A MATTER OF PRINCIPLES

THE FUTURE OF CORPORATE REPORTING

DISCUSSION PAPER

OCTOBER 2020

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Input and acknowledgements
This paper has been developed with input from the Future of Corporate Reporting Advisory Group, supplemented by **independent academic research, a survey of stakeholders** with an interest in UK company reporting and direct engagement with key stakeholders. In order to understand the views of the general public on the regulation of corporate reporting, corporate governance and audit, the FRC commissioned BritainThinks to conduct research with the public in the form of **Citizens' Juries**. We thank all those that have contributed.

FOREWORD

A MATTER OF PRINCIPLES

This thought leadership paper explores ideas for changes to the system of corporate reporting with a view to making it more effective and engaging for all those with an interest in a company.

We issue this paper against the backdrop of a rapidly changing and uncertain landscape. The focus of businesses over the last few months has been on cash and liquidity with an understandable focus on short-term survival. This paper focuses on the longer term. Our aim is to create a blueprint for a corporate reporting system of the long term, up to 2030.

In the future world, we question whether the traditional concept of the annual report remains fit for purpose. We continue to hear that the annual report is too long and impenetrable. How do we balance the need for more concise reporting against demands for more transparency?

We believe a more agile approach is required, where a reporting framework can be flexed to the nature of the business concerned. Advances in technology have had a transformative impact on how information is produced, distributed and consumed. Digital channels now offer companies an ever-increasing choice about how, what and when they communicate. A single paper-based document published annually appears outdated in comparison and we believe both these concepts need to be grasped.

We believe that accountability is a key concept for corporate reporting but one that is rapidly changing. We believe that demand has shifted from just thinking about a company's financial performance and position, to value creation and the wider impact of the activity of a company on society and the environment. As part of that, we expect there to be a continuing focus on the responsibilities of a board towards its wider stakeholders as set out in section 172 (duty to promote the success of the company). This was recognised by the FRC in revisions to the Guidance on the Strategic Report and the Corporate Governance Code in 2018, as well as in the Stewardship Code.

Non-financial information is becoming increasingly important and there is an urgent need for comparable information in this area. Developments here are progressing at a rapid pace. Over the longer term, we believe that international standards provide the optimum solution. Until then, existing frameworks can be used to meet stakeholder demands, such as for climate reporting, and improve the quality and consistency of UK reporting.

We are often asked how the Future of Corporate Reporting thought leadership fits with the transformation of the FRC into the Audit, Reporting and Governance Authority (ARGA) and the Brydon recommendations. A system for corporate reporting underpins audit and therefore, we see this as the right time to discuss what the future of corporate reporting should look like. This paper starts the discussion: we need your input to move this conversation forward.

Sir Jon Thompson

> “TECHNOLOGY IS TRANSFORMING PEOPLE'S RELATIONSHIP WITH INFORMATION. ANNUAL PAPER-BASED REPORTING STRUGGLES TO MEET A GROWING NEED FOR FLEXIBILITY, IMMEDIACY AND PERSONALISATION.”
> **Sir Jon Thompson**

EXECUTIVE SUMMARY

This discussion paper is a first step in considering the development of a principles-based framework for corporate reporting as a whole.

We have developed some initial proposals which we would like to test with our stakeholders and we welcome comments on these. While we present a potential new system in its entirety, the different sections of this paper could also be seen as components of a future vision. If supported, they could be taken forward at different time frames and the principles could be applied as best practice for existing corporate reports.

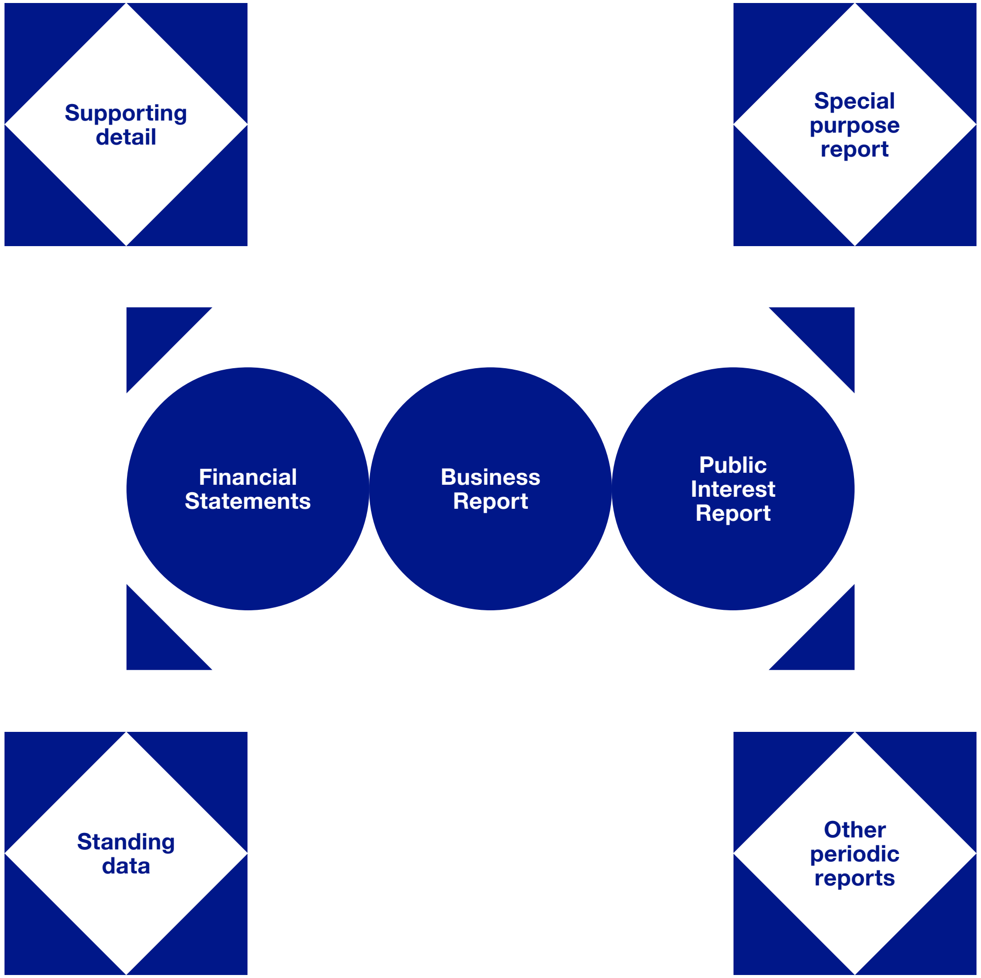
Today the annual report is widely seen as the set piece of corporate reporting. In recent years it has been pushed and pulled to meet increasing demands from traditional and new users. The result is a document that is confused about its intended audience and purpose.

It is also important to recognise that the annual report is just one part of the suite of corporate reports that companies produce, which has resulted in fragmented and sometimes incoherent content. The premise of this paper is that further tweaks are unlikely to address valid concerns. Accordingly, we present for discussion a more radical overhaul. The new model seeks to:

- unbundle the existing purpose, content and intended audiences of the annual report by moving to a network structure;
- facilitate a more holistic approach to corporate reporting, governed by an overarching set of principles, that recognises different reports and the needs of different stakeholders;
- move towards an objective-driven reporting framework around principles of effective communication;
- establish a reporting framework that is consistent with the recommendations made in the independent reviews by Sir John Kingman and Sir Donald Brydon;
- think beyond a paper format and embrace the opportunities available through technology; and
- enable corporate reporting to be more flexible and responsive to changing demands and circumstances.

EXECUTIVE SUMMARY

THE REPORTING NETWORK



We propose a network of interconnected reports to unbundle existing reporting. The reporting network would be centred around a stakeholder-neutral Business Report designed to facilitate better communication with a range of users.

The Business Report would provide information that enables users to understand how the company creates long-term value in accordance with its stated purpose. We envisage this being similar to a concise Strategic Report, including financial and non-financial information.

The reporting network includes a series of additional ‘network reports’ which sit alongside the Business Report. They would be accessible on a standalone basis and could be a mixture of ‘mandatory’ and ‘voluntary’ reports.

Our suggested principles for the network reports are to:

- provide additional detail on information contained in the Business Report;
- provide information that is for a specific purpose;
- be a location for standing data; and
- be an additional periodic report provided at a different time frame.

Each report within the network would be part of the principles-based framework for corporate reporting that we are proposing in this paper.

Our proposals include three reports – the Business Report, the full Financial Statements and a new Public Interest Report. We envisage these reports to address the most important objectives in the communication between companies and their stakeholders.

Ultimately, we aim to build a model that is flexible and responsive, and which can adapt to changing circumstances. Therefore, we appreciate that the composition of the reports in future reporting networks might look very different.

EXECUTIVE SUMMARY

> THE MODEL THAT WE ARE PROPOSING IS A MULTI-REPORT MODEL.

Developing a framework for corporate reporting

We believe that a cohesive principles-based framework for corporate reporting would in the longer term provide a more flexible and responsive system for:

- setting regulatory requirements;
- the application of those requirements by companies; and
- the consumption of information by users.

The model that we are proposing is a multi-report model based on three broad themes.

Objective-driven
We believe that the objective of an individual network report should drive its content. This is a move away from the distinction between different user groups and their needs. Our evidence suggests that shareholder and other stakeholder expectations converge on many issues and that all users' needs are best served by structuring reporting around the purposes for which they seek information from a company.

Communication-focused
In our view, good corporate reporting should seek to create an active dialogue between a company and its stakeholders about issues that matter to them. Continuous reflection on how well corporate reporting facilitates meaningful engagement should, in turn, invite continuous improvement and practice-led innovation.

One set of principles
Common principles can establish coherence across all company reporting without stifling the ability to respond to different circumstances. We propose four key attributes which apply to the system as a whole–accessibility, connectivity, consistency and transparency. In addition, we include content communication principles that apply at an individual report level to provide guidance on how reports should be written so that they communicate effectively.

Materiality

Materiality is essentially a filter for determining what information is included in a particular report. The general principle for materiality that we propose in the model is that materiality will be judged by reference to the communication objective of the specific report. We do not believe that a single definition of materiality is appropriate for all reports.

Content elements

As part of the development of this paper, we conducted a survey to help us understand the information needs of users and identify the content elements that should be included in the future model. The survey highlighted that reporting on financial performance is still paramount and the content elements in the Strategic Report are very important.

Area of focus: non-financial reporting

We examine how the model could be applied to address the common challenges in non-financial reporting, including how current reporting should evolve in response to the growing number of initiatives in this space. We support calls for a single set of global standards to increase the comparability of non-financial information. Further, we consider the development of a standalone Public Interest Report to enhance accountability.

Technology

Technological innovations break up conventional boundaries. A future model of corporate reporting will encourage innovation to improve the accessibility of information for users and focus on electronic communication.

Proportionality

The reporting network was developed with the reporting practices of public interest entities in mind. However, we believe the model can be applied by entities beyond this group by considering the objective of each report, and its relevance for entities of different sizes.

INVITATION TO COMMENT

> THIS PAPER STARTS THE DISCUSSION: WE NEED YOUR INPUT TO MOVE THIS CONVERSATION FORWARD.

The FRC invites comments on this discussion paper, particularly on the questions set out below. Comments are most helpful if they indicate the specific section to which they relate, contain a clear rationale and, where applicable, suggest an alternative approach.

Please send comments to **futurereporting@frc.org.uk** by 5 February 2021. Alternatively, comments may be submitted using the online **form**.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information such as telephone numbers or postal or e-mail addresses from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt. The FRC will publish a summary of the consultation responses.

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

Implementation

2. 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?

Objective-driven

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

One set of principles

4. 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?

Reporting network

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

Materiality

6. 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?

Non-financial reporting

7. 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?

8. Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?

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

Technology

10. 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**?

Proportionality

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

Other

12. 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?

INTRODUCTION

WHAT IS DIFFERENT

Looking at corporate reporting as a whole

Corporate reporting is a widely used term but one without a commonly accepted definition. In this paper, we recognise the importance of corporate reporting's long-standing role in providing financial information to investors but also recognise the expectations that the wider public puts on corporate reporting. We therefore adopt a broad definition of corporate reporting that:

- covers more than just financial information, the financial statements, and the annual report; and
- meets the information needs of different stakeholders, not just shareholders and investors.

INTRODUCTION

> THE OBJECTIVE OF THIS PAPER IS TO PROVIDE THOUGHT LEADERSHIP FOR THE FUTURE OF CORPORATE REPORTING AND EXPLORE IDEAS FOR A NEW MODEL, CHALLENGING THE STATUS QUO.

Objectives and scope of this paper

1.1 The objective of this paper is to provide thought leadership for the future of corporate reporting and explore ideas for a new model, challenging the status quo. We believe that this will lead to improvements in the quality and effectiveness of corporate reporting and facilitate innovation.

1.2 Our aims are to:
(i) develop a cohesive principles-based framework for corporate reporting as a whole; and
(ii) recognise the role of corporate reporting as a means of communication between companies and their stakeholders.

1.3 The development of the ideas in this paper have not been restricted by the laws and standards that underpin the current reporting model. Whilst fully implementing the proposed model will require regulatory change, many of the aspects of our proposals are in the spirit of encouraging improvements to the quality of reporting and can be achieved within the existing framework.

1.4 Our proposals have been developed with public interest entities in mind. Whilst some of the ideas presented in this paper could apply beyond this group, they would need to be adapted to be proportionate for companies of different size. This is considered in **section 8**.

The broader context

Our proposals have been developed in the context of broader developments in the overall system, including:

- The independent reviews of the FRC by Sir John Kingman, and of the quality and effectiveness of audit by Sir Donald Brydon. The recommendation in Kingman for the transition of the FRC into the Audit, Reporting and Governance Authority (ARGA) with an explicit operational duty to promote brevity, comprehensibility and usefulness in corporate reporting is pertinent to our proposals.[1]

Additionally, we believe that the development of a principles-based framework for corporate reporting is consistent with the principles-based framework for audit envisaged by Brydon.

- Other national, European and international developments in corporate reporting; and
- A renewed emphasis on the public interest role of companies.

From the FRC's perspective as a regulator, discussions on corporate reporting inevitably touch on a number of other areas, including international accounting standards, corporate governance, and monitoring and enforcement. We do not cover these in this paper as we believe that they merit discussion in their own right.

1 We refer to Kingman, Brydon and other broader developments as appropriate throughout this paper.

What is corporate reporting?

1.5 Corporate reporting is a versatile term and can describe a wide range of reporting practices.

For this paper, we have developed the following definition of corporate reporting: corporate reporting comprises information publicly communicated by a company, about the company, for the purposes of enabling its stakeholders to:

- understand the company's performance and how it generates and sustains value;
- make decisions; and
- hold the company to account.

1.6 This definition recognises that wider stakeholders, not just shareholders and investors, have a reasonable expectation of information about companies, which should be met through corporate reporting.

We propose that a reasonable expectation of information exists where the activities of an organisation significantly impact or may significantly impact on the interests of a stakeholder group.

1.7 In our view, it is for the company to determine its key stakeholders.

INTRODUCTION

Our vision for the future of corporate reporting

1.8 The challenges and opportunities relating to corporate reporting are multifaceted. It is against this backdrop that we explore a new approach for corporate reporting.

To address these, we propose a cohesive, principles-based framework for corporate reporting as a whole. Our vision looks beyond the financial statements, the annual report and the information needs of shareholders and investors – embracing the new definition of corporate reporting.

1.9 Figure 1 presents this vision and how it links to the current challenges and opportunities.

FIGURE 1: CHALLENGES, OPPORTUNITIES AND VISION FOR CORPORATE REPORTING

CURRENT CHALLENGES	OPPORTUNITIES FOR IMPROVING CORPORATE REPORTING	OUR VISION FOR THE FUTURE OF CORPORATE REPORTING
1. Stakeholder expectations of companies have changed; reporting is expected to be more than a compliance exercise.	Establish corporate reporting as part of an active dialogue	An objective-driven, communication-focused framework for all corporate reporting.
2. Corporate reporting is dispersed, containing fragmented and sometimes incoherent content.	Enable corporate reporting to be more cohesive	One common set of principles that apply across the system as a whole.
3. The annual report is serving multiple purposes and audiences.	Unbundle the existing annual report	A reporting network structure to reflect multiple communication objectives.
4. The interests of investors have broadened, with the boundaries between shareholders and other stakeholders becoming increasingly blurred.	Facilitate a more holistic approach to corporate reporting	A stakeholder-neutral approach to the identification of financial and non-financial corporate reporting content.
5. Non-financial reporting has evolved with multiple frameworks now guiding its form and content.	Alignment of different frameworks	Standardisation of non-financial reporting and the development of a Public Interest Report.
6. Technology has transformed how information is communicated, the annual report remains a paper-based document.	Embrace the opportunities available through technology	Invite innovation for more dynamic production, distribution and consumption of corporate reporting.

DEVELOPING A FRAMEWORK FOR CORPORATE REPORTING

WHAT IS DIFFERENT

Putting communication objectives at the centre of reporting

The current model of reporting distinguishes individual reports by their intended primary user group (traditionally investors). Our proposals recognise that users, even in the same stakeholder group, consider companies' corporate reporting for different purposes.

Focusing on reporting as communication

Our proposals emphasise the role of reporting as effective communication. The communication focus drives us to develop a model whereby we define the objective of each report which can better meet the different purposes for which users seek information.

One set of principles

Our proposals support the development of common principles for all types of corporate reporting to maintain cohesiveness across different disclosures (system level attributes), establish information adequacy (report level attributes), and promote effective communication (content communication principles).

DEVELOPING A FRAMEWORK FOR CORPORATE REPORTING

Figure 2 opposite illustrates the shift in thinking from the current position.

2.1 The current framework for reporting focuses on the information needs of the primary users (often investors) and the provision of information through a single document: the annual report. It is a framework that has its history in financial reporting. Our aim is to develop a new framework for corporate reporting that accommodates the interests of a wider group of stakeholders, includes multiple reports and puts non-financial reporting on a par with financial reporting.

Objective-driven reports

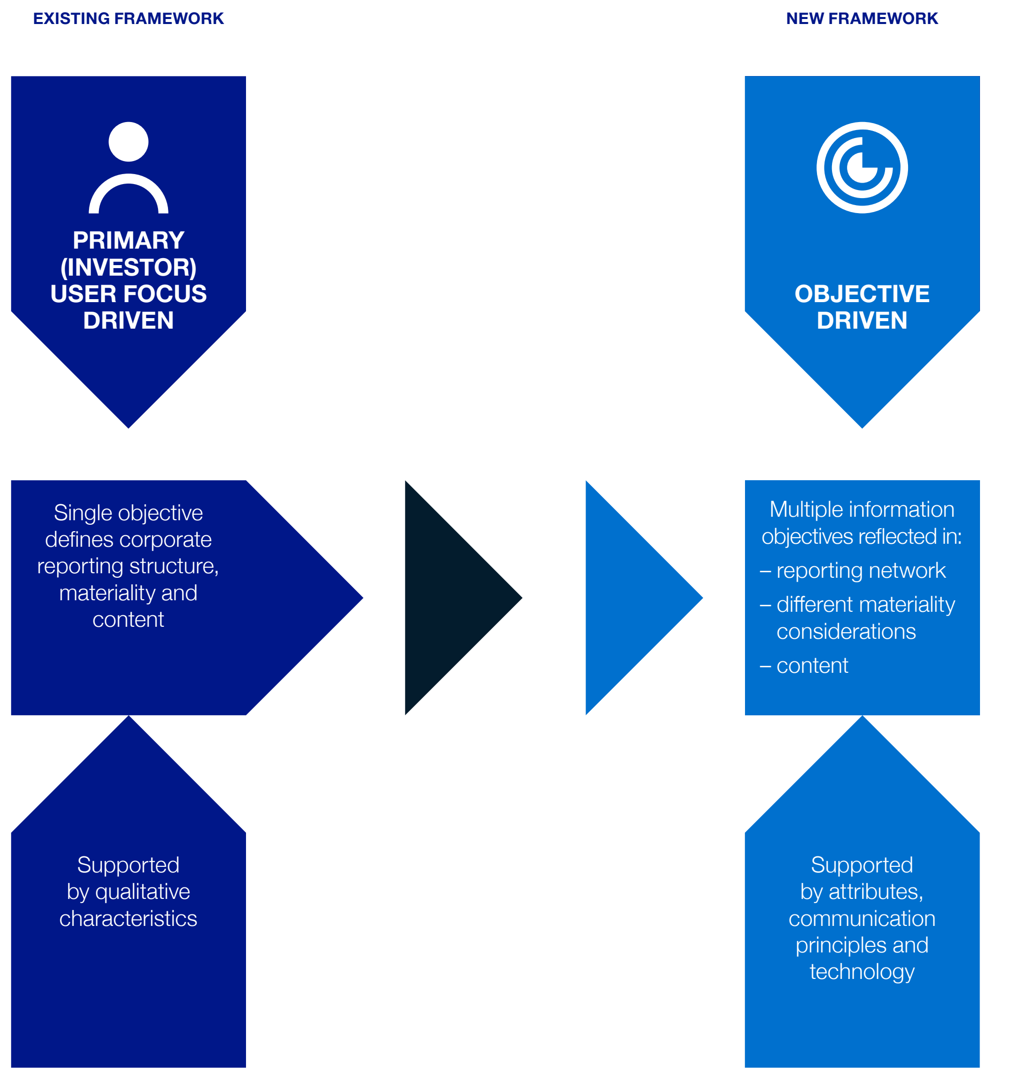
We propose to move from a system based on the perceived needs of a single set of primary users and with a single objective, to a corporate reporting framework that takes account of the different communication objectives which stakeholders, including shareholders, have when considering companies' corporate reporting.

2.2 The starting point for traditional corporate reporting is to match the content of corporate reports with the information needs of a user with clearly defined objectives and motivations.[2]

2.3 Through discussion, outreach and research, we considered a range of corporate reporting user groups and noted that the information needs of different user groups are not exclusive, and in many cases significantly overlap. We found that trying to establish bright lines between different types of stakeholders and their information needs was unhelpful.

2 Stenka, R. and Jaworska, S. (2019) The use of made-up users. Accounting, Organizations and Society, 78.

FIGURE 2: SHIFT IN THINKING



DEVELOPING A FRAMEWORK FOR CORPORATE REPORTING

Multiple reports

We propose a move towards a reporting network with multiple reports where each report within the network has a distinct communication objective.

2.4 Instead of adding more and more content to a single annual report, the reporting network aims to unbundle reporting by focusing on the objective of the communication between a company and its stakeholders.

2.5 Clearly identified objectives for each report will help direct regulatory decisions on required content and corporate decisions on the information to include when meeting regulatory requirements. Where management prepare additional voluntary reports, they must also be clear on the objective of such reports.

Communication-focused reporting

2.6 We recognise that corporate reporting is part of an active communication between companies and their stakeholders and not an isolated exercise in compliance. Therefore, our proposed framework emphasises the role of reporting as an effective communication tool.

We believe that an objective-driven approach strengthens communication through corporate reporting in three ways:

(i) Dialogue between companies and their stakeholders – to provide a better understanding of the purposes for which users seek information and to determine the relevant content.

(ii) Self-reflection and learning – to ensure that reporting remains relevant and effective. This creates a welcome space for continuous improvement and practice-led innovation.

(iii) Common principles – to ensure quality across different forms of corporate reporting.

One set of principles

2.7 In a reporting network that contains multiple reports, one common set of principles will help to maintain cohesiveness across the corporate reporting system and establishes the adequacy of information.

To guide good practice, we propose that a framework for corporate reporting includes:

(i) System level attributes – the overarching qualitative characteristics that corporate reporting, as a whole, should possess.

(ii) Report level attributes – the overarching qualitative characteristics that an individual report should possess.

(iii) Content communication principles – the principles of effective communication, applied when preparing an individual report.

System level attributes

We propose that the following attributes should be applied to a company's reporting network as a whole to ensure that corporate reporting is coherent and informative: accessibility, connectivity, consistency and transparency.

ACCESSIBILITY

The mode of distribution of the reports should be such that users can easily find the information they require. This may be achieved by making reports available on an easily navigable company website or portal.

The information within reports must be presented and communicated in a way that is meaningful and understandable to users.[3]

CONNECTIVITY

Companies should consider the package of reports that make up a company's corporate reporting as an interconnected network of information. Information on the same or related subject matter is likely to be contained in multiple reports, each of which is providing a different level of detail or different perspective.

For example, an investor presentation on company performance may provide further insights than are necessary for the Financial Statements to present a true and fair view.

Clear sign-posting from one report to another or, ideally, by direct links from one uploaded report to another will improve connectivity and aid users interested in exploring information on related matters.

CONSISTENCY

Reporting for different purposes should not be at the expense of using and presenting information of the same kind in a consistent manner. Therefore, we propose that there should be consistency in the way terms are used and information is presented across reports or any salient differences explained.

For example, if the same term (such as 'adjusted profit') is used in two reports to define different measures of performance the overall coherence of corporate reporting is undermined.

TRANSPARENCY

Providing information about a company in a transparent manner is an essential component of building trust in business and enables stakeholders to hold a company to account. Transparency includes openly discussing the positive and negative aspects of a company's activities.

3 Evidence from our survey of FRC stakeholders suggests that the company website is at present still the preferred source of information about a company, followed by media coverage in news outlets, magazines and journals. This result indicates the importance of the accessibility of information about a company.

DEVELOPING A FRAMEWORK FOR CORPORATE REPORTING

REPORT LEVEL ATTRIBUTES PROVIDE A BENCHMARK AGAINST WHICH THE QUALITY OF A REPORT CAN BE ASSESSED.

Report level attributes

We propose that regulators should set attributes at an individual report level as appropriate. These report level attributes provide a benchmark against which the quality of a report can be assessed, for example, for audit or assurance purposes.

2.8 In our view, the following report level attributes that currently exist be retained. However, regulators may consider alternative or additional report level attributes in future.

Fair, balanced and understandable
Corporate reports should address the positive and negative aspects of the company's development, performance, position, future prospects, and the impact of its activities openly and without bias. Currently, the Corporate Governance Code requires directors to 'state that they consider the annual report and accounts, taken as whole, is fair, balanced and understandable'.

True and fair
The Companies Act 2006 requires that the directors of a company must not approve accounts unless they are satisfied that those accounts 'give a true and fair view of the [company's] assets, liabilities, financial position and profit or loss'. The auditor must then express an opinion as to whether the financial statements do achieve the overarching attribute to present a true and fair view.

Content communication principles

In addition to the need for clear objectives and overarching attributes set out above, we propose including communication principles to guide the preparation of individual reports.

BREVITY, COMPREHENSIBILITY AND USEFULNESS	Corporate reports should be clear and concise and be written in language that is understandable to the audience for which it is intended. Where the use of industry-specific terms is necessary for clear communication, they should be clearly defined and used consistently. Thought should be given to the most effective format for presenting information.
RELEVANCE	Information should only be included in corporate reports when it is relevant. An assessment should be made by reference to the objective of the specific report. Some considerations that companies may apply when determining whether information is relevant in meeting the objective of a particular report include: - Will the information affect decisions and assessments of the users (not limited to economic decisions)? - Will the information affect company behaviour? Materiality is a key principle to determine how much information and the level of detail that should be included for a specific report. In **section 4**, we explore further how the concept of materiality can be applied to the reporting network.
COMPANY-SPECIFIC INFORMATION	Information in corporate reports should be company specific and avoid boilerplate.
COMPARABILITY	Information should be capable of being compared with similar information produced by a company over time and with information produced by other companies so users can understand similarities in, and differences between, items. For metrics, where different measurement bases are permissible, there should be sufficient explanation of how amounts have been calculated.

THE NEW MODEL

THE REPORTING NETWORK

WHAT IS DIFFERENT

An interconnected network of communications

Current corporate reporting attaches most reporting requirements to a single document, the annual report, while ignoring much of the other communication that companies produce. The new model is represented by the reporting network, which creates a series of interconnected disclosures and reports (financial and non-financial, mandatory and voluntary). It unbundles existing reporting and recognises that more informative corporate reporting is better achieved through a number of interconnected reports with clearly defined communication objectives for each.

THE NEW MODEL: THE REPORTING NETWORK

EACH REPORT WITHIN THE REPORTING NETWORK WOULD HAVE ITS OWN OBJECTIVE

As our long-term vision, we propose a new structure for reporting which we call 'the reporting network'. Each of the reports within the network would be part of the principles-based framework that we propose for corporate reporting as a whole.

3.1 Each report within the reporting network would have its own objective (the reason why the report exists). This provides a frame of reference for determining what information (content) should be included within a report and provides a basis for making materiality judgements. The communication principles in **section 2** would be applied when preparing each of those reports. The system level attributes of accessibility, connectivity, consistency and transparency would apply to the reporting network as a whole.

An overview of the reporting network

We propose that the reporting network has a mandatory core, the Business Report, which brings together different aspects of value-creation in a single, stakeholder-neutral document.

3.2 In addition to the Business Report, regulators and companies would identify the 'network reports' that are needed based on the principles set out in **paragraph 3.13**.

3.3 Some of those reports would be reports or elements of reports that exist currently, such as the financial statements, sustainability reports, or corporate governance disclosures, but the model would also facilitate the introduction of different reports in the future.

3.4 The reporting network aims to be adaptive, allowing its constituent reports to change over time to meet changing circumstances. We expect our proposals to influence developments in technology that enable better communication between companies and their stakeholders. Technology is considered in **section 7**.

Flexibility

3.5 We envisage that the reporting network will include a mixture of voluntary and mandatory reports and content. The idea is that companies have flexibility to tell their story across the network and adapt their reporting to the needs of their stakeholders. That is, while regulators may mandate certain reports and set minimum content requirements to meet the common information needs of users, companies would determine what additional content is necessary to ensure that a mandatory report meets its communication objective for their key stakeholders.

3.6 The purposes of corporate reporting have changed over time to inform decisions, assessments and behaviours in many ways. They will continue to evolve and therefore we need to develop a model that is fit for the future.

Business Report

3.7 We believe that providing information that enables users to understand how a business generates and sustains value creation over the longer term is in the public interest and is a theme that should run through the Business Report.

We propose the following objective for the Business Report:

- To provide information that enables users to understand how the company creates long-term value in accordance with its stated purpose.

3.8 We believe that the principles in the Strategic Report should provide the foundation for the Business Report. Similar to the existing Strategic Report, in the Business Report, companies would be encouraged to consider the key resources and relationships that support the generation and preservation of all relevant aspects of value as an essential part of communicating its business model.

3.9 Key resources can be financial and non-financial (e.g. intangibles), and the emphasis on key relationships means considering all of the company's important stakeholders, not only shareholders.

3.10 Relationship-related decisions include, for example, dividend distributions to shareholders, investments to develop products and services for customers, training for employees, etc.

3.11 As a by-product of the process of generation and preservation of value, a company also makes a contribution to the economy as a whole and wider society including by providing products and services, paying taxes and creating employment opportunities.

Following on from the thinking that the Business Report takes a company-centred perspective which is neutral of the audience, we propose the following general principles for reporting in the Business Report.

- Focuses on matters that are of strategic importance to the company.
- Provides the Board's view of the development, performance, position, cash flows and future prospects of the company.
- Has a forward-looking orientation, whilst still providing historical information.

THE NEW MODEL: THE REPORTING NETWORK

3.12 **Section 5** outlines the content elements that we believe would provide the foundation for the Business Report in line with the general principles.

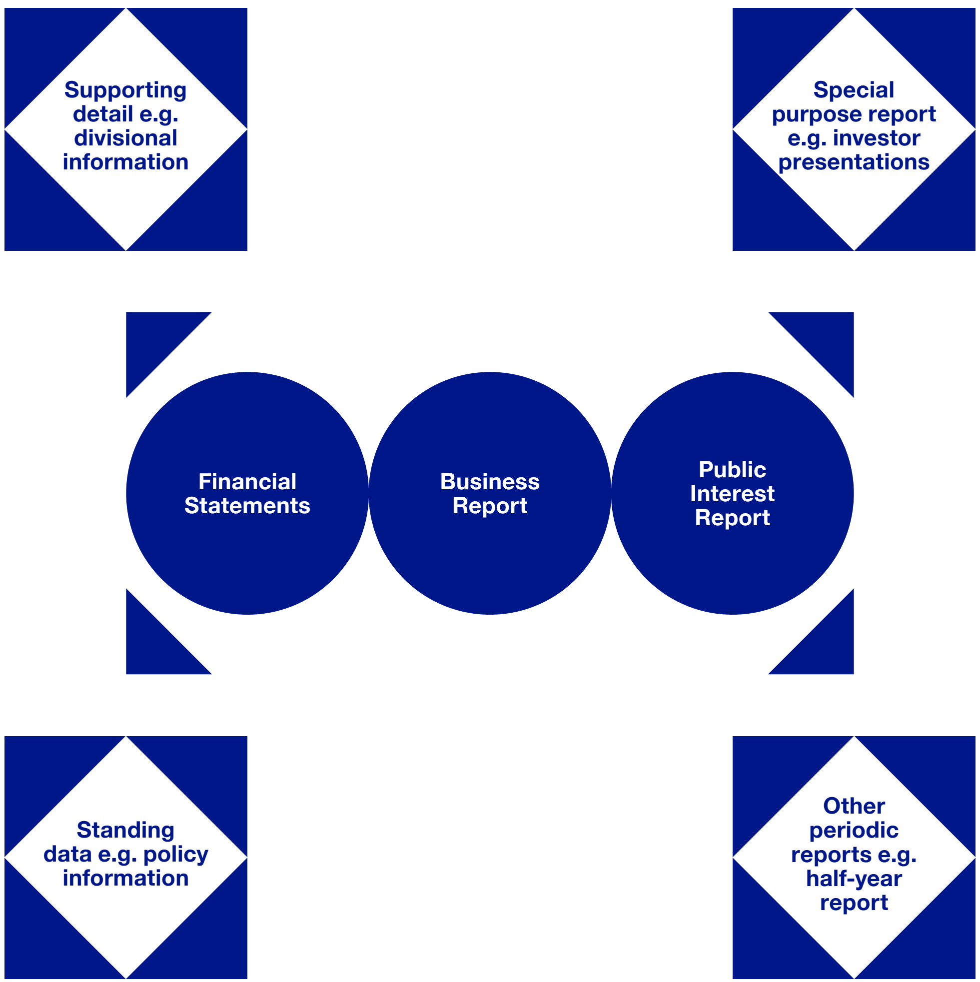
Network reports

We propose that the new model includes additional network reports which will each have their own objectives. The aim is to provide information which is more targeted to different information needs.

3.13 Suggested principles for different types of network report are as follows:

- **provides additional detail on information contained in the Business Report** (e.g. detailed information about operating segments, disaggregation of numbers in the Business Report);
- **provides information that is for a specific purpose and, where appropriate, for a specific audience** (e.g. investor presentations);
- **is a location for reporting information that remains unchanged year to year** ('standing data') (e.g. policy information); or
- **is an additional periodic report provided at a different time frame** (e.g. half-year report and ad hoc announcements).

THE REPORTING NETWORK



Periodic reporting

3.14 We believe that there will always be a need for periodic reporting, underpinned by regulation – principles-based standards which can be monitored, enforced and are capable of being assured. However, we propose that the boundary of these reports is drawn differently to today's annual report.

3.15 In this paper we illustrate three reports as being part of the future reporting network – the Business Report, the Financial Statements, and the Public Interest Report– which will form part of the annual periodic reporting cycle. As noted above, we anticipate that the Strategic Report will evolve into the Business Report.

The Financial Statements

We propose that the full set of financial statements, prepared in accordance with the applicable framework for financial reporting and subject to audit, would be presented in a stand alone mandatory network report.

In line with UK and International Financial Reporting Standards, the objective of the mandatory financial statements network report is to provide information about the financial position, financial performance and cash flows of a company that is useful in making economic decisions.

THE NEW MODEL: THE REPORTING NETWORK

Public Interest Report

3.16 As noted above, the activities of a company will have wider financial and non-financial impacts such as on stakeholders (including shareholders) and the environment.

We envisage the introduction of a Public Interest Report to respond to the growing need to provide a different perspective and greater level of detail on these areas to enable stakeholders to hold a company to account.

We propose that the objective of the Public Interest Report is to provide information that enables users to understand how the company views its obligations in respect of the public interest, how it has measured its performance against those obligations and to provide information on future prospects in this area.

3.17 We discuss non-financial reporting and this specific report in more detail in **section 6**.

Preparation and approval

3.18 We believe that the Board should have overall collective responsibility for the reports in the reporting network and approve the mandatory reports. Management will be responsible for preparing the reports in a way that tells the company's story.

Interaction with Brydon

There are a number of areas that we explore in this paper that are common with the proposals for audit reform in the Brydon Review. The following table summarises these.

	FUTURE OF CORPORATE REPORTING	BRYDON REVIEW
SHAREHOLDERS AND STAKEHOLDERS	Sets out an overall purpose and broad definition of corporate reporting to include the reasonable expectations of information needs of wider stakeholders.	The proposals for audit reform in Brydon start from the public interest and lend themselves to a reporting model which acknowledges the legitimate interests of stakeholders other than shareholders.
COMMUNICATION FOCUS	Considers good reporting to be good communication between companies and their stakeholders.	Recommends engaging shareholders around specific disclosures–reporting on principal risks and uncertainties, and a rolling three-year Audit and Assurance Policy with a view to extending engagement to other stakeholders where relevant.
PRINCIPLES-BASED	Proposes a cohesive, principles-based framework for corporate reporting as a whole, covering more than just the financial statements, annual report and the information needs of shareholders and investors.	Recommends a new model of corporate auditing which extends beyond the audit of financial statements, held together by an overarching framework of Principles of Corporate Auditing.
MULTIPLE OBJECTIVES	Proposes a corporate reporting model that acknowledges and provides for different communication objectives, including a new Public Interest Report.	Considers different audit objectives and implications for corporate reporting, such as a new Resilience Statement and a Public Interest Statement.
FLEXIBLE STRUCTURE	Proposes a multi-report network model in which the financial statements sit alongside other reports, and which allows for periodic information being communicated at different time frames.	Supports a model which includes different levels of assurance, potentially given by different providers for financial reporting and other information. Proposes that principal risks and uncertainties are published prior to the rest of the annual report to support engagement on audit and assurance expectations.

Sir Donald Brydon recommended the introduction of three new reporting requirements:

- a Resilience Statement;
- a Public Interest Statement; and
- an Audit and Assurance Policy.

The recommendations also include a proposal to publish principal risks and uncertainties ('risk report') at an earlier date than the annual report.

A number of the recommendations in Brydon relate to corporate reporting. This paper does not pre-judge the outcome of any future public consultation but includes some ideas to stimulate debate should the Government propose to take the recommendations forward. For example, the Resilience Statement could form part of the Business Report.

THE NEW MODEL

MATERIALITY

WHAT IS DIFFERENT

Different lenses of materiality

Current corporate reporting views materiality as principally a financial concept. The new model considers materiality in a wider context. Materiality becomes an aspect of the objective for each report, it determines the level and detail of information contained within each report.

THE NEW MODEL: MATERIALITY

4.1 At its simplest, materiality is a filter for determining what information is included in, and what information is excluded from corporate reports. Materiality also dictates the level of detail and prominence of information. Various definitions and processes for materiality exist, whether for the financial statements, narrative reporting or under voluntary reporting frameworks. In this paper, we have not sought to develop a new term for materiality as we believe it is a concept that is reasonably well understood. Instead, we discuss its application to the new model.

4.2 We propose that materiality is applied for the reporting network as a whole, and therefore defined at both the report level and the network level.

Report level

4.3 As each network report has a specific communication objective, materiality for that report should be judged with reference to the objective of that report.

At the report level, we propose the following overarching principle for materiality:

- Materiality is a filter to determine what information is required to achieve the objective of a particular report. Immaterial information can impair the understandability of other information provided, and should not be included.

4.4 Based on the principle of materiality, preparers should ask themselves the following questions when applying the 'materiality filter':

- What is the objective of the report?
- What level of information is needed to meet the objective of the report?
- Is the level of information relevant to the objective of the report?
- What regulatory requirements are in place?
- Is the information sufficient to meet regulatory requirements?
- Is there sufficient information to communicate the story?

Disclosure of materiality

4.5 This approach does not rely on a single definition of materiality, as is currently set out for financial reporting. Under the new model, we consider that there is a greater need for disclosing the basis on which materiality judgements have been made. We believe this will help to address the knowledge and expectation gap between the users and preparers of corporate reports about what information has been included and excluded.

4.6 To address the need for transparency over materiality processes and judgements, and oversight thereof, we propose the following principle:

The oversight (for example, by the board and/or management) over materiality processes and judgements should be communicated as well as any qualitative and quantitative benchmarks.

Time frame

4.7 The time horizon for materiality decisions can range from over the short term, through the whole of the business planning cycle, to the life of the business. We propose that the time frame for reporting and materiality decisions should also be communicated.

Network level

4.8 A focus on only the objectives of each individual report risks missing consideration of whether the reporting network as a whole is complete. Therefore, it is important that companies consider information both at an individual report level and at a reporting network level.

4.9 Consideration of the reporting network as a whole may result in the company identifying information needs which have not been met by mandatory reports or by the company's voluntary reports. It could potentially lead to new reports or disclosures having to be made. This process should occur annually and be included as part of the process of publishing the mandatory network reports. As with materiality at the report level, the process should be supported by a statement from the board about the process and conclusions reached.

THE NEW MODEL

CONTENT ELEMENTS

WHAT IS DIFFERENT

Content as communication

Current corporate reporting values financially relevant information above all else and with an investor audience in mind. The new model identifies the common information needs of stakeholders which would form the content elements of the reporting network.

THE NEW MODEL: CONTENT ELEMENTS

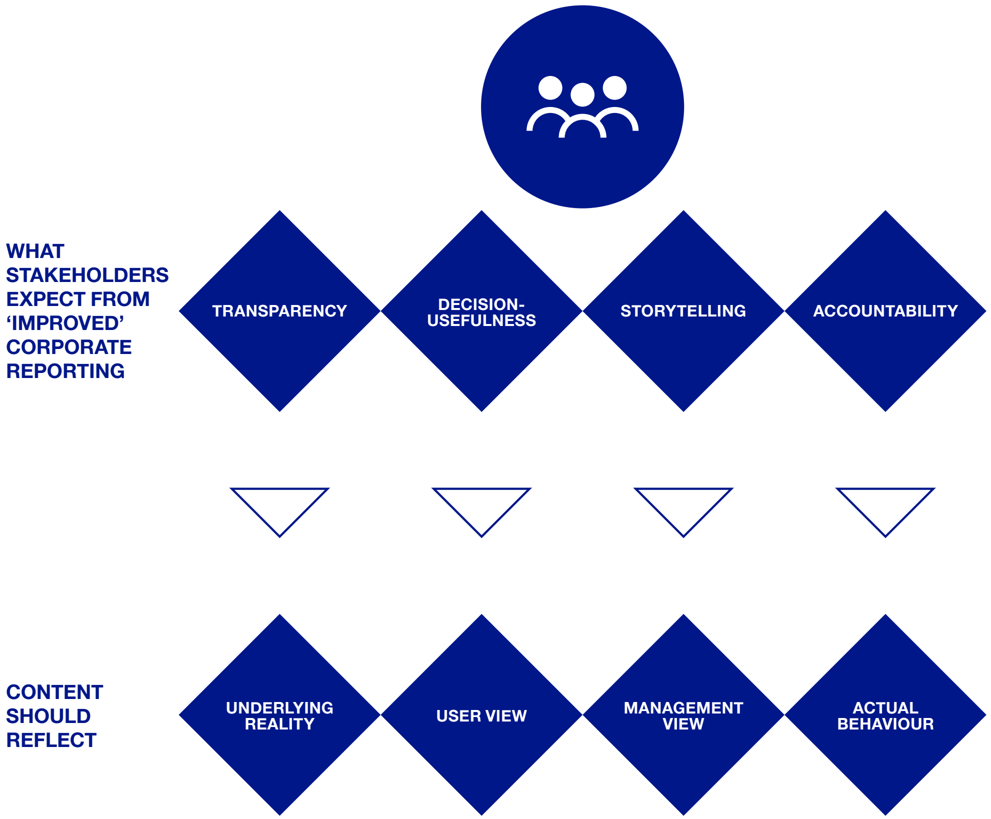
5.1 We have developed ideas for the reporting network with a view that the network will include a series of content elements (individual disclosures) that would be required to be provided across the network. To identify the content elements that should form part of the new model, we undertook a survey with the FRC's stakeholders[4] to help us understand what information they need from corporate reports and the relative importance of different disclosures.

5.2 From our survey we have learnt that users seek information for different purposes, which influences their expectations about the content that 'improved' corporate reporting should contain. This creates a challenge for defining content that meets these diverse expectations, as shown in Figure 3.

5.3 In addition, the results from the survey of FRC stakeholders suggest that the potential users of corporate reporting and the purposes for which they are seeking information are more diverse than the conventional view suggests (i.e. a defined set of users with a single objective).

- 44% of respondents look at companies' corporate reporting from multiple user perspectives, including a mix of preparer, investors and other stakeholder perspectives. 85% report that they have more than one 'very important' information-seeking objective in considering information about a company.
- The expectations of investors and other stakeholders in our survey converge on most aspects of corporate reporting.
- The highest ranked communication objectives in our survey are to judge the performance of the company (68% of respondents), to gain an at-a-glance view of the company (58%), to establish if management can be trusted in running the company (52%), and to make comparisons over time and across entities (also 52%).

FIGURE 3: COMMON REASONS FOR SEEKING INFORMATION AND CHALLENGES FOR DEFINING CONTENT



4 The survey results are available **here**.

THE NEW MODEL: CONTENT ELEMENTS

How the survey has informed the new model of corporate reporting

5.4 Our proposals for corporate reporting address the diverse expectations of users' by facilitating the creation of a network of reports which can accommodate different communication objectives.

5.5 We propose in **section 3** that the reporting network contains a minimum of three reports: a Business Report, the Financial Statements, and a Public Interest Report. We consider these to be the most important reports in the communication between companies and their stakeholders.

Business Report

5.6 Our survey results suggest that the Business Report can be developed from the existing annual report highlights sections, primary financial statements, and Strategic Report. More than 50% of survey respondents report that they read these sections very thoroughly. This suggests these sections are an effective source of information and their content is of genuine interest.

5.7 To improve existing reporting, respondents identified a need to:

- streamline the content in the existing Strategic Report;
- develop reporting on value distribution and the quality of relationships with key stakeholders;
- include non-financial reporting matters where this is material to achieving the communication objective of the report (see **section 6**);
- develop reporting on Alternative Performance Measures (APMs); and
- demonstrate greater alignment between items that are currently reported elsewhere in annual reports, such as information on directors' remuneration, to value creation.

Business Report

5.8 We believe that a concise Strategic Report together with the primary financial statements provides a good foundation for the Business Report. Drawing on the results of the survey, we conclude that a Business Report is likely to be informative if it contains the following minimum content:

BUSINESS REPORT

OBJECTIVE	To provide information that enables users to understand how the company creates long-term value in accordance with its stated purpose
PERSPECTIVE	Company-centred
CONTENT THEMES	Performance (financial and non-financial), value creation

MINIMUM CONTENT*	A statement of the company's purpose
	
	Business model (how it creates value):
	- Resources and relationships
	- Indicators of the quality of relationships with key stakeholders
	- Explanations of how value is allocated to shareholders and directors including:
	  - dividends and dividend policies;
	  - summary information on directors' remuneration (further details in a remuneration network report) and how those distributions relate to value creation
	- Explanation of how value is distributed to other stakeholders to sustain value creation, such as employees, local communities, and the natural environment, and how this contributes to sustaining value creation
	
	Strategy
	
	Products and markets
	
	Risks
	
	Key performance indicators (KPIs)/APMs
	
	Long-term prospects
	
	Impact of a company's activities on stakeholders and the environment
	
	A company's culture and values statement
	
	Financial highlights (e.g. in the form of primary financial statements) and related management commentary (further details in Financial Statements network report)

* Based on survey results, subject to further research and consultation.

THE NEW MODEL: CONTENT ELEMENTS

> 51% OF RESPONDENTS SAY THAT THEY ARE ALWAYS INTERESTED IN INFORMATION ABOUT HOW A COMPANY'S ACTIVITIES AFFECT THE ENVIRONMENT, COMMUNITIES, CUSTOMERS AND SUPPLIERS.

Financial Statements

Financial Statements

5.9 While accounting standards are outside the scope of our paper, our survey findings suggest that users value the existing set of financial statements and engage with them actively. In addition, our survey respondents would welcome further development of reporting on intangibles. Therefore, a Financial Statements network report is likely to be informative if it contains the following information:

FINANCIAL STATEMENTS

OBJECTIVE	To enable assessments of financial performance and position of the company
PERSPECTIVE	Conceptual framework for financial reporting
CONTENT THEMES	Performance (financial)
MINIMUM CONTENT*	Primary financial statements Notes to the accounts Accounting policies Explanation of judgements and estimates Details on intangibles

* Based on survey results, subject to further research and consultation.

Non-financial reporting

5.10 51% of respondents say that they are always interested in information about how a company's activities affect the environment, communities, customers and suppliers. However, existing sustainability reports rank among the least read items in our survey. One possible explanation is that the survey respondents do not expect sustainability reports to contain information that is relevant to them in meeting their communication objectives. Additional qualitative comments suggest that a lack of comparability and a lack of trust are among the reasons for users not engaging with sustainability reports more thoroughly.

5.11 In the new model for corporate reporting, we seek to address those concerns by proposing the introduction of a Public Interest Report, supported by standards. We explore the options for reporting in a Public Interest Report in more detail in **section 6**.

THE NEW MODEL: CONTENT ELEMENTS

Other content elements

5.12 In addition to the network reports, other content elements need to be considered in the context of the corporate reporting network. Table 1 opposite lists additional information items which we find are of interest to our survey respondents and group them into three stand alone content themes

Other findings

5.13 One in five respondents to our survey responded to the question 'What changes in corporate reporting would be most helpful to you?' by suggesting structural changes to corporate reporting to disaggregate information that is currently contained in a single document, the annual report. There is a clear view that the annual report is trying to achieve too much.

5.14 Some respondents to this question also suggested the production of separate and more focused reports.

5.15 Both these suggestions are directly addressed by the proposed reporting network structure.

5.16 Overall, our proposals will bring about important structural change to improve the informativeness of corporate reporting to its diverse users.

- The principle that each report in the reporting network must be supplemented by clear objectives gives preparers greater autonomy to establish, in dialogue with their key stakeholders, what information is material.
- The objective-driven approach to reporting should also impose greater discipline on regulators in determining a clear information purpose for the inclusion of additional mandatory reporting items.
- A matrix structure which combines clear communication objectives for each report with different content themes, supported by shared attributes, communication principles, and technology, makes the system suitable for selective reading along any dimension.[5]

5 At present, the majority (88%) of our survey respondents seek to satisfy their communication objectives by reading report items selectively. Only 7% of respondents indicate that they read the annual report front to end.

Table 1

CONTENT THEME	INFORMATION ITEMS*
CORPORATE GOVERNANCE	- The board's skills and competencies - Board agenda, priorities and approach to decision-making - Explanations of the board's engagement with suppliers, customers and others, including the content of communications and the extent to which they help with identifying key matters and key risks
RISK AND RESILIENCE	- Principal risks, including explanation of how they apply specifically to the company and their potential financial impact - Main features of internal controls, risk appetite and risk mitigations in place - Year-on-year changes in risks - The risks arising from climate change and workforce matters, including regulatory, legal and reputational risks to the business - Scenarios and stress testing - Going concern - The sources and uses of cash - Liabilities and financing arrangements
AUDIT RELATED INFORMATION	- Details on the scope and specific conclusions from the audit process - An indication of the quality of the relationship between auditors and the company - Details on engagement with shareholders to determine the scope of the audit

* This is not an exhaustive list, but reflects the views expressed in the FRC's survey of stakeholders with an interest in corporate reporting.

THE NEW MODEL

NON-FINANCIAL REPORTING

WHAT IS DIFFERENT

A level playing field for non-financial information and elevating the needs of the public

The current model recognises the importance of non-financial elements of company performance, sustainability and public policy issues, but disclosures are dispersed and patchy. To improve the quality and effectiveness of non-financial reporting we need to bring together these elements into a coherent whole.

We recognise the multitude of requirements and voluntary frameworks that currently drive non-financial reporting and support the development of globally recognised standards.

The new model proposes the introduction of a new Public Interest Report. For many companies, this will largely bring together different aspects of their existing reporting. For other companies it will represent a step change in the non-financial information that they provide.

THE NEW MODEL: NON-FINANCIAL REPORTING

6.1 Non-financial reporting is becoming increasingly important and we expect this trend to continue in response to calls for responsible capitalism. Currently, there is no overarching framework that covers both financial and non-financial reporting that meets the needs of investors and other stakeholders. In **sections 2** and **3** of this paper, we outline our proposals for a framework for corporate reporting and a new model for corporate reporting that accommodates reporting of financial and non-financial information as well as the interests of a range of stakeholders. In this section we consider how this critical area of reporting might develop in future and the application of the new model to non-financial reporting.

What is non-financial reporting?

6.2 Although widely used, there is no commonly agreed definition of the term 'non-financial reporting'. In this paper, we refer to non-financial reporting as information relating to employees, suppliers, customers, the community, the environment and human rights.

Current landscape

6.3 The current landscape for non-financial reporting is fragmented. Non-financial information is reported in the annual report primarily as part of the Strategic Report, separate sustainability reports and through a series of special purpose reports introduced to achieve specific public policy aims (e.g. gender pay gap report).

6.4 There is some regulation relating to non-financial reporting but there are also a multitude of voluntary frameworks which creates a confusing landscape for companies and results in a lack of relevant, reliable, comparable and balanced information for users. We believe that this can be overcome by setting regulatory standards for non-financial reporting.

Why is non-financial reporting important?

6.5 There are two aspects to non-financial reporting. Firstly, the impacts of a company's activities can affect the sustainability of the business model over the longer term. The term non-financial reporting when used in this context is often considered a misnomer as it could affect financial performance. Secondly, it is recognised that companies have accountability to a wider group of stakeholders and the impacts of its activities can be far reaching.

6.6 In our view, for non-financial reporting to be meaningful, a company should consider both how the ecosystem in which it operates can have an effect on the sustainability of the company's business model, and how the company's business model is affecting this ecosystem.

Setting standards for non-financial reporting

We support the development of global standards for non-financial reporting over the longer term. However, we recognise that standards for non-financial reporting are needed with some urgency. We welcome the moves towards coalescence of voluntary frameworks in this area and consider that some of the existing voluntary frameworks could be building blocks towards the long-term vision.

In developing standards for non-financial reporting, we believe that the aim should be for non-financial information to:

- have the same importance as financial information;
- be prepared with an equivalent level of rigour as financial information; and
- be balanced, consistent year on year and comparable across companies.

We believe that an important part of achieving these aims is to place non-financial reporting on a similar statutory basis as financial reporting.

THE NEW MODEL: NON-FINANCIAL REPORTING

Terminology

6.7 We note that the term 'impact' is frequently used in the context of non-financial reporting. However, it is a term that has different meanings. For example, the EU Non-Financial Reporting Directive uses the term when referring to the 'impact of a company's activities'. The term is also used to specifically refer to social impact.

6.8 In developing a framework for non-financial reporting, we consider that it is helpful to delineate the different elements that are often discussed under 'impact'.

- Internal outcomes – the positive and negative effect of the company's activities on the sustainability of the company's business model.
- External outcomes – the positive and negative effect of the company's activities on stakeholders and society.
- Societal impacts – the impacts of the company on society and the environment, measured by reference to the change in outcomes for people, planet and prosperity as a result of the company's activities.

6.9 We support standardised metrics relating to reporting on outcomes to enhance comparability of this information. However, we do consider that measurement techniques for societal impact reporting are sufficiently well developed to be mandated. One approach could be to identify the Sustainable Development Goals to which the external outcomes relate and identify how the company's activities have contributed to these societal impacts.

6.10 To illustrate how these different areas of reporting relate to one another, Figure 4 shows possible standardised metrics relating to one aspect of reporting on employees–being in respect of training and uses the term outputs to refer to financial and non-financial results.[6]

FIGURE 4: STANDARDISED METRICS

OUTPUTS	– Hours of training undertaken – % of employees completing training programmes
INTERNAL OUTCOMES	– Number and percentage of unfilled 'skilled' positions – Monetised effect of work related incidents on employers (including lost hours, fines and actions from regulators, compensation costs etc.)
EXTERNAL OUTCOMES	– Measurement of estimated future uplift in lifetime earnings as a result of training intervention – Monetised effect of work related incidents on employees and society including loss of earnings, healthcare effect, property damage, effect on life expectancy
SOCIETAL IMPACTS	– Measurement of estimated future uplift in lifetime earnings as a result of training intervention – Monetised effect of work related incidents on employees and society including loss of earnings, healthcare effect, property damage, effect on life expectancy

Application of the new model to non-financial information

6.11 We are proposing that non-financial information is included in the reporting network as part of the Business Report and new Public Interest Report.

Business Report

6.12 We would expect non-financial information to be included in the Business Report where it is material to meeting the report's objective, which is to provide information that enables users to understand how the company creates long-term value in accordance with its stated purpose.

Public Interest Report

6.13 In the reporting network, reporting on internal outcomes would be included in the Business Report. Over the longer term, we consider that there is a need for a separate report that provides information on external outcomes. We therefore propose the introduction of a Public Interest Report focused on how the business interacts with the ecosystem in which it sits. We note that Brydon recommends the introduction of a Public Interest Statement, our intention is that the Public Interest Report would be a broader report akin to the current sustainability report but with a greater degree of rigour.

6.14 Our thinking in this area is at an early stage. The remainder of this section presents our proposals for the objective of a Public Interest Report and its content.

6 Compiled by using metrics in the WEF paper 'Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'.

THE NEW MODEL: NON-FINANCIAL REPORTING

Objective

We propose that the Public Interest Report would have the following objective: to provide information which enables a user to understand how the company views its obligations in respect of the public interest; how it has measured its performance against those obligations; and to provide information on future prospects in this area.

To achieve its objective, the Public Interest Report would need to present consistent and comparable quantitative and qualitative information which explains the company's performance and targets in respect of external outcomes and other public interest matters.

Content

The Public Interest Report could identify relevant stakeholders. These are the stakeholders who are either an important part of the business operations, or who are affected, or at risk of being affected, by the operations.

In our view, the Public Interest Report should be underpinned by standards and metrics. It would include information about the impact of the business on the company's stakeholders and society, including employees, suppliers, customers, the community. This would also include information on environmental, human rights, anti-corruption, and anti-bribery matters.

We also envisage that the report could incorporate existing mandatory reports such as gender pay gap reporting, supplier payment and modern slavery with a view to bringing together all related information in one place.

We propose that the Public Interest Report could include, as a minimum:

- identification of stakeholders, their relationship with the company and how the company interacts with them.

And, for each area of stakeholder relationship:

- metrics relating to external outcomes for each stakeholder relationship;
- policies; and
- risks posed by the company's operations to that area and mitigation.

6.18 The creation of a Public Interest Report would not affect the ability of companies to continue to disclose additional non-financial information outside this report.

Materiality and interaction between network reports

6.19 As discussed in **section 4**, materiality is determined by reference to the communication objective of the report– so information would be material to the Public Interest Report if it enables users to understand how the company views its obligations in respect of the public interest, how it has measured its performance in areas of public interest and what it hopes to achieve in the future.

6.20 Some of this information may be relevant to how the company creates and distributes value over the longer term. Therefore, there may be some overlap between the content of the Public Interest Report and Business Report.

6.21 However, it is important to recognise that internal outcomes for the Business Report will be measured by reference to the effect on the company, whereas external outcomes from activities for the Public Interest Report would be considered and measured by reference to the effect on the affected party. Therefore, whilst the reports may cover similar content, the level and detail of this information may differ due to the 'materiality filter' applied.

SUPPORTING PILLARS

TECHNOLOGY

WHAT IS DIFFERENT

Digital by default

The current model of corporate reporting is paper-based and assumes the production of physical reports. In the new model, technology will be used to connect the reporting network and bring together information communicated by companies.

SUPPORTING PILLARS: TECHNOLOGY

To enable our vision for technology enabled reporting, we propose that further work is needed to develop and explore:

- A full set of corporate reporting schemas/structures to support tagging of all reports in the reporting network.
- A single storage location/data portal that works across regulatory reporting requirements (listed and unlisted companies) to provide a consistent and efficient source of regulated company data.
- New search and analytics tools that utilise the reporting network.

Technology from the preparer's perspective

7.1 A preparer would create different content elements and reports that meet different reporting objectives. Our vision for technology-enabled reporting would see all reporting content produced in a digital format (this would be the default with an option of printed copies for accessibility). The digital format would be driven by the objective of the report and the overall system level attributes and might include such mediums as HTML, video and PowerPoint. Reporting, content would be tagged with relevant machine-readable tags; the extent of tagging would be determined both by specific regulatory requirement and by general network tagging requirements. The network tags (using XBRL) would communicate essential information about how the report/content fitted into the network, such as period, audit status, report type, report objective etc.

7.2 Once tagged, the preparer would then file the report to a single public filing location and its website. The preparer would be able to connect and cross-reference across the submitted reports.

XBRL

7.3 We believe that our technology vision would need to be supported by a structured data framework such as XBRL. This would apply across all documents and content elements within the reporting network.

7.4 Whilst XBRL is already used in the UK to provide a machine-readable structure to some limited financial (and carbon) information we consider that all data within the network, including financial, governance and non-financial, should be tagged to some degree. This might include tags of individual data points within a document, content elements or full documents.

7.5 Tagging requirements should be developed on a cross-regulator basis to allow reuse of data and reduce the impact of the tagging effort.

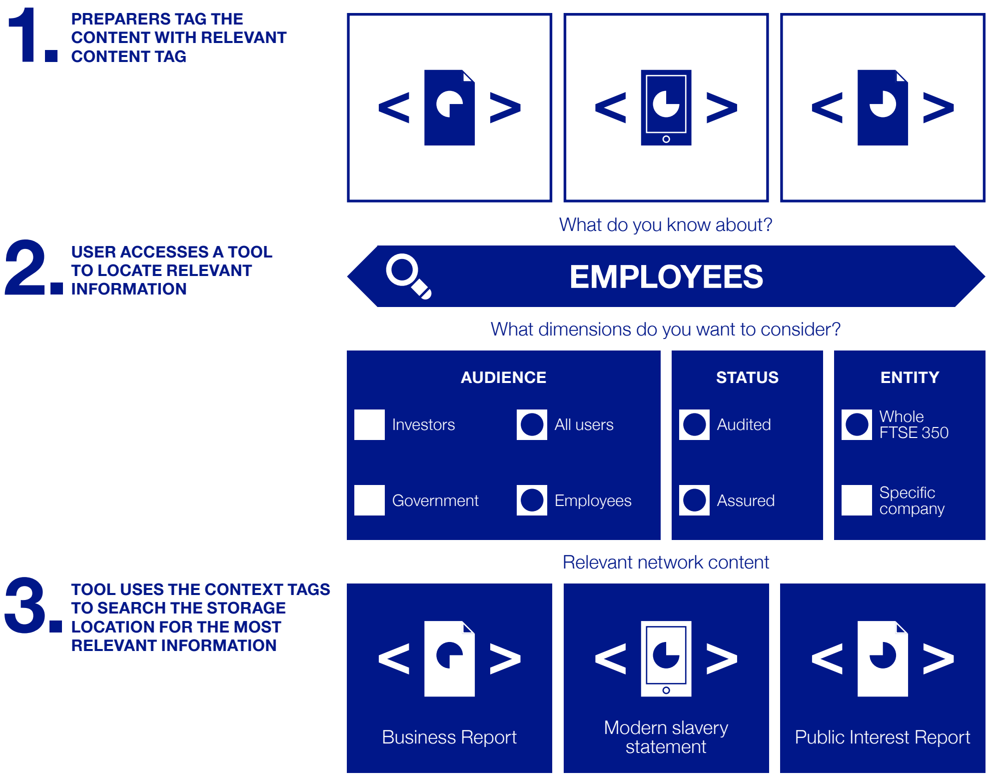
Technology from the users' perspective

7.6 In our view, in our proposals, the creation of a report is driven by its communication objective. These will be defined in regulation for mandatory reports, and by companies themselves for voluntary reports. Therefore, the decision to create a report is that of the regulator or company, and not the user (even if ultimately driven by investor and other stakeholder demands).

7.7 We recognise that users will also have their own objectives in reading/consuming company reporting. Our vision for technology-enabled reporting seeks to facilitate objective-driven consumption. Users might access the reporting network in different ways, such as via the single storage location, the company's website or through a tool or data provider. Users might consume the network reports as produced, or they might view multiple reports that provide information that meets their own objectives. The tags and links (attached by the preparer) would therefore provide a structure that allows the user to consume the most relevant content across the network.

7.8 As the model matures, detailed tagging would allow users to focus on only the content within the reports that was the most relevant to them. Creating something akin to a 'build-your-own' thematic report.

FIGURE 5



SUPPORTING PILLARS

PROPORTIONALITY

WHAT IS DIFFERENT

Picturing what is proportional

Our new model is based on a reporting network aimed at public interest entities (PIEs)[7]. However, we believe the model could be applied by entities beyond this group by considering the objective of each network report, and its relevance for entities of different sizes.

7 PIEs for existing UK regulatory purposes currently includes UK companies with equities or debt admitted to trading on a regulated market (including the London Main Market but not the Alternative Investment Market) and credit institutions and insurance undertakings.

SUPPORTING PILLARS: PROPORTIONALITY

8.1 In this section we consider the objectives of two reports which form part of the reporting network: the Business Report and the Public Interest Report.

Business Report

8.2 The reporting network is centred around the Business Report. As proposed in **section 3**, it is envisaged that the report's contents will be similar to a concise Strategic Report and include the primary financial statements.

8.3 The Business Report provides a mechanism for management to communicate information about how the company creates long-term value in accordance with its stated purpose. In a smaller company, where the communication channels with stakeholders are 'close', we would expect stakeholders to gather this information by interacting with the company itself, instead of through a separately prepared periodic report.

8.4 However, in medium and large companies, the relationships between management and stakeholders are often dispersed. This means greater prominence is given to more formal mechanisms of communicating information about a company's performance, e.g. the preparation of corporate reports.

To reflect this difference, we propose that the Business Report is prepared by medium and large companies.

8.5 This mirrors the existing scope of the requirement to produce a Strategic Report.[8]

Public Interest Report

8.6 **Section 6** proposes that the objective of the Public Interest Report is to provide information that enables users to understand how the company views its obligations in respect of the public interest. As a company can have obligations to the public regardless of its size, the report is potentially applicable to all companies.

8.7 Currently, the reporting requirements for smaller entities require the disclosure of limited non-financial information. Therefore, the preparation of a Public Interest Report by these entities would be likely to pose a conceptual challenge and create a considerable burden. We propose that the preparation of the Public Interest Report should apply firstly to only the very largest companies. Revisiting the original aim of the report provides a starting point for identifying an appropriate criterion.

8.8 The Public Interest Report aims to provide a mechanism for stakeholders to hold a company to account. It follows that the report will be of greatest relevance in companies where there are a large number of stakeholders that have an interest in holding the company to account. This is closely linked with the notion of public interest. In the UK, entities that are deemed to be of 'public interest' are defined in company law.

Therefore, we believe limiting the preparation of the Public Interest Report to PIEs aligns with both the aim and title of the report.

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8 s414A Companies Act 2006: Duty to prepare strategic report.

APPENDIX: EVIDENCE AND OUTREACH

The project was supported with input and advice from the following sources:

The purpose of the group was to provide input and advice to the FRC as the project progressed. The members of the Advisory Group were as follows:

Future of Corporate Reporting Advisory Group

The project's Advisory Group comprised of representatives from the FRC's key stakeholder groups – companies, investors, civil society groups, academics, auditors, audit committee chairs, lawyers and design agencies.

Paul Druckman (Chair)
Chairman, World Benchmarking Alliance
Chairman, The Clear Group

Hywel Ball
UK Chairman, EY
Managing Partner, UK and Ireland

Andy Blackstone
Company Secretary, M&C Saatchi PLC

Roland Bosch
Engagement, EOS Federated Hermes

Yasmine Chahed
Visiting Research Fellow, Alliance Manchester Business School, University of Manchester

Carlota Garcia-Manas
Senior Responsible Investment Analyst, Royal London Asset Management

Simon Gleadhill
Corporate Reporting and IFRS Technical Controller, Howden Joinery Group

David Gorman
Head of Research, Castlefield Investment Partners

Jeffrey Hales
Professor of Accounting, University of Texas at Austin
Chair, Sustainability Accounting Standards Board

Simon Messenger
Director, 2° Investing Initiative

Paolo Quattrone
Professor of Accounting, Governance and Society, Alliance Manchester Business School, University of Manchester

Dean Radley
Investor Engagement Director, Radley Yeldar

Alice Revels
Head of Corporate Reporting, BP

Karin Ri
Director, Responsible Investment, Asset Management One International

William Underhill
Partner, Slaughter and May (retired)

Helen Weir
Supervisory Board member of Ahold Delhaize and Non-Executive Director of Greencore and Superdry

APPENDIX

Stakeholder engagement

Stakeholder groups were engaged at each stage of the project. This included roundtables, meetings and workshops, as summarised in the table below.

GROUP	ENGAGEMENT
COMPANIES	Meetings with four different groups representing the interest of companies
INVESTORS	Four roundtables (with institutional and retail investors)
ACADEMICS	Three workshops and three meetings with academics to gain their insight and input
ACCOUNTANTS	Two meetings with accounting bodies
REGULATORS & GOVERNMENT	Meetings with the FRC's sponsor government department as the paper developed
CIVIL SOCIETY	Meetings with civil society groups and interaction through the Citizens' Juries

Academic research

The FRC commissioned the University of Exeter to produce a literature review[9] to provide supporting evidence for the future of corporate reporting.

Citizens' Juries

In order to understand the views of the general public on the regulation of corporate reporting, corporate governance and audit, the FRC commissioned BritainThinks to conduct research with the public in the form of Citizens' Juries[10]. The findings from this research that informed this paper are summarised below.

In an exercise conducted as part of the research for the Citizens' Juries, the participants considered companies through the four key ways that members of the public interact with them, as customers, employees, investors and citizens. As part of this exercise, jurors highlighted the importance of companies in providing employment, products and services, and investing in the UK. Participants noted that information they would want to know about companies includes the return and safety of investments, and information that would enable citizens to hold companies to account on issues including taxes, environmental policy and investing in their local area.

During discussions on the concept of 'purposeful companies', participants felt it was important that companies work to create long-term value by serving the needs of society. Furthermore, participants saw that the role of the regulator should be to operate clearly in the 'public interest' and define what this concept entails. Jurors discussed this concept and suggested that companies acting in the public interest should:

- take into account wider audiences and types of stakeholders outside shareholders;
- ensure and improve diversity on boards; and
- improve openness and transparency to improve accessibility for the public.

Views on corporate reporting

Participants were given the annual reports of three FTSE 350 companies as a case study, and the companies were chosen to show a variation in company size and industry. Regarding corporate reporting, the jurors reported that overall, they found annual reports to be long and inaccessible, and would be difficult for a 'non-expert' to navigate and comprehend.

As a mechanism for regulating company activity, the jurors considered corporate reporting to have the following benefits:

1) Promoting transparency in companies' activities, making detailed information available in the public domain.
2) Making it mandatory for companies to report on important information, especially financial information in annual reports as well as, more recently, gender pay gap information.
3) Providing a basis for comparability between different companies and industries to contextualise analysis of their performance and viability.

However, they identified some of the limitations of corporate reporting as:

1) Corporate reports are inaccessible for non-expert audiences, including the language used, format and length of annual reports specifically.
2) Information jurors identified as important, including information about environmental sustainability and company values, was not mandatory for companies to report on.
3) The information presented in annual reports was largely to be taken at face value and trusted to be accurate.

In addition, the jurors were surprised that non-financial information, including on sustainability, was not mandatory for companies to include. In particular, they considered information on environmental concerns and employee treatment should be mandatory, given the possible impact large companies can have in these areas. Jurors also acknowledged the burden on companies to produce annual reports, and the challenge of providing useful and up-to-date information in a fast-moving political and economic environment.

9 The literature review is available **here**.
10 The BritainThinks report is available at https://www.frc.org.uk/getattachment/616e0f83-03e0-4ac4-9f9d-fca4a7b59102/FRC_Citizens-Juries_Full-Report-cm.pdf.