BDO, 2018

THE STRATEGIC REPORT

FREQUENTLY ASKED QUESTIONS

NEXT

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The strategic report is a part of the annual report that is of increasing importance to a company's investors and other stakeholders. In consequence, it has come under increasing scrutiny by politicians and regulators. When discussing the strategic report requirements with our clients, we have been asked many questions and have summarised the most frequently asked in this document.

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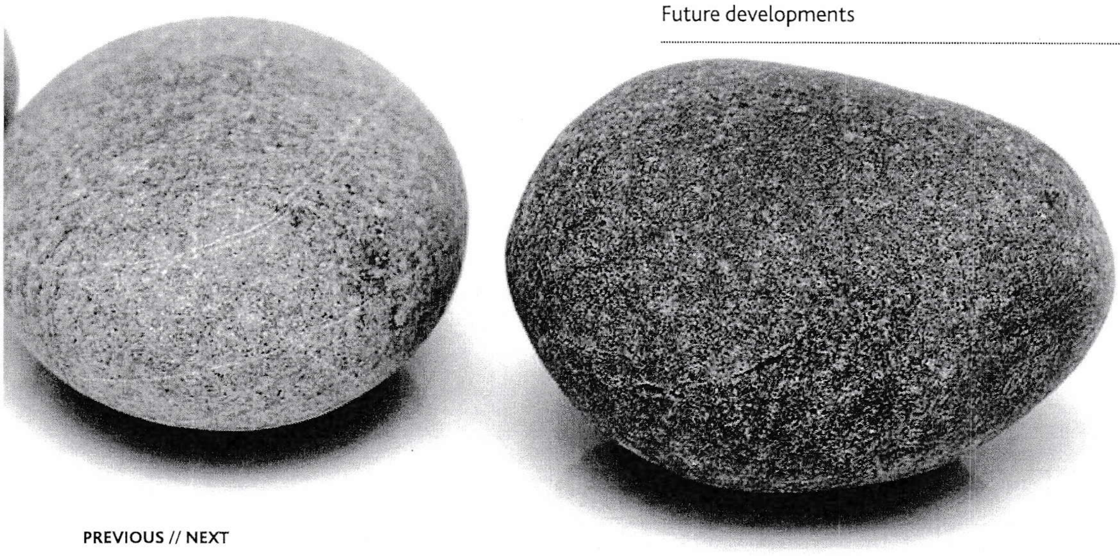

SCOPE – WHO SHOULD PREPARE A STRATEGIC REPORT?

1.	MUST WE PREPARE A STRATEGIC REPORT?	Small companies are exempt from the requirement to prepare a strategic report; all other UK-incorporated companies must include a strategic report in their annual report. A company that qualifies as small but which is excluded from the small companies regime by virtue of it being part of an ineligible group will nonetheless be eligible for the small companies' strategic report exemption as long as it itself is not an ineligible company. Micro-entities are also exempt from a requirement to prepare a strategic report.
2.	WE ARE A (NON-SMALL) SUBSIDIARY COMPANY/ INTERMEDIATE HOLDING COMPANY THAT IS INCLUDED IN THE CONSOLIDATED ACCOUNTS OF OUR PARENT. GIVEN THAT OUR PARENT IS PREPARING A STRATEGIC REPORT, MUST WE PREPARE ONE TOO?	**Yes.** All companies that are not eligible to take the small companies' exemption must prepare a strategic report which complies with the law. It is not possible to rely on a reference to information outside of a company's annual report (eg: by cross-reference to the strategic report of a parent) in order to comply with the strategic report requirements. Similarly, it would not generally be possible to use the same strategic report wording in multiple group companies as the information will rarely be appropriate for the facts and circumstances of the individual company in question (eg: the principal risks of a non-trading 'Debtco' are likely to be different to those of a trading company located elsewhere in the group).
3.	DOES A PARENT COMPANY NEED TO PREPARE A STRATEGIC REPORT FOR ITSELF AS WELL AS THE GROUP?	Not if it prepares consolidated accounts. Where a parent company prepares group accounts, the strategic report should include information relevant to the group as a single entity, taking into consideration all of the undertakings included in the consolidation. Transactions and events in the parent company, or any individual subsidiary, need only be discussed if they are material to the group as a whole. If the parent does not prepare consolidated accounts, the strategic report need only refer to matters in other group companies to the extent that they affect the parent as an individual company.
4.	ARE CHARITABLE COMPANIES REQUIRED TO PREPARE A STRATEGIC REPORT?	**Yes.** Charitable companies must comply with the strategic report requirements like any other company.
5.	IS AN LLP REQUIRED TO PREPARE A STRATEGIC REPORT?	**No.** There is no statutory requirement for an LLP to prepare a strategic report. In addition, the LLP SORP includes no similar disclosure requirements in respect of the members' report.

STRUCTURE OF THE ANNUAL REPORT AND THE STRATEGIC REPORT

6.

WHAT COMES FIRST IN THE ANNUAL REPORT, THE DIRECTORS' REPORT OR THE STRATEGIC REPORT?

Nothing in the Companies Act 2006 (the Act), accounting standards or other regulations mandates an order in which the different parts of the annual report should be presented. However, as the strategic report is intended to include the information necessary for an understanding of the development, performance and position of the business, and of the principal risks it faces, it would generally be appropriate to present it at the front of the annual report. The FRC's Guidance on the Strategic Report suggests that the directors' report could be positioned at the back of the annual report on the basis that it comprises generally more granular information which is not considered by the directors to be of strategic importance to the business.

7.

CAN THE STRATEGIC REPORT BE INCLUDED AS PART OF THE DIRECTORS' REPORT?

No. The strategic report is a separate report from the directors' report.

8.

CAN WE CALL THE STRATEGIC REPORT SOMETHING ELSE (EG: THE STRATEGIC REVIEW)?

No. Section 414A of the Act requires the directors to 'prepare a strategic report'. There is no provision that allows an alternative name to be given to this part of the annual report.

9.

SHOULD THE CHAIRMAN'S STATEMENT, CEO'S STATEMENT, FINANCIAL REVIEW/CFO'S REPORT, ETC BE INCLUDED IN THE STRATEGIC REPORT?

If information contained in these sections of the annual report is necessary to meet the strategic report disclosure requirements, they should be included in the strategic report. Conversely, if the information is not required to meet the strategic report disclosure requirements, they need not be included in the strategic report. In this latter case, directors should consider whether it is appropriate to include these sections in the annual report at all.

Although such sections are commonly included in an annual report, there is no legal or regulatory requirement to present a CEO's statement, a financial review/CFO's report or any other section written by/attributed to individuals. Similarly, although the UK Corporate Governance Code encourages chairmen to report personally on how the principles relating to the role and effectiveness of the board have been applied, there is no requirement to present a broader chairman's statement. The strategic report may, however, include different subsections if that is the best way to communicate the required information concisely and clearly.

10.

WHEN DRAFTING THE STRATEGIC REPORT, MUST WE USE THE HEADINGS IN THE COMPANIES ACT 2006 (THE ACT) (EG: BUSINESS REVIEW, PRINCIPAL RISKS AND UNCERTAINTIES, KEY PERFORMANCE INDICATORS, ETC) OR CAN WE DEVIATE FROM THEM?

The Act sets out the information that should be contained in the strategic report, not how it should be structured or presented. The strategic report should be written in the way that most effectively communicates the important aspects of information being disclosed, including relative importance and inter-dependencies. Whilst this will sometimes be achieved through discrete sections and subheadings, often it will not. The FRC's Guidance on the Strategic Report provides guidance not only on the required content of a strategic report but also on the way in which it might be written.

11. CAN THE STRATEGIC REPORT BE A LIST OF CROSS-REFERENCES TO OTHER PARTS OF THE ANNUAL REPORT RATHER THAN A SINGLE DISCRETE REPORT?

When the requirements were drafted, it was envisaged that the strategic report would be a single discrete report, perhaps with a small amount of cross-referencing where directors feel it appropriate to present a specific disclosure with other related information that is included in a different section of the annual report (eg: a quoted company may choose to fulfil the quantitative gender diversity disclosure requirement by cross-reference to a table in the boardroom diversity information in the nominations committee section of its corporate governance statement).

Where the chosen structure of the annual report results in the strategic report disclosures being dispersed more widely, the directors would need to develop a mechanism to enable them to show what is and is not considered part of the strategic report (eg: clear, specific cross-referencing) and a way to enable them to meet the requirement to sign the strategic report (See FAQ 38).

CONTENT OF THE STRATEGIC REPORT – GENERAL

12. WHAT INFORMATION MUST A STRATEGIC REPORT INCLUDE?

All strategic reports must include:

- A fair review of the company's business; and
- A description of the principal risks and uncertainties facing the company.

The review of the business must be a balanced and comprehensive analysis of the development and performance of the company's business during the financial year, and the position of the company's business at the end of that year. The review must be consistent with the size and complexity of the business.

To the extent necessary for an understanding of the development, performance or position of the company's business, the review should include analysis using financial key performance indicators.

Where appropriate the review should include references to, and additional explanations of, amounts included in the company's annual accounts.

Note, there are additional requirements for large companies (See FAQ 20), quoted companies (See FAQ 23) and large public interest companies with more than 500 employees (See FAQ 28).

13. DO WE NEED TO DISCLOSE THE COMPANY'S PRINCIPAL ACTIVITY?

Only quoted companies and companies falling within the scope of the non-financial reporting requirements are explicitly required to describe their business model in their strategic report (See FAQs 23 and 28).

In practice, however, it is difficult to envisage how a company could adequately meet the strategic report disclosure requirements described in FAQ 12 without also providing some description of what the business does and why.

It should also be noted that, for companies reporting under International Financial Reporting Standards (IFRSs), IAS 1 requires "a description of the nature of the entity's operations and its principal activities" in the financial statements if it is not disclosed elsewhere in the annual report.

14. CAN WE INCLUDE THE PRINCIPAL RISKS IN THE DIRECTORS' REPORT RATHER THAN THE STRATEGIC REPORT?

No. Principal risks are a required disclosure for the strategic report. Whilst there is an option to 'up-grade' disclosures from the directors' report to the strategic report (See FAQ 51), there is no similar option to 'down-grade' strategic report disclosures to the directors' report.

15. WE HAVE INCLUDED A SECTION IN OUR STRATEGIC REPORT WHICH LISTS OUR KEY PERFORMANCE INDICATORS, IS THIS SUFFICIENT TO COVER THE REQUIREMENTS?

No. The Act requires, to the extent necessary for an understanding of the development, performance or position of the business, analysis using Key Performance Indicators (KPIs). Simply identifying KPIs does not constitute analysis. In order to properly comply with this requirement, the KPIs should generally be embedded into the discussion of the development, performance and position of the company and may also be included in the description of the principal risk and uncertainties.

16. LARGE COMPANIES ARE REQUIRED, IN SOME CIRCUMSTANCES, TO MAKE REFERENCE TO NON-FINANCIAL KEY PERFORMANCE INDICATORS (SEE FAQ 20). GIVEN THAT WE ARE A MEDIUM-SIZED COMPANY, CAN WE AVOID DISCLOSING THESE NON-FINANCIAL PERFORMANCE MEASURES?

Yes. There is no requirement for a medium-sized company to include analysis using non-financial KPIs. However, in cases where a matter to which a non-financial KPI relates has materially affected the company's development, performance or position, directors will need to consider how they can meet the disclosure requirements described in FAQ 12 without making explicit reference to those non-financial KPIs.

17. QUOTED COMPANIES AND LARGE PUBLIC INTEREST ENTITIES (LARGE PIES) ARE REQUIRED TO INCLUDE SOME ADDITIONAL INFORMATION ON SUBJECTS LIKE HUMAN RIGHTS AND THE ENVIRONMENT (SEE FAQ 23 AND FAQ 28). GIVEN THAT WE ARE NOT ONE OF THOSE COMPANIES, CAN WE AVOID TOUCHING ON THOSE SUBJECTS IN OUR STRATEGIC REPORT?

To an extent, perhaps. There is no explicit requirement for a non-quoted company or non-large PIE to include information on subjects such as, employee or social and human rights matters in the strategic report. However, in cases where such matters have had a material effect on the company's development, performance or position, or where the company is facing principal risks or uncertainties relating to them, non-quoted, non-large PIE companies will need to make reference to these matters when meeting the disclosure requirements described in FAQ 12.

Note that companies with over 250 employees are required to include some disclosures in respect of their employment policies in their directors' report.

18. CAN WE INCLUDE A HIGH LEVEL SUMMARY OF BUSINESS PERFORMANCE AND STRATEGY IN THE STRATEGIC REPORT AND MORE DETAIL SOMEWHERE ELSE IN THE ANNUAL REPORT (EG: IN A BUSINESS REVIEW SECTION OF THE DIRECTORS REPORT)?

No. All of the information that is required to meet the strategic report disclosure requirements that apply to the company must be included in the strategic report, either directly or by clear and specific cross-reference. A strategic report cannot be just a summary of the information that is required by the Act.

Whilst it is acceptable to include information that is over and above that needed to comply with the strategic report requirements in the annual report, directors should consider whether the inclusion of that information is necessary (eg: to comply with another law or regulation or because it is commercially desirable) or whether it could be disclosed elsewhere, such as on the company's website.

19. WHAT IS THE 'SAFE HARBOUR' CLAUSE?

Section 463 of the Act provides directors with a degree of certainty regarding their liability for statements made in specified parts of the annual report and, as such, it is considered a valuable protection for them. It states that a director is liable to compensate the company if it suffers any loss as the result of any untrue or misleading statement in (or any omission from) the directors' report, the directors' remuneration report or the strategic report. It also states that, except in respect of liability for civil penalty (eg: market abuse) or criminal offence, the director can be liable to the company and no one else and that he will only be liable if he knew the statement was (or if he was reckless as to whether it was) untrue or misleading or if he knew the omission was a dishonest concealment of a material fact. This protection is sometimes known as 'safe harbour'.

In order to benefit from this protection, it is generally accepted that directors should ensure that information is included within one of the three specified reports, either directly or via a specific cross-reference.

As the exact scope and extent of the protection (including whether it extends to information included in a report on a voluntary basis) has not been tested in court, directors may wish seek appropriate legal advice in order to clarify their own specific position.

CONTENT OF THE STRATEGIC REPORT – LARGE COMPANIES

20. WHAT ADDITIONAL STRATEGIC REPORT DISCLOSURE REQUIREMENTS ARE THERE FOR LARGE COMPANIES?

In addition to the general strategic report requirements described in FAQ 12, and subject to the applicability of the large PIE strategic report requirements described below (FAQ 21), large companies must also, to the extent necessary for an understanding of the company's development, performance or position, include analysis using non-financial KPIs.

21. IN FAQ 20 ABOVE, YOU SAY SUBJECT TO THE APPLICABILITY OF THE LARGE PIE STRATEGIC REPORT REQUIREMENTS. WHAT DO YOU MEAN?

Where the company is both a Public Interest Entity with more than 500 employees (a Large PIE) and a large company, the legislation exempts the company from the non-financial KPI requirement (See FAQ 30).

CONTENT OF THE STRATEGIC REPORT – QUOTED COMPANIES

22. QUOTED COMPANIES MUST MEET SEVERAL ADDITIONAL DISCLOSURE REQUIREMENTS. WHAT IS A QUOTED COMPANY?

The term 'quoted company' is defined in s385 of the Act as one whose equity share capital:

- Has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000, or
- Is officially listed in an EEA State, or
- Is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.

The term 'company' here refers to a UK-incorporated company.

An AIM-listed company is not a quoted company.

23. WHAT ADDITIONAL STRATEGIC REPORT DISCLOSURE REQUIREMENTS ARE THERE FOR QUOTED COMPANIES?

In addition to the general (FAQ 12) and large-company (FAQ 20) strategic report requirements described above, and subject to the applicability of the large PIE strategic report exemptions described below (FAQ 30), the strategic report of a quoted company must also include:

- A description of their strategy and business model
- To the extent necessary for an understanding of the company's development, performance or position, information on the main trends and factors likely to affect the future development, performance and position of the company's business
- To the extent necessary for an understanding of the company's development, performance or position, information on employee, environmental and social, community and human rights matters
- A breakdown of employee numbers by gender, analysed into the three specified categories of: Directors of the company, senior managers (as defined) and other employees.

The description of employee, environmental and social, community and human rights matters should include information of the company's policies on those matters and the effectiveness of those policies.

If the strategic report does not contain information on employee, environmental or social, community and human rights matters (because, for example, they are not considered necessary for an understanding of the company's development, performance or position) it must state which of those kinds of information it does not contain.

24. IN FAQ 23 ABOVE, YOU SAY SUBJECT TO THE APPLICABILITY OF THE LARGE PIE STRATEGIC REPORT REQUIREMENTS. WHAT DO YOU MEAN?

There is significant overlap between the requirements for quoted companies and the requirements for Public Interest Entities with more than 500 employees (Large PIEs). In consequence, where the company is both a Large PIE and a quoted company, the legislation exempts the company from certain of the quoted company requirements (See FAQ 30).

25. IN THE GENDER DIVERSITY DISCLOSURES, IS THE TERM 'SENIOR MANAGER' DEFINED?

Yes. Section 414C(9) defines the term 'senior manager' as an employee who has responsibility for planning, directing or controlling the group's activities, or a strategically significant part of the group. Counter-intuitively, for group accounts, it also includes any employee who is a director of any subsidiary company included within the consolidation. This would be the case irrespective of how important the subsidiary is in the context of the wider group.

CONTENT OF THE STRATEGIC REPORT – LARGE PUBLIC INTEREST ENTITIES

26. LARGE PUBLIC INTEREST ENTITIES MUST MEET SEVERAL ADDITIONAL DISCLOSURE REQUIREMENTS. WHAT IS A LARGE PUBLIC INTEREST ENTITY?

The term 'public interest entity' (PIE) is defined within company law as a company that, at any time during the year, was:

- A traded company
- A banking company
- An authorised insurance company
- A company carrying on insurance market activity.

A 'traded' company is defined as a company, any of whose transferable securities (ie: debt or equity) are admitted to trading on an EU-regulated market.

In the context of the strategic report requirements, a Large PIE is one that has in excess of 500 employees.

27. THE DEFINITION OF A LARGE PIE INCLUDES REFERENCE TO 500 EMPLOYEES. WHAT IS AN EMPLOYEE IN THIS CONTEXT?

Section 414CA(5) defines employees as the average number of people employed by the company (or in the case of a parent company, the group it heads). This is calculated by aggregating the number of persons employed under a contract of service employment during each month of the reporting period and dividing that number by the number of months in the reporting period.

The calculation is focussed on the absolute number of employees, not full time equivalents, employed by the global group headed by the company.

28. WHAT ADDITIONAL STRATEGIC REPORT DISCLOSURE REQUIREMENTS ARE THERE FOR A LARGE PIE?

In addition to the general (FAQ 12) and some of the quoted company (FAQ 23) strategic report requirements, described above, the strategic report of a Large PIE must also include, to the extent necessary for an understanding of the company's development, performance, and position and the impact of its activity, relating to, as a minimum:

- Environmental matters (including the impact of the company's business on the environment)
- The company's employees
- Social matters
- Respect for human rights
- Anti-corruption and anti-bribery matters.

The information must include:

- A description of the policies pursued by the company in relation to the matters mentioned above, any due diligence processes implemented by the company in pursuance of those policies and the outcome of those policies.
- A description of the principal risks relating to the matters above arising in connection with the company's operations and, where relevant and proportionate:
  - A description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk
  - A description of how it manages the principal risks
  - A description of the non-financial key performance indicators relevant to the company's business.

If the company does not pursue policies in relation to one or more of the matters noted above, a clear and reasoned explanation for not doing so must be disclosed.

The Large PIE must also include a description of the company's business model and a description of the non-financial key performance indicators (KPIs) relevant to the company's business.

29. THE DISCLOSURES REQUIRED FOR A LARGE PIE SEEM ALMOST IDENTICAL TO THOSE REQUIRED FOR A QUOTED COMPANY. WHAT ARE THE MAIN DIFFERENCES?

There are several subtle differences between the quoted company requirements and the Large PIE requirements, these include:

- **Impact –** For the Large PIE disclosures, information is required to the extent necessary for an understanding of the company's development, performance, and position and the impact of its activity (See FAQ 31).
- **Matters on which to report –** Large PIEs are required to disclose information relating to anti-bribery and anti-corruption in addition to the matters listed for consideration by Quoted companies. Community matters, however, are not explicitly included in the matters caught by the Large PIE requirements.
- **Principal risks –** Large PIEs must provide enhanced disclosures regarding the principal risks relating to the areas specified in the legislation, including disclosure of business relationships, products and services which are likely to cause adverse impacts on those areas of risk, different disclosures relating to policies relating to those risks and, information on due diligence arrangements relating to those risks.
- **KPIs –** A Large PIE must also include a description of the KPIs related to the areas specified in the legislation.

30. THE DISCLOSURES REQUIRED FOR A LARGE PIE SEEM ALMOST IDENTICAL TO THOSE REQUIRED FOR A QUOTED COMPANY. ARE THERE ANY EXEMPTIONS AVAILABLE?

Yes. Where a Large PIE is also a Quoted company, it may take an exemption certain disclosure requirements that would otherwise apply, including:

- Analysis using non-financial KPIs (s414C(4)(b))
- Information on trends and factors (s414C(7)(a))
- Information on specified matters, except that related to community matters (s414C(7)(b))

31. WHAT IS MEANT BY THE 'IMPACT' OF A COMPANY'S ACTIVITY?

The impact of a company's activities is the effect that it has externally; the impact on the outside world. It is anticipated that the requirement to provide information on the impact of the company's activities will help boards to think more broadly about the consequential effects that those impacts could have on the long term success of the company and that this broader thinking could result in the identification of more risks. It is important to note, however, that the strategic report remains a report for shareholders, rather than to a broader group of stakeholders. However, in providing information that is material to shareholders, information may also be useful to other stakeholders.

32. IS THE NON-FINANCIAL INFORMATION STATEMENT REQUIRED TO BE A SEPARATE SECTION HEADED UP 'NON-FINANCIAL INFORMATION STATEMENT' EITHER OUTSIDE OR WITHIN THE STRATEGIC REPORT?

Whist some may read the legislation to suggest that a separate section of the strategic report is required for the Large PIE disclosures, the FRC's current position is that the disclosures required do not have to be either a discrete element within the strategic report or a separate statement. The FRC also indicate that it would encourage companies to consider how this information relates to other information in the strategic report and integrate it appropriately.

IMPLICATIONS FOR SMALL COMPANIES

33. WE ARE A SMALL COMPANY, DO WE NEED TO PREPARE A STRATEGIC REPORT?

No. Small companies (and those that would be small were they not part of an ineligible group) are not required to prepare a strategic report.

34. WE ARE AN INTERMEDIATE HOLDING COMPANY THAT HAS NO EMPLOYEES AND NO TURNOVER, CAN WE TAKE THE SMALL COMPANIES' STRATEGIC REPORT EXEMPTION?

A parent company can only qualify as small if the group headed by it also meets the qualification (size) conditions set out in s383 of the Act. Whether or not the parent prepares consolidated accounts is irrelevant for this purpose. A company that qualifies as small but which is excluded from the small companies regime by virtue of it being part of an ineligible group (as defined in s384 of the Act) will still be eligible for the small companies' strategic report exemption as long as it itself is not an ineligible company. FAQ 2 is also relevant.

35.	WE ARE A SMALL COMPANY, DO WE NEED TO DISCLOSE THE FACT THAT WE HAVE TAKEN THE EXEMPTION FROM PREPARING A STRATEGIC REPORT?	**No.** There is no need to disclose that the small companies' strategic report exemption has been taken.
36.	WE ARE A SMALL COMPANY, DO WE STILL NEED A DIRECTORS' REPORT?	**Yes.** Whilst there is a small company exemption for the strategic report, there is no small company exemption from preparing a directors' report. Other than the removal of some disclosure requirements, there are no other changes to the Act's requirements in respect of the directors' report of small companies.
37.	WE ARE A SMALL COMPANY THAT HAS TAKEN THE STRATEGIC REPORT EXEMPTION, DO WE NEED TO DISCLOSE OUR PRINCIPAL ACTIVITY?	As noted in FAQ 13, the requirement to disclose a company's principal activity has been removed for all companies not reporting under IFRSs. However, a brief description of what the company does would be considered best practice. For a company that does not prepare a strategic report, this disclosure would normally be included in the directors' report.

SIGNING THE STRATEGIC REPORT

38.	DOES THE STRATEGIC REPORT NEED SIGNING?	**Yes.** Like the directors' report, the strategic report needs to be approved by the board and signed on its behalf by a director or the company secretary.
39.	IS IT OK IF THE CEO SIGNS THE STRATEGIC REPORT?	**Yes.** The strategic report can be signed by any current director or by the company secretary. However, the signature block must make clear that the strategic report has been approved by the board and signed on its behalf by whoever signs it.
40.	DOES THE PERSON WHO SIGNS THE DIRECTORS' REPORT ALSO HAVE TO SIGN THE STRATEGIC REPORT?	**No.** The two reports may be signed by different people, as long as they are either a current director or the company secretary signing on behalf of the board.
41.	DOES IT MATTER WHERE THE SIGNATURE IS LOCATED?	**No.** However, to the extent that the strategic report is not 'topped and tailed' by a title and a signature, it is important that its boundaries, and thus information that the explicit board approval covers, is made clear in some other way (eg: through a clear contents page).

AUDIT REPORT, DIRECTORS' RESPONSIBILITIES AND REGULATOR POWERS

42.	WHAT ARE THE AUDITOR'S RESPONSIBILITIES REGARDING THE STRATEGIC REPORT?	The Act requires the auditor to state in his report whether the strategic report is consistent with the financial statements and that it has been prepared in accordance with the applicable legal requirements. This is the same statutory reporting responsibility as that which applies to the directors' report.
43.	DO THE STRATEGIC REPORT REQUIREMENTS AFFECT THE AUDIT REPORT OF LARGE AND MEDIUM-SIZED COMPANIES?	**Yes.** The strategic report must be included in the "Opinion on other matters prescribed by the Companies Act 2006" paragraph as follows: "In our opinion the information given in the strategic report and directors' report for the financial year...".

44. DO THE STRATEGIC REPORT REQUIREMENTS AFFECT THE AUDIT REPORT OF SMALL COMPANIES?

Yes. Where a small company takes advantage of the small companies' exemption from preparing the strategic report, an additional bullet point must be included in the "Matters on which we are required to report by exception" paragraph as follows: "The directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report" (ie: the auditors would have to modify their audit report if the exemption had been inappropriately applied).

Where a small company includes a strategic report in its annual report voluntarily, the wording in the "Opinion on other matters prescribed by the Companies Act 2006" paragraph should be amended as set out in FAQ 43.

45. DO THE STRATEGIC REPORT REQUIREMENTS AFFECT THE DIRECTORS' STATEMENT OF RESPONSIBILITIES?

Potentially. Where a strategic report is included in the annual report, a reference to it should be added to the opening paragraph of the statement of responsibilities if the statement refers to the directors' report rather than to the annual report: "The directors are responsible for preparing the [directors' report and strategic report/annual report] and the financial statements in accordance with applicable law and regulations".

46. DOES THE STRATEGIC REPORT FALL WITHIN THE FINANCIAL REPORTING COUNCIL'S (FRC) CONDUCT COMMITTEE'S REVIEW POWERS?

Yes. The FRC's Conduct Committee is responsible for enforcing compliance with these requirements and undertakes this work through its Corporate Reporting Review team (CRRT). The strategic report has been one of the CRRT's focus areas for some time.

FILING THE STRATEGIC REPORT AT COMPANIES HOUSE

47. DOES THE STRATEGIC REPORT NEED TO BE SUBMITTED TO COMPANIES HOUSE?

A small company is not required to prepare a strategic report so need not include one in its Companies House filings, even if it prepares one voluntarily.

THE DIRECTORS' REPORT

48. WE ARE A LARGE/MEDIUM-SIZED COMPANY, DO WE NEED A DIRECTORS' REPORT?

Yes. A directors' report and a strategic report are required for all companies that do not qualify for the small companies' exemptions.

49. ARE WE REQUIRED TO INCLUDE A BUSINESS REVIEW IN THE DIRECTORS' REPORT?

No. A business review is not a required component of the directors' report.

50. DO WE NEED TO CROSS-REFER TO THE STRATEGIC REPORT FROM THE DIRECTORS' REPORT?

There is no need to include a general cross-reference to the strategic report in the directors' report. However, when the option to 'up-grade' directors' report disclosures to the strategic report is taken (See FAQ 51), the directors' report needs to include a statement identifying the disclosures that have been treated in this way.

51. THERE IS STILL A DIRECTORS' REPORT REQUIREMENT TO DISCLOSE AN INDICATION OF R&D ACTIVITIES, IF WE INCLUDE THAT IN THE STRATEGIC REPORT (EG: BECAUSE IT IS A STRATEGICALLY SIGNIFICANT PART OF OUR BUSINESS), DO WE HAVE TO DUPLICATE THE INFORMATION IN THE DIRECTORS' REPORT?

No. The Act allows for the 'up-grade' of directors' report disclosures to the strategic report. When this option is taken, the directors' report needs to include a statement identifying the disclosers that have been treated in this way.

In addition to an indication of activities in the field of research and development, other directors' report disclosure requirements that might be covered in the strategic report could typically include (but may not be limited to):

- Details of post balance sheet events
- An indication of likely future developments in the business.

52. WHAT ARE THE GREENHOUSE GAS DISCLOSURES THAT QUOTED COMPANIES MUST PROVIDE?

Quoted companies are required to disclose in their directors' report:

- The annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which that company is responsible, including the combustion of fuel and the operation of any facility; and
- The annual quantity of emissions in tonnes of carbon dioxide equivalent resulting from the purchase of electricity, heat, steam or cooling by the company for its own use.

The above is required only to the extent that it is practicable for the company to obtain the information in question but, where it is not practicable for the company to obtain some or all of that information, the report must state what information is not included and why.

The directors' report should also disclose:

- The period for which it is reporting the information above, if is different to the period in respect of which the directors' report is prepared;
- The methodologies used to calculate the information above; and
- At least one ratio which expresses the company's annual emissions in relation to a quantifiable factor associated with the company's activities ('intensity ratio').

Comparative information is required except in the first year that the directors' report contains the information required above.

STAND-ALONE STRATEGIC REPORT WITH SUPPLEMENTARY MATERIAL

53. IF WE OPT TO SEND THE STAND-ALONE STRATEGIC REPORT WITH SUPPLEMENTARY MATERIAL TO SHAREHOLDERS INSTEAD OF THE ANNUAL REPORT, MUST WE STILL INCLUDE SUMMARISED FINANCIAL STATEMENTS IN THE PACK?

No. No formal financial information need be sent with the Stand-alone Strategic Report with Supplementary Material. However, a company may elect to voluntarily include such information in the pack if it wishes.

54. WHAT IS THE SUPPLEMENTARY INFORMATION THAT WE MUST SEND WITH THE STRATEGIC REPORT IF WE TAKE THIS OPTION?

The supplementary material includes:

- a statement that the strategic report is only part of the company's annual accounts and reports
- how a person entitled to them can obtain a full copy of the company's annual accounts and reports
- a statement as to whether the auditor's report on the annual accounts was unqualified or qualified and, if it was qualified, set the report out in full together with any further material needed to understand the qualification
- a statement whether the auditor's statement under s496 of the Act (whether strategic report and directors' report consistent with the accounts) was unqualified or qualified and, if it was qualified, set out the qualification statement in full together with any further material needed to understand the qualification
- in the case of a quoted company, a copy of that part of the directors' remuneration report which sets out the single total figure table in respect of the company's directors'.

55. WHAT ARE THE AUDITORS' RESPONSIBILITIES REGARDING THE STAND-ALONE STRATEGIC REPORT WITH SUPPLEMENTARY MATERIAL?

The Act does not require a statement by the company's auditor to be included with the Stand-alone Strategic Report and Supplementary Material. This is a change from the requirements that applied to the summary financial statements.

56. IS THERE AN ALTERNATIVE TO THE OPTION TO SEND THE STAND-ALONE STRATEGIC REPORT WITH SUPPLEMENTARY MATERIAL TO SHAREHOLDERS INSTEAD OF THE ANNUAL REPORT?

A non-statutory approach may be considered as an alternative to the statutory option to send the Stand-alone Strategic Report with Supplementary Material to shareholders instead of the annual report. This approach could allow a company to send more highly tailored information to different subsets of shareholder than is allowed under the statutory option. Where this non-statutory approach is taken, however, shareholders must also be sent one of the statutory reports (ie: either the Stand-alone Strategic Report with Supplementary Material or the full annual report). In certain circumstances, the statutory report can be sent to members electronically (eg: on a CD or DVD, by e-mail or through a link to the company's website) rather than in hard copy form.

ADDITIONAL GUIDANCE

57.

IS THERE ANY ADDITIONAL GUIDANCE ON THE CONTENT AND STYLE OF THE STRATEGIC REPORT?

Yes. The Financial Reporting Council (FRC) has produced guidance on the application of the strategic report requirements.

BDO has also prepared a practical guide which highlights some of the questions that directors should ask when gathering the information for the strategic report and seeks to help identify some of the linkages that may exist between the statutory disclosure requirements.

58.

IS THERE ANY MORE GUIDANCE ON THE GREENHOUSE GAS EMISSIONS DISCLOSURES REQUIRED IN THE DIRECTORS' REPORT OF QUOTED COMPANIES?

Yes. The Department for Environment, Food and Rural Affairs (DEFRA) has published guidance on the application of the greenhouse gas disclosure requirements.

FUTURE DEVELOPMENTS

59.

ARE WE EXPECTING THESE REQUIREMENTS TO CHANGE AGAIN SOON?

The strategic report, and narrative reporting more generally, is a subject of significant focus for politicians and regulators alike. In consequence, the relevant requirements and views on best practice evolve over time. At the current time, there are proposals to enhance the statutory requirements for the strategic report to better emphasise the importance of reporting on how directors have performed their duties as set out in s172 of the Companies Act (Duty to promote the success of the company), and particular in respect of the duty to have regard to certain wider stakeholders matters.

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