



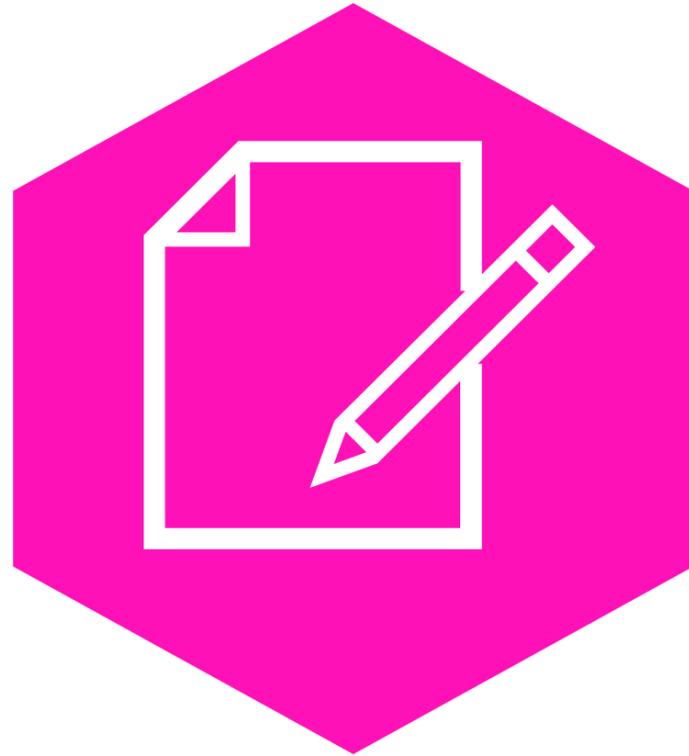
Financial Reporting



Financial Reporting Lab Newsletter



Letter from the Lab



Dear Reader,

With the festive and reporting seasons both fast approaching, we thought it was an ideal time to take stock of some of the Lab's most recent reports and activities. This issue of our Newsletter pulls out some of the highlights from our recent Risk and Viability report and our deep dive on XBRL. It also gives details of our newest project on "Reporting of performance metrics" and highlights some interesting material from the IASB. We finish up with a little bit of holiday cheer. With the New Year just around the corner, may we suggest three resolutions:

1. Get involved with all the Lab's projects;
2. Share our reports with your colleagues and contacts. The Lab has published five reports during the year, and we continue to be grateful to those that have supported our work, which has enabled these reports to be completed; and
3. Help to implement all of the Lab's suggestions into corporate reporting. Well, you can't blame us for trying!

The Lab team would like to wish you a very happy holiday season, and New Year.

Phil Fitz-Gerald
Lab Director

The art of risk and viability reporting

The Financial Reporting Lab recently completed its project on the reporting of ***Risk and viability***. The Report was based on interviews, roundtables and surveys, with more than 200 retail and institutional investors. Risk reporting has been subject to increased focus since the financial crisis and, whilst investors identify improvements in both process and disclosure, the Lab found that there remain further areas that could be enhanced.

The full Lab report provides a detailed explanation of what investors are looking for and provides examples of good practice. Those seeking to produce good risk reporting should ensure that disclosures:

- are specific and focus on implications for the company rather than high-level generic issues;
- are well structured, and essential information (such as whether they are presented before or after the impact of controls) is easily understandable;
- truly reflect what the board have been thinking about in the current period and are likely to think about in the future;
- make sense in the context of the full annual report and link to the company's strategy and business model; and
- balance investors' desires for detailed information with companies' concerns about conciseness and over-disclosure.

Overall, investors look for risk disclosures to provide useful information that gives them confidence in managements' abilities to assess and manage risk. Therefore, companies that focus on communicating their perspective on the risks and challenges that they face will be of far greater value to investors.

While companies have had some years to try and perfect risk reporting, viability reporting is very much in its infancy. Even though many companies consider that implementing the Code requirement to make a statement on viability had improved their focus and risk management, it is fair to say that investors are underwhelmed with current reporting. Investors seek sufficient information to assess the long-term sustainability of a company's business model, and therefore are looking for companies to explain their long-term prospects more clearly.

The full Lab report considers how to move practice forward in viability reporting, whilst balancing concerns of companies and needs of investors. Our animation takes you through the main points from the report.



Watch the Lab's animation with the key messages from the report.

Does performance metrics reporting measure up?



Following on from the Lab's reports on business models and risk and viability, the Lab has launched a project exploring how companies measure performance against their strategic objectives. It considers both financial and non-financial metrics, and highlights how these measures can be presented in a way that is most useful to investor decision-making. The first phase of the project is looking at current practice and considering the extent to which it meets investor needs. To help scope the second phase of the project, we are asking both companies and investors to participate in a survey.

If you haven't yet indicated your interest and would like to take part, we are asking investors, analysts and companies of all sizes to get in touch by 31 January 2018 via email at FinancialReportingLab@frc.org.uk. Full details of the project can be found here.

Presents from the IASB

A couple of recent documents which have been released by the IASB are likely to be of particular interest to those thinking about how to improve reporting and those tackling XBRL.

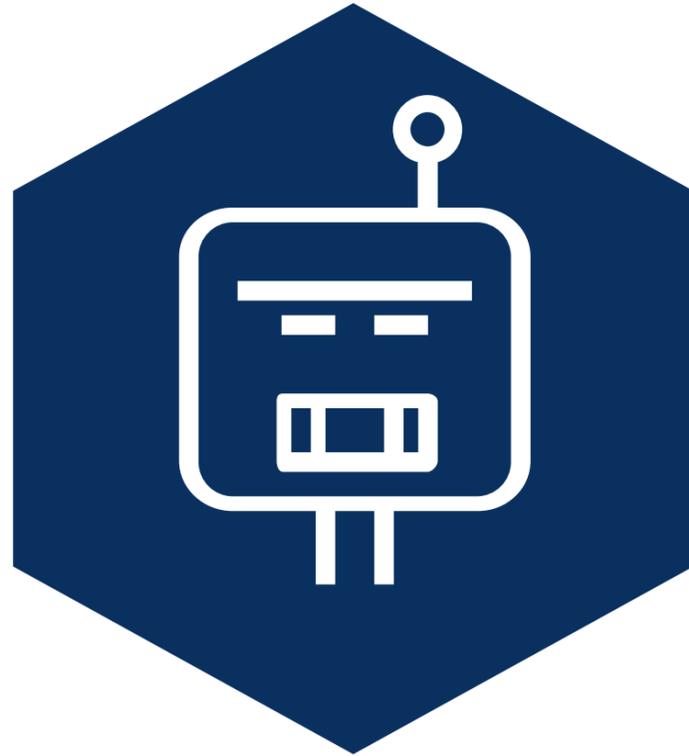
Better Communication in Financial Reporting—Making disclosures more meaningful contains six case studies from varied industries. Its aim is to illustrate how improvements can be made and inspire other companies to initiate their own improvement projects.

The XBRL guide aims to help preparers understand the content of the IFRS Taxonomy. This is very timely for those foreign private issuers filing IFRS accounts digitally to the SEC for the first time this year.

The IASB are also looking to revise and update their practice statement on Management Commentary which was issued in 2010.



Future of reporting - XBRL



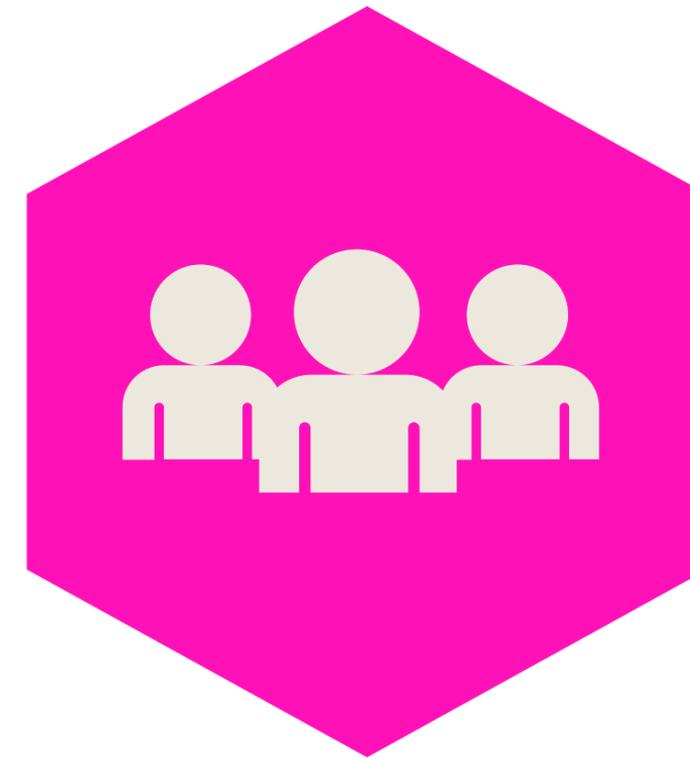
In December, the Lab released a Deep-dive technology review on XBRL. The report considers the proposed regulatory changes (including the European Single Electronic Format – ESEF, which applies to listed company reporting from 2020), the abilities of XBRL and the qualities that preparers and users want from digital reporting systems. It identifies and highlights a number of key decision points for companies, regulators, and others.

Overall, we conclude that XBRL is an important gateway technology for digital corporate reporting. It offers many potential benefits for preparers and consumers of corporate reporting. However, these benefits are not guaranteed. The potential for XBRL to truly deliver for preparers and consumers will need sustained focus from all those concerned and will need leadership and innovation from regulators, companies, investors and technology providers. In particular, we conclude that successful implementation will require the following actions:

- The Lab recommends that a single committee is formed with representatives from regulators and Government to drive digital reporting in the UK. The committee should explore the potential benefits of data reuse in the UK and, where needed, align reporting requirements. It should ensure that regulators work together to adopt ESEF, or a UK alternative, to provide better quality corporate reporting data. The committee should engage with companies and investors;
- Technology companies need to focus on producing tools and packages for non-technical users who create, distribute and consume XBRL data;
- Companies should develop a strategy at Board and audit committee level to discuss how they implement XBRL; and
- Investors should engage with regulators, auditors/assurance providers, and companies so that XBRL data is of value to the investor community.

Audit & Assurance

You may also be interested to read the first report from the FRC's Audit & Assurance Lab. The report covers [Audit Committee reporting](#), with examples drawn from a number of companies and views of investors.



And finally

Happy holiday season

