

Minutes of the QCA Financial Reporting Expert Group



Held on: Tuesday 29 January 2019

Venue: haysmacintyre, 10 Queen Street Place, London, EC4R 1AG

Present:

Matt Howells (Chair)	Smith & Williamson LLP	MH
Rochelle Duffy (Deputy Chair)	PKF Littlejohn	RD
Anna Hicks	Saffery Champness LLP	AH
Laura Mott	haysmacintyre	LM
Matthew Stallabrass	Crowe UK	MS
Peter Westaway	Deloitte	PW
Clive Lovett	Bilby Plc	CL
Claire Needham (dial-in)	KPMG LLP	CN
Elisa Noble	BDO LLP	EN
Jon Wallis	Grant Thornton UK LLP	JW
Anthony Robinson	Quoted Companies Alliance	AR
Jack Marshall	Quoted Companies Alliance	JM

In attendance:

Phil Fitz-Gerald	Financial Reporting Council	PF
Anthony Appleton	Financial Reporting Council	AA
Charles Henderson	Invesco Asset Management Limited	CH

1. Welcome to Phil Fitz-Gerald, Director of the FRC's Financial Reporting Lab (the Lab), to discuss the Lab's latest work.

MH welcomed PF to the Financial Reporting Expert Group.

PF briefly summarised his role within the Financial Reporting Lab and gave an overview of the Lab, how its projects work and its objective to report to as wide an audience as possible.

PF outlined two aims for the meeting:

1. To establish whether there is significant knowledge of the Lab across the Alternative Investment Market (AIM) and small and mid-sized quoted companies, and if not, how to improve the awareness and knowledge of the Lab;
2. To discover ways to retrieve higher quality and further contributions to the Lab, as it relies on participation to conduct its projects.

Current Lab focus

PF stated that the aim of the Lab is to provide an environment to encourage innovation and experimentation in order to find better ways of reporting. To do so, PF announced that it was essential for the Lab to get as much participation as possible to ensure that the reports produced include useful practical examples. PF explained that, since its inception in 2011, over 76 companies (including 5 AIM quoted companies) and 85 investment organisations have contributed to the 18 project reports published by the Lab. PF declared that the Lab is seeking additional participation from AIM listed companies for its future projects.

PF outlined how the Lab's projects work. Following a public call for participants, the Lab uses the following process for its participants:

- An initial call to discuss participation
- A meeting at the company's location
- An invitation to a roundtable with investors
- An opportunity to comment on the draft report.

PF briefly outlined the Lab's recent projects. In 2016, the Lab's focus was Business Model Reporting; the Lab's project in this area demonstrated that business model disclosures were essential for investors attempting to obtain an understanding for how a company intends to make money and how that would be sustainable over the long-term. In 2017, the Lab produced a report on Risk and Viability Reporting in order to help companies improve in this area, as it is crucial for investors to be aware of the potential risks that a company may face both before making an investment and during the holding of an investment. In 2018, the Lab conducted an Implementation Study which considered how reporting practice had changed since the introduction of the Lab's original 2016 and 2017 reports. The Implementation Study includes examples of companies that have implemented the recommendations of the two reports.

At the end of 2018, the Lab produced a report that looked at how companies report on their performance. The report outlines 5 key performance metric principles that companies should disclose. PF explained that the 5 principles are:

- Aligned to strategy
- Transparent
- In context

- Reliable
- Consistent

There are three current Lab projects ongoing at the moment, these are:

1. Climate/workforce reporting
2. Reporting on the sources and uses of cash
3. Digital Future project – use of virtual/augmented reality and video in corporate reporting

Reports on these are due to be published in autumn 2019.

Future Lab topics

There is currently a questionnaire in circulation on potential topics for the Lab to conduct a project on. Many of the topics listed had a focus on wider stakeholder reporting, looking at the likes of suppliers and consumers.

PF asked the Expert Group for their thoughts on how the Lab could increase participation from smaller companies and for suggestions of relevant topics:

- It was put forward that the application of corporate governance codes by AIM companies last year would be highly relevant, especially since most have adopted the QCA Code, which is less prescriptive than the UK Code. In particular, case studies on how companies have reported on items like culture would be welcome. PF noted the suggested and said that the usual practice for the Lab is to examine things around two years after the change was made, so this might be one for further down the line.
- Dividends and dividends policy was put forward as another relevant for the smaller companies.
- It was suggested that something examining companies “cutting clutter” would be welcome. A previous Lab project looked at the case of William Hill on this topic and more updates on this would be good.

PF explained that the Lab would like to do more to engage with smaller company audit teams and is looking for more opportunities to speak directly with clients.

Kingman Review impact

Kingman said the Lab was a strength of the FRC but that the report did not mention anything else specifically about the Lab throughout the rest of the review.

However the review did recommend that in the future the FRC (or replacing body) should focus is on the users of financial reporting more and this is one of the current aims of the Lab.

PF discussed how the Lab being part of a regulator can cause tension in companies willing to be open but it also gives them credibility. The Lab is generally viewed positively by relevant stakeholders and it was noted that EFRAG has now created an EFRAG Lab.

MH thanked PF for his time. PF left the meeting.

2. APOLOGIES

Apologies were received from Ben Courts, Edward Beale, Mark Hodgkins and Matthew Brazier.

3. MINUTES OF LAST MEETING (13 November 2018)

The minutes of the last meeting were approved.

4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	<p>Recommendations of the Kingman review of the FRC</p> <p>AA stated that it will likely take several years for the new body to emerge and that BEIS will consult in the coming months on the future direction of travel.</p> <p>AA noted that FRC staff are generally welcoming of the review and its recommendations.</p> <p>Expert group members raised concerns that once a new authority was in place that there could potentially be knee-jerk reactions, which would increase fines etc. for companies.</p> <p>MH noted that the Kingman recommendation that the new body to replace the FRC should include focus on proportionality is welcome.</p>	Continue to monitor going forward
b)	<p>Current reviews into the UK audit market:</p> <ul style="list-style-type: none"> i. CMA statutory audit market study ii. Brydon Review into UK Audit Standards iii. BEIS Select Committee inquiry examining the future of audit iv. Professor Prem Sikka (Labour Party) <p>MH outlined the current reviews into the audit market and also noted that point iv should be added to the current list of reviews.</p> <p>As a result of the current reviews into the UK audit market, MH stated that there will be more financial reporting disclosure and that auditors' scope and responsibilities are likely to be expanded. MH explained that the CMA's remedies need to be considered on a global scale.</p>	Continue to monitor going forward
c)	<p>European Commission Technical Expert Group on Sustainable Finance: report on climate-related disclosures</p> <p>MH stated that it would be more effective to wait for the next consultation to be published to see what will form the guidance document before discussing with members.</p>	AR/JM to monitor for release of consultation and then circulate to the Expert Group.
d)	<p>FCA: Climate Change and Green Finance (discussion paper)</p> <p>A response to the Climate Change and Green Finance discussion paper has been formulated using comments from expert group members. It will be submitted on 31 Jan 2019.</p>	QCA response to be submitted.

e)	<p>Review of the Terms of Reference of the QCA Financial Reporting Expert Group</p> <p>MH stated that the Terms of Reference were last revised two years ago and that comments are welcome on whether it needs to be updated to accurately reflect the priorities of the group in 2019.</p> <p>It was commented that it may need updating in regards to the concept of stewardship and fair values, and whether it captures the essence of financial vs non-financial reporting.</p>	AR to circulate ToR in the next week or two to the Expert Group to ask for comment.
F)	<p>Guests for 2019 meetings</p> <p>MH encouraged Expert Group members to send their suggestions for future guest speakers to the QCA team.</p>	All to send suggestions for the next FREG meeting guest speaker to AR.

5. COMMUNICATIONS – FOR INFORMATION ONLY

	ITEM	ACTION
a)	<p>QCA review of which corporate governance codes AIM companies follow found that:</p> <ul style="list-style-type: none"> i. 89% follow the QCA Corporate Governance Code (823 companies) ii. 6% follow the FRC's UK Corporate Governance Code (55 companies) iii. 4% follow the code of another country or territory (34 companies) <p>This was tabled for information only and not discussed.</p>	None.
b)	<p>The results of the QCA's Small & Mid-Cap Sentiment Index for H2 2018 were released in December. Findings included:</p> <ul style="list-style-type: none"> i. Small and mid-caps remain optimistic about their own prospects - 74% expect to increase the number of employees in the next 12 months ii. 47% of small and mid-caps plan to raise capital in the next 12 months iii. 67% of companies and 72% of advisors believe the new AIM Rule 26 (requiring companies to adopt a recognised corporate governance code) will improve the integrity of AIM. <p>This was tabled for information only and not discussed.</p>	None.
c)	<p>In cooperation with UHY Hacker Young, the QCA released the Corporate Governance Behaviour Review 2018/19 in December. It analysed the corporate governance disclosures of 50 AIM companies.</p> <p>This was tabled for information only and not discussed.</p>	None.
d)	<p>The project for updating the QCA Committee Audit Guide is progressing and is on course for release in the first half of this year.</p>	

	This was tabled for information only and not discussed.	None.
e)	<p>Henley Business School have been commissioned by the QCA and Downing LLP to undertake a research project to understand the role that NEDs play in smaller, growth companies. They are currently in the process of conducting interviews and focus groups and the findings will be released in the first half of this year.</p> <p>This was tabled for information only and not discussed.</p>	None.

6. ANY OTHER BUSINESS

The new QCA Policy Adviser, Jack Marshall was introduced to the group.

7. NEXT MEETING

Next meeting: Tuesday 9th April 2019, 4.30pm – 6.00pm (Venue: Smith &Williamson LLP, 25 Moorgate, London, EC2R 6AY).