5 February 2021

Sir Jon Thompson
Chief Executive
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

Dear Sir Jon

Comment letter on Discussion Paper "A Matter of Principles: The Future of Corporate Reporting"

We appreciate the opportunity to comment on the Financial Reporting Council's Discussion Paper "A Matter of Principles: The Future of Corporate Reporting" published in October 2020. This letter represents the views of Santander UK plc.

While we agree with the principles of making corporate reporting more relevant in the 21st century and embracing more extensive use of digital technology, the proposals as currently outlined lack detail. The paper is thought-provoking and, as you acknowledged, it "starts the discussion". However, we think far more outreach needs to be undertaken to explore the proposals in more detail with preparers, users and auditors so as to inform the changes that are needed, validate areas of concern with the current model and determine, more conclusively, whether moving to a network of connected reports, as proposed, is the right approach.

The Appendix to this letter contains our responses to the questions in the DP.

Yours sincerely

Rachel Morrison
Director, External Reporting

Confidentiality Note
Please note that Santander UK plc does not consent to the publication of this response either in whole or in part, without prior discussion. We welcome any comments or questions on this response and would be grateful if these could be directed in the first instance to santanderregulatoryliaison@santander.co.uk

Santander

Appendix

Q1. What are your views on our proposals as a whole? Are there elements that you prefer over others?

We support the decision to discuss a more radical overhaul rather than just consider further tweaks.

We recognise the points summarising the new model (p.2), with the one qualification that referring to thinking beyond a paper format (see also the comment on p.1 that "A Single paper-based document published annually appears outdated") is not really relevant – the development of electronic filing and publication on websites, means the reference to paper-based is obsolete.

However, the principle of an annual "Business Report" along the lines indicated in point 5.8 (p.21), remains pertinent.

Conversely, with respect to the statement "Continuous reflection on how well corporate reporting facilitates meaningful engagement should, in turn, invite continuous improvement and practice-led innovation" (p.4). this would, in practice, be exhausting, distracting and encourage short termism. Dropping quarterly management reporting was a move in the right direction.

Of the four key attributes (p.4), only the "whole-assessibility" is of concern. People have many different reasons for reading corporate reports and the provision of specific reports tailor made for those with interest in specific areas, connected, consistent and committed to transparency with the "Business Report" flagship report would provide the flexibility required. Investors are increasingly making investment decisions not on past financial performance but based on perceived or assessed vulnerabilities and potential. This is better catered for by allowing companies the freedom to explain their reasoning and rationale.

We support the emphasis on principles such as "materiality". International standards will drive consistent measures in specific and often technical areas, but since companies are different, imposing these standards by size or employee numbers leads to unnecessary or irrelevant reporting. In this respect, we would support moving towards a "proportionality" model as opposed to a simplistic size/number model.

Implementation

Q2. 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?

As acknowledged in the report (p.4), "reporting on financial performance is still paramount". The Company supports the retention of comprehensive financial reporting on an annual basis in line with international accounting standards and the publication of half year results in electronic format.

The Company concurs that the "content elements in the Strategic Report are very important" – as indicated by our support for a "Business Report" comprising an overarching strategic statement with supporting information and subsequent reference to separate reports on specific areas of interest to specialists.

Allowing autonomous and specific reporting, particularly on non-financial matters that are a particular area of focus for your paper, would provide the flexibility to report more pertinently on these topics. It would also allow for specific reports to adapt to changing environments and new, more agile, or effective reporting standards as they come online through the "long term to 2030" anticipated in p.1 of your paper.

In terms of practical challenges, we have a comprehensive and effective reporting mechanism in place. We would hope that the "challenges" are in fact opportunities for all entities within our group structure to rationalise and make their reporting more efficient and effective.

Objective-driven

Q3. Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

A single statement of purpose and strategy on an annual basis is important. More detailed information can be provided by separate reports available on websites for those that are interested in "deep dives" into specific areas. The importance of "connected, consistent and committed to transparency" becomes of primary concern as a unifying force to otherwise potentially disparate reporting. Likewise, the principle of "fair, balanced and understandable"/"true and fair view of the …assets, liabilities, financial position and profit or loss" must apply to all reporting to ensure that separate reports are not inconsistent with the overall reporting impression.

Too much detail in the annual report is creating the "lengthy and impenetrable" reports complained of on p.1. Much of this detail is included by qualifying companies box ticking through compulsion, rather than from any belief that it is particularly relevant or adds value. Allowing companies the freedom to focus on communicating what matters, with technical or more detailed information provided by reference to subject specific reporting would improve reporting to the "mainstream", whilst allowing experts to access quickly and effectively the material of interest to their area of expertise.

One set of principles

Q4. 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?

We broadly support the move to the set of principles (system level attributes, report level attributes and content communication principles) in section 2. This is subject to the concerns set out in the covering letter about the lack of detail. The overriding concern would be that regulators in different sectors would impose detailed but uncoordinated specifications for specific areas. This would risk creating potentially conflicting standards but also overall, an oppressive burden of parallel but disparate reporting. For all its bulk, the current reporting framework allows for substantial cross referencing and some freedom as to where in the ARA companies consider it best to place certain information effectively to communicate its corporate messaging.

Reporting network

Q5. Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

We broadly agree that corporate reporting must be made more relevant and accessibility should be improved. We believe that reporting should be designed in a way that concise reports are based on existing more detailed corporate reports rather than through the creation of entirely different information.

Likewise, we continue to believe in the relevance of an annual "Business Report" overview, in connection with publication of the annual financial statement of accounts.

We would discourage more frequent reporting obligations, in favour of an overriding responsibility to ensure that information is kept reasonably up to date and relevant. The challenge in this case would be to ensure the same degree of integrity, standard of materiality and consistency in "ad hoc" updates and reporting.

Materiality

Q6. 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 in principle, subject to concerns about multiple and potentially conflicting standards and interpretations of "materiality" suggested in our response to question 4. However, it is acknowledged that a "materiality" provision is essential to avoid reporting obligations becoming overwhelming.

Non-financial reporting

Q7. 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?

This is already changing for environmental, social and governance (ESG) reporting, especially sustainability reporting with the IFRS Foundation's recent consultation paper on sustainability reporting which proposes the establishment of a new International Sustainability Standards Board. In connection with this topic, we expect significant developments over the next few years. We are broadly supportive of the development of similar standards or frameworks for other areas of material non-financial reporting (NFR) where this is appropriate. This would also help to ensure a level playing field thus promoting greater consistency and a higher quality of NFR disclosures between different companies.

We are aware that the Financial Conduct Authority has indicated that it may proceed towards implementing the EU NFR directive in the UK. Given the UK's exit from the EU, we think it is important to ensure that any NFR standards implemented in the UK take account of international developments and not just those of the EU. This would include any NFR standards or guidance that may emerge from a future international body such as any proposed International Sustainability Standards Board.

Q8. Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?

The proposals in respect of a "Public Interest Report" (or a "Public Interest Statement" as Sir Donald Brydon's review referred to it) may be difficult to implement as "Public Interest" is difficult to define. In our view, it would be preferable that companies determine who their stakeholders are and endeavour to demonstrate what value they believe they offer to those stakeholders.

Santander

Q9. Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?

For the reasons stated above, we consider that the introduction of a Public Interest Report may be difficult to implement for all companies, although we support the broad principle behind identifying certain entities as being particularly important to the general public.

The s.172 statement covers some of the broader society objectives of this reporting proposal and will evolve to provide the information required in a flexible response to changing requirements. Endeavouring to quantify non-financial matters (p.6) can be arbitrary and not always relevant. By way of examples, training hours do not necessarily indicate levels of competency or improvement in transferable skills to enable employees to adapt to changing workplaces and unfilled positions measures can change overnight due to issues completely beyond a company's control (never more so than in the year just past). We would suggest that it would be appropriate to allow the s.172 statement to develop to encompass the intentions of the proposed "Public Interest Statement".

Technology

Q10. 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?

We understand it could be 10 years or more before the current regime is amended. If we were to look back 10 years ago, corporate reporting was much more manually-intensive with less use made of report-writing tools, no XBRL-tagging and only basic corporate reporting tools, arguably with simpler rules and less reporting obligations.

10 years forward from now, we expect much more real-time reporting and extensive use of AI and other digital technologies. It is therefore important for the proposals to keep pace with the rapid advancement of digital technologies and changes to reporting systems and processes. This will need constant review and reassessment as appropriate.

Santander

Finally, to confirm our view expressed above under Q1, that reporting is already largely paper free and will become entirely so as soon as Companies House has the capability and the ability to impose electronic filing requirements. These are already becoming the norm. Maintaining a public record filed with Companies House is also essential to ensure public access to corporate reporting consistently at all levels.

Proportionality

Q11. Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

This is not clear cut. As a public interest entity (PIE) we can relate to how the reporting network has been developed with the reporting practices of PIEs in mind. However, a similar regime would not (necessarily) be applicable, or relevant, to non-PIEs and this would need further consideration and development.

In particular, we consider that greater flexibility over the choice on the level of reporting for all companies, regardless of their size or employee numbers, would allow the tailoring of reporting to the nature and business of the company. This is particularly relevant where companies may have significant balance sheets but for operational reasons have few if any stakeholders or relevance for “public interest”, or where the reporting at holding company level provides a sufficient level of information, so that clarification of the group structure and identification of the “nature” or operational purpose of specific entities within the group is of some value but irrelevant reporting for compliance purposes.

Other

Q12. 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 current system requires companies to comply with a fragmented and often duplicative range of reporting requirements and standards. Leaving individual companies free to adopt the reporting style and level of detail appropriate to their business model, (standing within a group where applicable), stakeholders and the market will make reports more meaningful and effective. This can be achieved by the FRC proposals, provided that due care is taken to ensure that the details do not undermine the good intentions.