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Andrew Death
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By email: Andrew.Death@beis.gov.uk

Dear Andrew,

Smarter regulation non-financial reporting review: call for evidence

Deloitte LLP welcomes the opportunity to respond to the Department for Business and Trade's (DBT's) call for evidence on the UK's non-financial reporting framework ("the call for evidence").

Non-financial information is essential information for investors and other stakeholders in understanding the drivers of risk, value creation and long-term prospects and how a company manages those matters through governance, strategy, risk management, and metrics and targets. The UK has demonstrated great leadership in narrative and non-financial reporting with the development of the strategic report which, in our view, is well-established and designed to provide useful information to investors and facilitate good practice in corporate reporting. We therefore believe that the strategic report should continue to be a central part of the reporting framework that brings together financial and non-financial reporting in the UK.

However, recent years have seen numerous additions to the UK legal and regulatory framework which have not always been well integrated with existing requirements. This is due to the introduction of different scoping criteria for different disclosure requirements as well as duplication of requirements, for example, arising from the implementation of the EU Non-Financial Reporting Directive. These changes have proved difficult and costly for preparers to understand and implement with the effect that the usefulness and value of the strategic report may be reduced. As companies struggle to identify the requirements which apply to them and ensure they are met, cohesion, coherence and connectivity can be lost in favour of compliance-led thinking. With the recent publication of the draft *Companies (Strategic Report and Directors' Report) (Amendment) Regulations* 2023, which introduce yet another set of scoping criteria, this trend continues.

We encourage the government to take this opportunity to make one clear, coherent set of changes to streamline the scoping thresholds and requirements that currently exist, with the goal of creating a more cohesive, focused, decision-useful system which continues to achieve policy aims while reducing complexity and confusion, supporting the introduction of the International Sustainability Standards Board (ISSB) standards, and reasserting the UK's global leadership in corporate reporting.

Our key recommendations for streamlining the non-financial reporting regime are as follows. We believe that the first three items listed below, and the fourth item at least in part, can be achieved in the short term as changes may be made by secondary legislation:

- Simplify the numerous thresholds and exemptions in UK company law to reduce complexity and remove confusion.
- Streamline the content requirements of the strategic report to remove overlapping requirements.
- Revise commonly used definitions such as "turnover" and "employees" to ensure that they are functioning as intended.
- Remove the requirement to prepare a directors' report and either remove or identify the most appropriate alternative place for the content currently required therein.
- Make use of alternative mechanisms for reporting data which may be best published in a location other than the annual report, such as on the company's website, at Companies House or via a central government portal, to ensure that policy aims continue to be met.

We strongly support the ISSB's international standards for sustainability reporting and welcome the recent call for evidence on UK endorsement of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* issued by the Financial Reporting Council (FRC) in its role as the Secretariat to the UK Sustainability Disclosure Technical Advisory Committee. We firmly believe that adopting the ISSB standards for the UK economy will demonstrate clear leadership that will be influential internationally and will help to establish a consistent and comparable global baseline for the reporting of decision-critical sustainability information.

In our view, it is essential that the ISSB standards are implemented in full in the UK without modification to help establish that global baseline. We observe that the ISSB's sustainability standards have been through a thorough due process, including substantial feedback from and engagement with UK stakeholders, and comprehensive further deliberations based on that feedback to finalise and approve the standards. We therefore strongly believe that it is in the public interest for the government to make the ISSB standards available for application by UK companies as quickly as possible and that the bar for not doing so should be set very high, i.e. that they would be considered 'detrimental to the UK public good'.

Following this, we recommend that the Financial Conduct Authority (FCA) and the Department for Business and Trade (DBT) should seek via consultation to establish whether the ISSB standards should be mandated for use by companies within their respective remits and, if so, the appropriate scope and whether any additional UK-specific requirements are necessary. In our view, with appropriate integration and streamlining of existing requirements, we believe that IFRS S1 and IFRS S2 will operate effectively with the requirements and principles of the UK strategic report and UK Corporate Governance Code and will facilitate greater granularity and specificity of reporting on sustainability topics.

As a minimum, we believe that the ISSB standards should be mandatory for companies within the proposed definition of a "public interest entity" (PIE) as set out in the outcome of the government consultation *Restoring trust in audit and corporate governance*. However, we recognise that many companies that would not fall into the proposed PIE definition have already taken steps to be able to report in line with the streamlined energy and carbon reporting (SECR) regulations and the climate-related financial disclosure (CFD) regulations. Accordingly, we suggest that the government may wish to consider whether it would be beneficial to develop – or support the development of – a simplified standard that better reflects the needs of the users of such entities' reports, in place of the SECR and CFD regulations. Such a standard would call for reduced disclosures compared to the full standards and would apply for companies outside of the proposed PIE definition (perhaps with an exemption for small and medium-sized companies). It could either be developed at UK level by the UK standard setter, or the government could encourage its development by influencing ISSB developments internationally.

We also strongly encourage the UK government to work towards seeking appropriate sustainability reporting equivalence decisions from other jurisdictions while ensuring that the needs of the UK capital markets are fully addressed and the global baseline of ISSB standards is preserved. This will increase interoperability and help facilitate growth by reducing unnecessary regulatory burdens on businesses operating across jurisdictions and maximising efficient flow of capital. This is particularly relevant in the context of the EU sustainability reporting regime, which has significant extra-territorial reach and will affect many UK companies over the coming years. The additional reporting requirements and fiduciary and other duties of directors mandated through UK company law, particularly in the context of the section 172(1) statement, mean that a UK regime which incorporates the ISSB standards alongside the UK legal requirement for companies and directors to consider the impact of the company and decisions taken on wider stakeholders, including communities and the environment, should be in a position to be considered as equivalent to reporting under the European Sustainability Reporting Standards (ESRS).

Finally, we encourage the government to move forward with plans to establish the Audit, Reporting and Governance Authority (ARGA) and set out clearly the terms and boundaries of its work. In our view, if ARGA is established with the appropriate internal structure and robust due process to facilitate appropriate levels of engagement with stakeholders and provide transparency around its activities, it should be granted standard-setting powers for corporate reporting, including non-financial reporting aspects such as the strategic report, directors' report (if retained) and sustainability reporting for companies not reporting in line with ISSB standards as endorsed for use in the UK. The government would then assume the role of setting policy objectives at a higher level, resulting in a more agile reporting system where issues can be more swiftly identified and addressed, and reducing the risk that the current complex and confusing set of requirements will be repeated in future.

We have responded to the questions that are applicable for all respondents as these are most relevant given our role as professional advisers. Our detailed comments are set out in the following Appendices:

- Appendix 1: Response to detailed questions
- Appendix 2: Other substantive comments
- Appendix 3: Detailed proposals for amendments

If you have any questions, please contact Linda Riedel on 020 7007 0227 or lriedel@deloitte.co.uk, or Anne Warner on 020 7007 5636 or annewarner@deloitte.co.uk.

Yours sincerely

Veronica Poole

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Appendix 1: Responses to detailed questions

Question 1: What changes, if any, would you like the UK Government to make to the current legal requirements for companies to prepare non-financial information, and why?

In assessing non-financial information, we believe the government's review should address the entire legal framework of UK non-financial reporting, including the strategic report, directors' report and the directors' remuneration report. We encourage the government to take this opportunity to make one clear, coherent set of changes which aligns and simplifies reporting thresholds and definitions (see response to question 4); streamlines non-financial reporting by reducing duplication; removes requirements that are no longer relevant or which may be better located elsewhere; and anticipates the implementation of forthcoming requirements such as the ISSB standards. In the longer term, there would also be merit in reviewing more generally what content should be included in the annual report and accounts as a whole and what might be better published through other channels.

Streamline the strategic report requirements

We welcome the fact that proportionality is a key principle in the UK government's better regulation framework and believe that it is appropriate that the content required to be included in the strategic report varies by size and type of entity.

However, we believe that in recent years, it has become far too complicated for users and preparers to identify which requirements apply to them, primarily because the scope of application has differed almost every time a new set of requirements is introduced. We therefore recommend that the government takes this opportunity to significantly streamline and simplify the reporting regime. We make a number of suggestions for simplifying the scoping criteria and related definitions in our response to question 4 and in Appendix 3 below.

The requirements for the content of the strategic report can also be streamlined. In particular, there is currently duplication of requirements in section 414C of the Companies Act 2006 (brought in under the original strategic report regulations) and in section 414CB (arising from the UK transposition of the EU Non-Financial Reporting Directive). Both require disclosure of the business model, principal risks, non-financial KPIs and the company's impact on the environment. The scope of each set of requirements is also subtly different. We believe that this duplication can now easily be removed and the scope simplified, as discussed further in our response to question 4.

The government may also wish to consider whether other disclosures can now be removed or placed elsewhere as following the UK's exit from the EU, the UK is no longer required to retain requirements transposed from EU legislation. For example, information about financial instruments, currently contained in the directors' report, derives from the EU Accounting Directive and might now be removed as it is also included in the financial statements.

Remove the directors' report

We believe that the annual report is no longer the right place for many of the contents of the directors' report. Narrative information relevant to an understanding of the business is now contained in the strategic report, leaving the directors' report in many cases as containing little more than cross-references to other locations in the annual report and standing information of a factual nature which is not necessary for an understanding of the development, performance and position of the business.

Firstly, we recommend removing any requirements in the directors' report which amount to duplication of information given elsewhere in the annual report. This includes information about financial instruments, post-balance sheet events, going concern and engagement with employees, suppliers, customers and others. As set out in our recent response to the consultation on amendments to the Payment Practices and Performance Regulations 2017, we also do not support the introduction of further duplication by requiring businesses to report on payment practices in more than one location.

Secondly, any content which amounts to standing information could be removed from the directors' report and instead reported either on the company's website or to Companies House, for instance via the confirmation statement. We acknowledge that there are some disclosure requirements which derive from the Listing Rules and we recommend that the DBT liaise with the FCA to identify an appropriate mechanism for reporting of these. As set out in our response to the government consultation on corporate transparency and register reform in February 2021, we believe that the best solution, and one which could be extended beyond standing data in future as the UK continues to move towards increased digital corporate reporting, would be a central portal where companies can file their information, creating a database from which the relevant government bodies – and other stakeholders – can extract and export the information that they need based on the way in which that information is tagged. This would help to streamline the annual report while ensuring that broader policy aims regarding the reporting of certain data are still met.

In our view, the key pieces of content currently required to be included in the directors' report which should be retained are the SECR disclosures (unless repealed – see our response to question 3), the statement of corporate governance arrangements and the three content items to be introduced by the draft *Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023,* which are currently before Parliament, i.e. the audit and assurance policy statement, material fraud statement and policy statement concerning distributions and purchase of own shares.

In practice, many companies present these items in the strategic report and include them in the directors' report by cross-reference, so a simple solution would be to incorporate these requirements into the strategic report. However, we acknowledge that companies are only required to include material information in the strategic report, whereas there is no materiality threshold for inclusion of information in the directors' report. Accordingly, the government may also wish to consider whether an alternative reporting mechanism for SECR data (such as a central portal as suggested above) may be appropriate as companies may not always consider it sufficiently material for inclusion in the strategic report. We consider that the statement of corporate governance arrangements, once scoped appropriately (see our response to question 4 and Appendix 3.1), would generally be expected to provide material information and should therefore be included in the strategic report. We also believe it could be helpful for the FRC/ARGA to introduce authoritative guidance to support the directors of a company in making materiality assessments.

Small companies are not required to prepare a strategic report and only present a directors' report. However, this is very brief and could be removed or the information reported elsewhere in the same way as discussed above. We recommend further consideration of the approach for small companies in the context of the changes set out in the Economic Crime and Corporate Transparency Bill, which is at time of writing in the final stages before Royal Assent.

Question 2: Thinking about the future of your organisation and the UK's transition to a net zero economy, what changes, if any, do you think may be required to the type of non-financial information produced to guide decision making, and why?

As set out in our response to question 3, we firmly believe that to arrive at a non-financial information regime which encourages integrated thinking and connectivity and provides comparable, decision-useful information, the government should 1) make the ISSB standards available for use in the UK in full and without modification to help establish a globally consistent and comparable baseline; 2) integrate those standards into the existing UK legal and regulatory framework; and 3) consider whether any additional disclosure requirements are necessary to meet the UK's ambitions and objectives. For example, if an objective is for the UK to be seen as a global leader in driving reporting on transition plans, additional disclosures in this regard should be introduced as UK-specific additions to the ISSB's existing requirements in IFRS S2.

In relation to transition plans, we reiterate the views expressed in our response to the consultation on the proposed *Transition Plan Taskforce Disclosure Framework and Implementation Guidance* in February 2023. In that response, we encouraged the Transition Plan Taskforce (TPT) to engage with legislators and regulators on how to bring the TPT disclosures into the UK regulatory framework. We recommended that any legal requirements are narrowly defined with the ISSB standards identified as the applicable reporting standards and the TPT Disclosure Framework as additional application guidance on how to report with sufficient granularity. This approach would provide the flexibility necessary to allow companies to develop transition plans while learning from good practice, and to introduce the TPT disclosure recommendations more formally over time.

We also strongly encourage the TPT to fully adopt the ISSB standards' definitions and relevant disclosure requirements. Given the detailed disclosures required under the proposed TPT Disclosure Framework, we support the proposal for the detailed transition plan to be contained in a standalone report, alongside annual progress updates which would form part of the annual TCFD- or ISSB-aligned disclosures in the annual report.

Clear cross-referencing between the annual report (e.g. the disclosures made consistent with the TCFD recommendations) and the standalone transition plan report will be important to ensure users can navigate and make connections between the different disclosures. To this point, we also encourage the TPT to explicitly state that, in the years a standalone report is published, this should be done in advance of, or at the same time as, but never later than the annual report. This will ensure users of the annual report are able to cross-refer to the most relevant transition plan information.

Question 3: How should the standards being prepared by the International Sustainability Standards Board (ISSB) be incorporated into the UK's non-financial reporting framework?

We strongly support the ISSB's standards for sustainability reporting as an important milestone in achieving a global baseline of consistent, high-quality, and comparable sustainability information addressing the needs of capital markets. We welcome the recent call for evidence on UK endorsement of IFRS S1 and IFRS S2 issued by the FRC in its role as the Secretariat to the UK Sustainability Disclosure Technical Advisory Committee, and we support adoption of the ISSB standards in the UK as soon as possible. We firmly believe that adopting the ISSB standards for the UK economy will demonstrate clear leadership that will be influential internationally and will help to establish a consistent and comparable global baseline for the reporting of decision-critical sustainability information.

Incorporation of the ISSB standards into the UK framework

In our view, it is essential that the ISSB standards are implemented in full in the UK without modification to help establish the global baseline. We observe that the ISSB's sustainability standards have been through a thorough due process, including substantial feedback from and engagement with UK stakeholders, and comprehensive further deliberations based on that feedback to finalise and approve the standards. We therefore strongly believe that it is in the public interest for the government to make the ISSB standards available for application by UK companies as quickly as possible and that the bar for not doing so should be set very high, i.e. that they would be considered 'detrimental to the UK public good'.

Following this, we recommend that the FCA and the DBT should seek, via consultation, to establish whether the ISSB standards should be mandated for use by companies within their respective remits and, if so, the appropriate scope and whether any additional UK-specific requirements are necessary. As a minimum, we believe that the scope of mandatory application of the ISSB standards should include companies within the proposed definition of a PIE as set out in the outcome of the consultation *Restoring trust in audit and corporate governance*.

Mandatory application of the ISSB standards will build on the TCFD reporting already undertaken by many UK companies and the more recent implementation of the CFD regulations. However, this process will necessarily include consideration of whether to repeal existing sustainability reporting requirements. We offer some thoughts on a possible approach in the following paragraphs.

Integration of the ISSB standards with existing UK company law requirements

In general, we see clear synergies between the objectives of the ISSB standards and existing requirements in UK company law. In particular, we note the evident parallels between the objectives of IFRS S1 as articulated in IFRS S1.2 and the strategy, business model, principal risks and uncertainties and section 172(1) disclosures in the strategic report: "Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates." [IFRS S1.2]

We also observe the similarities between the strategic report and the Integrated Reporting Framework (now part of the IFRS Foundation) and consider that the ISSB standards will integrate well with many of the existing UK non-financial reporting requirements and the FRC's Guidance on the Strategic Report. However, integration of ISSB standards into the UK ecosystem will require consideration of the existing UK non-financial reporting requirements to identify and address areas of overlap, while acknowledging that not all UK companies that prepare a strategic report will necessarily be in scope of the ISSB standards. Ongoing assessment will be necessary as the ISSB framework expands to address further areas of sustainability reporting.

With appropriate integration and streamlining of existing requirements, as discussed here and in our responses to questions 1 and 4, we believe that the ISSB standards will operate effectively within the existing reporting framework, including the UK strategic report and UK Corporate Governance Code requirements and principles, enabling greater rigour of reporting on sustainability matters that are relevant to a company's strategy, business model and prospects.

CFD regulations
Although we believe that the ISSB standards should be mandatory for companies within the proposed definition of a PIE as set out in the outcome of the government consultation *Restoring trust in audit and corporate governance* as a minimum, we also recognise that many companies outside of the proposed PIE definition have already taken steps to be able to report on climate-related risks and opportunities in line with the CFD regulations. These regulations introduced another layer of scoping complexity, setting a new size threshold of £500m turnover and 500 employees and including AIM companies and LLPs in scope.

As discussed further in our response to question 4, we are strongly against retaining the existing complex scoping criteria in UK company law and would therefore recommend that the CFD regulations be repealed. Furthermore, we believe that introducing climate and other sustainability reporting requirements via legislation is not the right approach; this is a dynamic, fast-moving area of reporting which calls for an agile response to avoid the situation where legislation becomes dated quickly but cannot be easily or swiftly changed to reflect new developments. We set out some further thoughts in Appendix 2 as to an appropriate way forward to resolve this challenge via the establishment of ARGA as the UK standard setter for corporate reporting.

We do acknowledge that repealing the CFD regulations would leave a number of entities no longer subject to any climate-related financial disclosure requirements. Accordingly, we suggest that the government consider whether it would be beneficial to support the development of a simplified standard that better reflects the needs of the users of such entities' reports, in place of the CFD (and SECR) regulations. Such a standard would call for reduced disclosures compared to the full standards and would apply for companies outside of the proposed PIE definition (perhaps with an exemption for small and medium-sized companies). It could be developed at UK level by the UK standard setter (a reduced disclosure framework similar to the approach taken in FRS 101, which enables UK companies to use the IFRS recognition and measurement framework but with reduced disclosures, could be an option), or the government and FRC/ARGA could encourage the development of an ISSB standard for SMEs by influencing the ISSB.

Alternatively, as a minimum, companies within the scope of the ISSB standards should be exempt from the requirement to apply the CFD regulations, to eliminate overlap.

SECR regulations
In its May 2023 Green Finance Strategy, the government indicated its intention to consult on the future of the streamlined energy and carbon reporting (SECR) regulations (SI 2018/1155), specifically with regard to supporting Scope 3 reporting. However, the ISSB standards incorporate emissions measurement and reporting which includes – subject to materiality – Scope 3 emissions and meets similar needs and objectives to SECR. As a result, if the ISSB standards are made mandatory, we believe that SECR reporting should no longer be required for entities within the mandatory scope of the ISSB standards. This would reduce duplication, ensure there is clear alignment with the ISSB standards, and further support the ISSB standards as the global baseline. As a result, it follows – rightly in our view – that the Greenhouse Gas Protocol will become the mandatory emission measurement standard (rather than optional as with SECR) and reporting on global emissions (rather than UK only emissions) will also become mandatory as both of these are requirements of the ISSB standards. We recommend that consideration should be given to making these changes for all organisations in scope of SECR (ie not only those within the mandatory scope of the ISSB standards) to achieve greater consistency in reporting since both of these requirements are already standard practice for companies and should not result in excessive burdens.

Any SECR objectives and disclosure requirements that are still considered necessary for companies in scope of the ISSB standards but which are not addressed by those standards (for example disclosures on energy usage and energy efficiency) should be met through additional UK-specific requirements. However, care should be taken that any UK top-ups do not contradict or undermine existing ISSB objectives.

The existing SECR requirements could then be retained for entities not in scope of the ISSB standards – and ideally simplified, reflecting the decreased size and public interest of entities still required to report under them. Alternatively, if the government decides to pursue a simplified, proportionate version of the ISSB standards as mentioned above, SECR should be repealed and replaced with that reduced disclosure framework. If any elements of SECR are retained, for example for entities not in scope of the ISSB standards, then we consider that those disclosures should be moved to the strategic report were the directors' report to be removed in line with our recommendations, or reported via a central portal (see our response to question 1 above).

Interoperability and equivalence

A key issue for UK companies is interoperability between the sustainability reporting in different jurisdictions. This was highlighted as a key issue for stakeholders in the government's 2023 UK Green Finance strategy which states that interoperability between jurisdictions *"can help facilitate growth by reducing unnecessary regulatory burden for businesses and financial service providers working across jurisdictions and maximise efficient flow of capital."*

The UK should promote and champion interoperability using the ISSB standards as the global baseline; a first step towards this is to make the ISSB standards available for use in the UK without amendment and to urge other jurisdictions to do the same. We also strongly encourage the UK government to work towards seeking appropriate sustainability reporting equivalence decisions from other jurisdictions while ensuring that the interests of investors and other providers of financial capital are appropriately addressed and material information (as defined in IFRS S1) is not obscured by disclosures which are directed at a different objective and serve the needs of other, potentially multiple, stakeholders.

In the UK, the additional reporting requirements and fiduciary and other duties of directors mandated through UK company, particularly in the context of the section 172(1) statement, mean that a UK regime which incorporates the ISSB standards alongside the UK legal requirement for companies and directors to consider the impact of the company and decisions taken on wider stakeholders, including communities and the environment, should be in a position to be considered as equivalent to reporting under ESRS.

Question 4: To what extent do you agree or disagree that current size and company type thresholds for non-financial reporting information could benefit from simplification? Please explain your answer.

In our view, one of the critical outcomes of this call for evidence must be for the government to simplify the current set of size and company type thresholds in UK company law. The current situation is unworkable and incomprehensible for users and preparers and does not facilitate integrated thinking and connectivity between various disclosure requirements; instead, it has the effect of promoting a compliance-led approach to constructing the strategic report and directors' report, as companies seek to identify which components they are required to report.

Simplification of thresholds and definitions

The sheer range and level of detail of scoping criteria, definitions and thresholds has become overwhelmingly complex and near impossible to apply. There now exist numerous different thresholds in

UK company law which affect requirements in the strategic report and directors' report and also the scope of companies required to prepare a remuneration report. As well as several thresholds that differ based on size, there are different definitions of ineligibility (for example, the criteria for being ineligible for the small companies regime differ from those for the medium-sized company regime) and different criteria used to describe different forms of listing or degree of public interest. These definitions are also scattered throughout the Companies Act and secondary legislation rather than appearing in one consistent location. The sheer number of different scopes and thresholds in legislation means that it is extremely challenging for companies to understand which requirements apply to them.

The extent of the challenge faced by companies currently can be illustrated in the following table:

Requirement	Summary of disclosure	Applies to
Strategic report	Principal risks and uncertainties, review of the business, KPIs	All companies except small companies. Medium-sized companies are not required to disclose non-financial KPIs
	Business model, strategy, market trends, policies and impact on environment	Quoted companies
Non-financial reporting regulations	Business model, policies, risks, non-financial KPIs and impact on environment	UK public interest entities (as set out in s414CA) with >500 employees on average
Climate-related financial disclosure regulations	Climate-related disclosures aligned to those in the TCFD Recommendations addressing governance, strategy, risk management and targets and metrics	UK public interest entities (as set out in s414CA), AIM companies, high turnover companies, banking and traded LLPs, and LLPs with >£500m turnover ("large LLPs") Not required if 500 or fewer employees on average
s172(1) statement	How directors have complied with their duty to promote the success of the company for the benefit of its members, having regard to the matters in s172(1)(a)-(f)	All companies except those that qualify as small or medium-sized, including consideration of ineligibility.
SECR	Global energy and carbon use UK energy and carbon use	Quoted companies Unquoted companies and LLPs except those that qualify as small or medium-sized, based on size criteria only.
Corporate governance statement	Statement of corporate governance arrangements	Companies with more than 2,000 employees globally OR turnover of more than £200m and a balance sheet total of more than £2 billion. Assessment is at company-only level, not size of group.
Disabled persons	A statement describing the company's policy in respect of employment of disabled persons during the year.	All companies except those that qualify as small and take advantage of the small companies exemption which employ more than 250 persons in the UK on average.
Engagement with employees (directors' report)	A statement summarising how the directors have engaged with employees during the year.	All companies except those that qualify as small and take advantage of the small companies exemption which employ more than 250 persons on average.
Engagement with suppliers, customers and others (directors' report)	A statement summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others during the year.	All companies except those that qualify as small or medium-sized, based on size criteria only.

Directors' remuneration report	Detailed disclosures on directors' remuneration and the remuneration policy	Quoted companies and traded companies (for the purpose of this requirement, traded companies are as defined in s360C, not s474).
Draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023	*Resilience statement, Audit and assurance policy statement, material fraud statement and disclosures about distributions*	*Companies with £750m or greater turnover and 750 or more employees on average. Specific requirements for interpretation of turnover for banks and insurers. Will apply early for a company whose equity share capital is admitted to trading on a UK regulated market for the whole of the financial year of the company.*

We offer some further detail on particular issues and thoughts on a possible approach in the following sub-sections.

<u>Definitions of "quoted", "traded", "high turnover" and "public interest" companies</u>
The definition of a "quoted company" overlaps with, but is not the same as, the definition of a "traded company":

- The quoted company definition refers to companies that are included on the Official List, are officially listed in an EEA State or are admitted to dealing on the New York Stock Exchange or NASDAQ, whereas the definition of a traded company is restricted to companies trading on a UK regulated market.
- The quoted company definition refers only to equity shares, whereas the traded company definition captures any securities, whether debt or equity.
- The quoted company definition is based on the status of the company immediately before the end of the financial year whereas the traded company definition is typically used in the context of whether a company was a "traded company" at any time during the financial year in question.
- There are two definitions of "traded company" in the Act; s360C addresses traded companies for the purpose of the requirement to prepare a directors' remuneration report and s474 addresses all other purposes.

These distinctions are not always well understood and lead to errors in practice. For instance, a company that was listed on a UK regulated market during the year but which delists by the end of its financial year would be required to prepare a non-financial (and sustainability) information statement, because this requirement applies based on listing status at any time during the financial year. However, it would not be required to provide the other disclosures set out in the pre-existing strategic report regulations which only apply to quoted companies, because the assessment as to whether a company is quoted is made immediately before the end of the financial year. This seems entirely illogical.

The CFD regulations introduced another layer of scoping complexity, setting a new definition of a "high turnover company", being a company with more than £500m turnover, and including AIM companies and LLPs in scope, as well as companies that are in scope of the non-financial reporting regulations under the existing definition in s414CA of the Companies Act 2006. The draft *Companies (Strategic Report and Directors' Report) (Amendment) Regulations* 2023, published on 19 July 2023, further compound these issues by introducing a definition of "a company with a high level of employees and turnover", being 750 or more employees and turnover of £750m or more. They also apply a year earlier for "a company whose equity share capital is admitted to trading on a UK regulated market for the whole of the financial year of the company", which is a different scope again from "quoted" or "traded" companies.

We recommend that the government remove the existing definitions of "quoted", "high turnover company", "company with a high level of employees and turnover" and "public interest entity" (both as defined in s414CA and in s494A) and replace with one definition of "public interest entity" (PIE). This definition should follow that proposed in the outcome of the consultation *Restoring trust in audit and corporate governance* and should be located in one place in the Act, together with any necessary sub-definitions (e.g. a single definition of traded company, bank, insurer) and the size and eligibility criteria for small and medium-sized companies, and is cross-referred to as needed.

This may result in some requirements changing in scope to capture more or fewer entities, but with use of appropriate exemptions, we consider that the benefits of a simple, streamlined, scoping system for non-financial reporting far outweigh the costs. We consider that the PIE definition as proposed in the outcome to the consultation *Restoring trust in audit and corporate governance* is also an appropriate threshold at which to mandate reporting under the ISSB standards, as noted in our response to question 3.

Size and ineligibility

There is currently inconsistency in use of size-based thresholds. For example, when assessing whether a company qualifies as small or medium-sized, it is usually as defined within sections 381-384 or sections 465-467, respectively, of the Companies Act 2006, and it is therefore necessary not only to consider the size thresholds but also whether the company is ineligible or part of an ineligible group. However, this is not always the case; in the context of determining whether a company is in scope of SECR reporting, Part 7A of Schedule 7 to SI 2008/410 as amended only requires the assessment to be made based on the size of the company; ineligibility is not considered. We recommend reviewing the objective of the concept of an ineligible group and considering whether the legislation can be simplified and made more consistent.

A different issue also exists in the context of the statement of corporate governance arrangements. In the vast majority of cases where size-based criteria are used to determine scope, when a company is a parent company, it is necessary to look at the size not only of the parent company but also of the group that it heads (i.e. the parent undertaking and all of its subsidiary undertakings). This is not the case for the statement of corporate governance arrangements, as Part 8 of Schedule 7 to SI 2008/410 as amended only requires the size of the individual company in question to be assessed, regardless of whether it is a parent. This results in some very odd outcomes where a large private group of companies may exceed the size thresholds when the group figures are taken, but no statement of corporate governance is provided in the group annual report because the parent company, individually, is not in scope.

A simplified regime with fewer thresholds and a single location for all definitions will address these issues.

Location of thresholds and other definitions

Commonly used definitions are scattered across the Act and secondary legislation, making it difficult to identify and apply them. Although this is relevant in the context of size thresholds, it is also the case for other key definitions. For example, to understand the meaning of the term "group" for the purposes of determining the scope of a requirement, it is necessary first to refer to the definition of a group under the Act (s474), then to the definition of an "undertaking" (s1161) and finally to the definition of a "body corporate" (s1173).

We recommend that all thresholds and definitions should be set out in one location within the Act and applied via cross-reference to that location.

Availability of exemptions

Some, but not all, non-financial reporting requirements provide an exemption for subsidiary companies provided that they are included in a group annual report. However, these are inconsistent and complicated to apply. Some examples follow.

There is no exemption for a subsidiary from preparing a s172(1) statement where it is included in a consolidated annual report. However, exemptions are available in similar circumstances from preparing a non-financial (and sustainability) information statement and from SECR reporting.

Exemptions are also not always available when logically they should be. For example, a company subsidiary of an LLP cannot take exemption from making climate-related financial disclosures in a non-financial and sustainability information statement, even if it is included in a group LLP energy and carbon report, because the specific wording of the exemption means that it is conditional on being included in a group non-financial and sustainability information statement, which LLPs do not produce.

Often, subsidiary exemptions are only available if there is a UK group annual report in which the subsidiary is included. However, in many cases where there is an ultimate parent incorporated overseas, the intermediate parent company that heads the UK sub-group will not prepare a group annual report, relying on the exemption from so doing in section 401 of the Companies Act 2006. This frequently has the result that the UK intermediate parent company, whilst being in scope of various requirements such as SECR and the climate-related financial disclosure regulations because of the size of the sub-group headed by it, will actually only report on its own activities which are typically minimal or non-existent. This places an unnecessary burden of compliance on such companies without any real benefit, since there is so little value in the information reported.

In reviewing whether and in what circumstances exemptions are available, we strongly encourage the government to approach this assessment from the standpoint of whether the benefit to users of providing information at a certain entity level exceeds the cost or compliance burden of so doing. It may also be helpful for the FRC/ARGA to introduce authoritative guidance to support the directors of a company in making materiality assessments regarding non-financial information. Granting equivalence to sustainability and non-financial reporting regimes in other jurisdictions, where appropriate, would also alleviate some of the burden, as UK law could then make exemptions available provided that equivalent disclosures are made in non-UK parent reports.

Consistent application of “year of grace” or “smoothing” provisions

In some cases, when assessing whether a company is in scope of a particular requirement, criteria exist such that the company only falls in or out of scope if it has done so for two years in a row (often termed “smoothing” provisions or the “year of grace”). However, this is not done consistently. For example, the “year of grace” exists for determining whether a company qualifies as small or medium-sized, but it does not exist when determining whether a company is a “high turnover company” for the purpose of making climate-related financial disclosures. It is also not available for a “company with a high level of employees and turnover” under the draft *Companies (Strategic Report and Directors’ Report) (Amendment) Regulations* 2023.

The "year of grace" concept is beneficial both to preparers and users, since it helps to avoid a situation where a company may move in and out of scope of a requirement year on year, and therefore promotes more consistent reporting. However, it is confusing when it is not made available consistently across legal requirements. We note that in the outcome to the consultation *Restoring trust in audit and corporate governance*, the government confirms that it intends to introduce a smoothing mechanism for qualifying and ceasing to qualify as a PIE under the proposed definition and we are supportive of this proposal.

Revision of definitions used in the Act and secondary legislation

We strongly advise that the government consider whether the definition of "turnover" in the Act remains fit for purpose. As it stands, it excludes several sources of company income, such as interest and dividend income and is problematic to apply to banks and insurers which do not generate "turnover" within the meaning in the Act. Given that there is a clear move towards the use of turnover as one of just two critical determinators of scope, we believe it is essential that the definition is expanded. We note that in the draft *Companies (Strategic Report and Directors' Report) (Amendment) Regulations* 2023, banks and insurance companies are required to include other relevant sources of income in determining whether they meet the turnover threshold, but a more future-proof solution would be to reassess the underlying definition of turnover.

We also observe that there is a lack of clarity regarding the calculation of turnover for the purposes of applying the group size limits in section 383(4) and section 466(4) of the Act when a member of the group has joined or left the group during the financial year. One interpretation might be that only the turnover for the portion of the year for which the member formed part of the group is included. Alternatively, the turnover of the joining or leaving group member might be included for the entire financial year. It would be helpful if the law could be made clear in this regard.

In the same context, we recommend consideration of whether the definition of "employees" remains appropriate. The traditional definition of an employee being an individual with a "contract of service" is no longer representative of the way in which many companies work; critically, it fails to capture sub-contractors. We observe that many groups utilise a group structure whereby a service company holds all the contracts of service with employees, and then sub-contracts employees to trading companies. In the context of thresholds that focus purely on turnover and employees, this has implications for many groups where the majority of turnover may arise in one company but employees are contracted to another. This becomes especially relevant where there is no UK group reporting as there is a non-UK parent and this risks valuable information not being provided to users because no entity within the group is required to report it.

Additionally, in many cases when determining the number of employees for the purpose of meeting a threshold, a company is required to consider all employees whether employed in the UK or overseas, but in some (for instance, in the directors' report requirement to make disclosure concerning employment of disabled persons), this excludes employees who work wholly or mainly outside the United Kingdom.

Consistency with legislation affecting other entity types

We believe it is important for DBT to liaise with other governmental departments and regulators to consider how any amendments made to the company non-financial reporting regime will or should affect or interact with laws that govern other types of entity, such as charities, higher education institutions, LLPs and qualifying partnerships. Companies are not the only entities which are subject to public interest and in our view, consideration should be given as to whether other types of public interest entities, such as charities of a certain size, should be subject to extended non-financial reporting requirements.

Question 5: The Companies Act 2006 sets out size categories for UK companies that determine the type of accounts that need to be prepared and filed with Companies House. Do these size thresholds remain appropriate? Please explain your answer and what, if any, changes you would like to see.

The thresholds for small and medium-sized companies have been in place for several years. In light of the passage of time since the last review in 2015, and given that there is no longer any constraint arising from EU law, we recommend reviewing the thresholds to ensure that they take appropriate account of inflation and remain appropriate for the UK economy. The government could also consider implementing a regular review process for these size limits (e.g. every five years).

We continue to believe that the current micro-entity regime is not fit for purpose. The limited information made available on the register is not sufficient to enable users to make informed decisions, meaning that stakeholders (typically shareholders, lenders and HMRC) require more detailed information to be provided to meet their needs. However, even the accounts prepared for shareholders, which include a profit and loss account, can only be presumed true and fair and are not generally considered to meet the true and fair test set out in s393 of the Act.

We therefore propose two possibilities:

- Remove the micro-entity regime entirely, reverting such entities to the small company regime which requires accounts to give a true and fair view. This would increase transparency but may prove overly onerous.
- Remove entirely the requirement for micro-entities to prepare and file statutory accounts (perhaps restricted to companies that fall below all three micro size limits). Shareholders and lenders should have the right (via a shareholder agreement or loan agreement, as relevant) to receive financial information as needed and HMRC would continue to receive the detailed information required for tax purposes. If this were to be implemented, we recommend that the micro-entity regime should only be available where all members have consented to its use.

Appendix 2: Other substantive comments

Establishment and remit of the Audit, Reporting and Governance Authority (ARGA)

UK company law currently plays a significant role in mandating corporate reporting requirements (both financial and non-financial). As we set out below, the inclusion of requirements in both company law (via the Act and the Accounting Regulations (SI 2008/409 and SI 2008/410)) and in financial reporting standards leads to significant challenges for users and preparers, and requirements in law cannot be easily or swiftly changed to reflect changing practice.

We therefore believe that there should be a clear distinction between the role of government and that of an independent standard-setter and regulator (ARGA), and we encourage the government to move forward with plans to establish ARGA and set out clearly the terms and boundaries of its work. In our view, if ARGA is established with the appropriate internal structure and robust due process to facilitate appropriate levels of engagement with stakeholders and provide transparency around its activities, it should be granted standard-setting powers for corporate reporting, including non-financial reporting aspects such as the strategic report, directors' report (if retained) and sustainability reporting for companies not reporting in line with ISSB standards as endorsed for use in the UK. The government would then assume the role of setting policy objectives at a higher level.

This would result in a more agile reporting system where issues can be more swiftly identified and addressed and reduce the risk that the current complex and confusing framework of requirements will be repeated in future. It would also make it easier to set, align and adjust requirements both for companies and for entities other than companies (such as charities, where the legal requirements regarding corporate reporting have not been updated in several years).

Improvements needed to accounting regulation

It has become increasingly difficult to reconcile the requirements set out in the Accounting Regulations (SI 2008/409 and SI 2008/410) with those in accounting standards. This became particularly evident in application of FRS 101, as companies sought to present IFRS accounting concepts in a way that did not conflict with the legal formats. Although this problem was addressed to some extent via the option, introduced by SI 2015/980, to adapt the formats of the primary statements, this option was only introduced for companies applying Schedule 1 to the Regulations. Banks and insurance companies, which are subject to Schedules 2 and 3 to the Regulations, continue to see issues as the formats in these Schedules simply do not work with IFRS Accounting Standards.

There are also challenges in practice in applying the formats in the Accounting Regulations. For example, we consistently observe difficulty in determining what should be included as a "fixed asset" versus "current asset", particularly in the context of intercompany balances. Confusion around these terms has increased as preparers have become increasingly familiar with the more straightforward IFRS distinction between "non-current" and "current". Further, the extensive measurement and disclosure requirements in the Accounting Regulations use different terminology and do not fit neatly or consistently with FRS 101 or FRS 102.

Once ARGA is established, we advise the government to commence a project to remove – or at least, significantly reduce – the accounting requirements contained in the Accounting Regulations. We acknowledge that the government may wish to set out some basic parameters for the preparation of UK company accounts and specify certain requirements as a matter of public policy. This may include, for instance, the requirements contained in Schedules 5 and 8 (directors' remuneration), Schedule 7 (directors' report – see our response to question 1) and the requirements which govern information to be included in the "front half" of the annual report. However, the requirements contained in Schedules 1, 2, 3 and 6 (and potentially Schedule 4 also) could be removed from the law and captured by corporate reporting standards under ARGA's remit. This would result in a simpler regime under FRS 102 and remove the only remaining source of complexity in applying FRS 101.

Directors' remuneration report

Although not one of the areas specifically asked about, the directors' remuneration report for quoted and traded companies prepared under Schedule 8 to the Accounting Regulations is one of the larger components of the annual report and has become increasingly lengthy and duplicative in the last few years. Companies will often summarise information in an explanatory letter from the chair of the remuneration committee, which is then repeated elsewhere in the report.

We believe it would be helpful to streamline the contents of the directors' remuneration report and to consider whether some parts of the disclosure requirements, which are both time consuming for companies to prepare and often do not provide meaningful insight into the company's approach to pay given calculation methodologies, could be removed (for example, changes in directors' remuneration compared to UK employees' disclosure). We suggest that the government engage with investors to understand what information about executive remuneration they want to receive and how and in what form such information could be provided, including outside the annual report, and identify areas where disclosure in the annual report could therefore be reduced or removed.

Consideration of other types of entities

We suggest that the government may also wish to align more closely the narrative reporting requirements for other entities such as limited liability partnerships (LLPs) with those for companies. Although we acknowledge that the ownership and management structure for LLPs is different from that for companies, additional non-financial information may also be relevant for other stakeholders such as employees, customers and suppliers. We observe that LLPs are now required to report in detail under the climate-related financial disclosure regulations, yet almost no other non-financial information is required, leading to an unbalanced report.

Appendix 3: Detailed proposals for amendments

In this appendix we set out in detail some of the key areas in existing UK company law and regulation where we believe there is a clear opportunity to streamline and simplify the requirements.

1. Rationalise the non-financial reporting requirements for entities of different sizes and capital structures

Issue

The various non-financial reporting requirements in law differ depending on a company's size and whether it is unquoted, quoted, traded, a "high turnover company", listed on AIM, or otherwise meets the definition of a UK public interest entity with more than 500 employees. More complexity will be introduced via the draft *Companies (Strategic Report and Directors' Report) (Amendment) Regulations* 2023. To illustrate:

Requirement	Summary of disclosure	Applies to
Strategic report	Principal risks and uncertainties, review of the business, KPIs	All companies except small companies. Medium-sized companies are not required to disclose non-financial KPIs
	Business model, strategy, market trends, policies and impact on environment	Quoted companies
Non-financial reporting regulations	Business model, policies, risks, non-financial KPIs and impact on environment	UK public interest entities (as set out in s414CA) with >500 employees on average
Climate-related financial disclosure regulations	Climate-related disclosures aligned to those in the TCFD Recommendations addressing governance, strategy, risk management and targets and metrics	UK public interest entities (as set out in s414CA), AIM companies, high turnover companies, banking and traded LLPs, and LLPs with >£500m turnover ("large LLPs") Not required if 500 or fewer employees on average
s172(1) statement	How directors have complied with their duty to promote the success of the company for the benefit of its members, having regard to the matters in s172(1)(a)-(f)	All companies except those that qualify as small or medium-sized, including consideration of ineligibility.
SECR	Global energy and carbon use UK energy and carbon use	Quoted companies Unquoted companies and LLPs except those that qualify as small or medium-sized, based on size criteria only.
Corporate governance statement	Statement of corporate governance arrangements	Companies with more than 2,000 employees globally OR turnover of more than £200m and a balance sheet total of more than £2 billion. Assessment is at company-only level, not size of group.
Disabled persons	A statement describing the company's policy in respect of employment of disabled persons during the year.	All companies except those that qualify as small and take advantage of the small companies exemption which employ more than 250 persons in the UK on average.
Engagement with employees (directors' report)	A statement summarising how the directors have engaged with employees during the year.	All companies except those that qualify as small and take advantage of the small companies exemption which employ more than 250 persons on average.
Engagement with suppliers, customers and	A statement summarising how the directors have had regard to the need to	All companies except those that qualify as small or medium-sized, based on size criteria only.

others (directors' report)	foster the company's business relationships with suppliers, customers and others during the year.	
Directors' remuneration report	Detailed disclosures on directors' remuneration and the remuneration policy	Quoted companies and traded companies (for the purpose of this requirement, traded companies are as defined in s360C, not s474).
Draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023	*Resilience statement, Audit and assurance policy statement, material fraud statement and disclosures about distributions*	*Companies with £750m or greater turnover and 750 or more employees on average.* *Specific requirements for interpretation of turnover for banks and insurers.* *Will apply early for a company whose equity share capital is admitted to trading on a UK regulated market for the whole of the financial year of the company.*

These definitions and thresholds are scattered throughout the Companies Act and secondary legislation rather than appearing in one consistent location. Some criteria allow a "year of grace" before a company moves in or out of scope but others do not.

As set out in our response to question 4, the definition of a "quoted company" overlaps with, but is not the same as, the definition of a "traded company" and this leads to issues in practice.

In addition, some of the requirements for the strategic report allow an exemption for subsidiaries (e.g. non-financial reporting regulations) but others do not (e.g. s172(1) statement), exemptions are typically only available if included in a UK parent company (or LLP)'s consolidated report, even if equivalent disclosures are included in an overseas parent company's report, and some requirements also cover similar matters as those in the directors' report (e.g. employee engagement) but the directors' report has different scoping requirements.

Reference to legislation

The Companies Act 2006:

- s360C
- s385
- s420
- s474
- s414A to 414CB inclusive
- s494A

SI 2008/410 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

- Schedule 7

Consequence of this issue

Navigating the legislation and associated guidance covering the requirements of the strategic report is extremely complex, given not all companies are subject to the same requirements. This means that companies may fail to comply with requirements when they are in fact in scope.

Suggested change

Amend the provisions of the Companies Act to rationalise the requirements for the content of the strategic report and reduce the level of differentiation between companies of different sizes and capital structures.

Remove the existing definitions of “quoted company”, “high turnover company”, “company with a high level of employees and turnover” and “public interest entity” (as defined both in s414CA and in s494A) and replace with one definition of “public interest entity” (PIE). This definition should follow that set out in the outcome of the consultation *Restoring Trust in audit and corporate governance* and should be located in one place in the Act, together with any sub-definitions (e.g. a single definition of traded company, bank, insurer) and the size criteria for small and medium-sized companies, and should be cross-referred to as needed. This may result in some requirements changing in scope, either to capture more or fewer entities, but we consider that the benefits of a simple, streamlined, sensible scoping system for non-financial reporting far outweigh the costs. This should be done at the same time as reviewing the content of the requirements (see 2) and in contemplation of mandatory application of the ISSB standards. More generally, we recommend reviewing the objective of the concept of an ineligible group and considering whether the legislation can be simplified and made more consistent.
Potential impact of change
• Improved understandability of legislation • Reduced complexity of requirements and associated guidance • Greater consistency and comparability of the information included in companies’ strategic reports

2. Single coherent framework for the strategic report requirements to remove complexity and repetition

Issue
The EU Non-Financial Reporting Directive (NFRD) covering the disclosure of non-financial information and diversity information introduced requirements that were similar to many of the pre-existing requirements for the strategic report in the Companies Act (e.g. description of business model, non-financial KPIs and principal risks). On transposition of the NFRD into UK law, these requirements were simply brought in on top of the pre-existing requirements. This has resulted in two separate sets of similar legal requirements addressing the content of the strategic report and for slightly different scopes of company as noted at 1 above. Now that the UK has withdrawn from the EU, this duplication should be eliminated.
Reference to legislation
The Companies Act 2006, Section 414C and 414CB
Consequence of this issue
There is now a confusing landscape for preparers in respect of reporting non-financial information. Before implementing the EU NFRD in the UK, all quoted companies provided non-financial information. Following the implementation of the Directive, ‘Public Interest Entities’ (PIEs) with more than 500 employees need to report against slightly different requirements (the definition of PIEs for the NFRD includes some quoted companies, but not all, and includes some entities that are not quoted).

Suggested change
Amend the provisions of the Companies Act so that areas of overlap and inconsistency between the pre-existing UK legal framework and the EU NFRD are removed, and consider if there are any aspects that could be removed from the annual report and presented elsewhere, such as on a company website (e.g. policies and due diligence where there are no material changes year on year). The following table illustrates areas of overlap between the strategic report (s414C) and the non-financial reporting regulations (s414CB and DTR 7.2.8AR).

Company type	Principal risks		Business model		Non-financial KPIs		Environmental, social, employee and human rights matters		Anti-corruption and bribery matters		Diversity matters	
	s414C	s414CB	s414C	s414CB	s414C	s414CB	s414C	s414CB	s414C	s414CB	s414C	DTR
Listed equity (> 500 employees)	✓*	✓	✓	✓	✓	✓	✓	✓	X	✓	✓**	✓***
Listed equity (≤ 500 employees)	✓*	X	✓	X	✓	X	✓	X	X	X	✓**	✓***
Listed debt (> 500 employees)	✓*	✓	X	✓	✓	✓	X	✓	X	✓	X	✓***
Listed debt (≤ 500 employees)	✓*	X	X	X	✓	X	X	X	X	X	X	✓***
Unlisted credit institutions (> 500 employees)	✓*	✓	X	✓	✓	✓	X	✓	X	✓	X	X
Unlisted credit institutions (≤ 500 employees)	✓*	X	X	X	✓	X	X	X	X	X	X	X
Unlisted insurance undertakings (> 500 employees)	✓*	✓	X	✓	✓	✓	X	✓	X	✓	X	X
Unlisted insurance undertakings (≤ 500 employees)	✓*	X	X	X	✓	X	X	X	X	X	X	X

*While the disclosure of principal risks is a requirement for all UK companies within the scope of the strategic report requirements, s414CB explicitly refers to principal risks relating to the non-financial information matters (i.e. environmental, social, employee, human rights, anti-corruption and bribery matters).
** While some disclosures regarding diversity were already required in the original UK framework, these differ from those in s414CB.
***The diversity disclosures do not apply to issuers which do not have shares admitted to trading on a UK regulated market, unless the issuer has issued shares which are traded on a UK multilateral facility. Companies that meet the size criteria to qualify as small or medium-sized under company law are exempt from the diversity disclosures.

This should be done at the same time as reviewing the scope of the requirements (see 1).

Potential impact of change

- Improved understandability of legislation
- Reduced complexity of requirements and associated guidance

- Greater consistency and comparability of information included in companies' strategic reports

3. Remove overlaps between reporting requirements in regulation and legislation

Issue
There are areas of overlap between the disclosures required under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR) and Listing Rules (LR), those expected under the UK Corporate Governance Code and those required in legislation. For example, a strategic report must include a description of the principal risks and uncertainties facing the entity. This requirement overlaps with Provision 28 of the UK Corporate Governance Code. Under this provision, a company's board is expected to confirm that it has completed a robust assessment of the company's emerging and principal risks in their corporate governance statement. Similarly, this overlaps with DTR 4.1.8 R, which requires a company's 'management report' to contain a description of the principal risks and uncertainties facing the company.
Reference to legislation
Various
Consequence of this issue
The overlap between the reporting requirements of the DTR, LR and UK Corporate Governance Code and the relevant legal requirements makes navigating the legislation and associated guidance covering the annual report complex. In instances where similar requirements cover the same topic, compliance with the reporting requirements in regulation and legislation may be met with a single disclosure. However, the composite nature of the current reporting regime means that preparers must locate these overlaps and potential linkages themselves. This makes producing an annual report that provides a clear and cohesive narrative challenging.

Suggested change
Together with the FCA and the FRC/ARGA, review the content of the requirements of the DTR, LR and UK Corporate Governance Code, and the annual report disclosures required by company law. Amend the provisions of the DTR, LR, UK Corporate Governance Code or Companies Act as appropriate to remove those areas of overlap.
Potential impact of change
• Reduced complexity of requirements and associated guidance

4. Remove the requirement to publish a directors' report

Issue
The Companies Act contains a requirement for all companies other than micro entities to prepare a directors' report. Narrative information relevant to an understanding of the business is now typically contained in the strategic report leaving the directors' report, in many cases, containing little more than cross-references to other locations in the annual report and

'standing information' of a factual nature which is not necessary for an understanding of the position and performance of the business, and which contributes to unnecessary clutter in annual reports.

Reference to legislation

Duty to prepare a directors' report: The Companies Act 2006, Section 415
Disclosure requirements, directors' report: The Companies Act 2006, Section 416
Supporting legislation:

- Large and Medium-sized Companies (Accounts and Reports) Regulations 2008
- Small Companies and Groups (Accounts and Directors' Report) Regulations 2008

Duty to prepare a strategic report: The Companies Act 2006, Section 414A
Disclosure requirements, strategic report, as introduced by the following amending regulations:

- The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013
- The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016
- The Companies (Miscellaneous Reporting) Regulations 2018

Consequence of this issue

The directors' report increases the length of the annual report, making the document more complex and less accessible for users. The inclusion of information that is not of strategic importance also impacts on the value of the annual report for users. Its preparation represents an additional cost for companies and is widely seen as a compliance exercise.

Suggested change

Repeal the requirement to publish a directors' report in the annual report.

The current information that is required to be included in the directors' report should be reviewed to determine whether it should be either:

1. Retained in a different section of the annual report (e.g. the strategic report);
2. Retained, but included on a company's website, filed at Companies House or stored on a central portal; or
3. Not retained.

We recommend that SECR disclosures (unless repealed – see our response to question 3) and the statement of corporate governance arrangements should be relocated to the strategic report.

We also recommend that the three content items to be introduced by the draft *Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023,* which are currently before Parliament, i.e. the audit and assurance policy statement, material fraud statement and policy statement concerning distributions and purchase of own shares, should become strategic report requirements.

We suggest that the following requirements could be removed as they duplicate existing requirements or are of limited relevance to investors:

Regulations reference	Disclosure	Rationale
SI 2008/410 Sch 7.6	Use of financial instruments	Duplicates requirement in financial reporting standards
SI 2008/410 Sch 7.7(1)(a)	Post balance sheet events	Duplicates requirement in financial reporting standards
SI 2008/410 Sch 7.7(1)(b)	Future developments	Addressed by the general requirement in the strategic report to include the main trends and factors likely to affect the future development, performance and position of the business.

SI 2008/410 Sch 7.7(1)(c)	Research and development activities	These should be covered in the strategic report if material.
SI 2008/410 Sch 7.7(1)(d)	Existence of branches	It is unclear that this information is typically material or relevant.
SI 2008/410 Sch 7.10(3) SI 2008/410 Sch 7.11(1)	Detailed employee disclosures (e.g. policy on employment of disabled persons; duty to provide information that is relevant to employees)	Covered by the requirement to report on employee matters in the strategic report (s172(1) statement).

Potential impact of change

- Reduced length of annual reports
- More relevant and accessible information for users
- Reduced complexity of requirements and associated guidance

5. Remove or revise the micro-entity regime

Issue

Micro-entity accounts are very simple. They require limited disclosures and the primary statements are limited to a balance sheet and a profit and loss account.

Micro-entities are required to file accounts at Companies House. These are the same as those prepared for their members. Micro-entities may currently also choose to not file the profit and loss account, reducing the information filed with Companies House further.

Accounts under the small company regime are more comprehensive than under the micro-entities regime. Small companies are required to file accounts at Companies House. Currently, they may choose to prepare and file abridged accounts that may include an abridged balance sheet and profit and loss account. They may also choose to omit the profit and loss account (and related notes) and/or directors' report (where prepared) from filing. Small companies also qualify for an audit exemption in some cases (see 9 below).

Reference to legislation

The Companies Act 2006, Part 15 *Accounts and reports*, Chapter 10 *Filing of accounts and reports*
The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, Schedule 4

Consequence of this issue

The limited information about micro-entities made available on the register is not sufficient to enable users to make informed decisions, meaning that stakeholders (typically shareholders, lenders and HMRC) require more detailed information to be provided to meet their needs. However, even the accounts prepared for shareholders, which include a profit and loss account, can only be presumed true and fair and are not generally considered to meet the true and fair test set out in s393 of the Act.

Suggested change

We suggest two possibilities:

- Remove the micro-entity regime entirely, reverting such entities to the small company regime which requires accounts to give a true and fair view. This would increase transparency but may prove overly onerous; given the typical stakeholders of a micro-entity, the cost of preparing such information may exceed the benefit of so doing.
- Remove entirely the requirement for micro-entities to prepare and file statutory accounts (perhaps restricted to companies that fall below all three micro size limits). Shareholders and lenders should have the right (via a shareholder agreement or loan agreement, as relevant) to receive financial information as needed and HMRC

would continue to receive the detailed information required for tax purposes. If this were to be implemented, we recommend that the micro-entity regime should only be available where all members have consented to its use. If the micro-entity regime is retained, we observe there is an anomaly in the drafting of section 384B(2) of the Companies Act 2006, the effect of which is that it is possible that some intermediate parent companies may be entitled to use the micro-entity provisions even though they are consolidated into the accounts of a larger group. This is because the restriction in s384B(2)(b) applies only to a company that is not a parent company. Consequently, it is possible, in rare cases, for the intermediate parent to qualify as a micro-entity even though the subsidiaries below it would fail to do so.
Potential impact of change
• Increased value of information prepared, if micro-entities are reverted to the small company regime • Reduced cost of accounts preparation, if micro-entities are no longer required to prepare and file statutory accounts

6. Repeal some or all of the Accounting Regulations

Issue
Companies which apply UK GAAP must prepare their accounts in accordance with the requirements of: • the relevant Financial Reporting Standard (FRS); and either • The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008; or • The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The requirements of the relevant FRS and legislation can often result in: • similar reporting requirements being placed on companies, but different language being used by each; • different reporting requirements being placed on companies, resulting in different disclosures, but which achieve the same objective; • reporting requirements specified in legislation being additional to those required by FRSs; and • difficulty reconciling the two sources of requirements to produce a compliant set of accounts.
Reference to legislation
The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008; and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008
Consequence of this issue
Companies which apply UK GAAP must consider and synthesise both sets of reporting requirements (i.e. those contained in the relevant FRS, and those requirements in legislation). This creates a compliance burden that does not reflect the nature and type of companies which apply UK GAAP. This issue became particularly evident in application of FRS 101, as companies sought to present IFRS accounting concepts in a way that did not conflict with the legal formats. Although this problem was addressed to some extent via the option, introduced by SI 2015/980, to adapt the formats of the primary statements, this option was only introduced for companies applying Schedule 1. Banks and insurance companies, which are subject to Schedules 2 and 3 to the Regulations, continue to see issues as the formats in these Schedules simply do not work with IFRS Accounting Standards. An equivalent burden does not exist for those companies which apply IFRS Accounting Standards. Companies preparing accounts under IFRS Accounting Standards need only consider the requirements of IFRS Accounting Standards, supplemented by specific requirements in the Companies Act. This means preparers can have limited regard to the requirements of company law.

Suggested change
Repeal the following legislation: • Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409); and

- The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)

Alternatively, repeal those parts which deal directly with accounting requirements and retain other sections which reflect public policy decisions. In SI 2008/410, this would enable the removal of Schedules 1, 2, 3 and 6 (and potentially Schedule 4 also).

Work with the FRC/ARGA to revise the following accounting standards which form UK GAAP to incorporate any relevant requirements from legislation, as well as removing those similar disclosures which result in duplication and achieve the same objective:

- FRS 101 *Reduced Disclosure Framework;*
- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.

Potential impact of change

- Reduced complexity of requirements
- Increased consistency of terminology used in annual reports across UK companies, enhancing comparability and understandability
- Removal of restrictive requirements such as mandating a specific order of notes to the financial statements
- Ability of UK insurance companies to use the recognition and measurement bases and presentation requirements of IFRS 17 *Insurance Contracts* without conflict, removing issues for entities applying FRS 101 in particular and facilitating the implementation of IFRS 17 principles into UK GAAP accounting standards in due course.
- Removal of the restriction that certain financial instruments may only be measured at fair value if the disclosures required by IFRS Accounting Standards are provided in the company's accounts; any additional disclosures can then be set out solely in FRSs.

7. Remove the requirement to disclose a full list of subsidiary undertakings

Issue

Company law requires that a company must provide a full list of subsidiary undertakings in the notes to the financial statements. This disclosure must be given, regardless of materiality.

Reference to legislation

The Companies Act 2006, Chapter 4, Section 409

Consequence of this issue

Information that is not material to presenting a true and fair view is required to be included in the notes to a company's financial statements. It can also result in a disclosure of excessive length where a company has a large number of subsidiary undertakings.

As legislation prevents companies from including this information on their website or in another specified document, it must be presented within the company's annual accounts. This contributes to unnecessary clutter, which adds to the length of the accounts and detracts attention away from information which is of interest to investors.

Suggested change

Remove the requirement to provide a full list of subsidiary undertakings in the notes to the financial statements.

Alternatively, retain the requirement, but allow the list to be included on the company's website, a government-sponsored website, or central electronic depository.

Potential impact of change

- Reduced length of annual accounts
- More relevant information for users

8. Exempt interests held as part of an investment portfolio from consolidation

Issue

The Companies Act requires subsidiary undertakings to be included in the company's group accounts subject to specific exemptions. These exemptions include the situation where an interest of the parent company is '*held exclusively with a view to subsequent resale*'.

Where an interest meets this definition, it is measured at fair value through profit or loss in accordance with FRS 102, rather than included in the consolidation.

Reference to legislation

The Companies Act 2006, Section 405

Consequence of this issue

FRS 102 was developed to include a definition of an interest '*held exclusively with a view to subsequent resale*' in order to exempt companies from having to include their investments in their consolidated financial statements. This definition includes interests held as part of an investment portfolio. This means interests held as part of an investment portfolio are exempt from consolidation and measured at fair value. This is considered the most logical accounting treatment and relevant outcome for group company financial reporting. However, the solution has introduced additional complexity into the current UK financial reporting framework. It would be preferable if the law was clear on whether these interests may be excluded from consolidation.

Suggested change

Amend the provisions of the Companies Act to include interests held as part of an investment portfolio as undertakings that may be excluded from consolidation.

Potential impact of change

- Reduced complexity of requirements

9. Align small company audit exemption threshold with small company accounting threshold

Issue

Small companies are exempt from audit if they meet the criteria set out in s477 of the Companies Act 2006. In the case of a small company that is part of a group, s479 of the Companies Act 2006 states that the company is not entitled to the exemption conferred by s477 in respect of a financial year during any part of which it was a group company unless the group qualifies as a small group in relation to the financial year in question and was not, at any time in the year, an ineligible group. However, for this purpose, 'the group' means the group company "together with all its associated undertakings". S479 states that for this purpose undertakings are associated if one is a subsidiary undertaking of the other or both are subsidiary undertakings of a third undertaking. This therefore means that it is necessary to consider the size of the largest group of which the company is part when considering audit exemption, not just the group headed by the company seeking the exemption.

This differs from the availability of the small companies accounting regime as set out in s383, where the size limits only apply to the company and its own subsidiaries ("the group headed by the parent company"). There is no obvious rationale for this difference.

Reference to legislation
The Companies Act 2006, Section 383 The Companies Act 2006, Section 479
Consequence of this issue
The difference in the definitions is difficult for companies to follow and can result in companies failing to obtain an audit when the legislation states that they should have one. There is no clear rationale for the difference in definition. Variations in legislation also makes implementing policy changes on a consistent basis challenging. This can impact on how effective policy changes are in achieving their intended objective.

Suggested change
Align the audit exemption requirements to those set out in section 383 for small companies by providing one definition of a small company which is used in both cases.
Potential impact of change
• Reduced burden on small companies