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Dear Sir / Madam

BDO LLP response to 'The future of corporate reporting'

We welcome the opportunity to comment on the Discussion Paper: ‘The future of corporate reporting’.

We generally support many of the aims of the discussion paper, such as broadening the accessibility of corporate reporting and increasing consistency across reporting channels. However, further thought needs to be given to achieving these without unnecessary disruption to the existing model.

In our view, dissembling the Annual Report and Accounts within a reporting network is unnecessary to achieve some of the project aims, would likely hinder the provision of consistent information and provide less complete and relevant information. The annual report can already be considered as part of a broader network of multiple reporting channels to which some of the principles in the paper could be applied.

The concept of different objective-driven materiality filters is currently insufficiently developed and we are concerned that any model of materiality that excluded reference to users, however defined, would be incomplete. We recognise there may be merit in applying different materiality level to different forms of reports with different content, information can only be material if it could affect users’ decision-making, assessments of the company and its management and, ultimately, their behaviours. Any materiality test must consider who the intended users are and what they would aim to use the information for.

We recognise that the purpose of the discussion paper is not to specifically address the audit impacts of suggested solutions. However, the development of the future of corporate reporting cannot be detached from consideration of the role of audit and assurance. The proposals introduce new principles at the report and network levels and new content, for example in respect of public interest reports. Given the further recommendations for audit and assurance made in Sir Donald Brydon’s report, the implications of the proposals for the future of Corporate Reporting cannot be considered in isolation – some consideration of the auditability of any proposed changes is critical.

Recognising that the UK is already recognised as a leader in non-financial reporting, the FRC should take a leading role in influencing the global development of non-financial reporting. The pace of international developments in this area is growing and current focus should be on shaping these developments. Only if these developments stall or are not expected to bear fruit in the near term should a unilateral UK position be taken. If the UK does develop new non-financial reporting requirements then these should be designed such that they can be easily adapted to align with any international solutions.

We note that the 'Future of Corporate Reporting: Conclusions from an online survey of FRC stakeholders' published alongside the discussion paper highlights that respondents suggest simplified regulation, referring to regulation coming from too many sources and that they would like to see more alignment and coordination between different bodies. We continue to believe that current reporting legislation, codes and guidance could be simplified and consolidated to reduce the costs of compliance for all companies.

If you wish to discuss any of the points further, please do not hesitate in contacting me directly.

Yours faithfully,

Anthony Appleton

Partner
For and on behalf of BDO LLP

Enc: Appendix: Responses to the questions asked in the Discussion Paper

Appendix: Responses to the questions asked in the Discussion Paper

Question 1

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

Overall we agree with the challenges identified within the discussion paper and support the FRC's efforts on thought leadership in this area. We set out our detailed views in our responses below but draw your attention to the following points:

- We are aware of current inconsistencies between reporting inside the annual report and elsewhere by some companies such as the use of different KPIs and APMs, and the exclusion of certain IFRS measures. We agree that such inconsistencies should be addressed through, for example, a framework of high level requirements and communication principles aimed at achieving consistency. However, if the annual report is split into a series of reports across a reporting network, we would be concerned that this would only exacerbate the existing problems.

- A number of the aims set out in the paper could be achieved in the short-term, or indeed as an end solution, without separating the annual report into separate reports, by revisiting the sections of the annual report and by identifying clear objectives for the information to be reported.

- Whilst we support the development of regulatory standards on non-financial reporting, we believe high quality, globally accepted standards should be our primary aim. We expect international developments in this area to proceed quickly, so recommend that any UK developments are carefully considered to ensure flexibility to adapt and converge.

- We note that the current UK non-financial reporting requirements are complex and dispersed across regulation and legislation, contributing to the corporate reporting challenges identified. The regulatory framework for non-financial reporting should be rationalised and simplified. We discuss this further in our response to question 7.

- In particular, we note the challenges created by complex and overlapping scopes of current reporting requirements - consolidating requirements into fewer scoping populations would simplify compliance efforts and provide greater comparability. We discuss this further in our response to question 11.

Question 2: Implementation

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

Three of the key practical challenges we see are:

1) Application of consistent and objective materiality tests in a purely objective driven reporting model. We discuss this further in our response to question 6;
2) The practicalities surrounding audit or assurance requirements across different parts of the reporting network. We discuss this further in our response to question 5; and
3) The existing reporting scoping requirements, with an increasingly complex range of scoping criteria. We discuss this further in our response to question 11.

All other implementation challenges and suggestions to overcome them are discussed within our detailed responses below.

Question 3: Objective-driven

Do you agree that corporate reporting should focus on a wider group of stakeholders?
Do you agree that reports should be driven by their objective instead of a primary user-focused approach?

We agree that corporate reporting should recognise and respond to the information needs of a wider group of stakeholders. We also agree that setting a clear objective for each report (or section of a combined report like the Annual Report and Accounts) will aid the comparability, relevance and overall content of the report as well as setting a clear filter for regulators when contemplating new requirements.

However, we are concerned that the model is incomplete and needs to be further developed if it is to be practicable. When preparers and, if necessary, their auditors are considering the detailed contents of a report, an overall objective for the report is unlikely to provide sufficiently clear criteria. Whilst the current focus in materiality tests on investors and their economic decisions is an imperfect proxy for the needs of other stakeholders, it does provide a practical and repeatable test.

Furthermore, it is unclear how an objective could be chosen, either by preparers for a voluntary report or regulators for a statutory report, without reference to how users will be using the report's information.

As societal and stakeholder expectations have developed over time, corporate reporting should reflect the needs of a wider group of stakeholders. However, this does not necessarily mean that every report, or section of a report, must be stakeholder-neutral. Rather specific content elements or reports could be required that meet these wider needs, such as the public interest report or similar.

We do however support the development of clearly stated objectives to help address the duplication of information we currently see across different sections of the annual report and discourage companies from including less relevant information such as marketing materials that could obscure or supplant relevant information.

Clear objectives could be set for each section of the annual report without dissembling it and for any other reporting done outside the annual report. It is often seen that larger annual reports are split into what the company terms front (strategic), middle (governance) and back-end (financial statements) sections. An objective-driven framework could reasonably be applied to this format, and guidance on common (easy to understand) headings along with their suggested order could help make the annual report more accessible to key stakeholders.

When determining the objectives of a report, or section of a report, the company would need to consider who the key stakeholders are in relation to that report. In addition to disclosing the objective itself, disclosures identifying those key stakeholders would also be necessary to support the objective statement.

Standing data, such as corporate governance policies, is often included within annual reports with minimal current or new content. In our view, such standing data could be better communicated elsewhere. For example, companies could be required to present identifiable information on their websites with new regulations applied to such locations. This would result in the annual report focussing on the more relevant and developing information and changes.

As reporting requirements have developed over time, we suggest reviewing the Directors' Report requirements to determine whether these disclosures could be elsewhere, or indeed whether they are required at all.

Question 4: One set of principles

***Do you consider the set of principles (system level attributes, report level attributes and content communication principles) of good reporting in section 2 would be helpful in improving the quality of corporate reporting today and in the future*?**

We agree that a set of principles, such as that identified in the discussion paper, would be helpful in improving the quality and consistency of corporate reporting, allowing interested stakeholders to make more meaningful comparisons between companies. If a reporting network is adopted, these principles will be key to achieving consistency across these reports.

Companies already produce a wide network of reports, for example, investor presentations, RNS announcements, and other ad hoc announcements. Whilst high level regulation applies, such as the regulations introduced via the Market Abuse Directive, the regulatory focus is primarily on the annual report. There are no regulations currently in place that specifically address consistency across these different reports and the accessibility of information for all key stakeholders. Many reports to analysts are prepared in a way that only they can understand.

We would support introducing the principles initially as guidance (along the lines of other FRC guidance issued such as on the strategic report, and corporate governance amongst others) whilst monitoring its impact and the need for an enforceable regulatory framework.

Any guidance issued to demonstrate these principles and attributes should include guidance on common (easy to understand) headings for sections within reports and their suggested order to improve accessibility, the suggested location of reports within the annual report (or location of sections within a reporting network report), and encouragement for companies to use non-technical language or to include a glossary where this is required.

It is our view that the set of principles could be introduced to support the existing corporate reporting framework before, or without, dissembling the annual report.

We are aware that there are a number of regulations and guidance documents in issue which include different principles supporting these publications. If there is to be a single set of principles across all reporting then these need to be consistent in both meaning and terminology. For example, we note that the discussion paper highlights the intended continued use of a true and fair view within the report level attributes, while Sir Donald Brydon recommends this be replaced with 'present fairly, in all material respects'.

Question 5: Reporting network

Do you agree with our approach to improving the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

We support the intended outcomes of improving the relevance and accessibility of information and more concise reporting, but we see a number of possible challenges with adopting a reporting network approach as set out in the paper that would require further consideration.

Unless different reporting timeframes for the information currently contained in the annual report is the intended outcome, we question the need to dissemble the annual report. Recognising that companies already report through multiple channels and identifying these as forming a reporting network would be a sufficient platform for setting principles of communication and determining attributes at the report and network level, as well as for each section of the Annual Report and Accounts.

In particular, separating the financial statements from the business report (or strategic report which it closely resembles) may reverse some of the important advances made over recent years to more integrated reporting, leading to less relevant and useful information.

Consistency of communication
As the number of required reports increased, so would the practical challenges of ensuring consistency across all communications and ensuring the principles discussed in question 4 are achieved.

We are aware of current inconsistencies between reporting inside the annual report and elsewhere by some companies such as the use of different KPIs and APMs, and the exclusion of certain IFRS measures. If the annual report is separated into different reports within a reporting network we consider this could exacerbate this existing problem.

Timing of publications
To the extent that the different reports are not required to be published within the same timeframe, additional regulations would be required to state mandatory publication timings. This could add further complexity to the framework, even if intended to give companies flexibility.

Audit report
Whilst we note that the paper does not aim to resolve issues of audit and other assurance, we foresee significant practical audit challenges if all the reports are not available at the same time, particularly in the assessment of consistency and connectivity of the different reports.

Where information that is within the scope of an auditors' responsibilities is spread across a number of different reports there are further practical challenges surrounding how this will be audited, and the findings disclosed within the audit report, including the publication date of the connected reports that are being referred to. For example, it would be difficult to meet Sir Donald Brydon's recommendation that the audit report should state the extent to which the audit has yielded sufficient evidence of consistency between the content of the Public Interest Statement and the Annual Report and Accounts as a whole if this statement is not presented alongside the financial statements.

Furthermore if the overall scope of an audit is expanded, as recommended by Sir Donald Brydon, this will further exacerbate the practical challenges of dissembling the annual report.

Company appetite & costs
The introduction of more dispersed reporting is likely to increase preparer costs significantly especially for smaller companies with limited time and resources. We are concerned that a focus on compliance across multiple reports will divert efforts away from the quality of reporting.

Inter-relation between reports
Whilst we acknowledge that the current annual report format incorporates a mixture of historical performance and information and commentary on future performance and expectations, we note that in order to understand the historical financial performance an element of the company's strategy, and various aspects of the public interest information that are of strategic importance, needs to be understood. This is an area where we currently see a lot of different approaches and duplication between the strategic report and corporate governance sections e.g. for stakeholder reporting.

Separation of the reports could lead to either increased duplication or removal of this information, either in its entirety or by replacement. The alternative approach of cross-referencing to another report would require both reports to be read together, and could result in the performance of the company being less easily understood than it is currently.

Content not required to meet the objective
Whilst the current regulations mandate the information to be included within the annual report, they do not exclude the inclusion of additional information. Annual reports can be weighed down with content of a self-promotional nature more akin to marketing. The accessibility of the required and key information can be reduced.

Setting clear objectives for the annual report (whether this be within sections of the current annual report, or separate reports in a reporting network) along with a requirement for information to be limited to that necessary to meet the objective might reduce extraneous and less relevant content. Content such as a chairman's statement (which often repeats information elsewhere in the report) or expanded discussions of detailed case studies might be better located on the company's website.

Question 6: Materiality

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?

We recognise that the current materiality test for financial statements is applied through the eyes of investors, and predominantly equity investors, in consideration of the economic decisions they make and that this may not be ideal when considering the information needs of a wider group of stakeholders. We agree that it is far more challenging to determine a single materiality filter for multiple stakeholders and that the objective of a report is relevant for determining content.

Furthermore, there may be merit in setting different materiality levels for different reports, if the form and content of such reports differs of if the intended audience differs.

However, the central notion that information is material if it affects users' decision making and assessments, and their behaviours must be retained. Therefore, any materiality test must incorporate consideration of who the primary users are and what they would aim to use the information for.

We agree that a single materiality test, if applied narrowly to buy/sell/hold decisions of equity investors, is inconsistent with reporting intended to meet multiple objectives in providing information to multiple stakeholder groups. A conceptual case for different materiality thresholds can be made. However, multiple materiality filters could be potentially complex and complicated to implement and materiality filters based only on reporting objectives without considering impact on users' decisions and behaviours are incomplete.

Multiple materiality levels will be difficult for companies to apply in practice, creating additional burdens, especially for smaller companies with limited reporting resources.

In our view, further consideration would need to be given to the practical application of different materiality levels across the reporting network and whether this could give rise to inconsistencies of information between the reports.

Further consideration would also need to be given to the interaction of materiality as determined by management and as set by auditors to address the potential for competing or conflicting determinations of materiality which could lead to unnecessary challenges in the conduct of an audit.

We also note that the FRC's model would need to be able to accommodate any potential materiality requirements in future global non-financial reporting standards.

Question 7: Non-financial reporting

Do you agree that there is a need for regulatory standards for non-financial reporting? What do you consider the scope of information that should be covered by those standards?

We agree that there is a need for regulatory standards on non-financial reporting to ensure preparers have a standardised framework to support them in achieving the requisite quality. Such standards would also simplify users' demands for information, supplanting the need for key stakeholders to compile their own lists of required non-financial reporting information. Replacing the current multiple voluntary frameworks would improve consistency and comparability.

We consider that these should be set at an international level, whilst recognising the need for timely improvements. The UK is already a leader in non-financial reporting - the provision of information on stakeholder engagement and the joint regulator initiatives to expand the provision of TCFD disclosures being two examples of this. UK regulators should now balance the benefits of moving more quickly on a unilateral basis with the potential benefits of supporting and influencing international developments that are now moving more quickly than ever. Any short-term UK changes to non-financial reporting should only be made in light of these developments and be sufficiently flexible to adapt to subsequent international changes.

To avoid boiler-plate disclosures and to ensure information is focussed and relevant such standards, or supporting guidance, should consider the key considerations on a sector-by-sector basis, including key metrics.

The current requirements are complex and dispersed throughout the body of Companies Act 2006 and accompanying Regulations, rules and codes making them complex to follow, contributing to the current corporate reporting challenges identified. The regulatory framework should be rationalised and simplified before, or as part of, any other proposed changes to the regulations are made.

Question 8: Non-financial reporting

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

We note the similarities between the paper and Sir Donald Brydon's discussion of public interest statements and look forward to the government's consultation on his recommendations. The outcome of that consultation will be critical in setting the direction of travel towards public interest reporting.

Any requirements will need to be clear and understandable, with 'public interest' being carefully defined. We would anticipate a key role for the FRC in developing guidance to support companies in this area that considers, for example, how a company should identify their public interest responsibilities, how companies should report, and the factors to consider when addressing the objective of such a report.

Question 9: Non-financial reporting

Do you consider that reporting by a company in respect to the public interest should be dealt with through a public interest report?
Do you agree with the suggested content of the public interest report?

Should a company be required to report on how it meets its public interest responsibilities, we question whether a separate report is the best solution. How it meets such responsibilities is fundamental to its culture, capital, resourcing and operational decisions and hence its business strategy and model. Presenting this in a report separate from its business (or strategic) report and financial statements will provide a disjointed and incomplete picture of company performance, position and prospects.

Separation also raises practical challenges to meeting Sir Donald Brydon's recommendation that the audit report should state the extent to which the audit has yielded sufficient evidence of consistency between the content of the Public Interest Statement and the Annual Report. We would recommend including the public interest statement and related disclosures as an identifiable section of the Annual Report and Accounts and encouraging companies to inform this reporting through direct engagement with key stakeholders.

We note that there would be significant overlap between wider stakeholder matters to be reported in the business report and the public interest report. Furthermore, there is significant overlap between the proposed contents and current requirements, including the s172 statement. Should steps be taken to introduce a public interest statement or report, then current requirements will need to be reviewed to avoid unnecessary duplication and complexity.

We note that, in section 8.7, you propose that, initially, only the very largest companies should present a Public Interest Report. We question whether basing this requirement solely on size is correct and whether consideration should also be given to the scale of a company's impact on society and the environment by reference, for example, to the industrial sector in which it operates. There should be clear guidance on how such reporting can be scaled to the circumstances of different companies to achieve proportionate reporting.

There is also a risk that a separate public interest report could become unduly focussed on PR and marketing purposes, diminishing its relevance – some limitations to focus on the reporting objective should be considered.

Question 10: Technology

Do you see any other ways that current and new technology could be used to facilitate the proposed model, and support the overall attributes of corporate reporting identified in section 2?

We agree that technology does and will offer opportunities to improve the accessibility of reporting however, at this stage, the ideas in the discussion paper are not sufficiently developed for us to assess their effectiveness.

We find interactive versions of reports to be particularly useful as this allows direct linking between one report or section of a report and another, enabling the user to better find the relevant information, improving accessibility and connectivity.

As noted in our response to question 3 we suggest that certain standing information, such as standing policies, could be better communicated elsewhere, such as a standing policies section of the company's website, but that the alternative location would still need to be regulated. A reporting requirement, similar to the AIM Rules website requirements, could be introduced for certain companies, perhaps for all companies within the scope of s172 statement requirements who currently only need to include their s172 statement on a website, and not their whole annual report.

Any new requirements surrounding the use of technology need to take into account that smaller entities may have limited access to, or the funds to invest in, more complex technological solutions.

Question 11: Proportionality

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

A single set of requirements that are clear and easy for all companies to follow, and that can be applied to different degrees by companies of different sizes and complexity, is the ideal position. In practice though, true proportionate reporting can only be achieved if there are different requirements for different types of companies, whether this is determined by size or other scoping criteria.

We see there being a distinct link between question 2 (implementation issues) and question 11 as this scoping can be very complex, especially if the scoping criteria implemented to enable proportionality differs from those already in place within existing regulatory requirements.

We note that existing scoping requirements for corporate reporting can be very complex for companies to apply and it is important to address this complexity and avoid introducing similarly, or yet more, complex scoping for any revised corporate reporting requirements.

We strongly suggest that either before looking to introduce new requirements, or as part of any other proposed changes, the current reporting requirements are consolidated into fewer scoping criteria ranges such that a preparer may identify what scope heading their company falls within and then comply with all reporting requirements that apply to that scope business. Any new requirements introduced should then sit within this scoping framework and aim to avoid introducing more complex scoping requirements where possible.

There is a risk that for smaller companies they do not have the time, appetite or resource to produce multiple reports, especially where there is any significant overlap between the different reports. It could result in a practical implementation challenge, including an increased cost of reporting, disproportionately so for smaller businesses.

Question 12: Other

What other areas do you see as necessary or relevant to the development of corporate reporting that is fit for the future?

As we discuss in more detail within our response to question 11, we strongly suggest that either before looking to introduce new requirements, or as part of any other proposed changes, the current reporting requirements are consolidated into fewer scoping criteria ranges such that a preparer may identify what scope heading their company falls within and then comply with all reporting requirements that apply to that scope business.

We recognise that the purpose of the discussion paper is not to specifically address the audit impacts of the suggestions. However, the development of the future of corporate reporting cannot be detached from consideration of the audit impacts as there is significant interaction between audit and the application of some of the principles and ideas set out within the discussion paper. Some recognition of the auditability of any proposed changes is critical.

Any other areas we see as necessary or relevant in relation to the development of corporate reporting are discussed within our responses to the questions above.