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Department for Business & Trade
By email: nfr.review@beis.gov.uk
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NOTE
As requested by your team, I am submitting this paper after my involvement in the call for evidence meeting at the BEIS Conference Centre on Tuesday 20 June 2023. As agreed, it brings together the points I made that were discussed during that meeting.

A unique opportunity to reset corporate reporting for the benefit of all
Response to call for evidence – Smarter Regulation Non-financial Reporting Review

I am one of the UK's leading experts in corporate reporting, and have worked in the field for more than 20 years. I founded my own specialist reporting business, Falcon Windsor, in 2004; I and my colleagues write annual and sustainability reports, and advise companies on how to report well in light of evolving regulations. I am also the author of the UK's standard work on reporting, *Trust me, I'm listed*, published by the UK's Chartered Governance Institute in 2021. So I'm particularly well versed in the practical application of regulation, and how companies can best report to ensure they meet both the spirit and the letter of its many and varied requirements.

In my experience over the last decade or so of contributing to the development of regulation and reporting, I've often been the only person in the room who has actually written an annual report, let alone dozens for different companies. I believe, and am often told, that this brings a vital perspective in ensuring that regulation meets its intended objectives when put into practice – hence my invitation from you to take part in one of your meetings to discuss the *Smarter Regulation Non-financial Reporting Review*, and the request to put my thoughts to you in writing as well.

Here I cover two key areas: firstly, putting the Review into the wider context of the overall reporting landscape, which is set to change considerably over the next couple of years; and secondly, outlining some points to consider in developing reporting requirements, which we discussed during the meeting. Many of these points would apply to any developments in reporting regulation, while some are specific to non-financial information. I also offer a simple suggestion to make it easier for companies to report well.

1. Putting the Review into the context of the evolving reporting landscape, to ensure that change supports reporting's overall purpose
I believe this Review can be more than just an opportunity to improve non-financial reporting. It offers the possibility of resetting corporate reporting as a whole in the UK, for the benefit of its preparers and its audiences.

Reporting in general is going to change significantly over the next few years. As noted in the Review, new requirements for non-financial information are coming thick and fast – from the International Sustainability Standards Board (ISSB); through the European Sustainability Reporting Standards (ESRS), which will affect many UK companies in some way, even if they are not listed in the EU; and from various other initiatives, such as the Task Force on Climate-Related Financial Disclosures (TCFD), the Taskforce on

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Nature-related Financial Disclosures (TNFD), and the Transition Plan Taskforce (TPT), to mention a few. But as you know, the changes go beyond requirements for non-financial information. There are developments in the pipeline for other aspects of reporting, such as the upcoming Resilience Statement; changes to the Corporate Governance Code; and so forth.

One of the biggest complaints from companies who have to prepare reports is the complexity and fragmented nature of reporting requirements. It's a complaint echoed by the audiences for those reports, too; reports are frequently too long, complicated, unclear, cluttered. Both producer and audience suffer the consequences of new requirements being introduced piecemeal, without consideration for reporting's overall purpose.

This Review is therefore the ideal vehicle for bringing all the major upcoming changes together, considering them as a whole and reviewing reporting requirements in a way that will work for everyone – namely, by focusing on the purpose of reporting, which, in our discussion, we agreed was:

To build a relationship of trust with investors and other stakeholders through truthful, accurate, clear communication that, crucially, people believe because it tells an honest, engaging story.

This purpose should be the context for developing any new regulation. The practical aspects of implementation should also be considered, to ensure that regulation will achieve its objectives and support the purpose of reporting when companies go about the challenging business of compliance.

2. Key points to consider when developing reporting regulation

The following are general points that apply to reporting as a whole; they are not specific to any type or size of company or entity. My overall view on this subject is that reporting requirements should be commensurate with the size of a company and the nature of its business. This aligns with the overall purpose of reporting, since, to be meaningful, reporting must reflect the truth of the business. People know this: they know that if the truth can be found anywhere in what a company says about itself, it'll be in the annual report, because it is a legal, audited document that must tell a comprehensive story of the business. That's why the audiences for reporting are so broad and multifaceted, as discussed in point c).

a) How reports are written: preserving companies' ability to decide how best to tell their story around the regulations. Regulation needs to take account of how reports are actually written and put together in practice. The best annual reports are not written by compiling a list of what's required and then filling in the answers; this would lead to confusion, repetition and, sometimes, contradiction – not to mention failing to achieve the essential purpose, that of clear communication. The best reports are written as a story; a story which incorporates all the necessary disclosures in a meaningful way. This is because the truth about a company does not lie simply in the facts it reports, but in the story told around those facts and how they relate to each other. This principle of connectivity is often cited in discussions about non-financial reporting, but without really unpicking what it means in practice. There have been too many instances recently – Section 172 being one example – when companies have been required to include a section or statement in their annual report about a subject, in a manner which makes it impossible to present that subject in its proper context. *Developments in regulation – particularly for non-financial information – should therefore preserve a company's ability to decide how best to*

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include necessary disclosures, such that they are meaningful in that company's own unique context.

b) Users and readers: the different audiences for corporate reporting. Reporting has many different audiences, from investors to employees; from regulators to the media; and so on. Even if we focus simply on the primary audience, defined by the ISSB as largely the investment/lender community (*existing and potential investors, lenders and other creditors*[1]), no two investors or lenders will have quite the same requirements or interests. It's more helpful to think of the different audiences as 'users' and 'readers'. Users tend to be familiar with reporting and know what they're looking for. To use a familiar analogy, users see the annual report rather like a dictionary – a comprehensive source of information in which it must be easy to find what you're looking for. Readers on the other hand want a story: they want to read what a company says about itself so they can form judgements about it. A single individual can of course be both a user and a reader at the same time. ***Therefore, regulation must enable both users and readers to be well served by reporting.***

c) Comparability: an important but nuanced objective. Comparability is often cited as one of the most desired aspects of corporate reporting, particularly for the investor audience, and it's true that reports must be comparable to some degree. However, the concept of comparability is often interpreted far too literally by standard setters, usually to the detriment of the overall purpose of reporting. The differing requirements of a report's readers or users, noted above, make comparability difficult, particularly in relation to non-financial information, whose meaning is driven by the unique context in which an individual company sits. This challenge has been highlighted by the ISSB in its discussion of comparability, which states: *Comparability is not uniformity. For information to be comparable, like things shall look alike and different things shall look different. Comparability of sustainability-related financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.*[2] ***It is essential, therefore, that any new non-financial reporting regulation takes the kind of nuanced approach to comparability set out by the ISSB.***

d) Resources, cost and time: reporting grows ever more complex and therefore expensive, while the time available to produce it is shrinking. While new disclosure requirements tend to talk about keeping the burden on preparers to a minimum, in practice they usually underestimate that burden, because they focus on a specific aspect of reporting rather than reporting as a whole. In practice, however, when it comes to writing a report, any new disclosure requirement has to be put into the overall context of the story the company is trying to tell, which is often a far lengthier and more complicated exercise than envisaged by regulators. Moreover, the time available to produce a growing body of complex information is shrinking, because of the external pressure to report as quickly as possible after the year end. This is a particular issue for non-financial information, given its relative immaturity compared with financial information; and the inherent complexities of measuring and managing such a vast array of issues. ***Any developments in***

[1] IFRS S1: IFRS® Sustainability Disclosure Standard, General Requirements for Disclosure of Sustainability-related Financial Information (June 2023), page 23.
[2] Ibid, page 41.

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regulation must take account of this reality, in the levels and standards expected of companies over any given timeframe.

e) Expertise: understanding of non-financial information is far behind that of financial. This may seem like an obvious point, but it's often overlooked by regulation, as in the case of the ESRS and its requirements for assurance of sustainability information. I know from discussions with corporates and the audit/assurance profession that there are simply not enough people with the relevant expertise or experience to produce or assure non-financial information to the standard currently expected of reported financial information. Developing this expertise will take years, not months. *That does not mean companies should not be required to report on these issues, but, as noted in point (d), regulation must take account of this reality, in the levels and standards expected of companies over any given timeframe.*

A note on terminology: 'sustainability-related financial' vs 'non-financial' information
The purpose of reporting non-financial information is to explain how it relates to a company's overall performance and prospects. With this in mind, the ISSB, in line with the principles of TCFD, uses the term 'sustainability-related financial information' as opposed to 'non-financial information'. This is important because it highlights that the issues in question have a direct relationship to a company's performance, as reported using financial metrics, hence their inclusion in the ISSB's new standards. This does not mean, of course, that these terms can be used interchangeably; not all non-financial information would necessarily fall into the category of sustainability-related financial information. To avoid both confusion and potential error, therefore, companies must be clear about how they're using these terms. *Developments in non-financial reporting regulation should help here, by clearly defining the various terms in use.*

3. A simple suggestion for making corporate reporting easier: *give companies a list of reporting requirements, and update it each summer*
Reporting is enormously complicated because there is no single source of reporting regulation; no single, clear list of requirements. Every company, whether public or private, must work out for itself which requirements relate specifically to its circumstances. This may sound simple, but it's incredibly complicated, particularly for newly listed or smaller companies that don't have the experience or the resources of larger companies that have been listed for some time. It can also end up costing companies quite a lot of money, since they usually need to employ external lawyers or other advisors to do the work for them.

This complexity is acknowledged in the 'Individual reporting requirements' annex of this Review, which aims to list the regulations from which reporting requirements are derived: *Whilst effort has been made to make [this annex] as comprehensive as possible it may not contain all requirements covered by the Companies Act 2006, supporting regulations to that Act, and all regulations that set out reporting requirements that sit outside of the Companies Act 2006.*

Even if this Review were to result in no changes to reporting at all, Government could significantly simplify reporting for all preparers by gathering together, into one document, a list of all reporting requirements for each type or class of company, and updating it once a year in the summer ahead of

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the start of the main reporting 'season'. This would save *every* company considerable time, cost and effort, in line with Government's own productivity agenda.

In summary

For reporting regulation to succeed, it must be put into practice in a way that supports the overall purpose of reporting. Given the changes to reporting on the horizon, this Review is an invaluable opportunity to bring all the threads together and reset corporate reporting as a whole in the UK in light of this purpose, for the benefit of both companies preparing reports and the many audiences who read and use them.

Thank you for requesting my feedback, which I would be happy to discuss with you further.

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