



24 July 2015

Lab Project Call for Participants: Business model reporting

The Financial Reporting Lab (the Lab) is undertaking a series of projects considering the following interrelated areas of disclosure:

- Business model reporting¹;
- Principal risk reporting¹; and
- Viability statement reporting².

The series of projects is expected to assist companies to understand how the investment community is using the disclosures in their decision making processes, what information is most useful and how it may be best presented. This will enable companies to refine their reporting in these areas to better meet the investment community's needs. It will also provide the investment community with a better insight into the process by which companies develop and use their business model, and is an opportunity for the investment community to influence reporting in this area. All three disclosure areas were high on the priority list of respondents to the Lab's 2014 stakeholder survey.

The Lab is calling for participants for the Business model reporting project now, and plans to follow Business model reporting with Principal risk and Viability statement reporting in 2016. Principal Risk reporting relates to risks to the business model, so establishing views on good business model reporting provides a foundation to a project on risk reporting. This approach also allows the first round of improvements to risk reporting and of the new viability statement reporting, required by the 2014 updates to The UK Corporate Governance Code, to be considered.

Scope of the Business model reporting project

While the scope of the project may evolve to explore the needs of companies and investors identified during the project, the project is expected to explore a number of characteristics:

1) *Definition of 'business model'*

- Investor and company understanding of the term;
- Business model vs purpose vs strategy vs objectives; and
- Group / divisional business model(s).

2) *Preparation of business model disclosures*

- Ownership and accountability;
- Challenges in presenting / defining an organisation's business model(s); and
- Changes to the business model.

1. Required by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and The UK Corporate Governance Code September 2014 (The Code).

2. Required by The Code.

3) *Investor use of business model disclosures*

- Use in the investment process, including stewardship activities; and
- Impact on valuations.

4) *Attributes that characterise good business model reporting*

- Description of how revenue / profits are generated and value created;
- Coverage of interaction with stakeholders (eg. employees, suppliers, regulators, etc.);
- Relationship with other aspects of reporting, such as Principal risk disclosure, Viability statement reporting, and significant accounting policies and key estimates;
- Expectations relative to companies doing integrated reporting; and
- Presentation within and outside the annual report.

Participation

We are interested in hearing from companies, investors and analysts who would like to be involved in this first project 'Business model reporting'. Smaller quoted companies are particularly encouraged to participate given the importance of good reporting for this market segment in the absence of analysts' reports, with the quality of reporting potentially impacting investment, rating and lending decisions.

Companies participating in this project will be asked to provide examples of how they present their business model in their annual report and in other communications. Beyond providing the examples, companies will meet with the Lab team to discuss their approach to business model reporting, including any difficulties faced, and will be invited to take part in round table discussions with investors to help crystallise the project conclusions.

Investors and analysts participating in this project will be asked to meet with and provide input to the Lab team on their views on, and use of, business model reporting, and will be invited to round table discussions.

Individual meetings with company and investor participants are typically an hour in length. Round table discussions are typically 2 – 3 hours in length. Participants are also provided with an opportunity to comment on a draft of the project report.

Timing and output of the project

The Business model reporting project will be undertaken in the second half of 2015, with a report expected to be published during Q1 2016.

We invite companies, investors and analysts to indicate their interest in participating **by 15 September** either via email at: FinancialReportingLab@frc.org.uk, or by contacting Sue Harding by telephone on 020 7492 2442 or Carl Renner on 020 7492 2455.

Further information on the Lab and its activities can be found at:
<https://www.frc.org.uk/Lab>.