ABI response to FRC DP Future of corporate reporting

About the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive, inclusive and thriving sector, our industry is helping Britain thrive with a balanced and innovative economy, employing over 300,000 individuals in high-skilled lifelong careers, two-thirds of which are outside of London.

The UK insurance industry manages investments of over £1.7 trillion, pays nearly £12bn in taxes to the Government and powers growth across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

Founded in 1985, the ABI represents over 200 member companies providing peace of mind to households and businesses across the UK, including most household names and specialist providers.

ABI response

1. We are grateful for the opportunity to comment on the Financial Reporting Council's (FRC) discussion paper, *Future of corporate reporting.*

2. We welcome the FRC's analysis of the fundamental principles of corporate reporting and its consequent challenge to the status quo. Currently, a company's annual report may be bloated and not link well to its other reports.

3. Hence, we support the FRC's proposals that the cornerstone of reporting should be a new form of concise strategic report that enables a broad range of users to understand how the company creates long-term value, and that this report should be supported by, and linked to, other detailed reports targeted at more specific needs of users.

4. For the proposed new business report, we are not convinced, taking into account significantly different company/stakeholder relationships, responsibilities and accountability, that stakeholder interest neutrality is an advance on an investor interest presumption. But if the FRC's research shows that users have the same interests at the strategic level, then that might matter. On nomenclature, we are not convinced that, 'business report', is better than the more neutral 'annual report'.

5. We agree that the supporting detailed 'network' reports can differ in a number of respects: mandatory/voluntary, investor/other focus, financial/non-financial/standing information; materiality approaches; audit/assurance/none; However, we see no need for any of them to be labelled 'Public Interest Report', nor indeed why the business report and the financial statements should be seen as being somehow not of public interest. Neither do we understand why the business report should concerned only with internal outcomes as this is inconsistent both with the stakeholder-neutrality approach and with this report being the centre of the reporting network.

6. We support the FRC's proposed communication attributes that would apply to the system as a whole – accessibility, connectivity, consistency and transparency – and likewise the proposed content principles that would promote effective communication at the individual report level.

7. On proportionality, we welcome the FRC's recognition that some reporting requirements would be likely to pose a conceptual challenge for smaller entities and create a considerable burden. But we

do not agree with its implication that what distinguishes smaller companies is simply that they need more time. Nor do we do agree with its assumption that all PIEs may be treated as if they are large companies. All insurers are PIEs, and yet many insurers are small. Instead, the cost/benefit assessment needed for any scope enlargement should include the need for proportionality by considering the possibilities of establishing separate, simplified frameworks, and of not making any change at all.

8. Our answers to the FRC's questions for respondents are given in the appendix to this response.

Association of British Insurers
February 2021

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Appendix

Questions for comments

Q1: What are your views on our proposals as a whole? Are there elements that you prefer over others?

1. Please see our cover letter comments.

Implementation

Q2: 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?

2. Practical challenges include changing legislation that it is aligned with the direction of travel and creates a framework which has flexibility for further development, and being able to draw on non-financial standards for which there is much work to be done, including to ensure global consistency.

3. At the preparer level, we would envisage initial investment costs and human resources to comply with requirements, as well as ongoing development and operational costs, but then with cost savings as reporting processes mature.

4. The additional cost and resource challenges for smaller entities could be significant and should be assessed further, particularly in relation to matters that are proposed to be included in a 'public interest report'.

5. Lastly, we note that the FRC considers that financial statements should contain more 'details of intangibles'. In our view, any such change in IFRS-based reporting should be driven primarily by changes to the requirements of IFRS standards themselves, so as to ensure global consistency.

Objective-driven

Q3: Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

6. We agree that, although companies can have a wider group of stakeholders, there may be sufficient alignment at the strategic reporting level with a unifying objective relating to long-term value creation. It is at the level of detailed supporting 'network' reports that different stakeholder needs are best recognised.

One set of principles

Q4: 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?

7. We agree.

Reporting network

Q5: Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

8. We agree.

Materiality

Q6: 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?

9. We agree.

Non-financial reporting

Q 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?

10. We support non-financial reporting standards as promoting quality and comparability generally, and we encourage the IFRS Foundation to establish itself as a sustainability standard setter covering climate-related disclosures (pending which we support the TCFD recommendations) and other ESG matters.

Q8: Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?

11. We agree.

Q9: Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?

12. We do not agree with the introduction of a Public Interest Report per se. We see no need for any detailed reports that support the new strategic report to be labelled 'Public Interest Report'. In addition, we would have concerns that a report of this title could lead to an ever-increasing list of disclosure requirements and therefore in costs to business to comply with these

Technology

Q10: 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?

13. We agree that technology can make information more accessible at the same time as facilitating the network approach and allowing reporting to be streamlined for the benefit of both preparers and users. The latter is a key consideration – we support the FRC's long-standing 'clear and concise' reporting aim.

Proportionality

Q11: Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

14. We welcome the FRC's recognition that some reporting requirements would be likely to pose a conceptual challenge for smaller entities and create a considerable burden. But we do not agree with its implication that what distinguishes smaller companies is simply that they need more time. They do not have as much resource, and their user needs may not be the same and are likely to be simpler.

15. Nor do we do not agree with the FRC's assumption that all PIEs may be treated as if they are large companies. All insurers are PIEs, and yet many insurers are small. Further, insurers are already subject to a quite separate and relatively onerous public reporting regime that is driven by prudential regulatory requirements and nevertheless reflects the need for proportionality.

16. Instead, the cost/benefit assessment needed for any further changes should include the possibilities of establishing separate, simplified frameworks, or of not making any change at all.

Other

Q12: 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?

17. Consideration needs to be given to the level of assurance relevant to each report within the network. There could be significant additional costs and time requirements placed on both reporting entities and their auditors depending on the outcomes of these considerations.

18. Submission dates for each report should be considered. Whether these are the same or are staggered could have significant resource implications for entities delivering the reports.