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# The Financial Reporting Lab

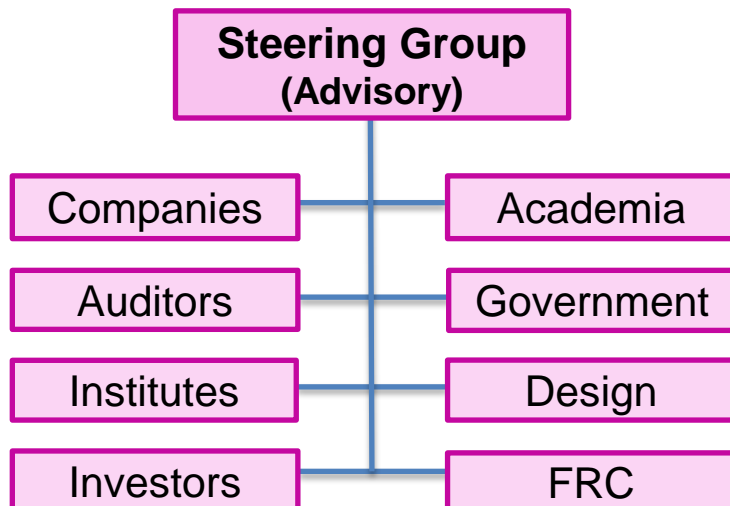
Helping companies and investors improve corporate reporting



# Vision

*“To promote market innovation in corporate reporting through publication of influential, evidence-based research, presenting practical and pragmatic solutions developed with companies and the investment community, addressing their issues.”*

**Market driven: helping market participants innovate and improve**

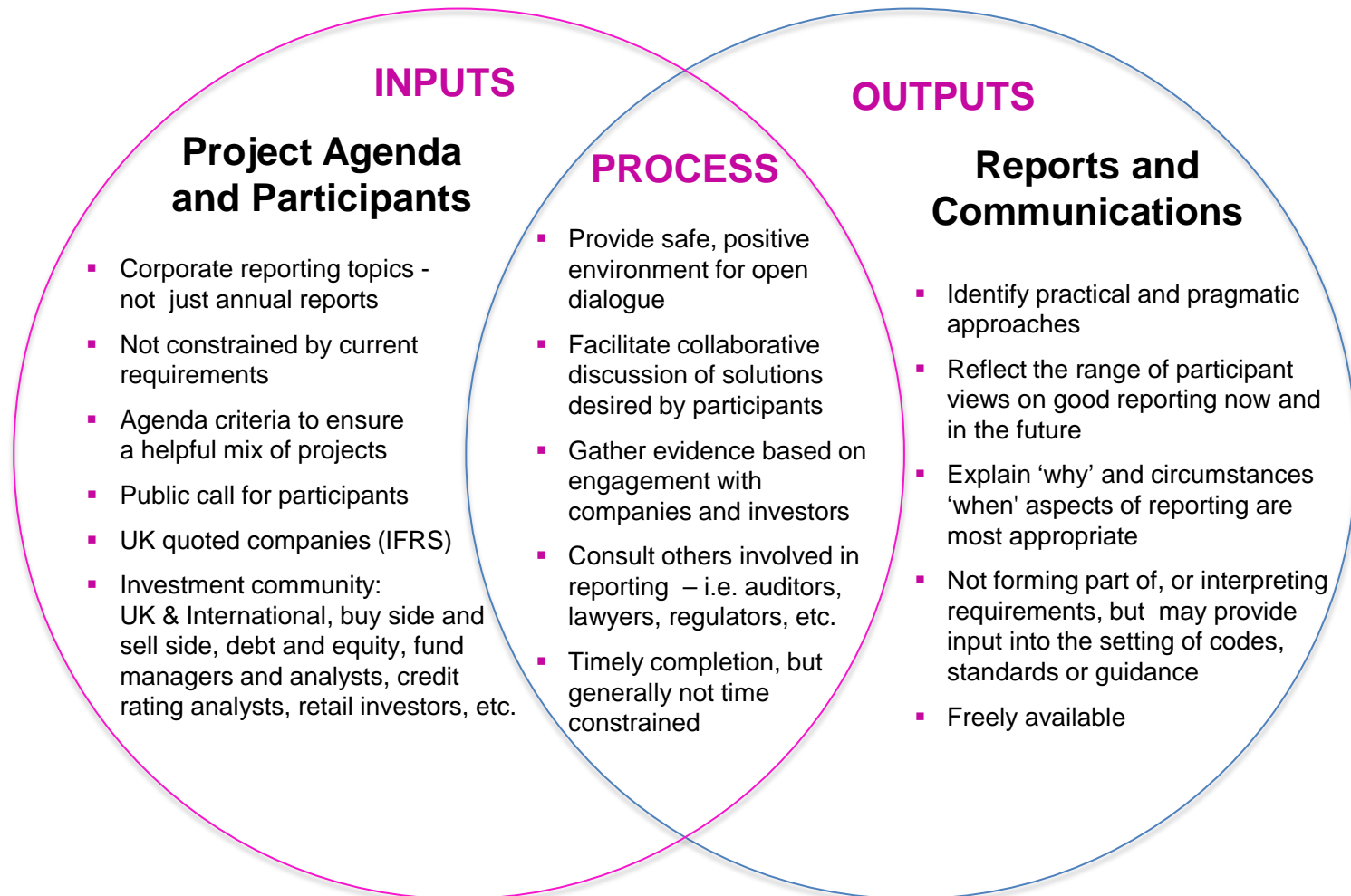


## **Project participation from over:**

- 70 companies;
- 100 investment professionals; and
- 300 retail investors.

**9 reports published since launching the Lab in late 2011.**

# How the Lab operates to influence high quality corporate reporting globally



# Published reports

## Latest reports

- Towards Clear & Concise Reporting
- Accounting policy disclosures and integration of related financial information

## Governance

- Reporting of Audit Committees
- A single figure for remuneration
- Reporting of pay and performance

See also: [Lab reminders for the 2014 reporting season](#) – a summary of points from the Lab's published reports

## Financial reporting

- Debt terms and maturity tables
- Net debt reconciliations
- Operating and investing cash flows
- Presentation of market risk disclosure

All reports are freely available: <https://www.frc.org.uk/Lab/Reports>

# How the Lab operates – Remuneration reporting

The Department for Business Innovation and Skills (BIS) presented opportunities for the Lab undertake two projects to obtain views from companies and investors on:

## Single figure for remuneration

- The Lab conducted interviews with 9 companies, 9 investors and 3 investor representative bodies to obtain initial views.
- The initial views were enhanced through a series of conference calls and meetings between the Lab, investors and companies.
- Participants developed the elements of remuneration to be included in a single figure, relatively simple measures for each, and a set of related disclosures.

## Reporting of pay and performance

- The Lab worked with 28 companies, 13 investors and 4 investor representative bodies.
- Through a similar process, participants agreed retention of the current graph comparing CEO pay with Total Shareholder Returns, and the content and format of:
  - relatively simple scenario charts showing how pay might vary with performance;
  - a table of historical CEO pay versus the maximum potential amount.

The Lab's published reports were presented to BIS for consideration in their development of legislation. All aspects were enabled in the final legislation.

# Recent reports

## Towards Clear & Concise Reporting

- Study of what companies did to make a difference in their 2013 annual reporting, including:
  - using communication channels to match information to users' needs;
  - focusing content on what is most important to investors;
  - applying materiality criteria, removing immaterial disclosures and focusing on significant accounting policies; and
  - using layout to improve clarity and cross-referencing to reduce duplication.
- 2 company case studies illustrating the process undertaken to achieve change.

## Accounting policy disclosure and integration of related financial information

- Project with input from 16 companies, 19 institutional investors/analysts and representative bodies, and over 200 retail investors.
- Key messages on:
  - Improving the prominence of significant policies, enhancing the disclosure, and considering where in the financial statements to include the disclosure; and
  - Considering whether, and where to present non-significant policies.
- Integration of the financial review with the financial statements

# Other reports

## Reporting of Audit Committees

- Project with input from 19 companies, 20 institutional investors/analysts, and 6 investor associations.
- Key messages on:
  - Personalising reports and being specific to the company;
  - Saying what was done using active, descriptive language;
  - Disclosing judgements made, sources of evidence, conclusions and the consequences for the financial statements;
  - Considering where information is best included and avoiding repetition;
  - Describing the assessment of audit effectiveness, approach to appointing the auditor, and safeguarding of objectivity and independence relative to non-audit services.

## Debt and cash flows - 3 reports

- Project with input from 5 companies and 16 institutional investors/analysts and investor associations.
- Practical suggestions on how to answer basic questions on:
  - how much debt is owed;
  - when it is due;
  - its risk profile; and
  - the conversion of operating profits to operating cash flows.
- Several suggestions on showing changes over the period in debt, and providing more insight on restrictions on the movement of cash within the group have been included in recent IASB proposals.

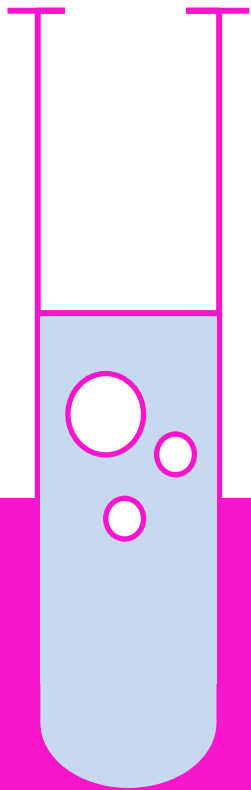
# Current projects

- Corporate Reporting in a Digital World – optimising what digital reporting may offer
  - Digital present – current usage of digital reporting
  - Digital opportunities and barriers – what is desired for the future
- Disclosure of Dividend Policy and Capacity
- Clear & Concise case studies
  - A close look at company reporting changes with input from investors on whether they have made reporting more clear and concise. Topics likely to include:
    - Accounting policies
    - Strategic report
    - Financial review and pensions reporting
    - Business model





**Find all the Lab's reports and updates on current activities through our web page:**



<https://frc.org.uk/lab>