THE 100 GROUP

The Financial Reporting Council,
8th Floor,
125 London Wall,
London,
EC2Y 5AS

For the attention of Sir Jon Thompson

1 February 2021

Dear Sir Jon,

Please find enclosed our response to your Discussion Paper: A Matter of Principles: The Future of Corporate Reporting.

This response has been prepared by the 100 Group Main Committee and is intended to speak on behalf of the Group as a whole. The 100 Group membership represents around 87% of the FTSE100 market capitalisation as well as a number of equally significant sized unlisted businesses. We note that whilst this letter expresses the views of the 100 Group as a whole, these views are not necessarily those of individual members nor their respective employers. We thank you for the opportunity to comment on your proposal and are happy to have any follow up discussion if helpful.

We are supportive of the FRC challenging thinking and stimulating debate about the annual report in its current format. Iterative changes to regulation and requirements using the report as the core repository of information for investors and stakeholders alike has resulted in the traditional annual report becoming cluttered and unwieldy.

It is important for corporate reporting to evolve to meet the expanding set of users' needs and reflect the changing business environment. Cutting the clutter to provide information that is relevant, reliable and comparable. That being said, for the evolution of corporate reporting to be successful we believe there are a number of criteria that it will need to meet.

There will need to be international alignment, particularly harmonisation with the US, otherwise there will be significant cost and reporting burdens where companies are required to report in multiple jurisdictions.

Proposals will need to address both financial and non-financial corporate reporting. We are supportive of a common set of global standards for non-financial reporting, particularly Environmental, Social and Governance (ESG) reporting, that unites the wide array of frameworks currently in operation and emerging internationally. In our view it will be important to establish these global standards before determining how the information is ultimately shared with stakeholders.

Any proposed reporting structure will need to encourage clear and concise reporting that allows companies to provide a coherent narrative on how the business generates long term value. Diffuse disclosures that obscure material messages should in our view be avoided. To achieve this, we believe, objectives will need to allow flexibility but compliance with those objectives and materiality will need to be clearly defined. The structure currently proposed is open ended, which would encourage a proliferation of ad hoc reporting and information requests from investors and pressure groups reducing brevity when the network is considered in its entirety, obscuring material matters and significantly increasing the cost burden to preparers.

Finally, there should not be an increase in the cost burden to preparers and proposals will need to have due regards to commercially sensitive information, to avoid inhibiting a competitive business environment in the UK.

Our detailed responses to the questions outlined in the Discussion Paper are included as an appendix. We have sought to be clear and constructive in our feedback providing, where possible, practical solutions and alternatives to the issues and requirements identified.

We welcome continued engagement from the FRC as they move forwards with the project. Since the paper is thought leadership many of the proposals are high level in nature. Numerous practical challenges are likely to continue to arise as the proposals are developed and refined, although given the five to ten year time horizon for the project we hope these can be ironed out over time.

Please do contact our secretariat Hannah Maughan at secretariat@the100group.co.uk should you wish to discuss any of our comments in further detail and she will be very happy to put you in touch with us.

Yours sincerely,

Julia Wilson,

Chair of the 100 Group

APPENDIX 1 – Questions

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

100 Group response

We are supportive of the FRC challenging thinking and stimulating debate about the annual report in its current format. Multiple incremental changes to regulation, using the annual report as a home for additional requirements, has resulted in the traditional annual report becoming cluttered.

We believe it is important for corporate reporting to evolve to meet the expanding set of user's needs and changing business environment, cutting the clutter to provide information that is relevant, reliable and comparable.

In our view for the proposals to be successful they will need meet a number of key criteria including:

- There should be international alignment, particularly harmonisation with the US;
- Proposals should address both financial and non-financial reporting;
- Changes should encourage reporting that is "clear and concise";
- There will need to be clear objectives that allow flexibility with clearly defined compliance and materiality;
- There should not be an increase in the cost burden on preparers; and
- being cognisant of commercially sensitive information.

Further details on each of these criteria are included below.

International alignment

The current proposals will only work if they are adopted internationally, including in the US, otherwise there will be significant reporting difficulties and additional cost burden for companies that are required to report in multiple jurisdictions.

In our discussions with the FRC technology has been cited as a possible solution where traditional annual reports are required outside of the UK, however, this implies the network would merely be the current annual report disaggregated into multiple documents.

Non-financial reporting

Proposals will need to address both financial and non-financial corporate reporting.

We are supportive of developing a common set of global standards, for sustainability and other Environmental, Social and Governance (ESG) reporting, that unites the wide array of frameworks currently in operation and emerging internationally.

In our view it will be important to first achieve alignment in non-financial reporting, both within the UK and internationally, before determining how the information is distributed to stakeholders through the proposed reporting network.

"Clear and concise"

We encourage corporate clear and concise reporting that allows stakeholders to understand how the business delivers long term value.

Cutting the clutter from the annual report will allow communication with stakeholders to focus on material issues, increasing the relevance and understandability of the information presented, whilst limiting the reporting burden on preparers.

We note, companies are currently encouraged to focus on material matters within the annual report, if only to prevent the document becoming excessively long.

Clear objectives that allow flexibility with clearly defined compliance and materiality

Clear objectives that balance flexibility and comparability will be needed. This will ensure a consistent quality across corporate reporting whilst allowing preparers the flexibility to provide a coherent narrative of the business and adapt reporting to external events and an ever changing regulatory, economic and business environment. Prescriptive objectives that encourage boiler plate disclosures should be avoided.

Compliance with these objectives and materiality will need clearly defining. The structure currently proposed is open ended, which would encourage a proliferation of ad hoc reporting and information requests from investors and pressure groups. This would result in a move away from clear and concise reporting when the network is considered as a whole, material matters being obscured by diffuse disclosures and a significant increase to the cost burden bourn by preparers.

Cost burden to preparers

In our view any changes to corporate reporting should not result in additional cost or reporting burdens for preparers which would inhibit a competitive business environment in the UK, particularly if international alignment was not achieved.

Owing to it being thought leadership, the paper does not include an assessment of the cost benefit of transitioning to the proposed model.

Additional costs are incurred to disclose information externally, even if that information is already regularly monitored internally by the businesses. Being, as a minimum, the cost of gathering and verifying the information to the standard necessary for it to be disclosed externally.

In assessing the cost of the proposals it will also be important to include the costs of any additional assurance, increased tagging requirements and the cost of investment in technology, particularly if this is in addition to traditional costs such as printing

Commercially sensitive information

Disclosure of commercially sensitive information, such as market or product information, can be harmful to both businesses and their investors by prejudicing their commercial interests.

Proposals regarding content and materiality filters will need to be cognisant of the need to protect commercial interests in order to foster a competitive business environment in the UK.

Implementation:

Question 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?
100 Group response	We expect numerous practical challenges to arise as the proposals are developed and refined, although given the five to ten year time horizon for the project we hope these can be ironed out over time.

A number of benefits and practical challenges that we have identified at this stage are outlined below.

Cutting the clutter – standing data

A significant benefit of the reporting network would be the ability to remove static/ standing data from the annual/ core report(s). This would make corporate reporting clearer and more concise as well as having a positive impact on the reporting burden for companies.

Static/standing data that could be removed from the main report includes details of Directors and Management, framework elements of the basis of preparation of the financial statements, modern slavery information and other static policies, procedures and corporate governance disclosures.

Timing/staggering of reporting

A potential upside for preparers is that multiple reports may allow reporting to be staggered, reducing bottlenecks in the reporting cycle. Ad hoc reporting in the network would also allow companies to react to external events, increasing stakeholder engagement.

However, in our view key mandatory reports would need be prepared based on a common reporting date otherwise the ability to look at the business holistically would be inhibited and significant reconciliation challenges would arise. Furthermore, staggering the release of reports may result in communication challenges with investors and other stakeholders by limiting the narrative the business is able to share, particularly if the full suite of reports has not been published prior to roadshows or AGMs.

For example, the Public Interest report appears to be the easiest report to produce on a different timeframe, but this would be inconsistent with the principles of s172 reporting and there are many situations, such as operational transformations, where a business would want to demonstrate the impact on public interest as well as its finances and operations.

The reporting cycle, governance and oversight

The preparation, review and publication of the traditional annual report is an established, rigorous process that is managed internally through an organisation. This process includes a significant level of board consideration and governance.

Fragmentation of the information contained within the annual report into multiple smaller reports may result in lower levels of consideration and review over some of the component reports, particularly those classified as voluntary. There is also a risk of external reporting fatigue.

Furthermore, if the proposals are implemented significant changes to internal processes will be required. The time taken to implement these internal process changes will need to be reflected within any roadmap to implementation.

Assurance

The credibility of information is an important component of external reporting to investors and stakeholders alike. The role of audit and assurance over the network of reports will therefore need to be carefully considered for both financial and non-financial reporting.

Whilst the scope of a financial audit is limited to the financial statements, auditors are required to consider the front half of the annual accounts and report anything that comes to their attention that is inconsistent with the financial statements.

Disaggregating reporting is likely to result in an increase in assurance requirements, which increases the cost to preparers and investors.

If different assurance providers are used to provide assurance over different reports there would be further challenges, including additional costs where multiple providers must assure the same information and logistical difficulties as a result of managing workstreams with multiple providers. How any individual assurance provider would provide assurance over whether the network as a whole represents a true and fair view would also need to be considered.

Investors and other users of the accounts

It will be important to educate investors, the media, analysts and credit rating agencies prior to the implementation of any changes, particularly about how and when they will be able to access information.

Creating an expectation gap between preparers and investors, or not providing investors with sufficient guidance on how to access the information available would result in an increased burden on preparers. Both from ad hoc disclosure requests and directing investors to the location of information already shared.

Timing of the consultation paper and and implementation

We note that the paper is a thought leadership paper, thus not expected to be implemented in the immediate future.

When timetabling the project's development and implementation we urge the FRC to give regard to the wide array of regulatory, economic and operational challenges that preparers are already facing including the ARGA transition, standardisation of sustainability reporting and the economic and operational impacts of Covid-19.

We believe it will be important to achieve alignment on the content of ESG reporting, both within the UK and internationally, and understand the changes to corporate governance and the scope and role of assurance resulting from the ARGA transition before re-assessing how the reporting itself is then shared with stakeholders. These changes are likely to have a significant impact on the practical implementation of the proposals.

Objective-driven:

Question 3	Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?
100 Group response	Corporate Reporting, particularly ESG reporting, is of interest to an ever-widening group of stakeholders beyond just shareholders. Over time the annual report has been used to try and meet the requirements of this expanding set of users.

We agree that there are groups of stakeholders that are increasingly relevant, and whose needs should be addressed by Corporate Reporting, such as customers and employees.

It would, however, be uneconomical to produce documents that answer all imaginable information needs of the public. Requiring companies to do so would open them up to liability issues, for example corporate reporting should not be held accountable for an individual customer's buying decisions. Therefore, we believe it is important that these stakeholders are considered as defined groups of users. We also note that information that impacts significant stakeholder groups typically has a knock-on impact on investors, for example if information effects customer decisions will impact sales and profitability.

The broadening of responsibility beyond a primary user focus will have an impact on assurance and the associated assurance risk environment. This could have significant cost implications which will need to be considered in any cost benefit assessment.

If reporting moves to a more fluid multi-report and stakeholder approach, we suggest that there should be flexibility for each company to develop a simple scorecard of metrics that tells the story of their business. This would be in addition to any mandatory disclosures. The scorecard would be a mix of financial and non-financial measures and would act as a consistent set of metrics year on year and report by report.

One set of principles:

Question 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?

100 Group response

Reporting cohesiveness and completeness across the network of reports will be important, we therefore agree that there will be a need for overarching principles across any proposed network.

The principles presented at this stage of the project are conceptual in nature and therefore too vague to allow us to interpret how they would be implemented. We would welcome the opportunity to continue to comment on the application of any principles as the project moves forward and any principles are refined.

It will also be important to address how potential overlap between reports and situations where different users require different information on the same topic will be handled.

Reporting network:

Question 5

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

100 Group response

As the discussion paper is thought leadership, the current reporting network proposals are high level in nature. The full benefits and challenges of implementing this approach will therefore become clearer as more detailed proposals are prepared.

A key benefit to a reporting network would be the ability to remove static/ standing data from the annual/ core report(s), encouraging reporting that is clearer and more concise. Furthermore, ad hoc reporting within the network would allow companies to react to external events, increasing stakeholder engagement.

Increasing the volume of reports will, however, inevitably lead to an increase in repetition.

As per our response to question one, we believe the transition to concise reports distributed across a reporting network would only work if a similar approach is adopted internationally, including in the US, otherwise there will be significant difficulties and additional cost where companies are required to report in multiple jurisdictions.

Compliance with the objectives of each report and the overall network would also need be clearly defined. The proposed structure is open-ended which would encourage a proliferation of ad hoc reporting and information requests stakeholders resulting in material information being obscured by a surplus of immaterial data and adding a significant cost burden to preparers. Companies are currently encouraged to focus on material matters within the annual report, if only to prevent the document becoming excessively long.

We also note that there is a drive in the market to take a holistic approach both when managing and evaluating businesses. Disaggregating information into separate reports could be detrimental to providing an integrated narrative on the business.

Should a reporting network be implemented it would therefore be important to provide detailed guidance on how information should be segmented to allow core reports to provide a holistic view of the business while using supporting reports to provide additional detail as required. This will be particularly challenging for ESG reporting where current frameworks such as TCFD encourage integration of ESG both within a company's operations and its reporting.

Materiality

Question 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?

100 Group response

Basing materiality on the objective of each report will result in significant complexities which will need to be addressed in any proposals. Different users of a report are likely to have different reporting expectations even when considering the same objective.

It would be uneconomical to produce documents that meet objectives to the level of detail required by all users. Furthermore, expanding materiality to meet the needs of all individuals for an agreed objective would open companies up to significant liability issues, for example corporate reporting cannot not be held accountable for an individual customer's buying decisions.

Evaluating materiality today is a complex judgement and opening it up to multiple stakeholder groups and different reports will make this very challenging to operate in practice.

We would expect detailed guidance to be produced on both the assessment of materiality itself and any associated disclosures.

We would also encourage an approach that maintains some form of investor primacy to simplify a company's practical assessment of materiality, even when considering a wider set of defined user groups. For example, it may be a single test based on financial reporting is the key materiality determinant but that there are a small number of secondary factors to allow for a small set of key stakeholders. We suggest that for the purpose of materiality, stakeholder needs are assessed based on defined key stakeholder groups rather than all individuals.

There are also likely to be practical challenges where different levels of materiality are applied to different reports and so we would suggest a single overarching framework that can be applied consistently.

Non-financial Reporting

Question 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?

100 Group response

We are supportive of developing a common set of global standards, for sustainability and other Environmental, Social and Governance (ESG) reporting, that unites the wide array of frameworks currently in operation and emerging internationally.

This would increase transparency, comparability and oversight of ESG metrics which are becoming more important for investors, companies and other market participants and alleviate the increasing burden on preparers as a result of the wide ranging and often ad hoc disclosure requests and requirements.

We encourage any future standards to be built on existing good practices, in particular the Task Force on Climate-related Financial Disclosures (TCFD). We also encourage the development of industry specific metrics that allow standardisation on sector specific issues.

In our view the success of extending global standards for non-financial reporting beyond ESG will depend on the level of commonality across sectors and geographies. Where there is minimal commonality there will be limited scope for extending regulatory standards.

Question 8

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

100 Group response	Disclosure of a company's view on their obligations in respect of the public interest is a useful anchor when considering the company's purpose and helps to align internal and external expectations. We also note that, the requirement to disclose this information is in line with Sir Donald Brydon's recommendation for the preparation of a Public Interest Statement. To fulfil this requirement companies will need clear guidance on how they should assess their obligations, whether statutory or self-determined and how materiality in relation to these disclosures should be assessed.
Question 9	Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?
100 Group response	In our view, an assessment of whether a Public Interest report would be advantageous will depend on the outcome of international alignment of ESG and other non-financial reporting. There is currently a drive in the market to take a holistic approach both when managing and evaluating businesses. This is supported by TCFD reporting which encourages ESG to be integrated both within a company's operations and its reporting. Whilst a separate Public Interest report would allow companies to provide supplemental information in a separate location disaggregating the information could be detrimental to providing an integrated narrative of the business, particularly if Public Interest reports are issued at different times to other mandatory reporting or not made available prior to AGMs or roadshows. If a separate Public Interest report were to be introduced it would be important to provide detailed guidance on how information should be segmented to allow core reports to provide a holistic view of the business while using the Public Interest report to provide additional detail

Technology

Question 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?
100 Group response	Given the extended timetable until the proposals are expected to be implemented, technological considerations will need to not only reflect currently available technology but also the have the flexibility to leverage future developments. Any technological requirements will, however, need to occur at a pace that companies can deliver alongside other proposals being implemented. Our members already share a significant amount of information through their websites. They regularly experience issues with users missing this information, resulting in an array of ad hoc requests to investor relations teams. As such, we believe that guidance for both companies and users will need to be provided alongside any technological developments. We also recommend that an international taxonomy for tagging reports is developed to avoid duplication of effort when tagging information across multiple jurisdictions. The level at which content elements are tagged will also need to be carefully considered. Detailed data that can easily be manipulated on a standalone basis, without the application of management judgement, would be open to misinterpretation by users.

Proportionality:

Question 11	Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?
100 Group response	We agree that there is a need to achieve a proportionate reporting regime for companies of different sizes and complexities. Additional clarity on the content of the proposed reports, both mandatory and voluntary, is however needed for us to assess whether the current proposals are proportionate.

Other

Question 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?
100 Group response	We believe it will be important to achieve international alignment on ESG reporting and to understand the impact of the ARGA transition, on corporate governance and the scope and role of assurance, before significant progress is made on the project. These changes will have a significant impact on the information being shared and the regulatory environment it is shared within, which will affect the practical implementation of any proposals.