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5th February 2021

Dear Sir or Madam,

**United Utilities Group PLC response to the Financial Reporting Council's Discussion Paper: 'A Matter of Principles: The Future of Corporate Reporting'**

I am pleased to provide a response on behalf of United Utilities Group PLC ('UUG') to the FRC's recent discussion paper on the future of corporate reporting.

UUG is the UK's largest listed water and wastewater company. Our purpose is to provide great water and more for the North West, with our core activities being the delivery of essential water and wastewater services for household and business customers across the North West of England.

As an organisation we focus on what matters to our stakeholders, and pride ourselves on our corporate reporting as a means of explaining our purpose and demonstrating how we work towards delivering it.

As the provider of an essential service and a key custodian of the natural environment, reporting on Environmental, Social and Governance ('ESG') issues is high on our corporate reporting agenda. This is reflected in our most recent Annual Report and Financial Statements for the year ended 31 March 2020, which, in addition to providing high quality information on our financial performance and position, contained information in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and was an Integrated Report prepared and presented in accordance with the International <IR> Framework published by the International Integrated Reporting Council in December 2013.

We therefore welcome the opportunity to contribute to furthering the debate around the future of corporate reporting, recognising the FRC's discussion paper as a useful starting point in shaping the agenda in this regard.

We have responded to each of the questions raised in the discussion paper in the attached appendix, and hope you find these comments useful in considering next steps. Should you have any queries or wish to follow up on any of the points included in our response please do not hesitate to contact me.

**Thank you for the opportunity to share our views.**

**Yours faithfully,**

**Phil Aspin**  
***Chief Financial Officer***  
***United Utilities Group PLC***

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## APPENDIX

### United Utilities Group PLC's response to the Financial Reporting Council's discussion paper 'A Matter of Principles: The Future of Corporate Reporting'

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

- 1.1      We welcome the debate generated by the FRC's discussion paper, and feel that it is right to focus on how corporate reporting might be done differently given the limitations of the traditional Annual Report in meeting the information needs of an expanding range of stakeholders. While we see there is significant value in having a single integrated report that can clearly set out a company's purpose, how it is working towards delivering long-term value in accordance with this, and how successful it has been, we recognise that the Annual Report is quickly becoming a repository for an increasingly diffuse range of information. Without some sort of reform, the Annual Report in its current form risks becoming unwieldy, and the core narrative around the delivery of purpose could become diluted or obscured. We therefore commend the FRC for consulting on the future of corporate reporting and welcome the opportunity to comment further as thinking evolves.
- 1.2      We also recognise that the proposals for a network of interconnected reports as set out in the discussion paper would present significant challenges from an implementation perspective, and that there is an inherent tension between recognising the benefits of unbundling existing reporting and ensuring that an holistic and integrated narrative of how a company creates long-term value in accordance with its stated purpose is provided in a way that is universally meaningful. These challenges would require careful consideration and consultation with both stakeholders and preparers.
- 1.3      The proposed reporting network could be a good way of incorporating core ESG messages and narrative with key information around financial performance, with supplementary detail tailored to more specific information needs provided outside of the key suite of Business Report, Public Interest Report and Financial Statements. We can see opportunities here to put non-financial reporting on a par with financial reporting, and to increase stakeholder engagement and dialogue between a company and its stakeholders. However we also see that this could carry with it the potential for very significant additional reporting and assurance burdens, which could be both costly and time consuming, resulting in reporting fatigue and a less clear focus compared with a traditional reporting cycle.

**Question 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?**

- 2.1      We believe that maintaining a meaningful, cohesive, holistic and integrated narrative over a wider reporting network brings with it considerable challenges. This could require significant and costly transformation in how a company manages and assures its data across the reporting network to ensure consistency in reporting, though this could potentially be overcome through

technological innovation, and could present opportunities to move standing data out of the core reports in order to reduce clutter and make the core reporting suite more incisive.

- 2.2 We would be interested to understand more detailed proposals for how the FRC envisages the various elements of the reporting network would be assured, and can see that this might bring considerable challenges given the various objective-driven reports that would be written with different audiences in mind and based on different definitions of materiality. We also consider that in order to maintain the trust of stakeholders it would be beneficial for the reporting network to be assured as an holistic piece, but recognise that this would present significant practical challenges, particularly if there were to be multiple parties providing assurance over elements of the reporting network that may be published throughout the year rather than at a single date as is currently the case with the Annual Report. We believe the proposals would benefit from a clearly defined set of principles around assurance and the interaction of multiple assuring parties as it is currently unclear whether the expectation is that the reporting network would be fully audited, reviewed by the external auditor, or if the external auditor would perform a review to consider whether the fair, balanced and understandable standards of the Corporate Governance Code have been adhered to across the reporting network. We would urge the FRC to consider this carefully in order to avoid the administrative burden on companies who may be required to provide extensive supporting information to assuring parties becoming too great.
- 2.3 We see further practical challenges in terms of internal governance and oversight of the reporting network, especially given the proposal for elements of the reporting to be staggered throughout the year. While we understand the benefits this could bring in terms of reducing bottlenecks in annual reporting processes, we have concerns for the level of oversight that might be provided if a reporting cycle effectively has no beginning or end but is constant throughout the year. For most companies the traditional Annual Report goes through a well-defined process with significant board level engagement and oversight. This involves a huge amount of effort within a relatively short period of time, which focuses minds to ensure robust reporting. There is a danger of reporting fatigue if the cycle is less clearly defined, with reduced levels of focus. We would encourage the FRC to consider how principles of corporate governance could evolve to meet these challenges.
- 2.4 While not a significant concern at this stage for United Utilities, a company whose operations and reporting are limited to a single jurisdiction, we recognise that without international alignment on the likes of ESG reporting and taxonomies used to electronically tag data there could be considerable concerns around duplication of effort for companies that need to comply with the requirements of multiple jurisdictions, and the additional cost burden this could present.

<b>Question 3</b> <b>Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?</b>
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- 3.1 At the heart of this question is the inherent tension between producing a general purpose integrated report that brings together financial and non-financial information (particularly in respect of the company's approach and performance in respect of ESG matters) in a way that presents a clear and cohesive narrative, and reports designed to meet the more specific needs of individual stakeholders or stakeholder groups. Given the trend towards investor interest in

sustainability and ESG matters as a key criteria in their investment decisions, it may be beneficial to maintain the focus on investors as the primary users in giving this holistic narrative.

- 3.2 However, we recognise that for most companies there is an increasingly broad range of stakeholders, each of whom will have specific individual information needs. In principle the proposed reporting network could assist in meeting these needs through having multiple objective-driven reports, though these should all be clearly linked to the core suite of reports and these linkages should be very clearly articulated in order to encourage these stakeholders to view the more specific reports in the context of the wider reporting network.
- 3.3 We welcome the development of a principles-based framework and the requirement that each report within the network would be part of this. There is a danger that an expectation could arise that companies will produce reports to meet all imaginable information needs, but by having an overarching set of principles this should help to limit the scope while continuing to cater for a broader range of stakeholders.

<p><b>Question 4</b> 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?</p>
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- 4.1 Given the crucial need for companies to be able to provide an integrated, cohesive, consistent and complete narrative around how and with what success it is carrying out its stated purpose, the set of principles presented should go a long way towards meeting this need.
- 4.2 We see that the principle of having multiple reports, each with a distinct communication objective, could be beneficial in meeting the needs of multiple user groups, and consider the system level attributes of accessibility, connectivity, consistency and transparency to be key to ensuring that the various 'offshoot' reports can be clearly read within the context of the central suite of reports.
- 4.3 We welcome the continued use of the principles of 'fair, balanced and understandable' and 'true and fair' reporting as report level attributes, and believe these to be a good starting point for any report.
- 4.4 In terms of the content communication principles of brevity, comprehensibility and usefulness; relevance; company-specific information; and comparability, these are all good guiding principles that could improve the quality of corporate reporting.
- 4.5 As an overarching principle for the proposed reporting network as a whole, we believe the key attribute will be ensuring the interconnectedness of the various reports, such that each can clearly be understood within the context of the company's purpose and how long-term value is created with this in mind.
- 4.6 We do, however, recognise that the principles presented at this stage are conceptual in nature, and it is therefore unclear how they would be implemented. We would welcome the opportunity to consult further on how these principles may be applied in practice.

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

- 5.1 In principle we understand the benefits that having more concise reports distributed across a reporting network could have in terms of being able to provide specific user groups with information relevant to them without having to cut through information that is less relevant. The inclusion of static/standing data separately from the more dynamic objective-driven reports could assist with this by being available if required without cluttering up the information relevant to specific needs.
- 5.2 However, we would caution that by unbundling the Annual Report into numerous more concise reports there is a danger that the integrated narrative relating to a company could be lost or diluted. Given that there is a drive towards managing and evaluating businesses on a more holistic basis, the proposals could run contrary to this if the overarching principles of the reporting network do not clearly define the objective of each report and how it fits into the whole. Users of the more concise and specifically focused reports should be encouraged to read them in the context of the company's overall purpose and approach to long-term value creation, and the linkage and connectivity of the various elements of the reporting network would need to be very clear. This will be particularly challenging for ESG reporting, where current frameworks such as TCFD encourage integration of ESG both within a company's operations and its reporting.

**Question 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.

- 6.1 Recognising that different stakeholder groups will have different objectives, and that more concise reports could be tailored to their needs, it makes sense that materiality should be considered based on the objective of a report and what is important to the user. We welcome the considerations set out in the discussion paper relating to the greater need for disclosing the basis on which materiality judgements have been made, and communicating the oversight by the board and/or management over materiality processes as well as any qualitative and quantitative benchmarks. Clear disclosure of materiality judgements will frame how reports are read and should reduce any expectation gap. Such disclosure could benefit the dialogue between companies and their stakeholders to ensure that information presented is relevant. This may require a cultural shift among reporters, with a move towards more reflection on active engagement with stakeholders to inform materiality judgements.
- 6.2 We do, however, also recognise that the proposed approach to materiality will bring additional complexity to reporting and assurance decisions, particularly if multiple parties are assuring different elements of the reporting network, and if an overall assurance party is responsible for assuring the reporting network as a whole to a higher level of materiality.

**Question 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?

- 7.1 Given the proliferation of frameworks currently in operation and emerging internationally, we support the development of a common set of global standards for sustainability and other ESG reporting. This would enhance transparency, comparability and oversight of ESG metrics which are becoming increasingly important for investors, companies and other market participants, and alleviate the increasing burden on preparers as a result of the wide-ranging and often ad hoc disclosure requests and requirements. Accordingly, we believe that regulatory standards for non-financial reporting would enhance the overall quality of corporate reporting in its broadest sense.

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

- 8.1 We believe that given changes in investor sentiment in recent years, reporting on how a company is managed responsibly and in a sustainable manner is key to increasing public trust, both among the investor community and more broadly. In our view the most effective corporate reports have the company's purpose at their centre, with both financial and non-financial information geared towards demonstrating how the company is seeking to fulfil its purpose and in doing so create long-term value. In providing clear information on how the company's purpose aligns with the public interest, public trust can be enhanced and the expectations of different stakeholder groups can be managed.
- 8.2 We would encourage the FRC to consider providing clear guidance on how companies should assess their obligations, and see Sir Donald Brydon's recommendation for the preparation of a Public Interest Statement as being a good starting point for this.

**Question 9** Do you agree with the introduction of a Public Interest Report and the suggested content as set out in section 6?

- 9.1 We consider that the introduction of a Public Interest Report would be advantageous provided that it could be flexible enough to align with globally converging ESG reporting requirements and expectations; we would be wary of going down a path whereby the Public Interest Report becomes a broad sustainability report if its contents were not consistent with internationally recognised ESG and other non-financial reporting given the duplication of effort that could potentially arise.
- 9.2 The scope of a Public Interest Report, including overarching principles, minimum requirements, and materiality judgements, should be clearly disclosed in order to avoid such a report being used for purposes other for what it is intended. The report could then link to other more specific ESG and sustainability reports within the wider reporting network for more specific information. We believe this would help to enhance transparency and comparability between companies.

**Question 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 in section 2?

- 10.1 Technology will be key to ensuring the success of corporate reporting in the future, particularly if the reporting network framework were to be adopted given the interconnectedness of the

various reports that would be included. To ensure consistency in the data used across the reporting network many companies will require a transformational approach to how they manage and maintain their data, which technology could help with. For example, the electronic tagging of data could be leveraged, though this would best be achieved through the development of an international taxonomy in order to ensure consistency across jurisdictions. This would help to reduce duplicated effort with regards to tagging reports using disparate taxonomies in different geographical areas. We acknowledge, however, that tagging of non-financial data brings with it significant challenges and so proposals would need to be carefully thought through.

- 10.2 Given that changes in corporate reporting would be implemented over a longer-term time horizon, consideration should be given to the possible uses of new and emerging technologies, with the likes of Artificial Intelligence and Machine Learning potentially aiding the linkage and interconnectedness of reports across the network.

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

- 11.1 We are hopeful that the proposed model could achieve a proportionate reporting regime, however further clarity is needed as to how this would be achieved, including guidance on which elements of the reporting network would be mandatory, which would be encouraged, and which would be voluntary.

**Question 12** What other areas do you see being necessary or relevant to the development of a model of corporate reporting that is fit for the future?

- 12.1 We believe it will be important to achieve international alignment on ESG reporting and to understand the impact of the ARGA transition on corporate governance and the scope and role of assurance, before significant progress is made on this project. These changes will have a significant impact on the information being shared and the regulatory environment it is shared within, which will affect the practical implementation of any proposals.