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By email: futurereporting@frc.org.uk

Dear Sir/Madam

A matter of principles: The future of corporate reporting

Deloitte welcomes this thought leadership paper ("the Paper") and the opportunity to reflect on the current reporting system in the UK. The Paper is timely given the significant pace of development in the UK and global corporate reporting landscape. For example, rapid progress is being made by the IFRS Foundation (IFRSF) on the possible establishment of a Sustainability Standards Board to develop global non-financial reporting standards that focus on long-term value creation, connected to financial information, which could be announced at COP 26. The government has published a roadmap towards mandatory climate-related disclosures and a new Listing Rule requirement has been introduced for commercial companies with a premium listing in the UK to include a statement on TCFD in their annual report.

UK annual reports are frequently held out as leading examples of disclosing how the needs of broader stakeholders are taken into account by businesses. This has been strengthened by the focus the FRC has shown in advising business on reporting on Section 172 of the Companies Act 2006 and Provision 5 of the 2018 UK Corporate Governance Code.

We understand the purpose of *A matter of principles: The future of corporate reporting* (the Paper) to be exploratory, considering different approaches to reporting and challenging the status quo. Whilst we welcome the aspiration to simplify the corporate reporting landscape to drive accessible, meaningful information for stakeholders, we have significant concerns about the primary outcome being focused on promoting separate reports as set out in the paper.

Reporting affects business behaviour. In our view, the approach to corporate reporting of the future set out in the Paper risks at best obscuring the critical connectivity that exists between non-financial and financial reporting and at worst driving fragmented and siloed strategic behaviour. In other words, a step back from the move towards integrated thinking that Deloitte advocates. It runs the risk of exacerbating greenwashing rather than creating the appropriate links into finance and enhancing accountability. The importance of connectivity is the message from investors and regulators on climate. The narrative must be connected to judgements and estimates in the financial statements. Separating this narrative would be wrong, and including it twice is a duplicative and expensive exercise. It may also result in diluting a Board's focus - currently the entire annual report and accounts is overseen by the Audit Committee.

We acknowledge and support the trend towards responsible business and an understanding of enterprise value creation (EVC) in the context of multiple stakeholders. The growing awareness of the relationship between purpose and profit and increasing recognition by companies of the need to deliver sustained value to a range of stakeholders is redefining the social contract between business and society. Environmental, social and governance (ESG) factors, including climate change, now feature prominently in boardroom discussions and gain ever more attention from investors and other stakeholders who realise that these are essential in order to understand the drivers of value and risk within an organisation. With broader commitments to multiple stakeholders come broader reporting obligations. Therefore, reporting to stakeholders in addition to providers of financial capital is of increasing relevance and importance.

We agree that creating a central repository of company reporting to meet the needs of broader stakeholders could be useful so as to keep all information in one place, including reporting on impacts, to specific stakeholders, to meet public policy specific requirements, standing data, etc, in addition to the annual report to investors that includes information relevant to enterprise value creation.

However, disaggregating the existing reporting product does not provide the radical transformative solution required if we are to reset the corporate reporting landscape. Underpinning any future model should be a quality underlying set of connected financial and non-financial data. This same data set should provide scope for disaggregated reporting to better serve other, broader stakeholder needs as well as fulfilling the primary needs of shareholders.

The focus of UK annual reports on providers of financial capital as a primary audience is consistent with integrated reporting and the focus of the global developments referred to above. This must remain the priority in order to direct capital to sustainable and resilient business. We believe investors should have easy access to the information that is relevant to their needs and not have to piece together various reports prepared to differing materialities. We are concerned that purely objective-driven reporting, as proposed in the Paper, would be unlikely to lead to the right outcome: although different users of a report may have the same overriding objective or interest in a topic, as the Paper suggests, we believe the needs of users from different stakeholder groups will vary as a result of the different lenses through which the users are viewing the information they are using.

The distinction between a) users with the objective of making economic decisions, and b) the broader user group focusing on the impacts a business has, is articulated clearly as a “dynamic” and “nested” approach to materiality of sustainability information in recent joint publications by CDP, CDSB, GRI, IIRC and SASB e.g. their Statement of Intent to Work Together Towards Comprehensive Corporate Reporting. We believe this approach to be consistent with that of the FRC to date and that it is a compelling starting point as to how a future system of comprehensive corporate reporting might be designed.

Assurance is an important contributor to trust, but for this to be the case clarity is needed regarding what level and quality of assurance each piece of information is subject to. We strongly feel that the quality of assurance over the connected ‘enterprise value’ report whose primary user is the shareholder is best delivered holistically by the auditor, recognising that the majority of the value of a company is represented by intangible factors which are currently discussed in the front half of the annual report. However, there is real opportunity for ‘non enterprise value’ data points required by broader stakeholders to be assured by other providers, subject to comparable independence and quality requirements. This approach could promote more choice and competition in the market and should link to the Audit and Assurance Policy recommendation from Brydon. It is critical that the market has clarity on the scope and quality of assurance that is applied to reported data.

We encourage the FRC to think about any potential change to the UK model of corporate reporting in the context of UK competitiveness. For example, three reports as suggested in the Paper might increase costs and look out of place in the international market for listings. Furthermore, although the UK has had a great history of taking the lead, the significant developments in the global corporate reporting space and move towards a global sustainability standard must be reflected upon in considering future UK corporate reporting, to avoid any potential divergence from this.

In the short term and as we also set out in our response to BEIS on its consultation *Corporate transparency and register reform*, we would encourage the FRC to work with BEIS to simplify the existing regime and harmonise the many and varied reporting criteria across legislation. For example, there is an opportunity to address the different scoping criteria for Streamlined Energy and Carbon Reporting vs the Section 172 statement vs the non-financial information statement and directors' report disclosures. The introduction of mandatory TCFD reporting across the UK economy and the prospect of a global standard on climate-related financial disclosures provides an important foundation and impetus for this review.

Our views on the proposals as a whole along with other key observations are discussed in our answers to the questions in the appendix to this letter. Please do not hesitate to contact Amanda Swaffield on +44 20 7303 5330 or aswaffield@deloitte.co.uk if you would like to discuss any of the matters raised in our response.

Yours faithfully

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Appendix – Responses to detailed consultation questions

1. What are your views on our proposals as a whole? Are there elements that you prefer over others?

As stated in our cover letter, we welcome this thought leadership paper and the opportunity to reflect on the current reporting system in the UK. It is timely given the significant pace of development in the global corporate reporting landscape, notably:

- the rapid progress being made by the IFRS Foundation on the possible establishment of a Sustainability Standards Board to develop global non-financial reporting standards that focus on long-term value creation, connected to financial information;
- the recently published prototype climate-related financial disclosure standard launched by five global organisations in sustainability and integrated reporting and their joint statement of intent to work together towards comprehensive corporate reporting (CDP, CDSB, GRI, IIRC and SASB);
- the government's roadmap towards mandatory climate-related disclosures and the new Listing Rule requirement for commercial companies with a premium listing in the UK to include a statement on TCFD in their annual report;
- investors' expectations[1] that company accounts should properly reflect the impact of achieving net zero;
- the IASB's work on Management Commentary; and
- the ongoing questions raised by the Brydon and Kingman reviews.

We have considered the Paper in light of these developments.

In the context of corporate reporting, these developments address the connection between certain sustainability topics and drivers of enterprise value creation (EVC), and the importance that businesses, investors and regulators place on sustainability information that explains the material risks and opportunities faced by a company. This is consistent with the principles of integrated thinking and integrated reporting. The focus is on disclosing a sub-set of sustainability information in the mainstream annual report which is aimed at providers of financial capital whose primary objective is economic decision-making.

There is another, broader user group, with different objectives, which wants to understand the organisation's significant impacts on the economy, environment and people. To respond to the needs of this broader user group companies would need to provide disclosure of sustainability information which it may not currently deem to be material to enterprise value creation. While annual reports might go some way to meeting the needs of broader stakeholders, there remain other channels of communication that exist to meet specific user needs, including the sustainability report, investor presentations, employee specific internal/external communications and more detailed information on the website.

Given the ideas put forward are high level, and in many places terms are not defined, it is difficult to conclude whether they address the challenges in terms of how the ideas fit together and might work in practice.

That said, our overarching views on the proposals are set out in our cover letter and below:

[1] The Institutional Investors Group on Climate Change report, November 2020

- We agree with the need to improve the quality and effectiveness of non-financial reporting, within the overall system of corporate reporting, and that non-financial information relating to how the company creates value should be in the mainstream document. Indeed, the proposals of the IFRSF would lead to the creation of a sustainability standard-setting solution for reporting focused on long-term value creation, connected to financial information.
- There appears to be some similarity with existing practice. The financial statements and Business Report would be aimed at those wanting to understand how the company creates value and the public interest statement would be for a broader audience, rather like sustainability reporting today. The other channels of communication that companies use such as interims, investor presentations and information on the website, would fit into the other network reports. We agree there is value in considering a connected network and in keeping standing data separate. The aim should be simplicity and concise reporting. Where information is not material to a specific user of the report it should not be included in the report. Where it is needed to ensure a complete message, it should be included in the report and not kept in a separate repository.
- We do not support the idea of separate reports that risk losing the integrated approach. The aim of having network reports is to provide information which is targeted to different information needs. We challenge how this approach can ensure connectivity and consistency, in particular between financial and non-financial information (for example, connectivity between the financial statements and the Business Report and the Public Interest Report when all produced separately, for different audiences, through different materiality lenses and possibly by different departments in the business). Separate reports also encourages greater length as there will be a tendency to seek each report to stand alone, to avoid the complexity of cross referencing to separate reports.
- This approach sits at odds with stakeholder capitalism and broader accountability and is inconsistent with the need to address the urgent and overwhelming need to achieve capital markets efficiency and stability in climate transition and in addressing the SDGs. The important public interest role that capital markets serve in directing capital to sustainable enterprise is a necessity and a public policy priority. With the vast majority of the value of a business being intangible, market resilience can only be achieved with a comprehensive approach[2]. It is for this reason that we strongly support the IFRSF's move to create a comprehensive approach to Enterprise Value Creation focused reporting.
- There is a risk that the silo approach may dilute a Board's focus if separate reports end up at different committees rather than being overseen as a whole by the audit committee. For example, the Public Interest Report may go to a governance committee and the business report to the Executive Committee and then maybe straight to the main Board, thereby reducing the overall level of scrutiny.
- Although we agree with the definition of corporate reporting in the Paper which focuses on the information needs of the company's stakeholders, we do not agree that, in itself, a report being purely objective driven is likely to lead to the right outcome. We believe the FRC model should make it clear which reports sit within each of the levels in the "nested" sustainability model, to meet the needs of intended users. This is vital in ensuring that the importance of capital markets in ensuring allocation of capital in the public interest is not overlooked. We agree that reporting to stakeholders - in addition to providers of financial capital - is of increasing relevance and importance, acknowledging that there may be strong cross-over with the needs of other stakeholders. That said, there is still a need for a single, clear, consistent communication that

[2] Ocean Tomo Study of Intangible Asset Market Value, 2020

meets the needs of investors and other providers of financial capital (and that auditors can focus on), prepared to a materiality that is relevant to them.

- We concur that companies should provide information on how they view their obligations in respect of the public interest. However, in our view this should not be separate from the Business Report and financial statements to the extent that these obligations are an integral part of the organisation's ability to generate enterprise value. Furthermore, capital markets serve the public interest by providing an effective and transparent mechanism for investment and wealth creation for governments and society alike through pensions and investments. Hence, this separation of reporting on financial performance, business drivers and public interest is undesirable, especially if published separately at different times. An understanding of the wider business dynamics, governance, viability and business impact on society and broader stakeholders to the extent it can affect the soundness of the business model and its resilience is needed to judge financial success. It is difficult to understand contribution to the public interest without an understanding of the wealth created or destroyed.
- We agree there would be value in better coherence between the different channels of corporate communication that are in the public domain and we agree that technology has a role to play. There are possible efficiencies to be gained through the transformative use of technology, and we are supportive of the move towards digital corporate reporting in the UK. Investors seek information provided through an enterprise value creation lens and an easy way to interrogate it. They also seek for that information to be consistent, comparable, and appropriately assured such that it can be trusted. Technology can also enhance broader stakeholders' access to the reported information.
- As set out in the Paper, there is a risk that the proposals would be complicated to implement and could result in inconsistencies in how preparers approach reporting. It risks different materiality lenses being applied to a complicated network of reports, each with broad objectives and not fulfilling all of the specific needs of specific groups of stakeholders. There could be confusion amongst users about which information, in which reports is relevant to them. The Paper notes the risk that the reporting network might be incomplete if there is a focus on objectives of individual reports and that more reports may need to be produced to fill the gaps once materiality at a network level is assessed. This in itself highlights the downside of failing to focus on user needs upfront when developing the company's approach to reporting.
- Assurance is an important contributor to trust, but for this to be the case clarity is needed regarding what level of assurance each piece of information is subject to. We are also not clear how a report, such as the Business Report which is stakeholder neutral, could be audited or assured if materiality determination is left to management's view of what they believe is important. If a stakeholder materiality process is envisaged then this shifts the focus to process rather than on concurring with management's judgement on what is or is not material. Furthermore, the question of liability can impact the level of assurance providers are likely to consider, or the price of such an assignment, or both.

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Implementation

2. What do you see as the key practical challenges of implementing our proposals? Do you have any suggestions on how these could be overcome? What do you see as the costs and benefits of the new model?

The fundamental practical challenge is determining the user focus of each report. As discussed in our response to question 3, we believe materiality should be determined by reference to the information needs of a specific user group. Defining the audience facilitates the determination of materiality for the content of the report. The proposed content communication principle of “relevance”, which guides the preparation of individual reports, is in itself defined by the relevance of information to a particular user. There is also the fundamental principle of accountability. Annual reports are currently for the owners of the business, but used by others. This principle should not be lost.

The objective for the proposed Business Report is, for example, “*To provide information that enables users to understand how the company creates long-term value in accordance with its stated purpose*”. The users of the report must be defined by the company; it is not possible to apply a level of materiality to the report content without this first step. It is possible that key stakeholders for whom a particular report is written (for example, the Business Report) may vary by industry and the needs of users from different stakeholder groups may also differ. This, in turn, will lead to loss of comparability between companies or even consistency, year on year in the approach taken by the company as management, vision and strategies change.

Other key practical challenges include:

- Managing the practical process of writing more reports than is currently required by law (we recognise that much of the intended content requirements are similar to current requirements so this may be more of a restructuring of processes). However, some listed companies are very small and this could be a disproportionate additional burden. This could be overcome by a refreshed view of use of technology, possibly moving to a portal of information rather than a static PDF report (see our response to question 10).
- Further to this is the challenge of which individuals within an organisation ‘own’ the various documents and how the connectivity of information between network reports can be ensured despite a potentially more fragmented process. The aim of network reports is to provide information which is targeted to different information needs. We query how this approach can ensure connectivity and consistency, in particular between financial and non-financial information (for example, connectivity between the financial statements and the Business Report and the Public Interest Report when all produced separately, for different audiences, through different materiality lenses and possibly by different departments in the business).
- Identifying what information will be in each report without more detailed prescriptive content requirements than are provided in this Paper could result in repetition of information between reports due to overlap of content. Such duplication could also lead to mixed or conflicting messaging where the same or similar content in different reports prepared for different audiences and to different materialities.
- Depending on how technology is utilised (see our response to question 10), the description of the proposed use of technology will require a significant tagging exercise.

- Having oversight, both as a preparer and a user, of the provision of assurance over various data points (including metrics and APMs) in the network of reports, particularly ensuring consistency of use of data points across reports, will be challenging. An assurance summary within the proposed standing data network report may be helpful in trying to achieve this, as envisaged by the Audit and Assurance Policy put forward in the independent review of the quality and effectiveness of audit by Sir Donald Brydon (the Brydon Review).

With regards to the costs and benefits of the new model, linked to the challenge for companies of knowing which reports to write, the cost of generating multiple reports may make companies reluctant to go beyond the mandatory reports. A potential benefit could be an improvement in meaningful engagement with the entity's stakeholders so that the right reports are provided for their needs, although we question whether the proposed model in the Paper promotes better engagement with stakeholders rather than the current stakeholder capitalism and purpose focused moves that are currently underway.

Some individual elements of the proposals, such as having one place where standing data is retained, thus reducing the need to include it multiple times within the broader report network, will no doubt bring benefits to both preparers of reports and the users through the production of more concise reports.

Objective-driven

3. Should corporate reporting focus on a wider group of stakeholders through multiple objective-driven reports, instead of a primary user focused approach?

We acknowledge and support the trend towards responsible business and an understanding of value creation in the context of multiple stakeholders. The sharp focus on Section 172(1) of the Companies Act 2006, the US Roundtable Statement on the Purpose of the Corporation, and developments in corporate governance around the world are manifestations of how the social contract between business and society is being redefined. With broader commitments to multiple stakeholders come broader reporting obligations. Therefore, reporting to stakeholders in addition to providers of financial capital is of increasing relevance and importance.

However, comprehensive reporting to providers of financial capital on broader matters that are relevant to value creation must remain the priority in order to direct capital to sustainable and resilient business.

The focus of the UK annual report on providers of financial capital as a primary audience is consistent with integrated reporting and the focus of the global developments we outlined in our cover letter. The information provided in a strategic or integrated report can be of relevance to other stakeholders more broadly in relation to their decisions about an organisation. However, we believe other forms of reporting to other stakeholder groups will emerge, in addition to those that are already adopted on a voluntary basis, as a result of further formalisation of fiduciary and governance responsibilities. A duty is owed to members, and companies must be accountable to those providing finance. Investors should have easy access to the information that is relevant to their needs and not have to piece together various reports prepared to differing materialities.

We recognise that there are two corporate reporting user group objectives - making economic decisions and understanding impacts. These are inter-related objectives. As a result, reporting should increasingly be multi-stakeholder as a system but individual reports should meet the information needs of specific stakeholders. This is consistent with the approach articulated by the five sustainability and integrated reporting organisations. It would be helpful to identify which of the reports suggested in the Paper are intended to address which of these groups.

In itself, a purely objective driven report is unlikely to lead to the right outcome. Objectives and users go hand in hand. Different users of a report might have the same overriding objective or interest in the same topic, or overlapping needs, as your research suggests, for example, “to understand how the business engages with its employees and takes their needs into account in decision making”. Nevertheless, we believe that the needs of users from different stakeholder groups will vary as a result of the different lenses through which the users are viewing the information they are using. The data points provided and the way the information is communicated are likely to differ between information aimed at a) stakeholders making economic decisions and b) those looking at impact alone. Indeed, the content communication principles emphasise that reports need to be written in language appropriate to the audience, include information which might affect the decisions and assessments of the users, etc. Page 12 states that in considering what information is relevant, consider whether the information may affect decisions and assessments of the users (not limited to economic decisions). To combine these differing needs and create a stakeholder neutral document would result in including information that would almost certainly be immaterial to one of the user groups.

As drafted, we are not clear how the proposed model would work in practice. The objective of the Business Report in the Paper, for example, is “to provide information that enables users to understand how the company creates long-term value in accordance with its stated purpose” and the perspective is company-centered. A “company-centric perspective” is not the same as enterprise value creation, as it is dependent on how companies view their purpose.

For example, if a company believes that purely focusing on the financial statements is what is material to them their disclosure is unlikely to meet the needs of investors as the company’s perspective of what ESG/sustainability information would be material could be a lot narrower than that expected by investors.

Furthermore, for the Business Report as currently described in the Paper to meet its objective, it would need to include the financial statements and include information on how the business is governed and how it acts in the public interest. A well-governed business is essential and goes to the core of wealth creation and trust in business so we would expect this to be included in the Business Report. Separating out corporate governance could reverse the direction for companies to integrate governance statements with the strategic report recognising the importance of explaining how directors have met their Section 172 duty.

Given the focus on the objective of the reports, the Paper leaves it to preparers to determine who the audience might be for the Business Report. The objective of the report does not specify economic decision making, so the user group could be broad. This will likely lead to complexities in determining what information should be included and inconsistencies in approach between companies.

A further thought in considering a stakeholder-neutral report or a report which is for all stakeholders is how this could be assured. The question of liability can be a risk in any assurance assignment, leading to public reporting on matters beyond the boundary of ISA 720. This risk will need to be considered even further in relation to a report aimed at broader stakeholders; in particular, it is not necessarily an issue that can be addressed by those setting standards for the preparation of, or auditing or assurance of, annual reports. The question of liability can impact the level of assurance providers are likely to consider, or the price of such an assignment, or both. This consideration is also likely to be related to the level of confidence providers have in the governance, risk management and controls that management have put in place in relation to the information.

The Paper proposes disaggregating current reporting into multiple reports. This might place a disproportionate burden on a reporting entity and create potential confusion in public markets from multiple reports on similar but different matters, when assessed against the possible benefits from such reporting. At a time when we are seeing a consolidation in reporting standards and frameworks and a move to global standards for broader corporate reporting matters, we think this would be an unhelpful development. We note that only 20% of respondents to the stakeholder survey suggested structural changes to disaggregate information from a single document which is arguably a low percentage on which to base such large scale change.

Preparation of multiple, similar reports may cause confusion for users as they seek to ascertain where to access the information they require. Users might have to look through several different reports to find what they want, for example climate information might end up in many reports, but with a different angle, to a different materiality, in a different context and possibly to a different timescale. We recognise technology may have a role to play here (see our answer to question 10).

Furthermore, such an approach could lead to regulatory paralysis and/or failure, if, for example, there is a lack of consensus among market participants on the appropriate approach to materiality for a particular report, given the likely heterogeneity of objectives of users noted above.

One set of principles

4. Do you consider the set of principles (system level attributes, report level attributes and content communication principles) in section 2 would be helpful in improving the quality of corporate reporting today and in the future?

We support a number of the principles set out in the paper, noting that several already correlate with current statutory requirements and guidance as set out by the FRC (such as in its Guidance on the Strategic Report).

System level attributes

We agree with the idea of introducing overriding system level attributes. We believe that the system level attribute of transparency and its reference to building trust should be expanded to include reference to appropriate levels of verifiability/assurance.

Report level attributes

We are unclear whether the report level attributes set out are intended to apply to all individual reports. Page 11 states that report level attributes are “the overarching qualitative characteristics that an individual report should possess” whereas we read page 12 as stating that attributes are set at an individual report level by regulators. We believe the latter is most appropriate as we are unclear as to how “true and fair”, for example, as it is currently understood, might apply to reports other than financial statements. We note that the requirement for the strategic report to be “Fair, balanced and comprehensive” has been omitted from the list of report level attributes, yet we would observe that this has been a very powerful and effective principle to date. We do note however that “comprehensibility” is a proposed content communication principle.

Content communication principles

We consider that “concise”, referring to something which is brief in form but comprehensive in scope, is a more appropriate term than “brevity” which implies merely a shortness in length at all costs. We note that concise is the term used in explaining what is meant by “Brevity, comprehensibility and usefulness” in the paper and “clear, concise and comprehensive” is actually consistent with what is already in the law and the FRC Guidance. “Clear and concise” has been a welcome and consistent message from the FRC which we support.

Further, we suggest removing “usefulness” as this is already covered within “relevance”.

Reporting network

5. Do you agree with our proposals to improve the relevance and accessibility of information, involving more concise reports distributed across a reporting network?

In reality companies already have a network of communications such as the annual report, sustainability report, investor presentations, employee specific internal/external communications and more detailed information on the website and we agree that there could be better connectivity and coherence between these different channels of corporate communication in the public domain. Not all of this is regulated and the majority only subject to voluntary assurance. We agree that it is appropriate to challenge whether companies’ current suites of reports and communications are fit for purpose and to promote a consistency of approach across organisations. This is being addressed, in part, by the increased corporate reporting information ask of companies, for example on climate and sustainability, which should achieve better connectivity and consistent approaches to regulation or assurance.

Assurance is an important contributor to trust, but for this to be the case clarity is needed regarding what level and quality of assurance each piece of information is subject to. We strongly feel that the quality of assurance over the connected ‘enterprise value’ report whose primary user is the shareholder is best delivered holistically by the auditor, recognising that the majority of the value of a company is represented by intangible factors which are currently discussed in the front half of the annual report. The auditor is well placed to provide this holistic approach to assurance, given the knowledge of the company obtained during the audit of the financial statements, which should therefore result in high audit quality and better assurance on the broader scope of information in the front end of the annual report. However, there is a real opportunity for ‘non enterprise value’ data points required by broader stakeholders to be assured by other providers, subject to comparable independence and quality requirements. This approach could promote more choice and competition in the market and should link to the Audit and Assurance Policy recommendation from Brydon. It is critical that the market has clarity on the scope and quality of assurance that is applied to reported data. However, we have a number of concerns with the proposal to have a network of reports as described.

1. We are not sure that a suite of reports may be more user-accessible than a longer but more in-depth annual report and accounts issued as a standalone publication. The reporting landscape may become confusing and users may not know which report or reports address their needs. It

would seem appropriate that investors, for example, should have easy access to the information they need and do not have to piece together various reports prepared to differing materialities. The directors have a duty to members and must be accountable to those providing finance.

2. Related to this, and as noted in our response to question 2, is the potential for overlap between reports and repetition of information relevant to the objective of multiple reports. This could lead to confusion for users when trying to locate information. It may also be that related information in different reports does not end up telling the whole story due to the lens applied (whether materiality or stakeholder) when read in isolation and therefore decisions could be made based on incomplete information.

The timing of the publication of each report within the reporting network is not addressed by the Paper. This raises two issues: the timeliness of reporting of information; and whether different information regarding performance or impact of a company reflects the same reporting period or not.

Currently some UK companies publish additional information e.g. sustainability reports at a different point in time to their annual report and accounts, increasing the possibility of decision-making by users to be undermined due to incomplete information available. Further, data points used in different reports may or may not reflect the same period (e.g. financial reporting period and period end date), should the reports be published at different times. This may result in an incomplete understanding of an entity's performance, given the inability to reconcile or compare performance across the company's reports and possibly between companies as well. A technology approach would facilitate the user of the report to access data they choose. We discuss this further in question 10.

While we support the suggestion to maintain standing data reports from the perspective of reducing clutter, unless the system level attribute of connectivity is strong this again runs the risk of not providing the full picture to the user of a standalone report. As an example, the current non-financial reporting regulations require disclosure of various policies, due diligence over those policies and outcomes of those policies. If the policy were included in the standing data report, we challenge whether noting the outcome in, for example, the Business Report would provide the full story and require the user to refer to both reports for a complete understanding.

Materiality

6. We are proposing that there should no longer be a single test for materiality that is based on accounting standards but instead materiality will be dependent on the objective of a report. Do you agree with this approach, please explain why?

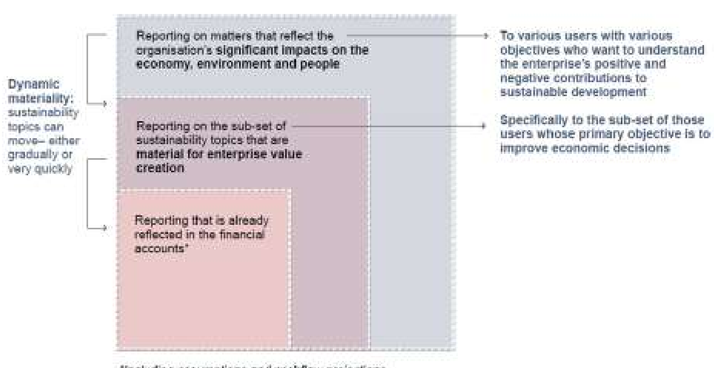
Consistent with, and as explained in detail in our answer to Question 3 above, we disagree that the assessment of materiality should be dependent on the objective of a report. Materiality must depend on the type of user and the decisions they are making on the basis of the information. In answering the materiality questions set out in paragraph 4.4 of the Paper, the preparer will have to have the user in mind.

It may be appropriate to apply a different materiality filter where there are different user groups for each report. However, if users from a certain stakeholder group need to look to a number of reports to meet their needs, they should be able to look at any report and understand that the information is consistently accurate and consistently complete. This requires a consistent application of materiality. Otherwise, an expectation gap is created where users cannot trust that things have been left out because they are considered ‘not material’ by the company for the report in question.

We disagree with the suggestion that there no longer be a single test for materiality. We believe there should be one consistent definition of materiality which can be applied to both financial and non-financial matters - that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of *[the report]* make on the basis of the information provided in that report. In our experience, the concept of financial materiality is frequently misunderstood, and is often associated with short-term decision-making. On the contrary, we think that IFRS Standards are clear in their approach and that all factors that are relevant to enterprise value creation, over the short-, medium- and long-term should be captured within the current definition of materiality. Put another way, ‘financial materiality’ is the same as ‘enterprise value creation materiality.’ What is material to society overlaps significantly with what is driving enterprise value (not all of which is recognised in the accounts). IFRS Standards require entities to think about and factor in future cash flows. Every fair value or value-in-use estimate makes assumptions about the future.

We reiterate our support for using the nested and dynamic concept of materiality, as explained in *Reporting on Enterprise Value*[3] because it makes the distinction between Enterprise value reporting (both financial and sustainability-related financial disclosure) and sustainability reporting. It retains the focus for corporate reporting on providing decision-useful information for those users interested in enterprise value creation, whilst accommodating a broader understanding of materiality to be used throughout a spectrum of corporate reporting, including the strategic report, interim reports, special-purpose reports, etc. It also makes regulation of such reports easier, given that regulators, preparers, users and other stakeholders, as well as auditors, will have a common expectation and understanding of the approach to materiality.

As stated in our answer to Question 3, we do not believe the approach to materiality in the Paper is consistent with this, given that reports are described as stakeholder neutral in the Paper.



Non-financial reporting

[3] https://impactmanagementproject.com/structured-network/global-sustainability-and-integrated-reporting-organisations-launch-prototype-climate-related-financial-disclosure-standard/

7. Do you believe that there is a need for regulatory standards for non-financial reporting? If so, what do you consider the scope of the information that should be covered by these standards?

We agree with the need to improve the quality and effectiveness of non-financial reporting, within the overall system of corporate reporting. We also agree with the analysis of the current situation, that while non-financial reporting is greatly increasing in importance, the landscape for standards and frameworks is fragmented. This hinders the ability of investors and other stakeholders to understand how the risks and opportunities faced by business translate into long-term value creation and profitability and how, in turn, these relate to shorter-term financial performance. Such information should be connected to financial information and prepared to the same quality and rigour.

Since the FRC published the Paper, there have been ground-breaking developments in global sustainability standards. These include the consultation by the IFRS Foundation (IFRSF) on the potential to establish a Sustainability Standards Board, and the Statement of Intent published by the leading international sustainability standard-setters and frameworks (CDP, CDSB, GRI, IIRC and SASB), setting out a vision for a comprehensive corporate reporting system and a joint commitment to work to achieve this objective. This was followed by the publication by the same organisations of a prototype climate-related financial disclosure standard, accompanied by a prototype conceptual framework and presentation standard for sustainability disclosure. These developments respond to calls from capital market participants, regulators and other stakeholders in support of transparent measurement and disclosure of information about sustainability performance.

Deloitte supports the proposals by the IFRSF, which we note have received support from the UK government and regulators along with other prominent voices, such as Mark Carney. We are also an active facilitator of the work of the five leading sustainability standard-setters and frameworks in their commitment to work together to achieve their vision for a comprehensive corporate reporting system.

We believe that a Sustainability Standards Board underneath the umbrella of the IFRSF would achieve a global baseline set of sustainability standards, which should provide consistent, comprehensive and comparable information capable of being assured by public accountants and capable of achieving general acceptance. This general acceptance, in turn, allows those who want to legislate or regulate for the use of such standards to do so. It also creates a clear steer to those who are looking to adopt standards on a voluntary basis.

In the UK, we note that there is already a range of mandatory non-financial reporting regulations. Bringing global standards into UK regulations via endorsement mechanisms would offer an opportunity to give more structure to non-financial reporting requirements and encourage a more cohesive approach to reporting on these matters. We welcome the UK government's and FRC's support of this move.

Turning to location of information, we agree that non-financial information relating to how the company creates value should be in the mainstream document (such as the Business Report). Indeed, the proposals of the IFRSF would lead to the creation of a standard-setting solution for reporting focused on long-term value creation, connected to financial information.

However, the information on value creation already needs to be broad. This is because companies need to address the 'circularity' of impacts and dependencies—the fact that a company's impacts on the environment can lead directly to impacts on its own access to natural and other resources that are an essential part of the value creation process (dependencies). Moreover, as sustainability information becomes further embedded in investment decisions, the range of sustainability topics that are seen as financially material to the long-term success of a business will increase.

For this reason, we support the need for metrics describing a range of outputs, outcomes and impacts. However, we recommend that care is taken in terms of proposals to split out too far outputs, outcomes and impacts in different reports. For example, impacts should not be seen in isolation from the main activities of the business. Companies are increasingly establishing a purpose, which includes increasing the most significant positive impacts and reducing the most negative, with targets and commitments overseen by the board. Indeed, it is a core legal duty of directors to have regard to the needs of stakeholders, a high reputation and the long term. Such information should feature in a mainstream report (the Paper acknowledges there may be some crossover between a Business Report and Public Interest Report). Second, we caution against introducing categories of outcomes/impacts that will be hard to define or prescribe, leaving companies and users of reports confused as to how the terms are being applied. Furthermore, outputs, outcomes and impacts will be assessed differently by companies according to their industry sectors, strategies and business models. In addition, we should avoid the risk of reporting silos at the very point companies are adopting integrated thinking, and seeking to reflect this in their reporting.

Nevertheless, we are very supportive of encouraging better reporting of outcomes and impacts in corporate reporting, especially to make stronger connections between purpose, business models and impacts. In that regard, there is a need not only to achieve sustainability standards on value creation, but to encourage evolution and innovation by companies on reporting broader impacts that relate to the economy, the environment and people.

8. Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?

We agree that companies should articulate how they view their obligations in respect of the public interest. This reflects one of the core principles of the UK Corporate Governance Code, which makes clear that a successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Companies do not operate in isolation. They affect (and depend upon) many different stakeholders throughout the value chain. Directors must consider broader stakeholders when making business decisions and to an extent this is what is already covered by the directors' duty in Section 172 of the Companies Act 2006. The Section 172 Statement calls for directors to explain how they have discharged this duty, enabling stakeholders to make informed decisions about whether they want to buy from, sell to, work with, or invest in these companies. This is particularly true for those that take public money or are considered public interest entities.

We recognise that the content of the Section 172 Statement is dictated by the statutory duty of directors to promote the success of the company for the benefit of shareholders. Perhaps the public interest report could be an opportunity to expand on aspects of purpose-driven business and give more detail than that provided in the Business Report, including impacts that extend beyond the value creation lens and broader considerations of a more ethical and moral nature.

At a Deloitte Academy event held on Thursday 26 November 2020, 49% of participants (mostly representing members of the non-executive director community) indicated that their company planned to include some form of statement of public interest in the forthcoming reporting season, either as a stand-alone Public Interest Statement or as an introduction to the Section 172 statement.

9. Do you agree with the introduction of a Public Interest Report and the suggested content as set out in Section 6?

As noted in response to Question 8, we agree that companies should provide information on how they view their obligations in respect of the public interest but we do not believe that this should be separated from the Business Report to the extent that these obligations are an integral part of the organisation's ability to generate enterprise value. We believe that dividing this into two separate reports, as currently proposed, could damage the quality and decision usefulness of the Business Report and/or result in repetition between the two reports. Such siloed reporting with poor connectivity is what the industry have been trying to move away from.

We consider that the suggested content is already being met by the leading reporters in their annual report and accounts, so for many this will not be new disclosure. This does, however, cause confusion as to the real purpose of the Public Interest Report, and how it is different from a well-formulated annual report and accounts.

We note the proposal in paragraph 8.8 to limit the preparation of a Public Interest Report to only the largest PIEs and have concern that this would result in a decrease in current reporting requirements for some large private companies as well as for smaller reporters. For example, it might remove the current disclosure requirements around Section 172 statements and possibly SECR for the largest unquoted companies. We believe that further consideration should be given to scope once BEIS has completed its consultation on the definition of a public interest entity.

Our suggestion for the reporting network would be to encourage companies to report on their public interest obligations in the Business Report as it is an integral part of value creation. Where there are other public interest aspects on which a company wishes to present information, or on which government introduces new reporting requirements, then there could be another element of the network which acts as the repository of this information but it should not be called a Public Interest Report. This would help demonstrate "dynamic materiality" in practice and effectively represent the outer part of the nested materiality diagram.

Technology

10. Do you see any other ways that current and new technology could be used to facilitate the proposed model, and support the system level attributes of corporate reporting identified in section 2?

We are supportive of the move towards digital corporate reporting in the UK. The US SEC has a requirement for its registrants to file electronic versions of forms 10-K and 20-F (the annual report), using XBRL and taxonomies developed by the FASB and IASB.

There are some concerns about the accuracy of the US data files. The use of company-specific tags (extensions) remains high and the tagging is not audited. Several studies have documented errors in the tagging process, which affects the comparability of the data.[4]

Yet, despite these concerns, the electronic data files have improved access to, and comparability of, the financial information. There is evidence that the SEC filings have enabled more users to access the financial statement information because of the reduced search and processing costs.[5]

There are clear advantages to having information that an entity is required to publish made available in a form that facilitates analysis and comparison with the information from other entities. However, the approach of tagging reports already produced, rather than using tagged information to create the report itself, has two disadvantages. Firstly, it introduces a step that, from the US experience, is susceptible to error. Secondly, and more fundamentally, it retains the initial analogue process without embracing potential efficiencies that would be gained from tagging data closer to its source.

The recent advances in financial services and financial technology came about when new start-up companies moved away from the analogue processes and looked for fully digital alternatives that achieved the same or better outcomes. If the goal of the FRC's project is to facilitate the future of corporate reporting through supporting technology, this should consider a more fundamental transformation of the whole process, not just the end report.

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. This has a number of advantages:

- The same data points can be used in a number of reports guaranteeing consistency. Assuring this consistency is also easier as the data in a report only needs to be checked back to the database rather than comparing it to every other report produced.
- The reports can make it very clear what has come from the database and what is additional report specific content.
- The tagging process itself is simplified as only the database needs to be tagged, not every report.
- The tagging process can also be more sophisticated by, for example, including tags about the assurance obtained over a data point and the materiality to which it is prepared.
- Technology akin to that used for open banking can allow public access to the data that regulators require entities to place in the public domain. This can allow for easy comparability of disclosures, central monitoring, and even custom reporting by third parties or other users.
- When appropriate, data can be updated on a more frequent periodic basis than is possible by tagging information produced in an annual report, although we recognise the FRC's previous concerns regarding increasing periodic reporting leading to short-termist behaviour.

The database could include summary financial information, key disclosures and policies, KPIs and other APMs (both financial and non-financial). It is important to understand that when information is included in the financial statements, the materiality of that information is normally considered in the context of the

[4] See for example *XBRL Data Comparability* Ling, Qianhua; Liu, Zhenfeng, The CPA Journal; New York Vol. 89, Iss. 7, (Jul 2019): 44-48 and *A Comparison of XBRL Filings to Corporate 10-Ks-Evidence from the Voluntary Filing Program* Bartley, Jon; Chen, Al Y S; Taylor, Eileen Z .Accounting Horizons; Sarasota Vol. 25, Iss. 2, (Jun 2011): 227-245.
[5] See for example *Leveling the Playing Field between Large and Small Institutions: Evidence from the SEC's XBRL Mandate*, Bhattacharya, Nilabhra; Cho, Young Jun; Kim, Jae B., The Accounting Review; Vol. 93, Iss. 5, (Sep 2018): 51

financial statements as a whole. If that financial information is extracted from the database by a user for another purpose, the user will need to be mindful of the context for which it was created.

As would also be required for a report-based tagging process, a digital taxonomy will need to be created to define the data points needed to be disclosed by each entity. This process can help enable the suggested proportionality arguments by setting the required data points based on the entity's size and other qualitative metrics.

We recommend that the FRC liaise with BEIS regarding proposals for the use of technology, particularly in light of the recent BEIS consultation on *Corporate transparency and register reform* which contains proposals for companies to "file once with government" and make further use of tagging to streamline the filing process.

Proportionality

11. Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?

Without further clarity on the precise nature of the model it is difficult to state with certainty whether the approach proposed will achieve a proportionate reporting regime. That said, we agree that from a practical standpoint, some thresholds should be in place to ensure that reporting at different levels meets the cost/benefit test.

The use of size thresholds is generally well understood, but has led to some complex situations in practice, particularly in the context of groups and in scoping in particular types of company regardless of size (the ineligibility test). This model could therefore represent an opportunity to explore alternative means of determining appropriate, proportional disclosures for an entity. We believe that robust stakeholder analysis is central to this assessment, both in terms of identifying those stakeholders (including the environment) upon which the company impacts and those stakeholders who have an interest in the relevant information. A small owner-managed business, for example, may naturally expect to report less financial information as there are fewer users of that information. However, there may be other, more valuable non-financial information relating to company impact which is relevant to stakeholders but which would appear in the Business Report or even the Public Interest Report. Examples here might include the business's impact on the local community, its relationships with its suppliers and compliance with the Modern Slavery Act, or - for charities - the percentage of donations used directly for its primary charitable purpose.

Accessibility of this information is important. This broader information on company impact may also need to be reported outside of the Business Report to reach all stakeholders. For example, consumers could be informed in the terms and conditions before making a purchase online (akin to restaurants displaying food hygiene ratings).

We therefore suggest that the approach to proportionality could start from assessment and identification of the impact of a business, rather than purely its financial size, as this will drive the information to be reported to meet the needs of key stakeholders. To ensure comparability across businesses it may be necessary to impose some size-related criteria which give rise to minimum reporting requirements, but this should be a 'base level' only.

Other

12. What other areas do you see being necessary or relevant to the development of a model for corporate reporting that is fit for the future?

In the short-term we would encourage the FRC to work with BEIS to simplify the existing regime and harmonise the many and varied reporting criteria across legislation. For example, there is an opportunity to address the different criteria for SECR vs the Section 172 statement vs the non-financial information statement and directors' report disclosures. The introduction of mandatory TCFD reporting across the UK economy and the prospect of a global standard on climate-related financial disclosures provides an important foundation and impetus for this simplification.