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3 February 2021

Business Frameworks
Directorate Transparency and Trust Team
Department for Business, Energy and Industrial Strategy
1st Floor 1 Victoria Street
London SW1H OET
By email: transparencyandtrust@beis.gov.uk

Dear Sir/Madam,

Corporate Transparency and Register Reform – improving the quality and value of financial information on the UK companies register

Deloitte LLP welcomes the opportunity to comment on the consultation issued by the Department for Business, Energy and Industrial Strategy (BEIS) regarding corporate transparency and register reform.

We support the proposals related to the streamlining of filing of financial information. There are clear potential efficiencies to be gained through the transformative use of technology, and we are supportive of the move towards digital corporate reporting in the UK. We note that the proposals in this paper overlap in several instances with broader considerations raised in the Financial Reporting Council's (FRC's) recent discussion paper on the Future of Corporate Reporting. There is also overlap with HMRC's current consultation regarding Making Tax Digital (MTD) for corporation tax in the context of digital filing of financial information. We believe it is essential for BEIS to liaise with both HMRC and the FRC in this regard, especially with regard to proposals for streamlined digital filing and continued use of size thresholds. In particular this represents an opportunity to simplify the existing size regime and to consider whether the information currently filed meets the needs of stakeholders.

However, we have significant concerns around the proposal to shorten filing deadlines to three months for public companies. A three-month deadline for public companies would create considerable practical and logistical challenges given the substantial amount of work required to prepare, have audited and approve a public company annual report. It seems unlikely that a shorter filing deadline would improve the quality of reporting and could in fact result in poorer quality if processes are condensed into a tighter timeframe. We consider that four months would be more acceptable, consistent with the requirements of Chapter 4 of the Financial Conduct Authority (FCA)'s Disclosure Guidance and Transparency Rules (DTR). We also believe that any shorter filing deadline should apply only to those companies in the public interest, rather than to all public limited companies, and recommend that this be aligned to the outcome of the forthcoming government consultation on the definition of a Public Interest Entity (PIE).

Finally, given both the timing and the short duration of the consultation period, we are concerned that businesses may not have the opportunity to respond and recommend that BEIS seek further feedback before implementing any of the changes proposed.

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Our detailed responses to the questions can be found in the attached appendix. If you have any questions, please contact Robert Carroll on 020 7303 2458 or rcarroll@deloitte.co.uk.

Yours faithfully

Veronica Poole

UK National Head of Accounting and Corporate Reporting
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Appendix – Responses to detailed questions

Section 1: Towards file once with government

Q1: What features of the Companies House and HMRC filing regimes should be kept under a harmonised filing process?

In principle, we are supportive of the idea of filing once across government and regulators and we believe that the best way to achieve this is via a central portal where companies can file their information creating a database from which the relevant government bodies can extract and export the information that they – and other stakeholders – need based on the way in which that information is tagged.

Our response to the FRC's Future of Corporate Reporting consultation discusses possibilities for such a database, and we recommend that the government liaise with the FRC to leverage the ideas and proposals that come out of this wider thought piece. In particular, we suggest that consideration could be given to creating an underlying database, which the preparers can use to generate their reports, rather than tagging the reports once they have been created. Such a database could include not only the statutory information required by government and regulators but also broader information accessible to stakeholders and standing data currently held at Companies House. Only the database would need to be tagged, rather than every separate report filed, and the tagging process could also be more sophisticated by, for example, including tags about any assurance obtained over a data point and the materiality to which it is prepared. As would also be required for a report-based tagging process, a digital taxonomy would need to be created to define the data points needed to be disclosed by each entity and to whom the data should be available (see our response to Q2). This process could also help to ensure compliance with preparation and filing exemptions by setting the required data points based on the entity's size and other qualitative metrics.

Q2: What information (if any) in annual accounts should not be made public?

The annual report and accounts (ARA) represent a statutory document that is public in its entirety and we believe that this should continue to be the case. However, companies typically submit more detail in their HMRC submissions than is included in the statutory ARA, such as a detailed profit and loss account. Under a "file once with government" approach we believe that this more detailed information should continue to be available only to HMRC and we would not expect changes to be made to what tax information is made public without specific consultation. This could be achieved by the use of a central filing system or database via which all information is uploaded but where access to information not required for the statutory ARA can be restricted or tagged by the company to certain users.

Q3: What benefits do you envisage for filing once across government?

A reduction in administration and duplication could lead to efficiencies and cost savings for companies and their agents. It could also reduce or even eliminate unintended inconsistencies that arise where there is currently duplication of filed information by ensuring that each piece of information only needs to be uploaded once. For instance, companies are currently required to include the list of directors during the year in the ARA as well as confirming (via the annual confirmation statement) that the reported officer position is up to date on the Companies House systems. A central database could enable companies to provide this information directly and in one location.

Q4: What challenges do you envisage for filing once across government?

As noted in the consultation, any fundamental change in this area will require significant change to tax and company legislation as well as substantial investment in the underlying technology. The technology needs to function correctly and be straightforward to use for filing by the very smallest and the very largest of companies. The government should also work with software providers to facilitate changes. Further, any changes should be aligned with HMRC's proposals on MTD for corporation tax (which are currently subject to consultation as noted in our cover letter) and give due regard to other pressures on businesses, especially at this challenging time.

There is also a challenge around the nature of the information that is to be filed. The numbers a company files for tax purposes are often different from those filed for accounting purposes. For example, certain types of income and expenditure appear in the statutory accounts but are not allowable for tax purposes. These numbers are typically reconciled in a note to the accounts but any database will need to allow for the possibility that there may be two numbers filed for the same metric in some cases. There is also a question of timing in that tax returns are currently required to be filed after the statutory accounts so it may prove problematic to "file once" as this would mean significant acceleration of the filing of tax information. Whilst we are not averse to the idea of accelerating filing deadlines for tax information, we would still envisage the need for such information to be filed later than the ARA due to adjustments required. Any change in this regard should be subject to further, specific consultation in conjunction with HMRC.

Section 2: Requiring financial information to be delivered in a digital format

Q5: In your view, why do some companies continue to file on paper?

In some cases, companies may still lack the systems to create and directly file digitally, although this is increasingly rare. Others may prefer the relative simplicity of filing on paper or may simply not have considered the alternative of digital filing. In some cases, it remains impossible to file digitally, particularly for listed companies producing a "glossy" annual report, who will typically file a black and white copy of that report as circulated to shareholders.

Q6: What challenges will mandatory digital filing present?

The primary challenge will be for companies to ensure that the content to be filed is in the required format and/or appropriately tagged on a system that is compatible with the system used by the government, although use of a centralised database as suggested in our response to Q1 would minimise such difficulties since tagging would be at the database level rather than at the individual report level. The use of the European Single Electronic Format (ESEF) could alternatively reduce this issue as the intention of ESEF is to create a single annual report that is both machine and human readable.

It will also be important to ensure that safeguards are in place so that information cannot be submitted inadvertently or at the wrong time (e.g. before it has been finalised or audited).

Q7: What can government do to assist these companies to transition to digital filing?

As noted in our response to Q4, whatever technology is settled on will need to be simple and straightforward to use. Support for accountancy firms and software providers should be provided at an early stage to enable them to prepare adequately for transition. We also recommend that the

introduction of digital filing requirements and the proposed shortening of filing deadlines, if implemented, should be staggered to avoid unnecessary pressure on companies. Also as noted in our response to Q4, any transition to digital filing should be approached jointly with HMRC in the context of the current consultation on MTD for corporation tax.

Section 3: Full i-XBRL tagging of financial information

Q8: What challenges do you foresee with filing fully tagged accounts with Companies House?

Subject to the practical challenges noted in our response to Q6 we do not see any particular challenges with filing fully tagged accounts at Companies House, particularly following the introduction of ESEF, although we submit that our suggestion to create a tagged database may be simpler in the long term.

Q9: As a user of financial information on the register, what information in a company's accounts is critical for you and should be checked (validated) to ensure it is tagged correctly?

We suggest that, as a minimum, all statutory information required by Companies House and HMRC should be validated to ensure that it is tagged correctly.

Section 4: Reducing the timescales for delivering financial information

Q10: With continual advancements in digital technology, what are your views on shortening the time allowed to submit accounts to Companies House?

Q11: What would be the impact if filing deadlines were shortened to three months for public and six months for private companies from the end of the reporting year?

We are answering questions 10 and 11 together.

Although we acknowledge that improved technology could potentially make it easier for companies to actually submit data to Companies House and other government bodies and stakeholders, this would have a minimal effect (besides the potential to reduce duplication and administration mentioned in our response to Q3) on the degree of work needed to prepare the information to be submitted.

We do not believe that the distinction between public and private companies is the most appropriate line to draw. The primary reason for an earlier filing deadline is to ensure that those companies subject to significant stakeholder and public interest produce information in a timely manner. These typically tend to be companies that are listed, whether on a UK regulated market or a multilateral trading facility such as AIM, as well as banks and insurers. Such companies are already subject to additional publication requirements, either from regulators (such as the FCA or PRA) or from the exchange on which they are listed. For instance, companies subject to the DTR are required to publish the annual financial report within four months of the year-end, while AIM companies have six months.

We therefore propose that the distinction could more usefully be made between entities that are in the public interest (broadly those entities that are listed or otherwise regulated by the FCA/PRA) and those that are not. This distinction could be made with reference to the outcome of the forthcoming government consultation on the definition of a UK PIE.

For such entities, we would support a reduction in the filing deadline but only to a minimum of four months, consistent with the publication requirement of the DTR. This period would appear to be sufficient to prepare the required information in a timely manner. It is also consistent with the FRC's findings in its

discussion paper "Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies" where it noted that in comparison to the four month period allowed under the DTR, the six-month reporting period for AIM "encourages last-minute preparation and can discourage investment in those companies that make full use of the six months".

In the discussion paper referred to above, the FRC also noted that:

> *"…the most significant challenge facing smaller quoted companies relates to the adequacy of appropriate resource to prepare the annual report, which often results in their preparation being left until the last minute. This places pressure on both the finance function and auditors to finalise the annual report in a short space of time, which may have an adverse impact on quality."*

We believe that a three-month deadline would present significant logistical challenges given the quantity of information such companies need to prepare and have audited. It seems unlikely that a shorter filing deadline would improve the quality of reporting and could in fact result in poorer quality if processes are condensed into a tighter timeframe. It could also mean that supporting information for the figures in the accounts, such as property valuations and actuarial estimates, cannot be obtained within the time frame allowed.

We also note that public companies are required to hold an "accounts meeting" (typically combined with the AGM) within six months of the end of the financial year at which the annual report and accounts must be presented to shareholders. If, as current legislation requires, this meeting needs to be held no later than the accounts filing deadline, and accounts are to be circulated with the notice of the meeting, which must be given 21 clear days in advance, in practice a three-month accounts filing deadline would allow companies only two months at most to prepare and finalise the accounts in readiness for circulation to members. We believe this is likely to be too short a period for reliable and accurate reporting. We also recommend maintaining the current six-month time limit in which to hold a public company accounts meeting given that there is no requirement for shareholders to approve the accounts before they are filed.

For other entities not in the public interest, we recommend that the filing deadline remain at six months for public companies and nine months for private companies. There appears to be no particularly pressing need to require earlier filing for such entities and it is important to ensure that quality of reporting is not adversely affected in the interests of speed. However, we do not believe that a reduction to six months for private companies would present as many challenges as a reduction to three months would for public interest companies.

Q12: What measures could the government implement to ease the transition to shorter filing deadlines?

The government should ensure that companies are given plenty of notice of the change and that it is widely publicised. This consultation has been published at a busy time when many companies will be currently preparing their ARA against the backdrop of Brexit and the COVID-19 pandemic. We therefore recommend that any changes take effect only for financial years beginning on or after 1 January 2023 at the earliest, and following further consultation with affected businesses and other government, regulatory and professional bodies.

Section 5: Maximising the value and integrity of accounts information

Q13: What will be the challenges for companies submitting a declaration of filing eligibility with accounts?

Aside from adding another layer of duplication in disclosure, we see no particular challenges involved in submitting a declaration of filing eligibility. However, we do not believe that such a declaration will necessarily enhance compliance. Instead, we see this as an opportunity to revise the existing complicated and confusing set of size-based regimes in the Act.

The numbers proposed for inclusion in the declaration already appear in the ARA in the majority of cases, apart from turnover when a small company or micro-entity does not file its profit and loss account and companies making use of the exemptions in law for small companies are already required to state that the directors have satisfied themselves that they are entitled to take the exemption/s in question. There seems no benefit in repeating them in a separate declaration. Nor would these numbers assist in determining whether a company is ineligible, part of an ineligible group or part of a large group, or whether the company is entitled to a 'year of grace' in the first year in which it breaches the size thresholds. These are the areas in which issues with compliance are most commonly seen. Accordingly, we believe that the challenge, and the more fundamental issue to be resolved, lies in interpreting the many, varied and complex requirements that exist in company law.

One of the most common examples is the difference between small company eligibility for accounts exemptions and audit exemption. To apply the small company accounts regime, a company that is in a group need only look at the size of the group it heads to determine whether it falls within the size criteria. However, to obtain an exemption from audit on grounds of size, it needs to look not only at the size of the group it heads but at the size of the largest group of which it is part. This is an issue that continually catches companies out. The eligibility for certain small company filing exemptions is different again as it currently allows companies to omit the directors' report from the filed ARA if they would have been small but for being part of an ineligible group.

Other challenging areas include the scope of the s172(1) statement, the directors' report disclosures about engagement with employees, customers, suppliers and others, and the disclosures about energy and carbon, all of which purport to exempt medium-sized companies under the Act but each of which has slightly different scope criteria.

Rather than requiring companies to submit a declaration of compliance, we therefore recommend that BEIS should overhaul the existing scoping criteria, making it easier both for companies to comply and for Companies House to assess compliance.

Q14: Under what circumstances, if any, should the eligibility information collected with the declaration not be published on the public register?

Subject to our answer to Q13 above, the answer to this question is dependent on the decision made with regard to publishing the profit and loss account. We believe that any declaration should include information that is required to be made public in the ARA. This will include total assets and employee numbers but at present small companies and micro-entities need not file a profit and loss account and may therefore prefer not to disclose turnover.

Q15: What other information should Companies House collect that would be useful for:

- combating economic crime; and
- increasing the value of information available on the register?

As set out in our response to Q13, if a declaration of eligibility is introduced, Companies House should gather information about eligibility criteria in addition to the size of the individual entity to confirm the company is not an ineligible company or part of an ineligible group. For confirmation of eligibility for audit exemption, whole group figures would be required as whole group limits are often overlooked.

In developing the capability of digital filing, it may also be worth exploring whether a company's auditor could be granted the ability to file the audit report directly.

Q16: As the directors' declaration will need to include information in respect of turnover, balance sheet total and number of employees, what changes, if any, would you make to these definitions in Part 15 of the Companies Act to make the definitions clearer?

We recommend updating the definition of turnover for the purposes of the size thresholds to capture investment income. This will be particularly relevant for many investment holding companies and other investment-type companies whose only form of income might be from the receipt of dividend and interest income from their investments, which would not currently be considered turnover as defined in the Act.

The calculation of employee numbers may also benefit from revision in light of changes to how people work and are employed in recent years; a better measure may be 'workforce', in line with the FRC's 2018 UK Corporate Governance Code, which could capture contracts for service as well as contracts of service. Many groups of companies also make use of a single service company within the group which holds all of the contracts of service for the employees of the group. Under the definition in the Act, those employees would be considered as employees of the service company, even if other companies within the group are receiving the benefits of their service. It may therefore be helpful to consider how the number of employees could be determined more meaningfully in this context.

Q17: What would be an appropriate sanction for making a false declaration of eligibility?

In our view, it would be appropriate to impose sanctions similar to those for failing to maintain adequate accounting records, i.e. as set out in s387 of the Act.

Section 6: Review of Small Company Accounts Filing Options

Q18: What is the minimum level of financial information that a micro-company should disclose on the public register?

We believe that the current micro-entity accounts regime is unfit 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:

1) Remove the micro-entity regime entirely, reverting such entities to the small companies 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.
2) Remove entirely the requirement for micro-entities to prepare and file statutory accounts. 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.

However, we advise further consultation on the future of the micro-entity regime, in conjunction with the FRC and professional bodies, before any sweeping changes are made.

Q19: Are there any existing filing requirements under the small or micro-entity regimes that could be discarded?

Application of the options to prepare abridged accounts and file 'filleted' accounts has proved challenging and both of these options continue to create confusion for preparers and users. In the interests of transparency and comparability, we agree with the proposal to remove both of these options. In particular, we see no value in the option for small companies to prepare abridged accounts for their shareholders and for filing as such accounts omit information such as turnover, which is likely to be of interest to shareholders. Small companies would therefore be required to file both the directors' report and the profit and loss account going forward, and would not be able to prepare abridged accounts.

Q20: What would be the impact on small companies if the Companies House filing requirement was aligned with HMRC's to require a profit and loss account?

HMRC typically requires a more detailed profit and loss account than is included in statutory accounts. As set out in our response to Q2, we do not believe that the detailed profit and loss account prepared for HMRC should be included in the statutory accounts or made public. However, small companies are currently required to prepare a statutory profit and loss account for members and we agree that this should be included in the financial information that is publicly available at Companies House.

Q21: How do you think the current small company filing options could be amended to help combat economic crime whilst maintaining a simple filing system for small entities?

The removal of filing exemptions could go some way towards helping to combat economic crime since companies would no longer be able to remove parts of accounts that are prepared for shareholders from what appears on the public record. If anything, this would result in a simpler filing system for small companies as they would be able to prepare and file one set of financial information. The use of a database and tagging, as described in our response to Q1, could further help in ensuring consistency of information filed for use by different government bodies; for instance, the lines of the detailed profit and loss account provided to HMRC which correspond to the lines presented in the statutory profit and loss account at Companies House could be tagged such that the numbers are required to match.

Section 7: Changing and clarifying filing requirements

Q22: What would be the benefits of requiring companies to file the most detailed set of accounts that have been prepared?

As set out in our response to Q20, we do not believe companies should be required to file publicly the most detailed set of accounts that are prepared; such a filing would need to include the detailed profit and loss account prepared for HMRC. However, we believe that removing filing exemptions and requiring companies to file the full statutory ARA prepared for members would increase transparency and reduce administrative costs. This would also have the benefit that where an otherwise small company requires an audit (for instance, because it is part of a non-small group), the full audit report would be included in the publicly filed ARA; typically this is not included where the profit and loss account is not filed.

Q23: What would be the disadvantages of requiring companies to file the most detailed set of accounts that have been prepared?

If the full statutory ARA was required to be filed, company competitors would be able to see the turnover and key profit metrics for small companies and micro-entities, which some may consider to represent commercially sensitive information. Other than this, we see no particular disadvantages.

Section 8: Greater checks on financial information

Q24: What are your views about the general premise that checks should be conducted on all accounts prior to them being accepted as fit for filing on the public register?

We agree with this premise.

Q25: Additional checks will be limited. Bearing in mind resource and expertise constraints, can you provide examples of what information Companies House should check as a priority and how it can be checked?

We believe that Companies House should check eligibility for small company accounts simplifications and audit exemption. This could be via the declaration of eligibility mentioned above, if it is introduced; alternatively, simplification of the scope of the various regimes and exemptions would simplify the process for Companies House reviewers as well.

More broadly we recommend that Companies House should consider expanding reviewer expertise and performing more detailed reviews of financial information submitted on a sample or risk-assessed basis. It is also particularly important, in the wake of the many and varied legislative changes arising as a result of the UK's withdrawal from the EU, that Companies House reviewers receive adequate and timely training on changes that they should expect to see in forthcoming sets of accounts.

Q26: Examples of suspicious activity in a company's accounts may be incomplete, inconsistent or apparently misleading information. Can you provide examples of information in a company's accounts that may be an indicator of suspicious activity?

Examples could include significant unexplained changes in turnover or balance sheet totals year on year, inconsistencies between closing and opening balances (outside of documented prior year restatements), large director loan account balances, overstated capital and frequent or repeated changes to the accounting reference date. On the last point, we are aware that companies exploit the permission in the Act to shorten a company's accounting reference period to postpone significantly the completion and

filing of accounts, for example by shortening the period by as little as one day, which can give up to three additional months in which to file accounts. Before this period ends, the company may repeat the exercise, thereby extending the deadline again. We therefore recommend that the ability to shorten an accounting reference period be restricted, for example to making only one change for a period that begins on a particular date unless there are clearly defined good reasons for making a second change to the length of the same period.

Section 9: Displaying key information on the register

Q27: Which elements of financial information would be most useful to see on the company overview page?

Typically key metrics would include turnover, net profit or loss and net assets; key performance indicators identified by the company could also be presented. It would be helpful to set out the size of the company under the Act.

Q28: What non-financial information would you like to see on the company overview page?

This could include employee numbers and names of current directors and, where relevant, other non-financial information such as key stakeholders, energy and carbon metrics and other non-financial key performance indicators identified by the company.

Q29: Do you have any additional comments about this proposal?

Some of the changes – primarily the proposals to shorten filing deadlines and to remove certain exemptions – will be very significant if implemented. As noted in our cover letter, we are concerned that the timing and brevity of the consultation period may mean that businesses may not have the opportunity to respond. We recommend that BEIS engage proactively with affected stakeholders and enlist the FRC, the FCA, HMRC and other regulatory and professional bodies to ensure a broad set of responses.