

January 2021

FRC Discussion Paper Submission

The Future of Corporate Reporting

We are pleased to be engaging with this FRC initiative. Our responses to the specific questions raised on page 5 of the October 2020 Discussion Paper are summarised in this document and we would be delighted to discuss any aspects in greater detail, as required.

Clive Anderson

Paul Long

Paul Roy

About the Respondents

This submission has been compiled by Clive Anderson, Paul Long and Paul Roy on behalf of **h2glenfern Limited** and **U-Research Limited**.

Clive Anderson was an equity analyst for 17 years at RBC, Smith New Court and Merrill Lynch. At the latter he was Head of Global Transport and Infrastructure Research and secured over 20 No. 1-rankings in the Sector. He subsequently spent 6 years on the buy-side with NewSmith Capital Partners before joining h2glenfern Limited, where he is a Senior Partner.

Paul Long is the Founder, Managing Director and owner of Intrinsic Business Services Limited, a critical IT program and project management business. The focus of the business is on financial services clients. Paul and his company have extensive experience in designing, building, operating and maintaining enterprise IT systems in the financial sector and his career has included working for Siemens, Nixdorf Computer and Norsk Data.

Paul Roy has over 40 years' experience in the banking, brokerage and asset management industries. He co-founded the investment management platform NewSmith Capital Partners in 2003 and prior to this he was Co-President of Global Markets and Investment Banking at Merrill Lynch & Co. and CEO of Smith New Court Plc. He has held multiple board positions and is currently Chairman of Bloc Ventures Limited and a non-executive director of S4 Capital PLC. He is Chairman of U-Research Limited.

h2glenfern Limited provides Investor Relations advice and services to assist both listed companies and private equity portfolio companies in improving the efficiency and effectiveness of their interface with investors. The business was established in 2005 and involves engagement with a wide range of listed companies, institutional investors and private equity funds.

U-Research Limited was established to investigate the scope for automating the aggregation and distribution of content required to facilitate investment assessment and monitoring and to develop a prototype platform. Its original focus was on servicing the needs of listed corporates as both suppliers and consumers of such information, but its development and consultation have revealed the scope to address a significantly wider range of potential beneficiaries, including retail investors, professional services and private equity. It was founded by Clive Anderson and Paul Long, is chaired by Paul Roy and is a separate company that works closely with h2glenfern.

1. Overview

We fundamentally agree with the objectives behind the FRC exercise.

It should be applauded that much progress has been made in company reporting over recent decades with many more areas (financial and semi or non-financial) receiving improved disclosure and discussion. Whilst fuelled by good intent, the approach of simply making more and more information universally available in an attempt to meet the needs of differing stakeholders, is nonetheless creating a challenge.

We feel that there is an increasing risk of “overload” in the provision of information, both financial and non-financial and the Annual Report has become the default depository for additional content, with no apparent attempt to facilitate the sourcing requirements of different user groups. The Report & Accounts is not only significantly larger but also more difficult to navigate.

Running in parallel with this increase in disclosure has been a series of structural changes in the equity market over the course of the last 2 decades, which has exacerbated the challenge for listed corporates. The combination of technology and regulation (including MiFID2) has resulted in a situation where:

- The buy-side (institutional and retail) has become increasingly self-sufficient in the assessment and monitoring of investment opportunities;
- The sell-side has become less significant as the key intermediary supporting the research process, as the resource and viability of research activity has diminished;
- The listed corporate has a greater responsibility for the provision of information and has an increasingly direct interface with investors.

The focus of our input to this discussion is on the structuring and consistency of information and the use of technology for more effective and efficient distribution of information. Our thoughts relate primarily to the investment community but may have relevance to the wider stakeholder group.

We recently ran a survey of c25 buy-side representatives from across the size and strategy spectrum to ask simply, what they would like listed companies to do in a post-MiFID2 environment to improve the efficiency and effectiveness of the interface with investors. Multiple suggestions were forthcoming but 3 strong themes emerged:

1. **Consistency:** “Wouldn’t it be marvellous if everyone had the same IR website structure” and content was made available in consistent categories? Respondents wanted every company to have content listed under consistent categories, not “Our business model is on page 27 of the 2018 Report and Accounts” and they wanted all categories to be populated. A simple business model explanation is regarded as better than no explanation at all.
2. **Industry Data:** Important to distinguish between Big Data and Structured Data but a desire exists for the latter. “I would like easier access to information about the dynamics, characteristics and trends of a company’s addressable markets,” stated one respondent.
3. **Investment Perspective:** Respondents would like to see companies looking at their business through an investor lens. This is not about promoting a valuation approach to support a share

price objective but about understanding where the investment community is coming from and what it needs in order to assess and monitor an investment opportunity. Capital Allocation policy is a good and more recent example of a topic where investors would welcome a deeper discussion.

We then took these requests back to a range of corporates to ask what they felt they would then need in order to address them. Clearly there is some variance in requirements according to size of company (and available resources) but the key elements were:

1. Templates and examples for company-related content;
2. 'High level' access to Market data;
3. Access to selected peer group information;
4. Access to third-party investment research;
5. Awareness and orchestration of related services, such as retail investor access.

It is against this 'backdrop' that we provide our feedback on the consultation document.

2. Implementation

- We view the practical **challenges** of Implementation as:
 - **Consistency of output:** A number of the proposed elements are open to interpretation, such as "Materiality", and the more consistent the output from individual companies, the more benefit to users.
 - **Buy-in:** Assuming that any FRC requirements will be mandatory, companies will have to comply. However, in order to have companies, particularly smaller ones, embrace the concept, (rather than just comply) it will be important for the practical benefits, in terms of improved engagement with relevant stakeholders, to be clear.
- Any proposed solution should be heavily prefaced by a rationale. Listed corporates are typically less familiar with the dynamics of the capital markets than those who work within them and may require deeper explanation. Therefore, whatever the specification of the Network reports, **solutions** will need to include clear frameworks/templates for companies to adopt. "What does 'good' look like"?
- **Cost and benefits.** We believe costs will largely relate to the additional management time required to compile the reports and in order to minimise the attitude of "not **another** report!", it will be necessary for the benefits to be readily apparent. Benefits for the companies themselves, not just their stakeholders, will need emphasis. This should be along the lines of:

Better reporting = Better understanding = Fairer value AND lower volatility = Lower cost of capital AND reduced draw on management time

3. Objective-driven Communications

Whilst it is essential to operate a reporting system that meets comprehensively the evolving needs of the investment community, it is equally important to provide **all** stakeholders with access to the information they require. Historically, the Report & Accounts has been the key document to achieve this, with additional forms

of reporting and disclosure being ‘bolted-on’ to the document. However, this channel presents 2 significant challenges:

1. All stakeholders requiring information need easy sourcing and simplicity of navigation to access what they require. However, as more and more content has been incorporated into the annual Report & Accounts, the document has become significantly more cumbersome for **all** users.
2. Clearly, the type and depth of information required within the various stakeholder groups will vary considerably and whilst the Annual Report in its expanding form will probably contain material to meet most requirements, simply telling stakeholders that they can probably find what they need somewhere in the document seems insufficient.

We would **not** propose the creation of a range of different reports to service different stakeholder cohorts, but we strongly support the concept of a ‘network’ approach whereby information is provided in a more ‘modular’ format that **all** potential users can source, navigate and access the specific elements of information more easily. There needs to be a balance between a holistic approach pulling all relevant content together and flexibility, sufficient to meet the differing needs of the audience.

4. One Set of Principles

We support the proposal of one set of principles but would highlight that many listed companies (particularly the small to mid-caps) will need assistance in interpreting and employing these. It will be necessary to demonstrate ‘best practice’.

We agree with the objectives behind the proposed System Level Attributes and we see these falling into 2 categories which will require different inputs to ensure implementation:

Consistency and Transparency relate to the drafting and construction of the materials and this is where we believe listed corporates as the ‘suppliers’, will require assistance in terms of definition and templates/examples of what a ‘good’ output looks like. A number of companies we work with (particularly in the small to mid-cap size range) often request examples of the outputs they should be producing and having access to both examples and frameworks on which to build communications would be advantageous. In particular, it would be helpful to provide corporates with quick and easy access to their peer groups – not to promote plagiarism but to try to establish more consistent approaches within a sector and ultimately within the Market.

Accessibility and Connectivity relate to the distribution of the materials – the method by which they are presented to the potential user. Our own research has demonstrated that even the professional investors crave ease of access to and navigation around, investment-related content. For any form of comparison exercise within a group of companies quick and efficient access to the required materials is hugely beneficial. We have been quoted examples of investors looking to compare business models finding that some are in last years’ Annual Report, some are in the Annual Report from 3 years ago, some are in the prospectus and some do not exist at all.

Clearly ‘guiding’ companies to the rationale and benefits of good accessibility and connectivity would be beneficial in helping companies deliver more accessible and connected communications but we believe the major potential step forward in this area rests on technology. We are a long way from a ‘standardised’ IR website but with sharper definition, and therefore consistency, of output combined with a more ‘modular’ approach to its creation and a standardised tagging, we believe technology can offer a substantial improvement. This is discussed in more detail in Section 8.

5. Reporting Network

We agree with the overall concept of the Reporting Network as proposed. On the 3 core Reports of the network and their objectives, our views are as follows:

Financial Statements:

- We would suggest the inclusion of 5-year historic data for both operational and financial metrics (adjusted where necessary) to facilitate clear comparisons.
- We would also welcome the inclusion of a narrative on capital allocation policy. Issues such as 'dividend policy' are typically covered in communications but invariably not as a part of a more holistic consideration of overall capital allocation and priorities.

Business Report:

- With less broker research resource and less 'maintenance' research (ie. aggregation/provision of information to facilitate investment appraisal rather than conclude on it), the Business Report would be an excellent forum to address issues (under consistent category headings) such as the dynamics, characteristics and trends of addressable markets and business model explanation – how a company creates value for stakeholders.
- Whilst larger companies and those more diverse operations may have more to include in such a report its relevance should not be restricted to large and mid-cap companies
- It may be appropriate to consider an 'abridged' version of the Business Report for smaller companies, along the lines of the options available for the filing of company accounts.

Public Interest Report:

- We are uncertain as to how much the intention here would be to replace existing ESG reporting frameworks but we would see greater emphasis on the 'outputs' of ESG policies (grouped into one location) as beneficial.
- ESG (particularly the 'Social' element) is clearly gaining prominence and rather than have ESG as a compliance-driven topic the Public Interest Report could serve a useful purpose in "integrating" ESG into a business.
- The question now being asked by many investors is not just "are you ESG compliant" but "how do your ESG policies help you to operate a better business for the benefit of all stakeholders?" This could be addressed in the Public Interest Report.

6. Materiality

- We agree that greater attention needs to be paid to materiality in order to avoid an information 'dump' whereby companies take the approach, "if in doubt, include it" – particularly for non-financial information.
- It is important to try to reduce the level of less-relevant detail (for example, a public transport operator reporting how many bus stops have been installed in a particular location in the last reporting period) or information that does not connect to the overall messaging (for example, reporting the number of solar panels on factory roofs without linking to ESG objectives and KPIs).

- It is difficult to be prescriptive about Materiality given the range of companies being considered, but we welcome the idea that the Board should construct a Materiality Statement to define their own approach.
- For its initial creation, such a statement will require guidance in terms of both structure and generic content and in terms of the specifics of the company. The former could be provided by the FRC and the latter by existing advisors (corporate brokers, IR and Financial PR providers).

7. Non-Financial Reporting

- It is difficult to define Non-Financial Reporting as many factors within these areas ultimately link back to some form of financial performance criteria. For example, is ESG a financial or non-financial report?
- If we agree that the key focus is the potential investor, then maybe the categories to consider are **Direct Financial Reporting** and **Indirect Financial Reporting**?
- We see a growing investor interest in Industry data sources and commentary. This is not Big Data, requiring specialists to process and interpret, but structured data and specialist industry comment which provides insight into a company's addressable markets. Such information would be beneficial to include under Indirect or Non-Financial Reporting.

8. Technology

- This is an area of significant potential for improvement and where we have done considerable work in looking specifically at content aggregation and tagging, and bespoke content retrieval and management.
- We have developed a cloud-based bespoke storage and retrieval platform utilising a dashboard that can integrate external feeds to provide content suppliers and content consumers with access to the information directly relevant to their requirements.
- We believe Technology has the potential to assist significantly the reporting objectives in 5 key ways:
 - **Aggregation** – bring together all relevant investor content relating to an individual company;
 - **Storage** – retention of such content in a specific database for each company;
 - **Retrieval** – using a dashboard structure to allow consumers of investment-related content to select the companies they are interested in and the categories of content they require on a bespoke basis;
 - **Management** – facilitating the sorting and sharing of information, as required;
 - **Analysis** – identifying user habits and preferences to inform the suppliers of information.
- The prerequisites for the handling information in this way are:
 1. That the content exists (in some cases the content category is not available or has not been created);
 2. That it exists in a modular format (and can be selected individually);
 3. That it is in digital format;
 4. That the content is tagged.

- If reporting-related content is going to be categorised (or tagged) then effectively a company will create a content library that becomes a database from which material can be drawn to service multiple requirements. For example, tagged content stored digitally can be used to service the IR website and populate other systems (such as retail platforms) – in fact, any circumstance requiring ‘maintenance research’ materials.
- As part of the work we have done in designing a platform structure we have identified 27 different Content Tags which we believe could represent standardised categories and these include:
 - Business Model
 - Operations
 - Strategic Objectives
 - Strategic Actions & KPIs
 - Debt Investors
- We believe strongly in the concept of helping companies to help themselves in terms of their investment-related interface with stakeholders and we see key elements of this as:
 - Having templates and examples to show what is required and what ‘best in class’ looks like;
 - Constructing materials/content in a modular way to facilitate application to the widest range of stakeholders;
 - Aggregating required information in one location with simplicity of sourcing and navigation.
- Moreover, we see a wider requirement to orchestrate information and third-party services to assist the listed corporate in creating and distributing efficiently and effectively, what is required by investment-related stakeholders.

9. Proportionality

- It is inevitably going to be a challenge to construct a reporting model that accommodates exactly the circumstances of all individual companies. Apart from the implications of size variation, there will be differing requirements emerging from different sectors (small-cap housebuilder versus a FTSE100 oil company) inhibiting the scope for too rigid a model.
- What is important for both the company creating the report and the user of it, is a consistency of definition. However much is written and wherever the emphasis is placed, it is important that both the authors and the readers share a consistent view of the objectives of a particular report. What are the objectives and likely content of a Public Interest Report or what should they expect to find in a Business Report?
- To this end, we believe it is preferable to consider a ‘central case’ model from which companies can develop or adapt to accommodate their particular circumstances.

10. Other

In summary, we see the reporting challenge being to:

1. Define what the appropriate reporting format is to improve the efficiency and effectiveness of the interface with stakeholders seeking investment-related information and insight.

2. Help listed corporates in compiling and packaging such reporting outputs and in orchestrating and distributing the components of the reporting network to meet most effectively the varying needs of stakeholders.

We see the significant reporting challenge as not so much the availability of information (much of what is required already exists or could be created relatively easily), but more the efficiency and effectiveness by which various stakeholders are able to source and retrieve it.

Furthermore, whatever reporting frameworks are ultimately proposed, we would stress that smaller companies with typically less resource and/or less capital markets' experience will require more assistance in adopting and using them to maximum advantage.

And finally, we would emphasise the increasing importance of the provision and clarity of information relating to ESG and its practical implications, whether this is included in the Public Interest Report or on a 'standalone' basis.

31st January 2021