Response to FRC on the future of corporate reporting

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

This proposal is welcome and long overdue. The FRC is to be commended for producing cogent recommendations for improvement.

Simplifying the Annual Report by unbundling its contents and moving to a communication objective and principles driven process is not only great in concept but sound in reasoning.

Separating the financial statements and creating a separate report for public interest information is genius and will improve on the now cluttered Strategy Report guidelines. The challenge will be keeping the Business Report succinct.

The idea to move away from an Annual Report cycle may not be so easy as the financial markets, analysts and companies have people and processes built around this showcase event. A year end position and annual performance assessment is enduring hence fits within an Annual Report cycle.

It is paramount that this does not become yet another discussion document. Get it implemented and made mandatory whilst awaiting revisions to Statutes.

Implementation

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?

Most large companies have an abundance of data and information. What has been lacking is good guidance on what is relevant for disclosure – more work needs to be done here to ensure the Business Report delivers: consistency; comparability; and transparency.

The additional cost of producing the information may be related to the Public Interest Report. There may also be additional costs related to auditing these reports. These additional costs may be unavoidable but are likely to be outweighed by better quality of the 'focused' reporting and greater transparency.

It should not be difficult to separate the front half (business report) from the back half (financial statements) of the Annual Report and unpicking all the public interest information.

The transition year is when it becomes practically challenging to re-state comparatives into the appropriate places. Having said this, good finance functions have been dealing with regulatory updates and disclosure changes for many years.

The technology pillar i.e. using XBRL is likely to incur further unnecessary costs. Furthermore, putting the reports into one repository for easy access is good for academics and analysts but not of any real benefit to companies. Companies House is a central repository for corporate information. Given companies have websites, use pdf, powerpoint and video for communicating all that is really needed is better guidance on terminology (is this the role of standard setters rather than technology platforms?).

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Objective-driven

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

Yes, this is an important step change and a break with the past. The proposals elegantly deal with the shareholder needs and those of other stakeholders without layering more demands for information into one document. An anticipated outcome should be that the unbundling will lead to de-cluttering of hubris.

One set of principles

4. 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?

This is one way to consider the content and provides a structured methodology for commonality.

The key is to keep it as one way so everyone can observe the guidelines and conform. The principles are sufficiently flexible and provide ample scope for flexibility within the framework.

Reporting network

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

A network of reports is a good way to deliver relevant and accessible information as long as the reports remain concise.

It is also important that the three core reports are prepared for the same accounting period to allow users to get the comprehensive snapshot of the company's performance at a point in time.

They could be published and made available in a staggered timeframe, but the accounting period should be the same.

Materiality

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?

The concept of materiality when applied to the Annual Report has always had quantitative and qualitative dimensions. Good management and good auditors do this as a matter of best practice recognising that qualitative materiality is a matter of judgement, as are quantitative calculations.

Reference to a single test based on accounting standards may therefore be misunderstood as even the materiality number has underlying judgement inherent within it.

Calculating quantitative materiality by reference to accounting standards for the financial statements is appropriate. Defining and explaining materiality by reference to the objective of a report ensuring that the disclosure is transparent, is also apposite. Would it be better to re-write the accounting and auditing standards on materiality?

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Non-financial reporting

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?

Absolutely a need for regulatory standards for non-financial reporting. There is some good work already being done by The World Economic Forum's (WEF) International Business Council (IBC). They have published a 'White Paper' that includes a set of core metrics enabling companies to measure and report on sustainable value creation through a framework as well as a common set of metrics to bring some consistency to sustainability reporting. In particular, three of the four pillars: Planet; People; and Prosperity, are aligned to the United Nations sustainable development goals.

You acknowledge this good work so do not re-invent the wheel but let this inform the content elements of the Public Interest Report via the international standards being progressed.

The White Paper also covers *'principles of governance'* but the subject matter of governance in relation to the Annual Report sits better in the Business Report.

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, demonstrating good corporate citizenship is paramount. Be it in relation to climate change, regulation compliance e.g. global pandemic, pay gaps, diversity or data privacy.

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

A very important addition to help re-shape corporate reporting and create focused 'mandatory' communication for stakeholders. Formalising in this way will improve the quality of the current *'ad hoc'* reporting and improve communication with stakeholders. It should also help companies to stay focused on reporting to quality standards.

The content categorisation into three outcomes: internal; external and societal are welcome and including the external outcomes and societal impacts in the Public Interest Report is apposite. Putting Internal outcomes in the Business Report is considered the correct treatment but avoiding overlaps between reports may be a challenge.

Notwithstanding that this was illustrative, Figure 4 was initially confusing and should be developed further.

More clarity and guidance is needed on the use of terms. Metrics are mentioned here and it appears that 'Metrics', 'Measures' and 'Indicators' are used differently by different regulators. See response to question 12.

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Technology

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*?

Although the model establishes a first step in the pathway creating a digitally enabled multi reporting process more in tune with living in a global hyper-connected digital world, more discussion and research is needed here.

The preoccupation by some of moving from paper print is a red herring as digital print format is still required. The real challenge is to move towards structured data by developing a strong taxonomy that is globally consistent and instils trust amongst producers and users of corporate reporting. This surfaces the need to develop consistent quality standards for providing assurance on digital information.

Visualisation and communication technologies are developing at a rapid pace such as AR and VR, which may soon be used to demonstrate the customer experience or staff wellbeing including presentation of attendant metrics, so promoting one structured data method like XBRL for communicating corporate performance may only be a limiting temporary solution. The advancements in word recognition, natural language processing and AI also make a call for stronger assured classification more important.

Proportionality

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

Yes and No.

Yes, as far as UK public listed companies are concerned which understandably is the primary focus for the FRC.

However, the definition of a 'Public Interest Entity' requires revision (also on the remit of the FRC?). A lot of good work has been done to bring the Public Interest Report to the forefront of reporting protocols, yet many significant entities, of similar scale operating in the UK, avoid the rigor required of UK public listed companies.

We only need to think about overseas owned, as well as private, entities such as: Airbus; Amazon; Arcadia; EDF; Facebook; Google; Huawei; Kraft; Mars; Microsoft; NCP; Samsung; Siemens; Starbucks; Tata; Thames Water; Three; Uber; Volkswagen etc., to find hundreds of enterprises across every industry sector.

Suggesting voluntary extension of the reporting requirements to these entities is a good intention but to date has rarely delivered the transparency of disclosure mandated for some.

Should there be a level playing field for, once a year, accounting disclosures?

Other

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 Business Report should have the same degree of deep thought and rigor via standard setting as the financial statements and soon to be standardised Public Interest Report.

It may be worth considering the splitting of the Business Report into two parts.

The first part that explains corporate governance and how the board supervises the company to be a good corporate citizen and create a culture for executive management to deliver the business model and strategy. Therefore, this would contain the chairperson's report and other committee reports such as remuneration committee and audit committee. This is where who is accountable and responsible for what and how this aligns with pay, pensions and rewards can be summarised i.e. the who we are and how we work.

The second part is essentially the directors' report where the business model for creating long-term value can be articulated. Here the strategy alignment to the business model and its adaptation to: regulatory e.g. pandemic; climate; digital transformation; data exploitation and protection etc. changes, can be succinctly explained. Herein also sits the management of key risks and compliance with regulations and a summary of the financial performance i.e. the what we do and how we do it and how we have done so far (performed).

In the Business Report there has been the development of disclosing industry specific metrics ('ism') to demonstrate performance. Using the term ism is deliberate to avoid the confusion around the term Alternative Performance Measures (APM). For instance, the ESMA definition (essentially adjusted financial measures e.g. EBITDA) does not acknowledge the importance of ism and seems to be at odds with this FRC proposals. Notwithstanding definition challenges, there is disparate use of these ism which are non-financial yet value generating with 'subscriber numbers' being one example.

Another example from one industry sector (ASOS PLC Annual Report and Accounts 2020 page 8) is shown in the extract below.

	Year to 31 August 2020	Year to 31 August 2019	Change
Active customers[1] (m)	**23.4**	20.3	15%
Average basket value (including VAT)	**£71.92**	£71.29	1%
Average units per basket	**3.18**	3.05	4%
Average selling price per unit (including VAT)	**£22.63**	£23.34	(3%)
Average order frequency[2]	**3.43**	3.56	(4%)
Total orders (m)	**80.2**	72.3	11%
Total visits (m)	**2,691.2**	2,266.5	19%
Conversion[3]	**3.0%**	3.2%	-20bps
Mobile device visits	**85.5%**	81.9%	+360bps
Net Promoter Score[4]	**-2**	-4	

1 Defined as having shopped in the last 12 months as at 31 August
2 Calculated as last 12 months' total orders divided by active customers
3 Calculated as total orders divided by total visits
4 Net Promoter Score is based on a customer pulse survey and this represents the movement in the average score in the 12-month period ended 31 August

These ism are good if they deliver a better understanding of performance but not good if consistency and comparability is compromised.

In this instance these ism provide an enhanced understanding of corporate performance than the financial statements alone. So well done ASOS.

Clearly if a retailer is attracting more customers and the average basket value is going up year on year, then it may be fair to surmise they are doing well. However, comparability with industry average and other retailers would help put this performance disclosure into context.

Furthermore, can it be said that the calculation of the measures presented in the extract above, e.g. average basket value, are best practice and have been produced to industry accepted standards? Similar concerns can be expressed when considering Like for Like Sales a frequently cited metric but often the underlying calculation is not explained and at times misunderstood.

Companies frequently shout out about customer numbers, but they do not all calculate them the same way!

Companies try to explain how their business model is underpinned by customers or subscribers which create long-term value generation. They also try to explain how the strategy is resilient through growth of these ism. This transparency is welcomed but more clarity is required.

Hence the call for more guidance on ism. The contents of the Business Report would benefit from greater guidance on ism by way of setting standards for the calculation bases and presentation of the information.

This could be done by industry sector working groups.

Summary

In summary, congratulations to all on the great thinking inherent in this proposed revision to corporate reporting. It is vital that implementation starts immediately to avoid it becoming another discussion document dogged by political delay, like the Brydon Report. The Business Report content needs to be underpinned by quality reporting standards and guidelines akin to the financial statements. Some suggestions have been presented for refining and enhancing the Business Report.