Financial Reporting Council

FRC UK, 2017b

ANNUAL REVIEW OF CORPORATE REPORTING 2016/2017

OCTOBER 2017

CHARACTERISTICS OF GOOD CORPORATE REPORTING

A Good Annual Report and Accounts:

Beyond basic compliance with the fundamental requirements of the law and accounting standards and the need for complete and accurate publication of accounting information, there are characteristics of corporate reporting which we believe make for a good annual report.

1 *A Single Story*

The narrative in the front end is consistent with the back end accounting information; significant points in the financial statements are explained in the narrative reports so that there are no surprises hidden in the accounts.

2 *How the Money is Made*

The strategic report gives a clear and balanced account which includes an explanation of the company's business model and the salient features of the company's performance and position, good and bad.

3 *What Worries the Board*

The risks and uncertainties described in the strategic report are genuinely the principal risks and uncertainties that concern the Board. The descriptions are sufficiently specific that the reader can understand why they are important to the company. The report also describes the mitigating actions taken by the Board to manage the impact of its principal risks and uncertainties. The links to accounting estimates and judgements are clear.

4 *Consistency*

Highlighted or adjusted figures, key performance indicators (KPIs) and non-GAAP measures referred to in the strategic report are clearly reconciled to the relevant amounts in the accounts and any adjustments are clearly explained, together with the reasons why they are being made.

5 *Cut the Clutter*

Important messages, policies and transactions are highlighted and supported with relevant context and are not obscured by immaterial detail. Cross-referencing and signposting is used effectively; repetition is avoided.

6 *Clarity*

The language used is precise and explains complex accounting and reporting issues clearly; jargon and boiler-plate text are avoided.

7 *Summarise*

Items are reported at an appropriate level of aggregation and tables of reconciliation are supported by, and consistent with, the accompanying narrative.

8 *Explain Change*

Significant changes from the prior period, whether matters of policy or presentation, are properly explained.

9 *True and Fair*

The spirit as well as the letter of accounting standards is followed. A true and fair view is a requirement of both UK and EU law and applies equally to accounts prepared in accordance with UK GAAP and IFRS.

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Strategic Reports

There are few items of required content for the strategic report. They provide an opportunity for boards to present a single, coherent narrative which explains a company's performance. The strategic report continues to be one of the areas which is most frequently the subject of challenge in the course of our reviews. Companies can expect to be questioned and encouraged to improve where the report is lacking in balance.

Our reviews commonly identified reports where it appeared that not all key aspects of performance had been considered. Changes in performance measures were sometimes reported, for example changes in KPIs, but not the reasons for the changes or their impact. Most questions were prompted by a lack of clarity where disclosures were not sufficiently specific or descriptions were vague.

Our thematic review of the use of APMs found that most companies, all of whom had been pre-informed of the review, had enhanced the quality and consistency with which performance was reported.

Our monitoring of how companies are dealing with the effects of the EU referendum, found that the majority of companies reviewed reported on the continuing uncertainties. A consistent theme was that it was too early to measure the longer term effects of the decision and how business strategies would be impacted. However, many are beginning to identify in more detail, the specific nature of the likely risks.

External reviews of annual reports and accounts have found a slight improvement in the quality of narrative reporting particularly around risk reporting.[1] The introduction of viability statements in the 2014 UK Corporate Governance Code ("the Code") has brought a greater focus on risk management at board level which has contributed to this improvement.

The FRC's Financial Reporting Lab ("the Lab") is currently carrying out a project on risk and viability reporting to provide practical guidance for companies on ways to further improve reporting in this area. The Lab's report, which will be published later this year, is expected to conclude that, whilst investors recognise improvements in risk reporting, viability statements could be enhanced to show more clearly how companies have assessed their prospects and viability.

Much of the commentary around viability reporting has focused on the period over which the directors have chosen to make their statement. In the majority of cases this has been three years. The period selected is often chosen as it reflects a company's medium term business plan. However, the FRC's *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* suggests that other factors should be taken into account, for example investment and planning periods, the board's stewardship responsibilities, the nature of the business, its stage of development and previous statements made, especially in raising capital. Industries such as mining and property investment companies typically have longer term investment strategies and funding arrangements. Investors are calling for greater differentiation of the time periods used by different companies and sectors.

We encourage companies to consider developing their viability statements in two stages – firstly, to consider and report on the prospects of the company taking into account its current position and principal risks, and secondly to state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The Lab's project has identified some examples of good practice following

They provide an opportunity for boards to present a single coherent narrative which explains a company's performance

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[1] PwC Accountability in changing times August 2017; EY Annual Reporting in 2016/17.

Other Developments

The FRC is aware of concerns regarding a lack of trust in big business and that companies need to take account of wider stakeholder interests and has responded by:

- updating its mission to take account of the evolving demands on the framework for corporate governance and reporting;
- issuing a consultation on an update to the Guidance on the Strategic Report; and
- undertaking a fundamental review of the Code, on which it will consult later in 2017.

At the same time, the corporate reporting environment is shifting and expectations of corporate reporting are rising. Two areas in particular have moved into the spotlight over the past year.

Firstly, the importance for the long-term success of the company of engagement with employees, customers, suppliers and other stakeholders. We believe that companies can be more transparent about these relationships, for example by explaining their strategy for engaging with their various stakeholders and for distributing the value they create amongst different groups of those stakeholders, such as in the form of dividends, pay and benefits, capital investment and tax.

Some companies are already featuring this in their reporting, not least as a result of companies reporting in a more integrated way, both through narrative reporting and through quantitative disclosures either in their strategic or remuneration reports. More companies are giving a flavour of their purpose and engagement with stakeholders while a handful refer explicitly to how they perform their duty under section 172[2] of the Act.

Figure1

UK Companies Act 2006, Section 172

1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

   a) the likely consequences of any decision in the long term,

   b) the interests of the company's employees,

   c) the need to foster the company's business relationships with suppliers, customers and others,

   d) the impact of the company's operations on the community and the environment,

   e) the desirability of the company maintaining a reputation for high standards of business conduct, and

   f) the need to act fairly as between members of the company.

Secondly, the need to communicate how a company generates and preserves value. Stakeholders want to understand how companies manage, sustain and develop those assets and other sources of value whether or not they are recognised under traditional accounting requirements. This is crucial for investment decisions. We believe that companies need to be transparent as to what they consider to be the key sources of value, how they are managed and how value is likely to be generated in the future.

The annual report and accounts continues to increase in size, mainly as a result of regulatory requirements imposed by government or regulators, including the FRC, namely remuneration reports, the inclusion of lists of subsidiaries and the extended auditor report. This presents a challenge for companies who must review carefully each year whether information in annual reports is material to shareholders and is presented clearly and concisely. Regulators, including the FRC, should ensure that the benefits of new requirements justify any downside such as additional length.

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[2] Refer to Figure 1

UK GAAP

In relation to UK GAAP, we are focused on (i) gathering evidence of implementation issues to provide a foundation for our first review of FRS 102; and (ii) revising FRS 102 for major changes to IFRS and to remove unnecessary complexity.

Evidence gathered by the ICAEW's Quality Assurance Directive (QAD) during its reviews of some of the first audits performed on FRS 102 financial statements shows that the transition to FRS 102 has created challenges for companies and their auditors, especially where their financial reporting resources were limited. These challenges are set out in more detail in section four.

IFRS

A number of new accounting standards will come into effect in 2018 and 2019 which will pose significant challenges to companies and could impact the quality of reporting in the short-term. Companies have started implementing IFRS 9 and IFRS 15. The FRC expects endorsement of IFRS 16 to be complete by the end of 2017. And, subject to endorsement, IFRS 17 *Insurance Contracts* will replace IFRS 4 from 1 January 2021.

Implications of Brexit for the UK's Accounting Framework

We are providing input to BEIS on the form and content of the post-Brexit accounting framework for the UK. The FRC's current view is that the UK accounting framework should continue to be based on IFRS, should have a UK process for endorsing new and amended IFRS issued by the IASB with the FRC as the endorsement body, and that any departure from standards issued by the IASB should only occur under strict and agreed criteria.

Guidance on the Strategic Report

Our recently published consultation on revised *Guidance on the Strategic Report* implements the requirements of the EU Non-financial Reporting Directive ("the NFR Directive"), and aims to strengthen both (i) the link between section 172 and the purpose of the strategic report; and (ii) the focus on non-financial information and long-term value. The revisions encourage better reporting through the use of qualitative and quantitative disclosures, in particular:

- how directors have considered the wider impact of their activities and discharged their section 172 responsibilities;
- how they generate value in the long-term; and
- how they develop and maintain intangible assets not recognised in the balance sheet under current reporting requirements.

The Government has indicated that it will amend secondary legislation to require all companies of significant size to explain how their directors comply with the requirements of section 172 as well as pay ratio reporting. The draft legislation will likely result in further changes to the strategic report requirements in due course. The Government also proposes strengthening reporting requirements on stakeholder engagement perhaps through more detailed guidance on the strategic report.

In the meantime, the changes we are currently proposing are aimed at encouraging companies to include content that goes beyond the law where information is material to the long-term success of the company. We will also consider how changes to the Code might support more meaningful reporting by companies on how they engage with different stakeholders.

We summarise key areas of focus for annual reports annually in a letter issued to companies in October. Our latest year-end advice letter to audit committee chairs issued in October 2017 can be found at Appendix A.

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The FRC's Monitoring Programme

The FRC's monitoring work focuses on those aspects of corporate reporting where we have delegated powers to monitor compliance with the law, principally the financial statements and strategic and directors' reports. Key areas not covered by our monitoring work include the corporate governance statement and the remuneration report.

Monitoring activities include reviews of annual and interim reports together with thematic reviews of particular topics. Monitoring seeks to identify areas of non-compliance and to drive improvements in the quality of corporate reporting more generally.

On 1 April 2017, we revised our Operating Procedures. This followed a review of the effectiveness of the procedures in 2015 and reflected comments obtained in a public consultation. These revisions also provided an opportunity to improve the clarity and readability of the Operating Procedures.

The main changes were around the process to be followed for higher profile and more complex cases and increased transparency around outcomes. Details of the changes are outlined in Appendix B.

During the year, as part of a European wide inspection programme, the FRC was subject to a review of its compliance with certain aspects of ESMA's guidelines on enforcement of financial information. A summary of ESMA's findings is included in Appendix C.

Thematic Reviews

Following the thematic review of tax disclosures reported on last year, we have conducted three further thematic reviews, namely: (i) the disclosure of significant accounting judgements and estimation uncertainty; (ii) pension disclosures; and (iii) the use of Alternative Performance Measures ("APMs"). Our summary findings are outlined below. The detailed findings will be published in separate reports in the fourth quarter of 2017. This report includes the findings from our focused reviews of companies' disclosures of the uncertainties relating to Brexit and the low interest rate environment and on certain new accounting standards.

Thematic reviews typically involve pre-informing a selection of companies that we will review a certain aspect of their next report and accounts. A large majority of the companies we approached in this way took the opportunity of improving the quality of the relevant disclosures in the knowledge that they would be reviewed. Our commitment to publishing extracts from the sample to illustrate 'what good can look like' provides other preparers with a benchmark against which they can assess their own disclosures. Pre-informing has proved to be an effective mechanism for changing behaviour and is likely to remain an important part of our monitoring programme.

The selection of topics for thematic reviews builds on our findings from previous years. Account is also taken of concerns expressed by investors and others. Thematic reviews facilitate further improvements through the publication of more detailed comments and recommendations on areas of particular focus.

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CRR findings on strategic reports

The strategic report continues to be one of the areas which is most frequently the subject of challenges. We continue to pursue better communication around performance, trends and the extent to which the report is sufficiently balanced and comprehensive.

Business Reviews

In considering whether a company's strategic report is fair, balanced and comprehensive,[12] we commonly challenged companies where it appeared that not all aspects of performance had been covered. Examples queried this year included strategic reports with little or no discussion of:

- a major source of revenue;
- a significant product line;
- brands that accounted for around 50% of revenue;
- significant variations in the profitability of certain segments;
- the extent to which unusually high levels of capital expenditure were expected to continue in the future; and
- the financial position and cash flow, such as changes in working capital.

Key Performance Indicators ("KPIs")

Where necessary to an understanding of the company's performance, the Act requires the review of the business to include analysis using KPIs. We expect that, where used, KPIs should be clearly described and explained and will raise questions with companies where this is not the case.

This should include the basis for, and information used in, the calculation and any changes in how KPIs are reported. We also questioned companies where changes to KPIs had been made but the reasons for this were not explained.

Principal Risks and Uncertainties ("PRUs")

We challenged companies where:

- the description of the PRUs was unclear or insufficiently detailed;
- the judgements made by the directors in determining the reported PRUs were unclear or omitted, such as risks relating to climate change in an energy company;
- only one PRU was disclosed; and
- it was unclear from the disclosures which risks the company considered to be principal.

Although not a requirement, there were good examples of explanations of why risks were considered to be principal or not.

Environmental Issues

In complying with the Act's requirement for the strategic report to be fair, balanced and comprehensive, we expect reference to be made to the impact of climate change where relevant for an understanding of the company's activities.

We challenged a number of energy companies where little or no reference to the possible impacts of environmental issues had been made and it was, therefore, unclear whether the strategic report was sufficiently comprehensive.

Dividends and Distributable Reserves

Whilst not directly related to a company's annual report, we draw attention to potential breaches of the Act requirements for the payment of dividends. The Act requires Interim Accounts to be filed prior to the payment of a dividend from profits arising subsequent to the last annual accounts.

This year, following the FRC's observations, a number of companies discussed this issue with their professional advisors in order to determine how best to resolve matters.

We challenged a number of energy companies where little or no reference to the possible impacts of environmental issues had been made.

[12] Companies Act 2006, paragraph 414C (2) and (3).

relevant for Strategy NZ report

One aspect of good business model reporting is the ability to be able to identify and articulate the nature of key relationships and dependencies. During 2016, the Lab carried out a project with WM Morrison Supermarkets plc ("Morrisons") to seek ways to enhance the way it disclosed its relationships with suppliers. This was an area of particular focus to investors following accounting issues identified at Tesco plc in 2014 and the FRC's subsequent press notice encouraging companies to consider disclosures around commercial income. The project looked at how Morrisons responded to the increased focus in this area and the case study report issued in January 2017 set out the changes the company made in its reporting in the face of an emergent industry issue.

Investors were positive about the consistency of reporting across Morrisons' annual report on this issue. The nature of the issues were set out in the CFO's report and the company's accounting policies. Their significance and magnitude were set out in the financial review and notes to the accounts and the controls and processes were set out in the Audit Committee report. Investors considered Morrisons' approach to be a good way of responding to an industry issue with appropriate transparency of reporting.

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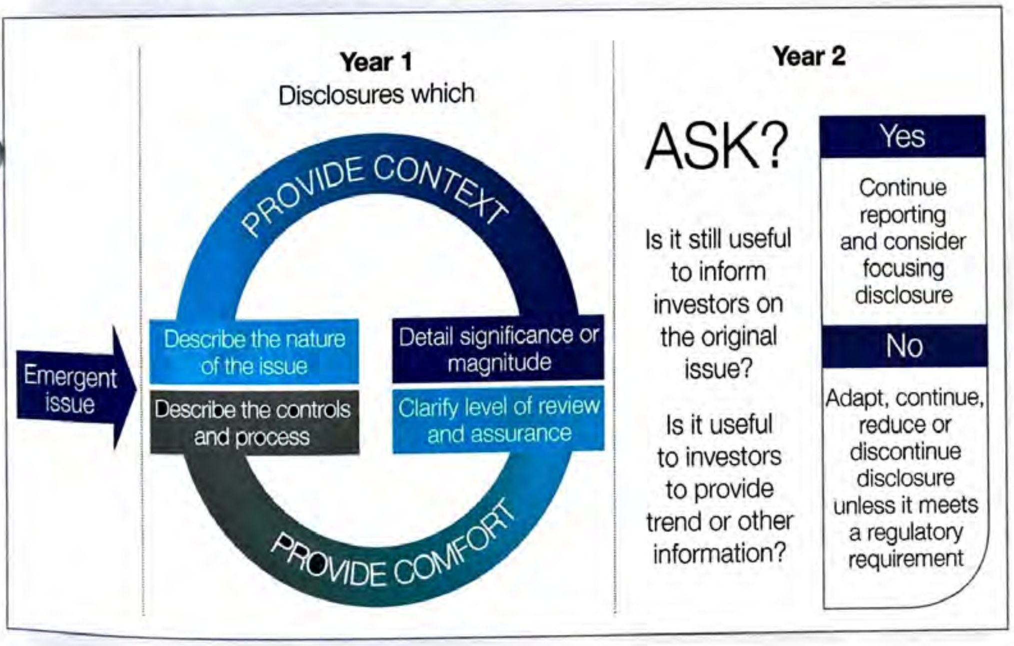
A Model for Reporting Emergent Issues



add this to Report 17 about APMs.

Strategic Reports - Thematic Reviews

Our monitoring of strategic reports was supplemented with thematic reviews on APMs and the effects of the EU referendum decision.

Alternative Performance Measures

APMs can provide valuable insight into a company and the extent to which its business model is successful and its objectives achieved. However, undue prominence given to APMs, such as adjusted profit, over the equivalent IFRS measures can call into question the balance of the strategic report.

The presentation of any APMs is therefore an important factor in the FRC's assessment of whether a company's strategic report meets the Act's requirement to be fair, balanced and comprehensive.[13]

The European Securities and Markets Authority's Guidelines on Alternative Performance Measures [14] ("the ESMA Guidelines") became effective on 3 July 2016 and set out best practice in this area.

In the past year, as part of the FRC's routine and thematic reviews, particular attention was paid to APMs and the extent to which companies asserted that their disclosures were consistent with the ESMA Guidelines. The preliminary findings from the thematic review, outlined below, are in line with this year's findings from routine reviews.

Following last year's thematic review of the use of APMs in interim statements, a further thematic review has since been carried out on a sample of 20 annual reports with year ends from 31 December 2016 to 31 March 2017. This second review examined the use of APMs in the very different context of annual reports and at a point where companies would have had the opportunity to consider the points made in our first review.

In our reviews of reports and accounts, we consider whether strategic reports are consistent with the ESMA Guidelines. Where there are material inconsistencies, companies are asked for explanations. Such inconsistencies are taken into account when deciding whether strategic reports are fair, balanced and comprehensive.

Many of the concerns expressed in our first study had been addressed in the annual reports examined as part of the second study. Our current review found that APMs were used by all companies in the sample and that compliance with the ESMA Guidelines was generally good. In particular:

- Definitions were given in all cases. Labels used generally conveyed an accurate description of each APM, although we are aware, from our regular reviews, of instances where it was not always clear where a measure used was an APM rather than an IFRS measure.
- Explanations for the use of APMs were given in all cases, although two companies only asserted that the APMs were the 'most meaningful' such measures without explanations as to why. We saw a number of good examples and also noted helpful 'health warnings' being inserted by several companies. We also found far fewer explanations using either cursory or boiler-plate wordings than in our previous review.
- Reconciliations were given by all companies, but not necessarily for all APMs used, the most frequently omitted being ratios such as return on capital and cash conversion. Reconciliation disclosures can be lengthy where a company uses several APMs and we saw a number of good approaches to presenting these in a clear and concise way.
- Most of the reports in the sample gave, taken as a whole, equal prominence to APMs and IFRS measures. Equal prominence was, however, more of an issue in sections such as the chairman's statement or chief executive's review than it was with the presentation of highlights or in financial reviews or equivalents.

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Compliance with the ESMA Guidelines was generally good.

[13] Paragraph 414C (2) and (3).

[14] The ESMA Guidelines apply to regulated information and prospectuses of listed companies with the exception of APMs disclosed in the financial statements.

Our main concern arising from the review is the use of the term 'non-recurring' and similar terms, for example, 'unusual', 'infrequent' and 'one-off' in connection with items such as restructuring costs and impairment charges. For larger companies in particular, there will be few occasions when there is only one event in a period of years which drives such charges. We accept that there will be some cases where more than one year is affected, for example, a very substantial restructuring that is part of a single plan with a defined cost. However, we recommend that, in general, companies remove such terms from their definitions of APMs and select more accurate labels.

85% of companies in the sample stated that APMs were used by management in evaluating performance but only 40% referred to their use in determining management and executive remuneration. However, our review did not involve reviewing remuneration committee reports to assess the extent that disclosed APMs were used in determining management remuneration.

All but one of the companies in the sample had made at least minor changes to the presentation of APMs in the year, with some changes being extensive. The most common improvements were to explanations for the use of APMs followed by a better balance being achieved between APMs and IFRS measures and presenting clearer reconciliations.

Adjusted Measures of Profit

In considering the quality of explanations for the use of APMs, we noted that the great majority of the companies in the sample used either 'adjusted' or 'underlying' as the principal description for their adjusted measure of profit (85% of the sample). The adjusted measure appeared as a line item in the income statement for 65% of the sample.

As with the earlier review, there was significant commonality in items excluded from the corresponding IFRS measure to arrive at the adjusted measure. Amortisation of acquired intangibles, at least some restructuring charges and profit or loss on disposal of investments or businesses were near universal adjustments. However we noted that share-based payments were only added back in three cases.

We saw relatively few explanations as to why individual items were added back with the exception of amortisation of acquired intangibles and restructuring costs.

For restructuring costs, companies often linked the costs in the year to identified programmes or initiatives that were discussed elsewhere in the report and accounts. In all but three cases, the adjusted measure of profit was higher than the IFRS equivalent. The FRC's detailed findings from this further review will be included in a separate report due to be issued in the fourth quarter of 2017.

The most common improvements were to explanations for the use of APMs followed by a better balance being achieved between APMs and IFRS measures and by clearer reconciliations.

Other Strategic Report Issues

Risk Reporting and Viability Statements

Risk-related disclosures in the strategic report should focus on the principal risks and uncertainties the company specifically faces and describe them and their potential impact clearly and concisely, making links to KPIs and delivery of strategy. In identifying the company-specific risks and uncertainties, directors should consider a broad range of circumstances, including in the environment in which the company operates, such as cyber-crime and climate change.

The Lab is running a project on risk and viability reporting, considering current practice in this area of reporting and the extent to which disclosure of a company's principal risks and uncertainties is linked to its business model and strategy. It is also considering the effectiveness of viability statements, which were introduced in the revisions to the Corporate Governance Code in 2014 and which the FRC commented on in *Developments in Corporate Governance and Stewardship 2016*, published in January 2017. The new requirements introduced reporting of a longer term view of a company's prospects in a viability statement and whether solvency, liquidity or other risks may impact the long-term viability of the business.

The Lab's report is due to be published later this year. It is expected to conclude that the changes in the Code have brought about significant improvements in the consideration of risk by boards and has contributed to improved reporting of principal risks.[15] However, with companies preparing to report for the third time under the 2014 Code, similar improvements have not been widely identified in the quality of companies' viability statements, and investors are therefore getting limited value from this disclosure. Investors would welcome further explanation of the factors taken into account when making an assessment of viability including explaining why a company has selected its period of assessment and how this aligns to the business cycle, the potential exposure of different parts of the business model to one or more risks materialising, and an explanation of the extent of resilience of the company as a result.

The period selected is often chosen because it reflects a company's medium term business plan. However, the FRC's *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* suggests that other factors should be taken into account, for example investment and planning periods, the board's stewardship responsibilities, the nature of the business and its stage of development and previous statements made, especially in raising capital). Industries such as mining and property investments typically have longer term investment strategies and funding arrangements. Investors are calling for greater differentiation of the time periods used by different companies and sectors based on these sorts of other factors.

We encourage companies to consider developing their viability statements in two stages – firstly, to consider and report on the prospects of the company taking into account the company's current position and principal risks, and secondly to state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

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[15] Black Sun plc The Real Drivers of Value Lost & Found?

Remuneration Reporting

Reporting requirements in this area are set out in legislation and the FRC currently has no statutory powers to monitor compliance. However, the remuneration report falls within the scope of the requirement in the Code to prepare annual reports which, when taken as a whole, are fair, balanced and understandable. The communication principles set out in the FRC's *Guidance on the Strategic Report* can equally be applied to remuneration reports.

Remuneration reports should be clear, concise and provide transparent disclosure without adding to the length of annual reports unnecessarily. Stakeholders continue to report that remuneration reports are opaque, too long and complex and not sufficiently focused. Investors continue to call for more transparency and simpler remuneration structures that are easier to understand.

Prescription in the 2013 Regulations can fuel a compliance mind-set amongst companies, whose focus is on meeting the requirements rather than thinking about how to explain remuneration clearly in a way that effectively tells the story and makes clear linkages to strategy.

We rely on evidence gathered during reviews of annual reports by external parties to shape our view of the quality of remuneration reports. These reviews suggest that there has been no particular improvement in remuneration reporting this year, although some companies appear to have made an effort to improve accessibility and clarity. This is disappointing particularly as other parts of the annual report, notably strategic reports, are improving incrementally and companies engage extensively with shareholders on remuneration.

In 2016/2017 the length of remuneration reports increased again, reaching an average of 21.5[16] pages in the FTSE 350, up from 18 in 2015/2016. One important factor in the overall length is the inclusion or not of the remuneration policy within the remuneration report. Many companies are submitting their remuneration policy to a shareholder vote this year, which may explain some of the additional length.

There is considerable scope for companies to improve the quality of the discussion in annual reports around the link between strategy and remuneration. In 2016 fewer than 25% included a table or diagram showing how performance metrics in the remuneration report link to strategy, while around 40% included boiler-plate narrative and around 35% included no reference to strategic alignment.[17] Companies can improve users' understanding of how directors are incentivised to deliver the strategy by clearly articulating the links between KPIs, long-term objectives and performance-related pay-outs.

Remuneration committee chairs can improve overall quality by using their reports to demonstrate accountability and justify the remuneration of their executives, explaining more about why the chosen remuneration levels and structures are appropriate.

Very few companies have addressed the impact on executive pay of broader societal issues such as fairness or explained how executive pay links to pay and conditions across the wider workforce. A handful of companies are voluntarily disclosing CEO to average UK employee pay ratios.[18]

There is considerable scope for companies to improve the quality of the discussion in annual reports around the link between strategy and remuneration.

Remuneration committee chairs can improve overall quality by using their reports to demonstrate accountability and justify the remuneration of their executives.

[16] EY Annual Reporting in 2016/17.

[17] PricewaterhouseCoopers LLP.

[18] EY Annual Reporting in 2016/17.

jurisdictions for the first time. It will also mean that UK insurance companies with international business will be using the same accounting requirements across the group.

Consequently, this standard is expected to have a significant impact on accounting by insurance companies globally and we expect a long and contentious EU endorsement process, which is expected to commence before the end of 2017.

In addition to our participation in EFRAG's endorsement activities we are planning to set up a project group of external stakeholders to provide input into UK-specific endorsement activities and to discuss issues relating to the endorsement of IFRS 17.

Future Work of the IASB

IASB's Work on Wider Corporate Reporting

The IASB has held preliminary discussions on its role in wider corporate reporting (which is a broad term used to refer to any reporting by companies that falls outside the primary financial statements and the notes, and includes integrated reporting, sustainability reporting, strategic report, etc.). Some of the IASB's stakeholders are encouraging it to be more active in this area highlighting that non-financial information and the societal impacts of business are of growing importance to investors. It has also been noted that the current corporate reporting landscape has a large number of voluntary codes and guidance in this area and perhaps there is a need for a consistent global reporting framework. One of the options the IASB may consider is to update its non-mandatory Practice Statement Management Commentary in view of developments in this area.

It seems likely that the statement will remain non-mandatory so as not to conflict with national or regional regulation.

IASB's Better Communication Initiative

The IASB has identified the provision of more relevant information and improving the communication of that information as primary objectives for their work in the coming years. The 'Better Communication' initiative, which has similar objectives to the FRC's clear & concise philosophy, brings together a number of long-standing research projects, including a project on the structure and content of the *Primary Financial Statements* and the *Principles of Disclosure* discussion paper aimed at improving the relevance of disclosures by moving to a more principles-based approach. This initiative also includes a project to develop non-mandatory guidance on materiality, which was published in September 2017, and a continuation of the development of the IFRS Taxonomy.

Other Reporting Issues

Preliminary Earnings Announcements

The FRC's research on corporate reporting is not exclusively focused on the financial statements. We are currently undertaking a project on Preliminary Earnings Announcements (PEAs). This project seeks to compare the content, tone and language of PEAs with those of the annual report as PEAs continue to be a major part of the corporate reporting landscape in the UK. This might identify possible improvements to the framework for annual reports or PEAs, or both, that can be expected to enhance communication with investors.

Outreach has been conducted with investors with the aim of identifying how preliminary reporting has changed over recent years and developing a better understanding of the importance placed on preliminary reporting by investors and how investors use the information contained in preliminary announcements to make investment decisions. This research drew some preliminary conclusions from investors which will be tested with auditors and companies.

Concurrently, our audit policy team is undertaking research on the role of auditors in connection with preliminary announcements and it issued a Discussion Paper in April 2017 on this topic.

The preliminary conclusions from this research are set out below. Our detailed findings are included in a separate report due to be issued in the fourth quarter of 2017.

Preliminary Conclusions

Based on our various research, outreach and consultation activities to date, there seems little evidence of market abuse in current arrangements for preliminary reporting, nor any evidence of figures changing between the time of publication of preliminary announcements and the annual financial statements. Feedback suggests that any changes to corporate reporting requirements and auditor guidance should be co-ordinated, and that the primary responsibility for the preparation of trustworthy information should remain with the directors of companies. The majority of companies on the UK main market currently issue preliminaries based on audited information, and some investors would like all companies to adopt this as a best practice approach.

Investors tend to place importance on preliminary reporting. The timeliness of reporting is key, whether the primary purpose of reporting is to trade on news as soon as it is announced, or to make decisions about longer term investments or to form an assessment of management's stewardship of the company.

The degree of importance attached to the preliminary announcement relative to the annual report can differ depending on the nature of the investment (e.g. debt v equity) and the analyst resources available to the investor. For some members of the investor community, the annual report is primarily used as an update for any intervening events and for confirmatory purposes.

Some change to the style and manner of reporting is accepted by investors between the time of release of the preliminary announcement and the annual report. Such alignment in communication does not appear to be significant to the market as long as the financial information and key messages have not changed.

The research results from the corporate reporting and audit policy teams will be co-ordinated so that any proposed changes are complementary.

Digital Reporting

Technology is significantly changing how corporate data is collected, accessed and analysed. This has benefits for companies, employees and the public. For example, it has enabled improvements in public accessibility of corporate reporting data through company websites and pdf versions of annual and other reports. However, these benefits are still not widely exploited. The volume of data available about companies is increasing fast; technology can greatly enhance how this information is presented and communicated so that it can be of greatest use to stakeholders.

Corporate reporting is becoming increasingly influenced by digitalisation. In 2015 the Lab reported that investors preferred the annual report in a PDF format as it combined the best elements of hard copy annual reports with the benefits of digital searchability.

There is no discussion like this in Nepal

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Characteristics of Future Digital Reporting

However, whilst PDF often works for investors, it does not easily support open, reusable and engaging reporting which future and current emerging technologies promise. To investigate this further the Lab is running a project on how technology might impact corporate reporting in the future.

The first output of the project was a framework of characteristics which are important to embed in any current or future corporate reporting ecosystem.

The Lab will follow up with further investigations into differing technologies and their potential for corporate reporting.

Whilst much of the impact of technology on reporting is in the future there are some shorter term changes that may significantly impact companies.

From 2020, companies listed on EU markets will be required to file XBRL tagged consolidated financial statements embedded within an HTML document of the annual report. The SEC will also require all foreign private issuers that prepare their financial statements under IFRS to submit their financial data in XBRL using the IFRS Taxonomy for periods ending on or after 15 December 2017.

Whilst individual statutory companies in the UK are currently required to file their accounts along with their tax return to HMRC using iXBRL and are permitted to file to Companies House, there is very limited adoption of iXBRL in UK consolidated accounts. Furthermore the use of HTML for corporate reporting is particularly unpopular in the UK (with around 15% of FTSE 350 companies producing an HTML annual report) and on a downward trend.

Could put this in report

FRC Financial Reporting Council

FINANCIAL REPORTING COUNCIL
8TH FLOOR
125 LONDON WALL
LONDON EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk