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Dear Sir/Madam

Discussion paper: The future of corporate reporting

We are pleased to be able to comment on the FRC's Discussion paper: The future of corporate reporting. We have set out our detailed comments to the questions raised in the Appendix.

Should you have any questions regarding our comments, please do not hesitate to contact me.

Yours faithfully,

David Herbinet

Head of Audit

Mazars LLP

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Appendix

Overall

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

We support the FRC releasing this discussion paper to address the future of corporate reporting at this time, and in particular, agree that there is a need to reconsider the objectives and outputs of corporate reporting on a holistic basis.

In our opinion, the annual report has become burdensome and noticeably lengthy for many companies, and for numerous aspects has become fragmented and incoherent. However, we acknowledge this is, unfortunately, merely a result of increasing regulations and requirements, coupled with changing user demands, over many years, which as we agree needs to be addressed by the FRC.

The discussion paper sets out some useful aspects for consideration and that we feel should be taken forward for development; we see this paper therefore as a good first step in the process for change as opposed to a desired end goal.

Aspects of the proposals that we consider helpful are as follows:

- Ensuring the approach focuses on a wider group of stakeholders, instead of having a primary user focus (albeit we consider that further clarification is required in this area);
- Developing a clear and concise set of principles that cover all aspects of corporate reporting, including communication;
- Developing non-financial reporting and sustainability standards that fall under the responsibility of one standard-setting body, such as the IASB;
- Retaining the need to have regard to proportionality within corporate reporting;
- Developing the inclusion of improved intangibles reporting within the financial statements; and
- Implementing technology enabled reporting (albeit we consider that further development is needed in this area).

We do, however, have two main concerns. Firstly, that the proposals do not, at this stage, go far enough, particularly to warrant the costs that will be faced by companies to implement them (even with the proposals for proportionality). We see the most visible effect of these proposals basically being a rehousing of the existing requirements divided amongst three separate core reports (plus additional voluntary reports); which will unlikely result in significant change for corporate reporting. Furthermore, while we support the shift in focus from reporting to investors, as the primary user, to reporting to wider stakeholders, we would like to see a clearer steer towards the reporting of value creation over a range of terms, covering value for all stakeholders, not just investors. Secondly, in the interest of integration and consistency, as we discuss further in our response (and see as primary attributes for corporate reporting), we believe these attributes will be negatively impacted by the creation of three separate core reports (plus any additional voluntary reports).

On the basis that we see this discussion paper as thought-leadership, we would welcome further exploration and consideration to the following areas over which we have concerns:

- Segregation of financial and non-financial reporting into three separate core reports;

- Permitting companies to provide voluntary reporting on any additional aspects they consider necessary to meet user demands; and
- Having different materiality levels for different reports and hence different user needs.

In addition, we would welcome further discussion into:

- Considering the concept of continuous reporting and whether annual reporting meets the needs of users any longer; and
- Including Corporate Governance requirements into the discussion.

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?

As we note throughout our response, the cost of implementation will be a considerable factor for companies. However, at this stage, we see these proposals as a good first step in the process for change as opposed to setting out a desired end goal that should be implemented.

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?

We agree that the demand for reporting has shifted from solely thinking about a company's historic financial performance and position to that of demonstrating how businesses create value over the longer term and how companies interrelate with environmental and social matters. This therefore results in the need for corporate reporting as a whole to change focus from solely meeting the needs of those traditionally regarded as primary users (namely investors) to those of a wider group of stakeholders (as is currently the case for reporting under Section 172(1)). We believe that there is likely to be a significant overlap of information needs of different user groups (as the outreach and research in the discussion paper indicates), and hence the benefits will likely outweigh potential complexity of additional reporting.

However, we feel that further clarity should be provided regarding who the wider group of stakeholders should be for companies when providing their objective-driven reports. We acknowledge that the stakeholders (as the users of the reports) will vary depending upon the applicable report, however further information should be provided, for instance, as to how companies should determine their principal stakeholders, how companies should focus on certain stakeholders based on user needs, and how companies should reconcile, and explain, competing interests between all stakeholders. Fundamentally, in our opinion, it is not possible for companies to meet the needs of all stakeholders, at all times, when preparing their corporate reports, so further guidance in this area would be helpful.

One of our main concerns with these proposals is the establishment of three separate core mandatory reports; each objective driven. Our rationale being that the separation and disaggregation of information (albeit information that would have distinct purposes and objectives) will reduce integration and consistency of reporting for users. In our opinion, the future of corporate reporting should revolve around companies being able to tell their story in an integrated way, incorporating both historical information in with the future prospects and long-term viability of the business; the separation of core mandatory reporting into three

discrete reports would, in our view, discourage integration and consistency of reporting. It may also risk the creation of silos. Furthermore, whilst we see that there are some advantages to targeting specific users with core reports, we question whether in practice this part of the proposals may result in users primarily focusing on the financial statements report (given that these have wide relevance) or, worst, result in three heavily duplicative and overly burdensome core reports being created.

Whilst, therefore, we acknowledge that the annual report, as it is currently presented today by companies, has developed into an incoherent and onerous document for many, we believe that technology has an important part to play in making the existing single report fit for purpose. For instance, where existing annual reports are presented digitally on a company's website, the indexation of content easily allows users to locate, drill down and cross-reference to information that they require, and therefore removes a lot of the burden of finding information in hard-copy annual reports. We see the proposed vision for technology enabled reporting will support this.

In addition, we foresee the need to have a thorough clean-up of the existing annual report, by incorporating a number of the proposals from this discussion, such as the concepts, principles and minimum content lists from the Business Report, Financial Statements and Public Interest Report, removing out-dated requirements, and creating more defined reporting sections so that the annual report remains as one single report.

Hence, whilst we support a wider stakeholder user focus for corporate reporting, we do not envisage that this needs to be linked to the three separate core reports. For instance, companies could be given the opportunity to consider and identify their principal stakeholders and hence who their annual corporate reporting should be focused towards, so long as this is clearly disclosed within their reporting.

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?

Yes, we agree with the set of principles that are proposed within the system level attributes, report level attributes and content communication principles as they encompass the elements that are needed to improve the quality of corporate reporting. Whilst we believe that this set of principles is comprehensive and complete, we think that further consideration should be given to how these principles should be applied in practice (a risk that is currently faced in corporate reporting today; particularly in relation to integration/connectivity, consistency, relevance, company specific information and comparability). Accordingly, we recognise that some of these attributes, such as integration, consistency, brevity and usefulness, may instead become more difficult to apply in practice across three separate core reports (as opposed to retaining a single report).

We also have concerns regarding the option for companies to voluntarily provide additional content to ensure that the reporting meets the needs of their stakeholders. Whilst, in theory, we see the benefits of allowing companies this choice and ability to enhance their mandatory reporting as they see fit for their stakeholders, our concern is that, in practice, companies may take the less onerous route to report on the minimum mandatory content in the core reports.

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?

Whilst we agree with the content elements of the proposed three separate core reports, as already noted, we question the practical advantages of having three separate reports compared to the existing single annual report.

In terms of the content elements of the proposed Business Report and Financial Statements, we agree with the proposed minimum content, and in particular strongly support the expansion of the financial statements to include details on intangibles; we therefore welcome further development of the reporting on intangibles.

In addition, we strongly support the inclusion of a requirement for companies to provide a statement of the company's purpose (as already required for listed companies under Principle B of the UK Corporate Governance Code 2018). We feel that this can sometimes be difficult for companies to define and so further development could be undertaken in this area that would ultimately result in some helpful guidance for companies. Given that a company's purpose drives its activities, operations and business model, we believe that more weighting should be placed on companies stating their purpose and ensuring that it aligns into the company's business model and long-term approach to value creation.

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?

Whilst we do not believe that a discussion on the future of corporate reporting should be driven by the level of audit and assurance required for that reporting, we do feel that having differing levels of materiality for the different objective-driven reports would result in unnecessary complexity and likely lead to a risk of misunderstanding by users. In our opinion, however, this proposal raises concerns about the principles of consistency and integration across the three separate core reports (plus any additional voluntary reports).

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?

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

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

We strongly support the need for there to be a level playing field for non-financial information that it is on par with financial reporting, which advances the needs of the public and that brings together all elements of non-financial information in a coherent manner.

We agree that there needs to be more clarity and a commonly agreed definition of the term 'non-financial reporting' as it can often be considered a misnomer. Accordingly, we agree that it should relate to information about employees, suppliers, customers, the community, the environment and human rights, and so should consider both how these matters impact the

sustainability of a company's business model and vice versa, yet also include intangible aspects of a business that are less directly associated with sustainability, such as effective business practice and know-how. The more widely used ESG ("Environmental, Social and Governance") term, or alternatively "extra-financial", are both in our view more representative. Overall, therefore, we support the development of global sustainability standards, and this being led by the IFRS Foundation. We believe that it is also essential that the development of sustainability standards is fully taken into account in determining the next steps on this project, as it will potentially change the structure of reporting for larger companies around the world and will also need to be taken into account in developing UK accounting standards.

However, as we have already noted, we do not believe that the disaggregation of corporate reporting into three separate core reports will provide benefits that promote consistency and integration. Whilst we support the discussions surrounding analysing the different 'impacts' on companies in relation to internal outcomes, external outcomes and social impact, and feel that this will help to focus the reporting into distinct elements, we have concerns that the division of the information amongst the Business Report and a separate Public Interest Report will further discourage consistency. We consider that the direction of corporate reporting should support companies to report on their business in an integrated way and therefore maximise the ability of users to access information in this manner.

This said, we agree with the proposed objective and content of the Public Interest Report, acknowledging that the current requirements for reporting on such matters result in disjointed and dispersed information for users. Therefore, in our view, the proposals to bring together all related information into one place will enhance integration and consistency. However, we do feel that the definitions of outputs, internal outcomes, external outcomes, and social impact should be developed further, as a clear discussion of this would be useful in the next steps of this project.

As a final point to note, if the proposals go ahead as currently presented, we would welcome further clarification being provided about how the Public Interest Report differs to a Public Interest Statement, if and when, it is introduced as recommended by Sir Donald Brydon.

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?

We support the proposed vision for technology enabled reporting and hence the need for further investigation and development, and above all the aim to see all reporting content produced in digital format. We feel that this is particularly important in today's technology-driven environment. In terms of implementation of this, we do not see why this aspect of the proposals could not be taken forward and accelerated independently in order to help now with comparability and consistency of reporting.

However, we believe that the use of technology could be used even more to further-advance corporate reporting and result in a more radical change. We feel that it would be useful to establish a working group, with strong representation from digital media and analytics experts, to explore the options that could be presented to users from a technology perspective.

In addition, we are surprised that the aspect of continuous reporting had not been brought into the discussion. Hence, whilst we note that this is a complex and contentious area, we feel that

for or against this, or on where it might be appropriate, this could (and should) have been incorporated.

Proportionality

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

Should the proposals go ahead as currently presented, we would support the requirements for proportionality to ensure that the Business Report is only prepared by medium and large companies, and the preparation of the Public Interest Report is limited to PIEs, applying first to only the very largest companies.

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?

There are two further points that we would like to add:

- The paper does not include Corporate Governance, which we feel should also be incorporated into the discussion; and
- Should the proposals go ahead as currently presented, we would recommend that the three separate core reports (plus any addition voluntary reports) should be published simultaneously to avoid any complexities, inconsistencies and misalignment of reporting due to timing.