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To whom it may concern,

A Matter of Principles: The Future of Corporate Reporting

We welcome the opportunity to respond to your discussion paper A Matter of Principles: The Future of Corporate Reporting.

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* and *Corporate Governance Expert Group* have examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

If you would like further detail or clarification on any matter, please do not hesitate to contact us.

Yours sincerely,

Tim Ward
Chief Executive

General comments

It is important to stress that the underlying issue with corporate reporting is the ability of a company to engender trust in key stakeholder groups. In order to facilitate this trust, a company has to identify and have effective lines of communication with relevant stakeholder groups, and ensure that its communications are of a high quality, and are clear and informative.

As such, there are two key factors to examine when considering the quality of a company's reporting and how this engenders trust. The first factor is the content of reports and whether they address key issues and include the relevant information, and the second factor concerns the manner in which the information is communicated, with the structure of reporting and the language used often being as informative as the financial content.

Therefore, certain proposals aimed at implementing use of a common structure has the potential of reducing the informational content of reporting. It is important that companies have the ability to structure their reporting in a variety of different ways in order to ensure they can tell their own story and generate the necessary trust with their own stakeholders.

Q1 What are your views on our proposals as a whole? Are there elements that you prefer over others?

Overall, the QCA supports the FRC pursuing a thought leadership initiative in this area and agrees with the challenges around corporate reporting that are identified and raised in the discussion paper. We also agree with the premise that minor alterations to the corporate reporting regime are unlikely to address valid concerns.

Separating "standing data" from the primary documents is a welcome step. Part of the reason why today's annual reports are cluttered is the inclusion of matters that change little, or not at all, from year to year.

Whilst we concur with the proposed structure of the three main reports, the Business Report, the Financial Statements, and the Public Interest Report, we would point out that the focus should be on streamlining the content of reporting in each of these areas and it is less significant whether these are separate reports or form part of a single annual report.

Regarding the proposed contents of the reports, there appears to be some overlap between the Business Report and the Public Interest Report. The Public Interest Report is the prime location to include information such as greenhouse gas emissions, gender pay gap report and other information currently mandated in the Directors Report. However, extending the Public Interest Report to include factors that are material goes too far, as these factors should be addressed in the Business Report. Requiring inclusion in the Public Interest Report will either result in duplication or an incomplete Business Report.

We believe that all material factors that would have an impact on stakeholders should be disclosed within the current Strategic Report and the future Business Report.

We would also like to highlight that it is important to consider the impact of the proposals on smaller listed companies, as multiple reports may increase complexity and thus increase the administrative burden and costs of reporting. The scoping of the requirements including the Public Interest Report, and indeed, the definition of what is considered to be of public interest will be important to smaller listed entities. If this framework is introduced, a phased implementation would be appropriate and would give smaller companies more time for implementation and to learn from examples in the market and from guidance produced over time by the regulator.

Our overarching concern is in the underlying assumptions contained in the discussion paper, which are set out in paragraphs 1.5 and 1.6. The FRC first needs to consider who the relevant stakeholders are and the information that they are entitled to before assessing how that information should be communicated. The discussion paper makes fundamental assumptions by overlooking the first two issues and delves straight into consideration of the third issue.

In particular, the FRC states in paragraph 6.5 that "*it is recognised that companies have accountability to a wider group of stakeholders*". This statement is vague and does not consider who the relevant stakeholders are and how companies are accountable.

Moreover, in paragraph 3.16, the FRC states that "*the objective of the Public Interest Report is to provide information that enables users to understand how the company views its <u>obligations in respect of the public interest</u>, how it has measured its performance against those obligations and to provide information on future prospects in this area*".

Similarly, in paragraph 3.16, the FRC states that the purpose of the Public Interest Report is to "*enable stakeholders to hold a company to account*".

The QCA is concerned by the implications on company law of reconfiguring corporate reporting to focus on a wider group of stakeholders. That is, these proposals appear to make a presumption about a set of obligations in excess of those contained within S.172 of the Companies Act 2006. This would inevitably create additional reporting burdens on companies without adequate justification.

Implementation

Q2 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?

Smaller listed companies find the existing regulatory framework unduly complex at times especially because of the diverse scoping criteria for different reporting requirements. These proposals could introduce some new areas of complexity even if the aim may be to address some of the current challenges and provide greater flexibility to certain aspects of reporting. For instance, the new processes and controls around multiple reports to be issued, potentially at different times in the year and with multiple materiality lenses, may not be straightforward for smaller entities to implement and apply.

For this reason, it is absolutely essential that the FRC takes into consideration the needs of smaller entities and their stakeholders when implementing the proposals. The principles must be flexible enough to accommodate all sizes of entity, particularly as this project will set the expectations for reporting for companies of all sizes by 2030. Historically, the retrieval of feedback from entities at the smaller end of the market has always been a challenge for the FRC.

The QCA would be happy to facilitate this dialogue between entities at the smaller end of the market and the FRC.

Objective-driven

Q3 Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

Yes – we accept and support the need for companies to consider their key stakeholders in their reporting. For smaller listed entities, this should primarily consist of matters of strategic importance and material effects of the company's business on key stakeholders, such as matters that would form part of the current Strategic Report or proposed Business Report, rather than extensive additional reporting.

However, and as highlighted in our response to Q1, we are concerned by, and would like to understand further, the extent to which this project would involve an extension of the current legal directors' duties, as contained under S.172 of the Companies Act 2006. We consider that the introduction of significantly more detailed reporting on stakeholder matters in the proposed Public Interest Report should, at least initially, be limited to larger listed companies that are of greater public interest, and there should be clear guidance on how such reporting can be scaled to the circumstances of smaller listed companies for proportionate reporting.

One set of principles

Q4 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?

Yes – introducing some principles would be helpful for smaller listed companies and could be introduced to support the existing corporate reporting framework before or without introducing a reporting network framework. However, we are concerned that there could be overlap between these principles and the principles contained in other reporting frameworks that companies may apply for elements of their reporting, such as IFRS and TCFD reporting.

Reporting network

Q5 Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

Yes – we agree with the proposals to improve the relevance and accessibility of information, involving more concise reports. It is often the length of documents which is criticised, even if they contain useful, well-written information. Therefore, covering the necessary information through a series of shorter reports, as opposed to one long one, may have some merit.

However, we note this proposal would predominantly improve reporting for larger entities, and be of less benefit for smaller listed companies that have less information to report. This could increase complexity and result in the need for additional reporting processes and controls.

Materiality

Q6 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?

Yes – we agree that financial statements materiality may not be appropriate or relevant to all aspects of reporting. However, multiple materiality filters may increase the complexity of reporting, and in particular, for smaller listed entities. The QCA does not believe we should be articulating different levels of materiality as this could possibly cause confusion across various interest groups.

If multiple materiality filters are introduced, however, clear guidance would be needed in this area.

Non-financial reporting

Q7 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?

We agree that the current situation, where there are multiple voluntary frameworks for entities to choose from, makes it difficult for companies to decide how and what to report, which, in turn, makes it difficult to provide investors with information that is comparable across different companies and sectors. As such, the introduction of standards would be helpful in addressing this.

That said, and as this is a new and emerging area of reporting, we consider that any new standards should be introduced with phased effective dates with larger listed companies required to adopt the standards first. This would allow smaller companies more time for implementation, as well as learn from examples in the market and the reviews conducted by regulators of early adopters.

However, it is the view of some QCA members that regulatory standards should not be introduced at all for non-financial reporting. Companies have the ability to communicate with a broader set of stakeholders and will seek to do so in an effective manner in order to further the creation of value. In addition, and as a result of benchmarking, the quality of reporting should naturally improve overtime and companies should not have their approach codified within a set of regulatory standards.

Q8 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 it is important for companies to provide information about how they view their obligations in respect of the public interest.

However, it is first important to consider what is deemed to be of public interest and that this should be carefully defined. The activities of smaller listed entities are likely to be of less public interest than those of larger listed entities. Companies should be allowed to identify their own key stakeholders and then describe the material effects of their business activities on those stakeholders. Although, it is essential that appropriate guidance, definitions and standards are formulated to support companies in this area and that any new reporting requirements should be introduced in a phased and proportionate manner.

Q9 Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?

As outlined in our response to Q1, the QCA would like to understand better the extent to which this would involve an extension of the current directors' duties under S.172 of the Companies Act 2006. In addition to this, it seems likely that the Public Interest Report, as currently envisaged by the FRC, will become a set of boilerplate statements that changes little from year-to-year.

We consider that the introduction of significantly more detailed reporting on stakeholder matters in the proposed Public Interest Report should, at least initially, be limited to larger listed companies that are of greater public interest. There should then be clear guidance on how such reporting can be scaled to the circumstances of smaller listed companies for proportionate reporting.

Therefore, if this kind of framework is introduced, a phased implementation would be appropriate to give smaller companies more time and to learn from examples in the market.

Furthermore, and as highlighted in our response to Q1, there appears to be overlap between the wider stakeholder matters to be reported on in the Business Report and the Public Interest Report. We consider that stakeholder reporting should primarily consist of matters of strategic importance and material effects to the company's business. This is information that forms part of the current Strategic Report and would form part of the proposed Business Report. This should not require extensive additional reporting in a separate Public Interest Report.

Technology

Q10 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 support website reporting for some aspects of corporate reporting as it is a more practical and effective way of communicating information that is more detailed. For example, the QCA Corporate Governance Code includes both requirements and options for reporting some of the disclosures on a website, and we consider that this could be applied to other aspects of corporate reporting.

While we support innovation in reporting, we also note that smaller listed companies may have more limited resources to invest in technological solutions to reporting, so any new requirements and implementation schedules must be taken into account.

Proportionality

Q11 Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

In order to establish a proportionate reporting regime for companies of different sizes and complexities, a single set of requirements that are clear and easy for companies to follow, that are supported by principles and objectives that can be applied to different degrees by companies, is essential. It is also important to address complexity. The existing scoping requirements for corporate reporting can be very difficult for companies to apply and it is important to address this complexity and avoid introducing similar, or even more complex, scoping for any revised corporate reporting requirements.

Furthermore, we note that the Public Interest Report is currently only proposed for larger entities, so, from the perspective of smaller listed entities, the definition of what is considered to be of public interest will be very important. Smaller listed companies may lack the resources to produce multiple reports, and may benefit less from doing so, particularly where there is any significant overlap between different reports.

Finally, and as stressed in several of our responses to previous questions, we believe that, if the FRC's proposals are to be taken forward, a phased implementation is crucial. In light of this, we would suggest that the proposals are limited to the largest listed entities for a period of time before consideration is given to applying them to smaller companies. This will allow sufficient time to demonstrate the potential value of these proposals and ensure that they do outweigh the costs.

Other

Q12 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.

<u>Appendix A</u>

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group*

Rochelle Duffy (Chair)	PKF Littlejohn LLP
Elisa Noble (Deputy Chair)	BDO LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Trackwise Designs PLC
Matthew Howells	Smith & Williamson LLP
Michael Hunt	ReNeuron Group PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
Giles Mullins	Grant Thornton UK LLP
James Nayler	Mazars LLP
Matthew Stallabrass	Crowe UK LLP
Helena Watson	KPMG LLP
Peter Westaway	Deloitte LLP

The Quoted Companies Corporate Governance *Expert Group*

Will Pomroy (Chair)	Hermes Investment Management Limited
Tracy Gordon (Deputy Chair)	Deloitte LLP
Anthony Appleton	BDO LLP
Edward Beale	Western Selection PLC
John Beresford-Pierse	Hybridan LLP
Amanda Cantwell	Practical Law
Richie Clark	Fox Williams LLP
Kathy Cong	Prism Cosec
Louis Cooper	C/o Non-Executive Directors Association (NEDA)
Edward Craft	Wedlake Bell LLP
Tamsin Dow	Hogan Lovells International LLP
Peter Fitzwilliam	Mission Marketing Group PLC
David Fuller	CLS Holdings PLC
Nick Gibbon	DAC Beachcroft LLP
Nick Graves	Burges Salmon
Ian Greenwood	Korn Ferry
David Hicks	Charles Russell Speechlys LLP
Kate Higgins	Mishcon De Reya

Daniel Jarman	BMO Global Asset Management LLP
Colin Jones	Candid Compass
Peter Kohl	Kerman & Co LLP
Kam Lally	Wedlake Bell LLP
Kalina Lazarova	BMO Global Asset Management LLP
Darius Lewington	LexisNexis
James Lynch	Downing LLP
Paul Norris	MM & K Limited
Jack Shepherd	CMS
Julie Stanbrook	Slaughter and May LLP
Carmen Stevens	Jordans Limited
Peter Swabey	C/o ICSA
Melanie Wandsworth	Faegre Baker Daniels LLP