NatWest Group plc
Head Office
Gogarburn
175 Glasgow Road
Edinburgh
EH12 1HQ

Telephone: 0131 556 8555

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Future of Corporate Reporting
Financial Reporting Council
125 London Wall
EC2Y 5AS

Discussion Paper: The Future of Corporate Reporting

Dear Sir/Madam

We welcome this opportunity to respond to the discussion paper on The Future of Corporate Reporting, published in October 2020.

NatWest Group plc ("NWG") (formerly The Royal Bank of Scotland Group plc) is a financial services group providing a wide range of products to personal, commercial, large corporate and institutional customers and is a constituent of the FTSE 100. As a provider of finance, we are a stakeholder in large and small companies across the UK and beyond.

The 21st century context points to an ever-faster dissemination of information. Against this backdrop, the need for effective corporate reporting has never been more relevant. However, concerns about the quality of reporting diminish its value and risk undermining the confidence of users.

Our response addresses the overall question posed by the consultation, while also providing specific comments in the appendix to the twelve questions raised.

<u>Summary</u>
The Discussion Paper sets out sound ideas which should be taken forward. However, we also believe that some elements need to be considered more broadly to ensure that stakeholders remain able to access relevant information, in a straightforward manner and that corporate trust is not eroded.

Similar to a number of peers, NWG is moving in 2020 to the publication of supplemental reports on ESG and Climate to address the demand and coverage for this information. This will increase our volume of information from <500 pages to >700 pages at the Group level. The proposals for Corporate Reporting are, therefore, welcome; but, given companies are already embracing this idea, it is important that any new framework complements the moves already evident in the marketplace and are directed at maintaining quality so as to not lead to an over-proliferation of content.

In developing the reporting framework, it is essential that the FRC has clear regard of matters of global equivalence. Currently dual-listings in most jurisdictions are able to mirror existing UK reports (notably both the EU and US). This equivalence is a critical factor enabling companies to easily access equity and debt investors. Non-equivalence would create significant costs to companies, both in terms of the dual preparation of reporting, but also in the costs of engaging and attracting foreign investment.

I Desirable outcomes

Any change in the formal or legal frameworks for corporate reporting, should be justified and deliver clear benefits. We believe any changes should take account of the following factors:

Quality matters

The primary goal is to maintain the UK's position as a world leader in capital markets, in the face of changing expectations and demands from users and stakeholders. A fundamental element of this arises from the transparency, reliability and effectiveness of corporate reporting and corporate governance. To achieve this, the formal frameworks need to promote the highest quality of corporate reporting.

Length

A widening scope of formal requirements and regulations are leading to ever longer corporate communications. This leads to a risk that the most important messages are diluted or obscured. Outcomes that drive clear and concise periodical reporting will be more effective. The design of any proposals should recognise the already existing volume of information and help companies to be focused so as to limit any significant increase in this volume.

Promote use of technology

Information is increasingly consumed in different ways, and we would be supportive of approaches that embrace the possibilities for more effective delivery channels. However, it is critically important that corporate reporting is clearly identified, easy to navigate and complete. It is also important that reporting mechanisms work in different jurisdictions and do not conflict with legal requirements or formal market exchange requirements.

Proportionality

The needs and expectations of a FTSE 100 company are necessarily different to a small business. Any framework needs to respect such differences. In part this is a function of public interest, but it is also a reflection of the breadth of stakeholders.

Principles not rules

Frameworks that allow flexibility are likely to lead to better outcomes as they better accommodate changing circumstances and contexts. Frameworks that rely on detailed requirements rather than principles are more likely to lead to boilerplate reporting and the publication of minutiae of excessive length.

Global consistency

Changes that lead to greater divergence from global standards (of law or reporting requirements) will lead to greater complexity. Further, the development of ESG and Climate reporting standards are tending towards global development, and any framework developed in the UK will need to reflect and embrace this.

II Application of principles to specific opportunities to improve reporting

We set out below our views on options that have the potential to enhance reporting and put those principles into effect. We set out more detailed reasoning in the appendix.

Communication and corporate reporting

The Annual Report

The main benefit of the Annual Report as it currently stands is that it represents a single document containing all material information for the company. With recent corporate reporting developments (the introduction of the s172(1) statement), the Board articulates key stakeholders and describe how they interact with them and provide information that is relevant to those stakeholders.

A single integrated report covering the business, it's aspirations, performance, governance and risks retains attractions. In moving away from a single report, there is a risk that material information will either be dispersed, or that it will require repeating across multiple reports.

However, the Annual Report is becoming an increasingly lengthy and complex document and we do support moves that would allow for this to become more succinct. We support the focus on a Business Report supplemented by other relevant reporting. However, the Business Report, or a related report will need to include very clear and unambiguous signposting of where relevant and material information can be found:

- It is important that this framework is accepted in jurisdictions beyond the UK. For companies with dual listing this will otherwise create a significant additional reporting burden – leading to duplicate reporting.
- Users may need to carefully navigate between different documents to obtain information that is relevant to them. In such a framework, legal protection would be required (for both the reporting entity and its directors) from users not fully navigating those matters defined as part of corporate reporting.
- Company and director liability must be clearly articulated, since the unbundling of information and potential layering of materiality raises greater risk of confusion and misunderstanding from users and hence higher litigation risk.

Financial information

In our submission to the Brydon Report we set out that the provision of historical financial information continues to carry significant benefit. There is a clear and understood framework that underpins the measurement of historical financial information. This enhances the ability of users to compare companies with each other. The increasing length and detail of this reporting detracts from the ability of users to identify and understand key issues.

We support the development of more focused reporting, including a greater separation of the provision of this historical information from the broader annual reporting of companies. Financial reporting could operate on a six-monthly basis and the Annual Report, at year end, would represent a separate and fuller "company balanced scorecard". The benefits to this approach include:

- A more focused and shorter Annual Report.
- A report based on simpler key performance measures allowing for more targeted messaging.
- Separate publication of financials, in the same format from period to period would allow this important information to be reported in a more unified manner that is easier to compare to peers. For instance, the prescribed reporting formats in the US achieve a high degree of consistency and comparability.

Stakeholders, including shareholders look for long term value creation and this is not simply a function of financial reporting. It is right that reporting should reflect the broader considerations of sustainable value creation, and how/whether management delivers long term value and the performance measures that demonstrate its success or not.

The FRC proposals would help move towards this goal, and if properly constructed would support more effective communication with stakeholders on the most material subjects.

Separate reports

The FRC propose a Business Report, supplemented by the financial statements and other more specific reports. We believe that included within these reports, it may be appropriate to consider:

1. Viability/Resilience

   There is much attention given to enhancing the reporting (and audit) of going concern, and the Brydon Report itself made recommendations on enhancing the Viability report through the creation of a Resilience Report.

   We believe a separate report on viability would enable a broader report to be considered that was then better able to address how a company considers its viability and metrics that underpin that conclusion.

2. ESG

   Investors, and other stakeholders, increasingly recognise the importance of a wider range of information to understand whether a company is focused on appropriate goals and targets and operates in a responsible manner. We note and welcome the rapid development of Environmental, Social and Governance (ESG) standards and see this as the right way to articulate and expand this for reporting purposes.

3. Climate change

   Climate change risks and opportunities have come into sharp focus over the last year or so and corporates play a key role in responding to the challenge, including working to achieve alignment with the Paris Agreement. While climate change increasingly becomes central to company strategy, its approach to value creation and risk management, there is clearly a lot of development required in terms of data, measurement and reporting.

   As companies work to align with the recommendations of the Task Force for Climate related Financial Disclosures and other climate change reporting guidance we anticipate that in addition to key references in the main business report and risk disclosures that level of detail and explanation may also merit a separate focus report, at least in the years were the greatest degree of development and progress is being made.

   However, climate change is only one potential focus area in terms of ESG reporting and we believe the FRC should consider whether the goal is for a single sustainability or ESG report or whether individual reports will be necessary covering topics such as bio-diversity or human rights. There may not be a need to dictate individual reports but to establish the principles that would underpin the creation of new separate reports as part of a wider suite of communication.

There continues to be much work to develop models for carbon accounting. This may lead to future reporting that mirrors a financial reporting model with the ability to prepare quantified reporting that is either explicitly included within financial reporting or capable of presentation alongside financials. Development of the reporting suite will need to be able to cater to such changes.

4. Regulatory or sector specific reporting

Many industries publish sector specific reports or regulatory reports as part of their annual reporting cycle. A reporting framework needs to address how to include such reports and to allow companies to avoid duplication where the need of such reports overlaps with new reporting ideas.

5. Developing audit and assurance framework

An important consideration in developing the reporting framework is the equivalent development of audit requirements, or alternative assurance. This is a matter addressed in the Brydon report.

The development of bespoke separate reports raises the possibility of being able to broaden the use of experts by a company to provide additional assurance on corporate statements. We note in particular, that many of the areas of new reports increasingly concentrate on forward looking information and risks rather than the traditional scope of financial reporting. This means that for some matters greater assurance can be provided to users through the use of different professional groups. As an example, a broader resilience report may cover material that is beyond the historic audit remit. We believe consideration should be given as to whether other groups, such as risk consultancies, economists or bankers would have an important role in supporting these reports either alongside or even instead of a traditional audit approach.

Liability issues

Effective change will need to address the expectation gap that exists regarding the need and form of good reporting and the consequences for reporting entities and their directors for inaccurate or inappropriate information provision. At present this is established for capital markets filings on financial reporting but becomes more of a 'grey area' for non-financial reporting. Further, as highlighted in the Brydon report there remain some significant accountability gaps even with financial reporting outside of capital markets.

Audit and assurance

The development of any new reporting framework should also set out expectations on the use of audit and assurance to support the reporting provided.

Retaining trust in corporate reporting is central to the continued success of the UK economy and its global role in financial markets. As such, any reporting regime must have clear and robust requirements on accuracy. This is best provided by a strong audit and, where appropriate, reasonable assurance regime.

The Brydon report considers the role of formal control requirements and certifications. This would need consideration in the context of the full range of corporate reporting.

We would be happy to meet to discuss our comments in more detail if this would be helpful.

Yours faithfully

[redacted]

Katie Murray
Chief Financial Officer

NatWest Group

APPENDIX

We set out below detailed responses to the questions raised in the Discussion Paper.

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

This question is addressed in the main body of our response and we do not expand here.

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?**

Various challenges arise in moving to multiple documents across a broader range of stakeholders:

a) Reporting entities and their directors have legal responsibilities for the provision of information that will affect the likely decisions of primary users. It is important to understand how this legal landscape might be affected by a change in the mechanics of reporting. There is a risk that if poorly defined, directors and companies will face legal boundary issues resulting in the need to provide a large volume of information in all documents to protect themselves from liability.

b) Understanding and applying materiality will remain critical to ensuring the extended reporting suite is effective; it is likely to be complex to apply this concept across a range of separate reports with a wider stakeholder lens. Materiality is the adequate and sufficient disclosure of information that is necessary to enable users to make informed decisions. Users therefore need to be able to access that information and moving from single to multiple reports will need good navigation guidance to address the risk of obscuring information. It will make a significant difference to reporting objectives and outcomes how material information is spread across these documents, and whether it is, in effect, swamped, by non-material information that satisfies periphery user groups.

c) There will inevitably be cost increases involved with extending or developing reporting, and the extent or pace will be determined by balancing the cost with the benefit. However, as we anticipate that the information required for the extended reporting suite and in particular on ESG and sustainability should also be required internally to measure and understand value creation so much of the incremental cost in developing reporting should also drive better business information and decision making. There is real risk that any new proposal translates directly to new and extended commentary which will add significantly to the volume of information that companies already publish (NWG will for instance publish in excess of 700 pages of information in multiple documents ignoring subsidiary reporting) as part of its year end reporting. Increases in this page count is likely to be counter-productive, since companies will look to simplify/standardise delivery which risks reducing the richness/quality of content, as well as making real challenges to directors in their review.

d) The fragmented nature of the ESG policy and framework guidance landscape also presents a key challenge. While consolidation and development of the policy and frameworks available will be beneficial the development of reporting will ultimately be limited by the progress achieved, so developing consistent detailed sustainability reporting standards and guidance will be key.

e) Whether the network of reports is defined by theme or subject matter or audience will affect the ease of access to information.

    i. Ordering by subject matter will potentially allow individual users to 'select' the reports that they believe are most material to them. The risk is that they will overlook material information because it is in a document that they believe to be of less importance.
    ii. Ordering by stakeholder/audience should ensure that all relevant information is provided to that audience but does risk significant duplication between reports.
    iii. Even within the context of a network of separate reports, a future model needs to consider whether integrated reporting or bifurcated reporting is most appropriate. We would continue to encourage any reporting model to retain an integrated approach that allows relevant similar information to sit in one place, so any model must avoid losing this outcome.

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

An integrated annual report represents a single source of material information for users, with a natural bias towards primary users, reflecting their need to make investment decisions. In recent times these primary users are increasing their demand for a broader set of information that demonstrates a company's approach to non-financial issues, including climate, and how it addresses longer term value creation and sustainable outcomes. The move to a reporting suite, as proposed, should primarily support the requirements of these primary users before considering a wider view.

Other stakeholders are interested in obtaining information about companies and seeking to influence them, but do not make investment decisions. Therefore, while companies are likely to consider a wider range of stakeholders in how they assess and make decisions, this does not automatically lead to the conclusion that those groups require formal reporting to be directed at them. For instance, employees are a clear stakeholder group, but companies are well able to provide relevant information to them off the back of existing reporting rather than a separately addressed report.

Separate reports do allow for greater segmentation of reporting and this may well foster greater engagement with stakeholders that matter to companies. However, we do believe that this is the focus of formal corporate reporting should remain to those that need to make formal investment choices about the company.

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

We agree with the system level attributes proposed. However, we do not entirely agree with the articulation of report level attributes and content communication principles:

- It is not entirely clear why there is thought to be the need to separately characterise report level and content communication ideas and we suspect that the communication principles are either system-wide or report relevant.
- There is overlap between the two sets described: for instance, “brevity, comprehensibility, usefulness” is highly comparable with “fair, balanced, understandable”.

We recognise that the FRC is contemplating the ability of regulators to specifically define report level attributes, we believe that this is a question of scope for a specific report and not about attributes which should be common to any report in a corporate reporting framework. This is because corporate reporting is designed to enable users of accounts to make informed decisions, so regardless of the basis and scope of a report principles of relevance, reliability and balance are critical.

We note that the IASB framework appears to be relevant here noting that reporting should be relevant and faithfully represented. They also note that a company will enhance the quality of its reporting when it is comparable, verifiable, timely and understandable.

We recommend that the report level and content level principles are combined to reflect:

- Fair, balanced and understandable
- Relevant
- Reliable
- Timely
- Faithfully represented
- Comparable

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

The spectrum of information that companies publish, and which various stakeholders want access to mean that a single document is becoming somewhat unmanageable as a medium of communication.

We support the proposal to move towards a controlled network of reports that enable the quality and relevance of reporting to be enhanced.

However, as noted above, this approach does introduce some risks and challenges that we believe need to be properly addressed:

a. The update of the legal responsibilities (and corresponding liability) of reporting entities and their directors to align to the use of these broader reporting networks.
b. The need to understand cross-border ramifications: NWG is a UK- and US-listed institution. As such our corporate reporting must comply with relevant laws and regulations in both the UK and US and be released into both markets. In some instances, the US Securities and Exchange Commission allows NWG, a “foreign private issuer” to follow certain “home country” rules for corporate reporting (ie, material change reports), which are then released into the US effectively by utilising coversheets for its UK-issued documents. Should the UK corporate reporting regime deviate too far from the US regime, additional disclosures may be required, which will create significant additional cost to prepare and deliver. It may also create additional legal risk

arising from potential inconsistencies in how information is provided in the two jurisdictions and what is legally determined to be available to individual stakeholders. As such, this should be taken into consideration when considering a new reporting framework.

c. Does information need to be made available to all stakeholders regardless of relevance or is it just that each stakeholder must have access to information specific to them?

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 are unclear as to how the FRC views its proposed application of materiality, and it seems inconsistent with the purpose of corporate reporting.

The FRC states that the purpose of corporate reporting is to enable stakeholders to:
(a) understand the performance of the company and how it creates and sustains value,
(b) make informed decisions and
(c) actively engage with the company and hold it to account.

Accordingly, material information is that which affects the execution of these three activities – specifically how the stakeholder/user makes decisions on the information presented.

However, by setting the determination of materiality based on the individual report being produced ignores the question of how the recipient uses it and whether it enables appropriate conclusions to be drawn.

We agree that materiality cannot purely be considered through a quantitative lens, and with a greater focus on non-financial information, a financial articulation of materiality is not always going to be relevant nor appropriate. We also agree with the timeframe considerations with structured definition what is material in the short, medium, and long term being relevant.

With an ever-increasing spectrum of stakeholders there is also the introduction of the risk that the needs of these stakeholders will not be aligned and could even be contrary. This introduces the risk that a company over-supplies information and risks obscuring information that is critical to certain stakeholders. This is particularly true when we consider some aspects of public interest for which often the appropriate response is more information, against those users that need to make specific economic decisions about whether to invest or do business with the company.

Instead, we believe the concept of materiality should be governed by a set of common principles and then articulated by the company itself. Materiality is the provision of adequate and sufficient information that allows a stakeholder to:

i. Understand the performance of the company against the goals and targets it sets
ii. Be informed on the material risks faced by the company, and how these are mitigated or managed by the company
iii. Understand the long-term ambitions of the company enabling a stakeholder to conclude on whether they wish to partner with the company
iv. Provide a basis to understand how the company affects the ecosystem it operates in and engages with its stakeholders, holds itself to account and enables challenge

The company may then choose to use additional metrics or quantification to help users understand the level of accuracy that the company uses in providing this information.

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 that for corporate reporting to be effective there need to be clear frameworks that underpin that reporting, such as the International Financial Reporting Standards underpin financial reporting.

This does not necessarily mean regulatory standards are required, though there are clearly consistency benefits that can be achieved where common frameworks are used by all participants. It does require that users identify the frameworks that they apply and then do so consistently and coherently.

If public interest or resilience reports are to be requested, then these will need to have appropriate frameworks that articulate the requirements and relevant approaches that apply to the presentation of financial or non-financial information that would be contained within them. We note that increasingly frameworks for non-financial information are being developed at an international level, and so any UK developed framework would need to work alongside that.

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

9. **Do you agree with the introduction of a Public Interest Report and the suggested content set out?**

We understand that in part this question will be considered through the Brydon consultation.

We recognise the ever-increasing demand for non-financial reporting and are supportive of the concept of a wider reporting suite. We also support the use of non-financial information in the Business Report that relates to demonstrating value creation. There will be potential implications for some financial and risk reporting for areas such as climate and responsible business topics. As such we anticipate that the non-financial reporting will impact the entire suite not just the public interest report.

Further, while we agree with the need to provide public interest reporting we consider that the idea of focus reports providing detail on public interest topics might be more appropriate than a fixed format Public Interest Report. For example, a Human Rights report or a Climate report – there is also a place for a wider ESG or public interest report, but the proposal should allow enough flexibility to ensure that comprehensive reporting is provided and new or emerging focus areas such as biodiversity can be accommodated over time. The suggestion of using the split of focusing on internal impacts and external/societal impact for the location of the disclosure is a potentially useful one. We also anticipate that some more complex areas are likely to need comment across several components of reporting and there may need to be judgments made as to the best location for particular aspects of reporting; any framework needs to enable this, and not be so rigid as to be unable to evolve as the marketplace changes.

Any development of public interest reporting should be in alignment with the consolidation and development of the non-financial reporting policy and guidance landscape. A consolidated standard policy framework is critical to the development of public interest or non-financial reporting that is comparable, subject to independent assurance and in line with investor and regulator expectations. We fully support the various initiative underway to drive the consolidation of the existing frameworks such as IIRC/SASB/TCFD/GRI/CDSB etc.

However, we challenge the point in relation to whether the development of non-financial information should result in it having both the same importance as financial and be prepared with the same level of rigour from the outset. As with financial information materiality needs to be considered and not all non-financial information is of equal importance or sensitivity at this point in time, though this may well change in the future. Understanding the materiality and impact of non-financial topics is central to determining the right level of controls and prominence. Good non-financial reporting would reflect this materiality assessment and be clear on what the most important matters were. Where non-financial topics are considered to be important or significant in terms of strategy or risk then the related reporting controls and prominence should be aligned to the financial equivalent.

The development of reporting also needs to take account of likely future evolution of that reporting. As an example, for climate change, there is much work to develop carbon accounting frameworks. These lead to the development of far more quantified presentation of information, and in some instances may even result in the inclusion or development of financial information. Reporting frameworks therefore need to be able to cater to such changes and how this is presented across the suite of reports.

In addition, we agree with point made in 6.5 and 6.6 about being careful to cover both the impact that non-financial issues have on the sustainability of the company strategy and business model but also the impact the company has on the eco system in which it operates. However, in terms of terminology for impacts it is not entirely clear what the difference is between external and societal outcomes.

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?**

The effective use of technology will be important in a move towards a network of related reports, by enabling better linkage and navigation between these reports.

Dedicated website space, or reporting apps (for devices), would allow key concepts, materiality and individual reports to be fully linked and support easy navigation between different components. This would also allow for easy flagging to users that new material was available.

However, we note that XBRL tools generally favour a subset of users who wish to run detailed analysis and comparisons across companies. Unless facilitated by standardised reporting templates (similar to US), then this may not enhance general access to the information available.

Additionally, we do not see single format engagement with all users and we continue to need to make information in multiple formats to allow appropriate accessibility. In developing more sophisticated tools to support reporting it is important that we do not disadvantage users that require different mediums of access to this information.

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

We agree with the proposal on proportionality. However, we would note that users of accounts highly value the ability to compare one company to another; it is therefore important that the implementation of proportionality does not reduce comparability – for instance, making sure that the information content is only pared back as appropriate rather than different forms of presentation permitted.

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?**

Expectations on quality and accuracy of reporting

Audit and assurance are a critical element of a framework for corporate reporting. We are aware that there are outstanding recommendations with respect to the Brydon report that will inform this debate; however, the move to a network of reports will necessarily affect the scope of the work of an auditor, and we believe the FRC should be considering recommendations for audit and assurance alongside the evolution of the reports themselves.

The nature of audit is most relevant in the consideration of historical financial information. Therefore, we believe that it may not be appropriate to extend the role of audit to other reports that will sit within the network proposed by the Discussion Paper. We further note that the current framework of 'reasonable' and 'limited' assurance offers significant variation in the quality and breadth of that assurance. Looking at other jurisdictions, we see a move towards new forms of assurance, such as "outcome reporting" which may have value in supporting some of the documents proposed on Public Interest, ESG and Climate reporting.

In our experience, stakeholders have a high expectation of the quality of corporate reporting made by a company. Ensuring that this expectation is maintained is a pre-requisite of ensuring a trusted corporate environment. Audit and assurance are a necessary part of this.

Control effectiveness

In a similar vein, the Brydon report commented on the benefits of introducing greater formality over company statements regarding the effectiveness of their reporting controls.

In moving towards a revised framework of corporate reporting, it feels relevant to consider the necessity of the existence, and reporting of the controls that companies use to ensure the accuracy of their performance reporting and narrative.

In developing a future framework, it seems appropriate to consider whether this information should be subject of separate reporting, a characteristic of the system or of a report. It may be worth reflecting that the COSO model was a private-sector initiated piece of thought leadership that was then adopted for the introduction of Sarbanes-Oxley.

Legal framework

As previously commented, some elements of public reporting by companies is subject to legal or regulatory requirements.

In looking to make changes to the reporting framework, we believe it is necessary to review the prevailing legal (and potentially regulatory) frameworks to consider what changes are required to these to maintain alignment with the developments in reporting.