

FRC PUBLISHES DISCUSSION PAPER ON THE FUTURE OF CORPORATE REPORTING

On 8 October 2020, the Financial Reporting Council published a discussion paper, *A Matter of Principles The Future of Corporate Reporting*, which is intended to start a discussion about potential changes to the current system of corporate reporting, with a view to making it more effective and engaging for those with an interest in a company.

The FRC proposes moving towards a more objective-driven reporting framework (a so-called "reporting network"), supported by overarching principles intended to establish coherence across all company reporting. The framework would be supported by content communication principles that apply at an individual report level to provide guidance on how each of the reports comprising the reporting network should be written so that they communicate effectively.

A new reporting network

Central to the FRC's proposals is an unbundling of the current annual report, to be replaced with a principles-based framework for corporate reporting comprising a network of interconnected reports. At the heart of this network is a stakeholder-neutral business report, intended to enable users to understand how the company creates long-term value in accordance with its stated purpose. The intention is that the current strategic report will form the basis of the business report. In its discussion paper, the FRC makes much of the need for corporate reports to be prepared for a wider stakeholder audience and not limited to shareholders and investors and proposes a new definition of corporate reporting which is focussed on all stakeholders. This would see a significant shift away from the current focus of corporate reporting which is generally considered to be for the benefit and use of shareholders and investors.

Key issues

- The FRC has published a discussion paper setting out proposals for a new framework for corporate reporting.
- The proposals envisage an unbundling of the existing annual report which would be replaced with a network structure of interconnected reports centred around a business report.
- The additional 'network reports' would include a mixture of both mandatory and voluntary reports, covering both financial and non-financial information.
- The closing date for comments on the FRC's proposals is 5 February 2021

A new 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."*

FRC Discussion Paper (page 7)

Sitting alongside the business review would be a company's financial statements, to be published as a standalone document, along with a new mandatory public interest report.

The proposal for a public interest report builds on the recommendations in the Brydon Report which included a recommendation that companies should publish a public interest statement as part of the strategic report. The objective of the public interest report (which under the FRC's proposals would be a standalone report) would be to enable users to understand how the company views its obligations in respect of the public interest (including, for example, the impact of its activities on stakeholders and the environment), how it has measured its performance against those obligations and to provide information on future prospects in this area. For those companies that already prepare an ESG or sustainability report, this will be an evolution of that reporting, but for many smaller companies this will be a more significant change. The FRC is proposing that the requirement to produce a public interest report would apply at first only to the very largest companies.

Supplementing these three central reports would be other forms of company reports/communication, including the half-yearly report, any special purpose reports such as investor presentations and, what the FRC terms "standing data", such as the more standardised disclosures that might otherwise be set out in the directors' report.

Harmonising non-financial reporting

Recognising the lack of coherence and consistency in non-financial reporting, the FRC is keen to improve its quality and effectiveness. Whilst, in the long-term this would be achieved by the development of global standards, in the shorter term, this is likely to involve a move towards the coalescence of the multitude of voluntary frameworks. The FRC's ultimate goal is to see non-financial reporting placed on a similar statutory basis as financial reporting.

Materiality

The FRC has proposed that disclosure and reporting should increasingly be "objective" driven. The suggested approach does not rely on a single definition of materiality and companies would need to consider the objective of each individual report and what level of information is needed to satisfy that objective. However, recognising that a focus on the objectives of individual reports risks missing a consideration of whether the network of reports as a whole is complete, companies would have to undertake an annual review of their network of reports – the expectation is that this process would be supported by a statement from the board about the process and conclusions reached.

Harnessing technology

The FRC is rightly concerned to ensure that any changes to the corporate reporting environment utilises all relevant technology to ensure that information and reports are widely accessible, searchable and comparable.

With that in mind, the FRC intends to develop and explore (i) a corporate reporting scheme to support tagging of all reports in the reporting network; (ii) a single storage location/data portal to provide a consistent and efficient source of company data; and (iii) new search and analytics tools that would enable users of reports to effectively search and filter data.

The Public Interest Report

"...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"

FRC Discussion Paper (page 16)

Shaping the conversation

This paper is very much the start of a conversation around the future of corporate reporting. The FRC acknowledges that primary legislation may be needed to implement some of the proposed changes but others could proceed without a need to change the current law. It will be important that companies and other users of corporate reports engage in this process with a view to shaping what will follow, not least as the proposals start to crystallise and the detail of them becomes clearer. The closing date for comments is 5 February 2021. Interestingly, the FRC has indicated that it will publish responses within 10 days of their receipt so there may be an opportunity for later respondents to comment on the views of other earlier respondents, turning this into a dynamic discussion.

For further information about any of the matters discussed in this update, please contact either of its authors or your usual Clifford Chance contact.

CONTACTS

David Pudge
Partner

T +44 207006 1537
E David.Pudge
@cliffordchance.com

Kath Roberts
Knowledge Director

T +44 207006 1308
E Kathryn.Roberts
@cliffordchance.com

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

www.cliffordchance.com

Clifford Chance, 10 Upper Bank Street,
London, E14 5JJ

© Clifford Chance 2017

Clifford Chance LLP is a limited liability partnership registered in England and Wales under number OC323571

Registered office: 10 Upper Bank Street,
London, E14 5JJ

We use the word 'partner' to refer to a member of Clifford Chance LLP, or an employee or consultant with equivalent standing and qualifications

If you do not wish to receive further information from Clifford Chance about events or legal developments which we believe may be of interest to you, please either send an email to nomorecontact@cliffordchance.com or by post at Clifford Chance LLP, 10 Upper Bank Street, Canary Wharf, London E14 5JJ

Abu Dhabi • Amsterdam • Bangkok •
Barcelona • Beijing • Brussels • Bucharest •
Casablanca • Doha • Dubai • Düsseldorf •
Frankfurt • Hong Kong • Istanbul • Jakarta* •
London • Luxembourg • Madrid • Milan •
Moscow • Munich • New York • Paris • Perth •
Prague • Rome • São Paulo • Seoul •
Shanghai • Singapore • Sydney • Tokyo •
Warsaw • Washington, D.C.

*Linda Widyati & Partners in association with Clifford Chance.

Clifford Chance has a co-operation agreement with Abuhimed Alsheikh Alhagbani Law Firm in Riyadh.

Clifford Chance has a best friends relationship with Redcliffe Partners in Ukraine.