

A matter of principles: the future of corporate reporting

LSEG RESPONSE TO FRC DISCUSSION PAPER, FEBRUARY 2021

Introduction

LSEG (London Stock Exchange Group) is more than a diversified global financial markets infrastructure and data business. We are dedicated, open-access partners with a commitment to excellence in delivering the services our customers expect from us. With extensive experience, deep knowledge and worldwide presence across financial markets, we enable businesses and economies around the world to fund innovation, manage risk and create jobs. It's how we've contributed to supporting the financial stability and growth of communities and economies globally for more than 300 years.

LSEG welcomes the opportunity to respond to the Financial Reporting Council's discussion paper regarding the future of corporate reporting. Overall, we broadly support the principles-based framework for corporate reporting outlined in the paper. We believe the proposals present a positive approach for corporate reporting and will help provide reports which are more useful to a wider range of stakeholders. We would add, however, that this approach should be applied within a comply or explain framework, so that companies – especially those at the smaller end of the spectrum – have a greater degree of flexibility in adjusting to the new model's structure of reports.

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

LSEG broadly supports the concept of integrated reporting and the proposal for a network of reports. Separating sometimes highly complex financial information from more straightforward commentary makes sense, and the addition of a Public Interest Report from entities that qualify would be beneficial.

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?

The practical challenges around this new way of reporting largely relate to education and technology. Educating both preparers and stakeholders in the new approach will be key and a gradual, structured approach should be taken to ensure they fully understand it. The technology challenges relate to the development of new portals and adopting XBRL throughout the reports to allow the cross-referencing required. Although there will be some additional costs in preparing these reports, we believe these will be outweighed by the benefits of the ability for firms to increase engagement with stakeholders and communicate their messages. Reducing the reliance on hard copy publications will also be beneficial, as this would in turn support steps to cut firms' carbon footprint.



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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?

LSEG agrees that corporate reporting should focus on a wider group of stakeholders through objective-driven reports, instead of a primary user focused approach. There are many different stakeholders other than investors to whom companies need to communicate. It is right that additional information is prepared for these stakeholders rather than the current primary user focus.

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?

LSEG agrees that adopting the principles outlined in section 2 would help improve the quality of corporate reporting. We believe that current good practice should already be incorporating these principles.

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?

LSEG broadly agrees with the Reporting Network concept. We believe that this would improve corporate reporting, and make it more relevant and accessible for different groups of stakeholders.

The concept of dividing the current Annual Report into distinct separate reports covering the Financial Statements, a Business Report and a Public Interest Report will give companies the opportunity to provide more in-depth analyses of the business and its objectives and achievements in different formats for different stakeholders.

We would however note that this will also likely cause additional administration and cost, as it is expected that each report would need to be audited to ensure its accuracy and consistency with the Financial Statements. This is why it is important that the new model accounts for the need to retain the comply or explain principle, so that companies – particularly those at the smaller end of the spectrum – have a greater degree of flexibility in adjusting to the new model's structure of reports.

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?

LSEG believes that materiality should be related to the type of transaction or business area on which the company is reporting. In certain circumstances, stakeholders will want to be assured that the information is complete and accurate, rather than just 'materially correct'.

A Business Report may wish to cover only the major areas of the business: keeping the analysis very high level and reviewing only the major transactions during the year. The Financial Statements will continue to provide the same level of detail that is currently required, whereas the Public Interest Report will look at different areas that may not be considered material in the context of the other reports (e.g. environmental initiatives to cut carbon footprints).

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?**

LSEG does not believe that regulatory standards for non-financial reporting should be introduced. A robust set of principles with accompanying guidance should suffice and is likely to produce better reporting. Good practice will emerge over time and other entities will strive to reach this level. Introducing regulations will lead to a more boiler plate approach to reporting and could discourage the development of better approaches over time in response to market developments.

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, we agree that companies should provide information about how they view their obligations in respect of the public interest. These will include environmental impacts, staff well-being and the wider societal impact of their operations. This information should be reported to a wider group of stakeholders than at present.

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

Yes, LSEG believes a separate Public Interest Report would be of significant benefit to a number of stakeholders beyond the primary users of current reporting.

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 have no comments on this question.

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

Yes, we agree that the proposed model will achieve a proportionate reporting regime for companies of different sizes and complexity.

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?**

We have no comments on this question.

