is the most useful format.

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?

We agree that a single quantitative level of materiality would no longer be appropriate based on the proposals in the paper, but we believe that materiality should relate to the users to whom accountability is being recognised rather than its objective (at least based on the objectives currently suggested). See our comments under **Priority areas for a future framework > 2) Objectives and accountability** in the response to Q2 above.

Non-financial reporting

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?

The PwC network has already been involved in the establishment of a common set of metrics for ESG (environmental, social and governance) reporting through the [World Economic Forum](#), which give a sense of the scope of information which we believe would need to be covered. Further, in our [global response](#) to the IFRS Foundation's consultation paper on sustainability reporting, we recognised the need to see a transition to a globally aligned system that ensures that non-financial reporting has the same robustness as financial reporting: a system that is aligned with the vital elements of a thriving, sustainable economy and society. Accordingly, we support the development of a single set of regulatory standards in this area.

In terms of scope, particular attention in the short-term will inevitably be on climate change. However, it is important that any debate about the development of non-financial reporting standards should also take into account the other critical aspects of ESG - social and governance.

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

We supported this idea in principle as part of the Brydon recommendations and continue to do so.

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

We await the consultation on the details of how the Brydon recommendations for a Public Interest Statement might be implemented. We would have reservations about a Public Interest Report which is simply "broader than" but "akin to" a sustainability report (as the FRC discussion paper seems to suggest on p26). See our comments under **Priority areas for a future framework > 2) Objectives and accountability** and **Changing behaviours - demonstrating the value of the project** in the response to Q2 above.

Given the ongoing debate about the purpose of business and importance of stakeholders, as well as emerging reporting trends around s172 and stakeholder engagement, we also have reservations over the possible overlap between the proposed Business and Public Interest reports.



Technology

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?

The paper rightly identifies XBRL and the potential it provides to tag data as an important tool for improving the accessibility and connectivity of information across the network of reports. However, we believe any project to look at the future of reporting should also consider how technology, such as AI, data visualisation etc might radically transform the way data is accessed and analysed and how information is disseminated, consolidated and consumed. See our comments under **Priority areas for a future framework** > 1) *The role of technology* in the response to Q2 above.

Proportionality

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

There is no reason in principle why it could not, subject to our comments in response to Q1 and Q2 above. However, we believe there is more work to do on a number of areas before proportionality can be considered in detail.

Other

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?

See our comments in response to Q2 above where we identify a number of areas that we believe should be addressed in the next phase of the project, some of which are otherwise not covered by specific consultation questions - especially **Priority areas for a future framework** > 3) The building blocks of the wider framework and 4) Forward-looking information, including judgements, estimates and forecasts.

As we have set out above, we believe it is important for the '*Future of corporate reporting*' project to set its scope in a way that could result in substantial change to the legal reporting framework, including the existing structure of reports in the front half of a UK annual report.