Financial Reporting Council
8th Floor
125 London Wall
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4th February 2021

Dear Sir/Madam,

Thank you for giving us the opportunity to comment on the FRC's discussion paper: *The Future of Corporate Reporting*.

The Investor Relations Society represents members working for public companies and consultancies. It has approximately 800 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250. Its mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

We have consulted with our members and within our Policy Committee and have set out our responses to the questions from your consultation below.

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

We broadly agree that the traditional annual report is becoming too long and unwieldy, and we support aspects of 'The Future of Corporate Reporting' discussion paper. However, it is our view that the primary focus should be on streamlining and improving the existing annual report, rather than pursuing a wholesale change in format to create a network of reports.

Each year, as part of its Best Practice Awards, the Investor Relations Society, and its judging panel of industry professionals, reviews annual reports across listed UK and international companies, and we have noted ongoing improvements in the quality of entries as companies continue to adopt an integrated approach to their reporting.

Indeed, many companies have achieved a great deal within the existing reporting framework: successfully considering a wider group of stakeholders, as required under Section 172, and integrating environmental, social and governance (ESG) factors into their businesses and reporting. Many are adopting the frameworks for non-financial reporting that are gaining global recognition, such as the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainable Accounting Board Standards (SASB). It is our expectation that annual reporting will continue to develop and build upon these elements still further.

The proposals to separate the annual report into a network of reports raise a number of concerns which we have outlined in greater detail in response to the questions below.

Q2. What do you see as the key practical challenges of implementing our proposals? Do you have suggestions on how these could be overcome? What do you see as the costs and benefits of the new model?

Within most organisations, the planning and preparation of the annual report is usually a team effort, bringing together some or all of finance, company secretariat, investor relations, marketing and communications, among others. Creating a network of reports may result in the fragmentation of that team effort, with individuals and teams 'hived-off' to work on specific content. This may marginalise employees, or teams, that are given the task of working on aspects of the reporting network that might be considered 'non-core'. It is also likely that companies would need more resources to produce and cross check data across multiple reports and a risk that, over time, these separate reports may grow rapidly in size.

In addition, the extra resource required for multiple reporting may lead in large companies to the reporting function becoming too separate from the operational business and therefore losing the integration benefits, whilst in smaller companies the resource requirement will simply be unmanageable.

Furthermore, concerns have been raised about the challenges in obtaining the same level of attention from the board to review a network of reports instead of a single annual report, leading to potential governance challenges.

We also note the need for international alignment, to avoid a significant increase in costs and resources for companies reporting in multiple jurisdictions.

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

The concept of stakeholder capitalism is gaining momentum, and we welcome the ongoing progress towards corporate reporting becoming focused on a wider group of stakeholders. As noted in Q1 above, Section 172 has already resulted in many companies making good progress toward this end.

We firmly believe that the annual report must reflect how corporate boards are engaging with and considering a wider group of stakeholders in their decision-making, whilst not losing sight of the primary intended purpose of the annual report, which is to communicate the financial position and performance of a company to its shareholders. It is important that the FRC considers the views and needs of this primary user group in any proposed changes.

The annual report has, for many years, been used by a wider group of stakeholders (for example existing and prospective employees, customers and suppliers) to gain a better understanding of the business, its performance and prospects. We question whether the needs of these stakeholder groups are sufficiently different, and whether the development of a network of reports would better service these groups than a single, clearly defined, annual report.

Conceptually, objective-driven reporting makes sense although these objectives must ultimately be aligned with the needs of the end user to ensure the report remains relevant and useful.

Q4. Do you consider the set of principles (system and 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?

In our view, the principles set out in Section 2 would benefit the quality of corporate reporting. We note that a number of these principles are already being applied within the current reporting framework.

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

We are strongly in favour of steps to improve the relevance and accessibility of information and we agree that more concise reporting is required. As noted in Q1, our preference would be to streamline and improve the existing annual report rather than create a network of reports.

Recently, we have seen a small but growing number of companies delivering simplified 'black and white' annual reports. Done well, and supported by a well-designed website that is rich in content and kept regularly updated, this can be very powerful. Indeed, it is our view that companies must embrace digital communications across all aspects of their reporting, and we would urge the FRC to ensure this is embedded in any proposed changes to the current annual reporting system.

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?

We would like more detail on the proposal for materiality to be dependent on the objective of a report. At present it is not clear how this proposal might work in practice, including how materiality could be defined in non-financial terms and fit with the principle of 'true and fair' reporting.

Q7. 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?

Many of our members are at different stages in their ESG journey. Although we have seen excellent progress, which has been accelerated by the pandemic in many instances, we have been hearing for some time that increasing demands for ESG disclosures and the raft of voluntary frameworks can be confusing for companies.

As such, we welcome the development of globally recognised standards for non-financial reporting to enhance the consistency and comparability of data, whilst avoiding the creation of a 'one size fits all' model. In our view, these global standards must provide sufficient flexibility for companies across different sectors and of different sizes and complexity to tell their sustainability story in their own terms.

We hope that future standards will be developed based upon the existing frameworks that are being widely adopted and endorsed by corporates, investors and wider stakeholders. For example, a number of our members have already adopted, or are beginning to use, the TCFD framework on a voluntary basis, ahead of new 'comply or explain' Listing Rule and expected mandatory disclosure requirements that have been announced by the government. SASB has also received widespread recognition, and has recently partnered with GRI, CPD, IIRC and CDSB to work on a unified framework.

We would also expect the development of global standards to build upon existing legal and regulatory requirements for UK listed companies, such as those set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

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

We agree and many companies do this within the existing reporting framework, including the requirements set out in Section 172.

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

Matters relating to ESG and/or the public interest should be part of the company's strategy and business model, and indeed integrated into every aspect of the business - to become part of the company's DNA and purpose. This was evident prior to the Covid-19 crisis but we have seen a rapid acceleration in this trend over the past year, as a result of the pandemic.

In our view, splitting this information into a separate report contradicts the wider direction of travel for integrated reporting and how companies think holistically about ESG. It may also lead to overlap and repetition in content between the key Business Report and Public Interest Report, causing potential confusion and frustration for the reader.

It is not mentioned in the discussion paper how company RNS announcements, often the primary source of information for users on the day of results, would be adapted to reflect the proposed changes.

We acknowledge that the demands and requirements for non-financial information will continue to increase. We believe it is important to provide companies with clear guidance on their legal and best practice disclosure requirements in the annual report, as part of a wider initiative to streamline and improve the document. Where appropriate, companies may wish to continue expanding upon their ESG credentials, activities and accomplishments in a separate report or within a section on the corporate website. In our view, this should not be prescriptive.

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?

As noted in Q5, we have seen a small but growing number of companies delivering simplified 'black and white' annual reports. There is a clear and important opportunity to develop the role of digital, and in particular the role of the corporate website, in the annual reporting process. Well-designed corporate websites should be rich in content, setting out the company's strategy, business model, key markets, corporate purpose and so forth, and kept regularly updated. It also provides a platform to share presentations and other materials with stakeholders, and bring communications to life through the use of images and videos.

We see tagging to provide extra functionality as a positive step forward for users. However, some consideration must be given to the potential increase in time and cost to investor relations teams, in particular within small cap companies.

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

Whilst we are sympathetic to the ambitions of the initiative, we are concerned that the proposals may not achieve a proportionate reporting regime for companies of different sizes and complexity. The separation of the annual report into a network of reports is likely to lead to the fragmentation of teams and an increase in the resources required to produce multiple documents. The consultation paper does not set out in sufficient detail how the proposed network of reports would be adapted / flexed to accommodate companies in different sectors, and of varying sizes and levels of complexity.

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?

Before embarking upon change we believe it is essential to engage with the users of annual reports to determine their views and requirements, and the extent to which the current system is meeting their needs. As noted in Q1, many companies have already made significant progress within the current reporting framework. There is already a great deal of momentum for change, and there are a number of positive attributes which can be built upon to develop and improve the existing annual report.

Please do contact the IR Society's head of policy and communications, Kate Heseltine, at kate.heseltine@irsociety.org.uk should you wish to discuss our comments further.

Your sincerely,

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