



Financial Reporting Council

Corporate Reporting SI webinar

The Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023

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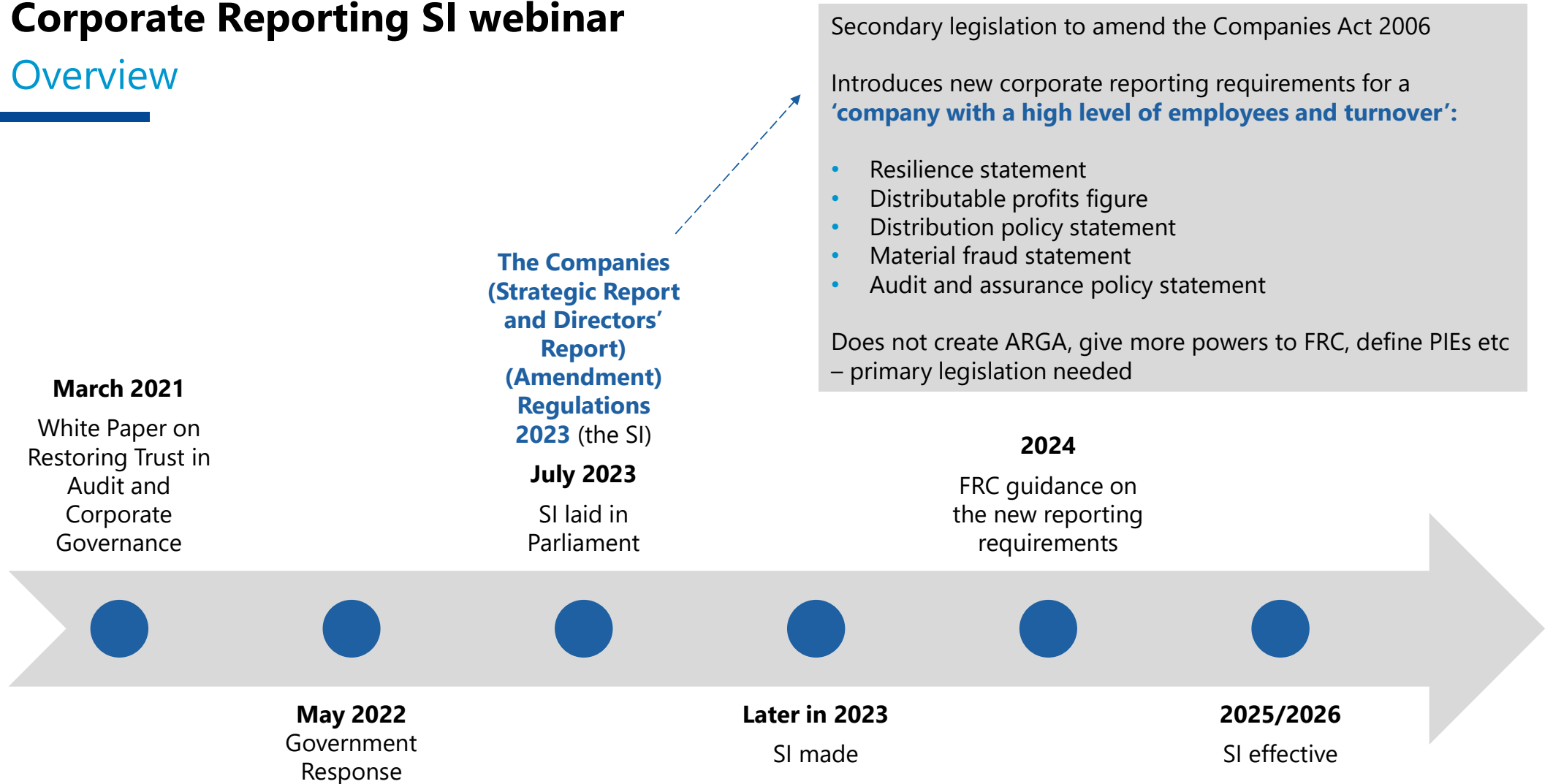
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Overview



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Scope of the SI

What is a company with a high level of employees and turnover?

If in relation to a financial year...

...a company had:

- 750 or more employees; and
- Turnover of £750 million or more

...a group headed by a parent company had:

- Aggregate group employees of 750 or more; and
- Net aggregate group turnover of £750 million or more

CA 2006 defines turnover and employees

Additional considerations apply for banking companies and insurance companies

Note:

- No references to public interest entities (PIEs)
- Non-companies (including LLPs and unincorporated charities) not in scope
- No 'smoothing provisions'

Reference: s414CC

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New narrative reporting requirements: Strategic Report

Resilience statement

Strategic approach to managing risk or building or maintaining resilience

Define and explain short term and medium term periods

Business planning and investment cycles
Internal governance processes

Principal risks

Threat to business model, operations, future performance, solvency or liquidity over short or medium term

List of matters to consider

Likelihood, impact, time period, mitigations, significant changes

Short, medium and long term

Going concern assessment – including significant judgements

Assessment of prospects – including a reverse stress test

Summary assessment of long-term trends and factors

Exemption available if seriously prejudicial to the interests of the company

Reference: s414CD

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New narrative reporting requirements: Directors' Report

Audit and assurance policy statement

Triennial audit and assurance policy (AAP) statement setting out:

Internal auditing and assurance

- Operation and governance of internal auditing and assurance
- Plans for obtaining internal assurance over the annual accounts and reports (including voluntary disclosures)

External assurance

- Plans for seeking external assurance beyond the statutory audit, including any assurance over:
 - Resilience statement
 - Effectiveness of internal controls over financial reporting
- Policies for the tendering of external audit services
- Reasonable or limited assurance, assurance standards used

Extent to which shareholder, employee and other stakeholder views have been taken into account

Annual update statement on how the AAP has been implemented, external assurance obtained and any amendments

Reference: s416A

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New narrative reporting requirements: Directors' Report

Material fraud statement

Annual material fraud statement setting out:

Assessment of risk of material fraud

- How the directors have assessed the company's **susceptibility** to material fraud
- **Types** of material fraud considered

Main measures in place to prevent and detect the occurrence of material fraud

- Including any new measures in place or proposed to be put in place

Note:

- Fraud – as defined in Fraud Act 2006
- Fraud is **material** when its nature or magnitude could reasonably be expected to influence the decisions of a reasonable shareholder
- Exemption available if seriously prejudicial to the interests of the company

Reference: s416B

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New narrative reporting requirements: Directors' Report

Policy statement concerning distributions and purchase of own shares

Annual distribution policy statement must describe:



Directors' approach to **capital allocation**, including decisions on: Investment; capital expenditure; research and development; distributions; purchase of own shares; other relevant matters



Directors' policy towards amount and timing of **distributions to shareholders** and **purchase of own shares** during short and medium term as defined in the resilience statement



Considerations and factors material to policy including availability of **distributable profits** and **cash**



Key **risks and constraints**, including legal constraints, relevant to implementing and sustaining the policy



How the directors have **implemented** the policy and, in doing so, taken into account the considerations and factors, risks and constraints

Reference: s416C

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New narrative reporting requirements

Group reporting

In a group strategic / directors' report, each of the new statements must be a **consolidated statement** relating to the companies in the consolidation

Exemptions for subsidiaries

A company with a high level of employees and turnover is not required to provide the new narrative reporting if:

- It is a subsidiary company at the end of the financial year
- It is included in a group [strategic/directors'] report produced by the company's parent company which
 - Relates to undertakings that include the company and its subsidiary companies
 - Is prepared for a financial year of the parent company that ends at the same time as, or before the end of, the company's financial year
 - Includes a group [resilience statement / AAP statement / material fraud statement / policy statement concerning distributions and purchase of own shares] in respect of all the companies which are included in the consolidation.

Note:

- Must be a **UK parent preparing group accounts**, group strategic report and group directors' report

Reference: s414CE(1)-(2); s416A(7)-(8); s416B(5)-(6); s416C(3)-(4)

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New financial statements disclosure requirements

Additional information about distributable profits, distributions and purchase of own shares

The notes to the individual accounts of a company with a high level of employees and turnover must disclose:

- Profits available for distribution at beginning and end of financial year
- Summary of changes during the financial year, including as a result of distributions and purchase of its own shares

If the company with a high level of employees and turnover is a public company, must also disclose:

- Whether the amount which may be distributed is affected by the s831 net asset restriction
- If so, the amount available for distribution after the application of the net asset restriction, at beginning and end of financial year

The SI does not:

- Change the definition of profits available for distribution under s830
- Affect the existing ICAEW/ICAS guidance Tech 02/17BL *Guidance on Realised and Distributable Profits under the Companies Act 2006*

Additional considerations apply for insurance companies and investment companies.

Reference: s413A

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New financial statements disclosure requirements

Option to set out a 'minimum figure'

If, in directors' opinion, the calculation and disclosure of a figure required by s413A would involve **unreasonable expense or delay**, the directors may set out a **minimum figure**.

If so, they must explain in the notes to the accounts:

- **Why** the calculation and disclosure would involve unreasonable expense or delay
- **How** the minimum figure was calculated

Exemption for subsidiaries

A 'company with a high level of employees and turnover' is not required to provide the new disclosures if, at the end of the financial year, it is a **subsidiary of another 'company with a high level of employees and turnover'**.

Reference: s413A

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Effective date and next steps

Effective date

Regulations have effect in respect:

- For companies with equity share capital traded on a UK regulated market, of any financial year which commences on or after 1 January 2025
- For other companies, of any financial year which commences on or after 1 January 2026

Next steps



**Parliament /
Government**



Companies / Preparers



Investors / Users

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Roundtables

Register for our roundtable events

**Wed 6 Sep 09:30 – Distributions
(online)**

**Wed 6 Sep 15:00 – AAP, Fraud,
Resilience Statement
(online)**

**Tue 12 Sep 15:00 – AAP, Fraud,
Resilience Statement
(in person)**

**Tue 19 Sep 15:30 – Distributions
(in person)**

Please contact stakeholderengagement@frc.org.uk if you would like to attend any of the sessions. Due to limited capacity, we will only be able to allow one member per organisation for each roundtable.



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