

Straight away

Corporate reporting bulletin from PwC

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BIS proposes to restructure annual report

What's the issue?

The Department for Business Innovation and Skills (BIS) has released a consultation paper on a new reporting framework for UK companies to try to address the length and complexity of current reporting.

The aim of the paper, *The future of narrative reporting*, is to make key information easier to find by dividing the annual report into: a 'strategic report', containing key messages about the company (including the company's strategy, results, risks and remuneration); and an 'annual directors' statement', with more detailed information. It also proposes to simplify disclosure requirements by removing duplication and inconsistency, and clarifying existing provisions.

The paper seeks views on: the new framework; the proposed changes to disclosure requirements; and the inter-linked issues of audit, assurance, guidance and enforcement.

The coalition government has said that it wants to "investigate ways of improving corporate accountability and transparency", and this paper reflects that ambition.

The proposals follow earlier consultations – *The future of narrative reporting* and *A long-term focus for corporate Britain* – which demonstrated a consensus for change to the current narrative reporting framework. Preparers and users said that they want it to be easier to draw out strategic company information from the increasing volume of published data. They also want a more

coherent framework for the wider data set that makes it easier to 'see the wood for the trees'.

The strategic report

The 'strategic report' (SR) is intended for shareholders. It would provide key information about the company, together with the principal risks faced by the business and a forward-looking analysis. It would incorporate the content from the 'business review', supplemented by high-level information from the financial statements and other sources. It would also provide a clear link between the company's historical financial performance and its strategy for the future and its business model.

It is proposed that the SR should include information on company performance, principal risks and uncertainties, key performance indicators and key financial information. For quoted companies, it should also include information on strategy, the business model, social and environmental information, governance and key information on remuneration and its link to performance.

The aim is for the SR to provide enough information for most users of company reports to make an assessment of the company's historical performance and future prospects.

Annual directors' statement

The SR would be supported by an 'annual directors' statement' (ADS), which would be a repository for less important, but required, reporting disclosures. Companies would also be able to include voluntary disclosures (for example,

environmental and social issues) within a consistent structure.

The ADS will also include the 'directors' remuneration report', the 'corporate governance statement' and the 'audit committee report'.

Executive remuneration

BIS is also seeking views on proposals to change remuneration reporting requirements for quoted companies. These include the requirement to disclose:

- total remuneration paid to each director in the financial year; and
- fuller information on the relationship between pay and company performance.

Key elements of the remuneration report would form part of the SR, with the full report presented in the ADS.

Am I affected?

The proposal to abolish the 'directors' report' and replace it with a new framework will affect all companies, although the changes required for non-quoted companies would be minimal – as little as changing two headings.

For quoted companies, the 'directors' report' and 'business review' would be replaced by the SR and the ADS. In addition, there are a number of proposed changes that go beyond mere alterations to the structure and headings. For quoted companies these include the following:

- The Companies Act will be amended to replace the summary financial statement with the SR.
- The SR will be more concise and readable than the existing narrative report.
- The SR should be signed by each individual director as well as the company secretary.

- The ADS will follow a prescribed structure with a set layout and standard headings to increase comparability.
- The structure of the ADS will be optimised for online disclosure.
- Cross-referencing to online sources of data, which don't necessarily change from year to year, would be encouraged.

What do I need to do?

Management should consider the proposals outlined in the consultation and share its thoughts on the benefits and challenges for business by responding to the questions in the consultation paper. The comment deadline is 25 November 2011. A copy of the consultation paper and response form is available at

www.bis.gov.uk/consultations

The Financial Reporting Council's earlier proposals in *Cutting the clutter*, and its plans for a financial reporting lab, may provide useful context for considering these new proposals.

It will be important for management to consider the practical implications of the proposals on the structure and content of their current reporting, as well as the implications for board oversight, and the quality and availability of internal reporting. Management may also want to share views on what could be removed from reporting to avoid duplication or inconsistency.

If you have any questions on the proposals for a new reporting framework and what it might mean for your organisation, please contact your PwC engagement partner, or email: mark.j.osullivan@uk.pwc.com