Financial Reporting Council
Future of Corporate Reporting Advisory Group
By Email

4 February 2021

Response to Financial Reporting Council discussion paper on 'The future of corporate reporting'

Royal London welcomes this discussion paper (the 'paper') on the Future of Corporate Reporting, which challenges the current position and analyses existing principles and thinking behind corporate reporting. We support the principle of replacing existing corporate reporting requirements with an adaptable model that allows for continual improvement in the future.

We appreciate the opportunity to comment on this review and our specific responses to the questions included in the paper are set out below.

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

   We agree that the current Annual Report and Accounts (ARA) is a somewhat cumbersome document and is not user friendly, so there is a clear rationale for separating it into an integrated network of shorter, more focused reports, which address key points and avoid unnecessary detail. A key aim of the project, therefore, should be that the length of the new reports is less in total than the current ARA. We would also note that the content of the reports would need to be clearly defined to avoid any duplication (both in content and preparation effort) and in order to provide a real benefit to stakeholders and users of corporate reporting. If the content of the reports is not prescribed, comparability between entities will be difficult.

   As noted below in our response to question 2, it will need to be established what level of assurance will be required for the network of reports. The proposal notes that the 'true and fair' principle should be applied to all reports, but it needs to be clarified whether there is also an expectation that the reports would all have some form of assurance from an external party.

   It is worth noting that the current ARA is one place where all information about a company can be found and disaggregation of information may make it harder for the reader to get a comprehensive perspective over all relevant aspects of a company. There should be a balance between avoiding duplication of content, whilst at the same time providing users with the information they need, particularly if each report is intended to be standalone.

In addition, there would need to be consideration of reporting deadlines and filing requirements, as having different publication dates across entities and reports reduces comparability for stakeholders. There needs to be clarity on where reports will be filed and how existing Companies House requirements are met.

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 cons and benefits of the new model?***

We consider the main challenges of implementing the paper's proposals are:

- The initial implementation costs to set up the new corporate reporting framework.
- The clarity of scope of reporting may take time to embed.
- Changes required across the regulatory and statutory landscape (e.g. Companies Act 2006). For example, it is not clear how the AGM requirements would be met: it is assumed that all the new reports would need to link to the AGM as several elements are required to be put to the shareholders/members under current legislation.
- It needs to be clear where the current corporate governance report would sit. This is important as it deals with a considerable proportion of the new Business Report and new Public Interest Report.
- The audit scope would need to be clearly defined. If assurance is required for all reports, including aspects that are not subject to assurance now, then there is a clear cost implication and potentially questionable value.
- The separation of the reports may lead to the financial statements having more prominence over non-financial reporting, because of their importance to investors. This would be contrary to the aim of the proposals in the paper.
- The overall ownership and co-ordination role within companies would need to be embedded, as would the governance process for all reporting.

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

We acknowledge that there has been increased focus in recent years on a wider group of stakeholders than the traditional 'primary user' of the ARA and as such believe it is appropriate to address these areas through several targeted reports. However, we consider more work is needed to get a consensus amongst investors of the information they need and want. Some form of cost/benefit analysis would be helpful before additional reporting becomes a requirement.

In particular, we note that responsible investment and ESG information included in standalone reports might be more useful than existing ARA disclosures to those stakeholders with a particular interest in these areas.

However, we also observe that there would potentially need to be additional and enhanced disclosure on certain topics such as: anti-bribery, anti-corruption, human rights and environmental issues. There are several separate reports currently, which could be consolidated into the proposed targeted reports, such as the Gender Pay Report and Payment Practices Reporting.

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

   We agree that the proposed principles would be helpful but note that there should be a balance between prescription and relevance/usefulness to stakeholders with the overall focus being on improving the quality of reporting.

   The report-level attributes outlined in the paper are not dissimilar from what is already in place.

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 materiality should be considered in the context of each report given the different stakeholders. For example, in non-financial reporting, disclosures should be viewed in relation to other items, to determine whether they are sufficiently significant to warrant separate disclosure.

   Our understanding is that the proposals in the paper would mean that materiality would be viewed in terms of the impact on the end stakeholder rather than just in terms of a financial amount. However there needs to be clarity and consistency over what materiality should be used for non-financial reportsas in the absence of a materiality framework there will be a wide range of interpretations.

7. ***Do you believe 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 consider the introduction of regulatory standards for non-financial reporting would only be useful if they achieve consistency of reporting across countries and sectors and aid comparison between peers. There are currently several different frameworks for non-financial reporting, e.g. TCFD disclosures, SASB metrics, EU non-financial statement requirements etc. so it would need to be clear which requirements would take precedence. We also note the IFRS Foundation's recent consultation on sustainability reporting and whether there is a need for a global standard.

   Any additional regulatory standards for non-financial reporting would therefore need to address these points in order to achieve the objectives of the paper and provide a more agile approach to corporate reporting, so that reports can be flexed as necessary to meet changing requirements.

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

   Yes, but we note that this would appear to be an extension of the current Companies Act requirements for a section 172 statement.

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

   We agree with this approach, but it is worth noting that some comparatively small companies may still be public interest entities (PIEs) by virtue of their business, e.g. insurers, including very small insurers. As all of their content is likely to be of public interest we do not consider there to be a significant benefit from requiring a separate Public Interest Report for these smaller entities. In addition, we question the title of this report as calling this the Public Interest Report implies that the other reports in the suite are not of public interest. This may also lead users to see this as the main report with other satellites to it, which is not the intention.

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?***

    We agree technology is key in driving forward the proposals in the paper. Without efficient systems in place, it will be difficult to achieve the consistency of reporting required by the proposed model. Current technology exists to allow the proposed reporting to be connected to other information and data used within organisations and ensure consistency across different external reports. However substantial investment is required by organisations to implement this and embed across reporting.

    We also note that although digital by default is a reasonable approach, provision still needs to be made for those stakeholders who do not have access to digital media.

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

    Royal London is a PIE. As such, the proportionality of the proposals, would not apply. That said, we agree with the principle that different requirements would be needed depending on the size and complexity of a company. We note that the intention of the proportionality proposals is that the Public Interest Report would apply to 'only the very largest companies', but it is proposed that this report is required for all PIEs, which will include some smaller entities, for example, small insurers. Therefore, for a small PIE the proposals appear contradictory.

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?***

    The proposals should seek to ensure that any areas of impacted regulation and law are properly considered.

    Additionally, the scope of audit responsibilities needs to be confirmed and clarified. If the intention is to include all of the financial and non-financial corporate reporting in an external audit, the skill-sets and capabilities of audit firms would need to be extended to ensure a good quality audit is provided. There would also be a cost implication for preparers as the cost of the audit would increase, potentially significantly. A thorough cost benefit of any change in this area would be needed.

Finally, the frequency and timing of reporting need to be established. Reports might be produced on an annual basis and, if so, there needs to be consideration as to whether these are published at the same time as a suite of reports or whether there is more flexibility regarding the publication of certain reports that can be issued at other times of the year. If reporting is spread across the year, consideration would be required on how to satisfy the requirements for several aspects of corporate reporting to be put to members/shareholders for approval at the AGM.

We agree that a thorough review of corporate reporting is required and broadly concur with the paper's proposals which seek to address the current difficulties of trying to achieve too much in one document (the current ARA) with the result that few stakeholder groups are satisfied with the information provided by corporate reporting.