



Section 172 statements

How to make them more useful

The Financial Reporting Lab spoke to institutional and retail investors and other stakeholders about what they consider useful reporting on how directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the company. We also spoke to companies to understand the challenges they are facing in preparing the related statement. The following tips reflect those views and help companies consider what content to include, how to present it, and how to facilitate the process of preparing the statement.

Section 172 statements as a tool to better insight and more accountability

Section 172 statements were introduced by [The Companies \(Miscellaneous Reporting\) Regulations 2018](#) and were first applied to the reporting periods of relevant companies for financial periods beginning on or after 1 January 2019. A parallel recommendation was also included in the 2018 [UK Corporate Governance Code](#). The [Guidance on the Strategic Report](#) was also updated to strengthen the link between the purpose of the strategic report and the director's section 172 duty to promote the success of the company. It also includes guidance on how to prepare the statement. In May 2020, the FRC issued a [clarification](#) about which companies should prepare such statements. These requirements were introduced following concerns that boards were not paying sufficient attention to their responsibilities towards both shareholders and stakeholders. Some companies told us that the new requirements have indeed made boards and management think more deeply about stakeholders.

“The board should understand the views of the company’s key stakeholders and describe in the annual report how their interests and the matters set out in section 172 have been considered in board discussions and decision-making”.

UK Corporate Governance Code

Building in useful content



- **Be specific and genuine, avoiding box-ticking** – The section 172 statement should not be just a compliance exercise where the company duplicates the section 172 requirements and states compliance. Instead, it should reflect on how the company met the requirements, explain what is relevant to it and what happened during the year and, where applicable, what the board and management plan to do in future. The statement should be an authentic reflection of what happened and what is material to the company.
- **Explain the why** – Explain the board’s reasoning behind why:
 - particular stakeholders are identified as key;
 - particular engagement methods were effective;
 - key decisions were taken in light of engagement and feedback which may have accumulated over time.
- **Link to strategy** – Discuss how stakeholders and other matters are considered strategically, how they are relevant to the business model, and how they affect the development and implementation of strategy.
- **Include difficulties not just positives** – Provide information on where trade-offs and decisions have been made in the short-term to benefit the long-term, and to the benefit of one stakeholder group over another.
- **Reflect the board’s oversight** – Investors recognise that management is responsible for the majority of engagement with stakeholders and the formulation of strategy, but they want to understand how the board challenges and oversees this, and what stakeholder management processes are in place, e.g. how issues are escalated to the board, the extent of training of the board on stakeholder issues, and how the effectiveness of complaints/grievance mechanisms is assessed.
- **Include material KPIs on key stakeholders** – Information such as key performance indicators on key stakeholders monitored by the board, e.g. net promoter scores, should be included in the statement or by cross-reference to where that information can be found elsewhere in the annual report, where material.
- **Address future consequences and planned actions** – When setting out the engagement undertaken and decisions made, companies should disclose the implications of the feedback received, the impact of decisions on relevant stakeholders, and what actions have been taken or are planned as a result. Where the statement highlights issues or concerns raised by a stakeholder, it should be clear how they have been or are going to be addressed.
- **Be consistent** – Reporting on section 172 should be consistent with the rest of the annual report and considered in the context of the company’s story, as a whole, without contradictory information.

Presented in a way that makes sense



- **Think of the flow and context** – The regulations require a section 172 statement within the Strategic Report, or elsewhere by cross reference. Although investors expressed no clear preference for the location of the statement, it should reflect the strategic link and be clear about the board’s role. Companies should think how it fits within the context of stakeholder engagement and how the statement itself can provide context to other areas. For example, the board’s decision-making can provide a framework for how stakeholders are considered, and therefore sequencing the statement ahead of a section on stakeholders can be helpful for investors’ understanding and ease of finding information.
- **Make it visible** – The section 172 statement should be clearly labelled and referred to in the contents page of the annual report.
- **Use cross-referencing to enhance understanding** – Cross-referencing, where used, should expand upon points made in the statement and provide further context. It should not be used to make the statement a contents page or list of links. While cross-referencing is helpful, the statement should still provide a coherent message by itself. Where cross-referencing is used, be specific and clear about what you are referring to, rather than refer to a whole section. Include hyperlinks for ease of navigation.
- **Include case-studies** – Examples and case-studies of significant strategic decisions taken during the year, explaining how stakeholders were taken into account, can bring the statement to life. Consider including them within the statement itself or cross-referencing to them.

Supported by process



- **Start early** – During the year, highlight those key decisions and engagement activities which could be considered for inclusion in the statement as they happen, rather than just compiling information at the end of the year. This can also help the company and the board consider the extent of their direct involvement and activities, and whether a change or more is needed.
- **Include prompts on stakeholders and Section 172 responsibilities** – Consider tailoring templates for board agendas, papers and minutes to include reminders for both the board and management to consider which stakeholders are relevant for decisions. Consideration of stakeholders should form part of a business’ activities, and these prompts can lead to better evidence, as well as making it easier to assess what to include.

When framing your Section 172 statement, remember:

- It is not about stating compliance with the Section 172 requirements, but about reflecting the board’s consideration of stakeholders in pursuit of the success of the company.
- It is not just about stakeholder engagement; the statement should consider all the requirements of section 172, and investors are particularly interested in the promotion of the success of the company and the consequences of decisions in the long term.
- It needs to reflect what is relevant to the company – therefore, the board should explain how they have exercised their duty and considered stakeholders and the long-term success of the company, even where decisions or engagement may have been carried out centrally by the group in the case of some subsidiaries.
- Section 172 should be embedded in the directors’ strategic decision-making and supported by the company’s culture – it is important that boards set the tone at the top, and companies should report on what they do.

“Section 172 [...] recognis[es] that companies are run for the benefit of shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders and considering the external impact of the company’s activities. The section 172(1) statement should explain how the board has had regard to the broader matters in their actions, behaviours and decisions”

Guidance on the Strategic Report

These tips are part of a broader Lab project on reporting on stakeholders. Interested parties are still welcome to share their views and experience. More information can be found [here](#), and you can contact us on: financialreportinglab@frc.org.uk



Financial Reporting Council