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Submitted by email to: mark.jackson@bis.gsi.gov.uk

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Dear Mark

The Non-Financial Reporting Directive: Call for views on effective reporting alongside proposals to implement EU requirements

We welcome the opportunity to respond to your call for views on effective reporting alongside proposals to implement EU requirements on non-financial reporting. As you know, ICSA: The Governance Institute is the international professional body with primary responsibility for governance. Our Royal Charter requires us to lead 'effective governance and efficient administration of commerce, industry and public affairs' and we are the qualifying body for Chartered Secretaries. Our members are at the forefront of non-financial reporting and, as such, our members are well placed to understand the impact of these proposals.

In preparing our response we have consulted, amongst others, with members of the ICSA Company Secretaries Forum, which includes company secretaries from more than 30 large listed companies from the FTSE100 and FTSE250. However, the views expressed in this response are not necessarily those of any individual members of the Forum nor of the companies they represent.

A. Location of Information

Q1. Flexibility on where to provide the non-financial statement

We think it would be preferable to provide companies with as much flexibility as possible in deciding where to publish non-financial information. This would help each company to include the information where it is most appropriate for them and to ensure the Annual Report is well presented to the reader. Provided additional information is 'sign-posted' at appropriate points within the Annual Report, this should not pose any difficulty for those reading the Report.



Q2. Information that could be placed in a separate report

Again, we think it would be helpful for companies to have as much flexibility as possible to publish information in a separate report. There are many aspects of non-financial reporting, such as greenhouse gas reporting, where the information provided changes little from year to year and would be better published in a separate report. Providing companies with the flexibility to put certain information in a separate report is consistent with the approach taken to the Strategic Report where companies decide what is strategically important for their organisation.

It would also be helpful for companies to have the flexibility to provide information in whatever order best conveys that information to the reader. It would be helpful to allow companies to provide information in close proximity to other related information, or not as appropriate for their circumstances, which will be different for every company.

Q3. Advantages and Disadvantages of a separate non-financial statement

The main advantage of a separate non-financial statement is the ability to separate elements of reporting which do not change materially from year to year, and avoid repetition of information in the Annual Report. Greenhouse gas reporting is an example of such information. It should also be noted that a separate non-financial statement published on the company's website can be updated easily when, for example, there are changes to a director's biography.

The disadvantages or considerations of a separate non-financial statement include the need for companies to keep under review the information set out in a separate statement. However, this information and the sign-posting or cross-referencing to the Annual Report could be reviewed internally at least annually alongside the Annual Report and whenever information is updated.

B. Scope

Q4. Advantages and disadvantages of implementation options

Our preferred option for implementation is Option 2. This option provides a single, clear reporting regime for all companies to which the reporting requirements apply whereas Option 1 would result in several reporting requirements for different companies. Having one reporting regime as in Option 2 also has the benefit of providing for meaningful comparisons between companies.

Q5. Preferred option relating to scope

Our preference is to reduce the scope of the existing reporting requirements to companies subject to the Directive (Option 2) for the reasons set out in Q4 above. Companies remain free to make additional disclosures if they wish but we think the requirements should provide for consistent, comparable reporting.

Q6. Alternative options

A third option could be to update the current UK reporting framework to include the additional requirements of the Directive. This would retain the scope of the current UK requirements but require additional reporting from all companies within it, thereby providing for consistent and comparable

reporting. It has the advantage over Option 2 of not reducing current UK reporting requirements. However it would result in unnecessarily burdensome reporting requirements for companies that did not fall within the Directive's definition of a large PIE. We therefore support Option 2 and think it should be left to companies' discretion to make additional reporting.

C. Validation of non-financial information

Q7. Assurance of non-financial information

We do not support a requirement for assurance of non-financial information. We think this would simply add complexity and cost to company reporting, for no real benefit.

Q8. Advantages and Disadvantages of third-party validation

We do not think there would be any advantages to requiring third-party validation of non-financial reporting. Companies typically undertake internal verification of all published information, which shareholders are free to challenge and question. We do not think there is any need for an external third party to carry out an assurance exercise.

As mentioned in Q7 above we think the disadvantages of a requirement for third-party validation are that it would provide no benefit and simply add complexity and cost to company reporting.

Q9. Other options

We do not think there is a need for any alternative options. Non-financial information is significant but not material or critical and does not require verification in the way that is necessary for financial information.

PART 2 Call for views on wider reporting

D. Electronic Reporting

Q10. Advantages and Disadvantages

We believe the majority of shareholders already receive companies' Annual Reports electronically. The advantages are a reduction in costs; a reduced impact on the environment; immediate availability; easy accessibility; companies' ability to update information as necessary; and electronic reports are easier to search for information.

We see no disadvantages in electronic reporting other than acknowledging that not all shareholders are able to receive reports in electronic format.

Q11. Additional Protections

We would highlight the need for safe harbour provisions to be extended to non-financial information held on companies' websites. The safe harbour provisions were extended to cover information in the Strategic Report and a similar extension to cover non-financial information would be appropriate.

Q12. Number of Companies Providing an Electronic Report

We are gathering this information from members and will respond as soon as it is available.

E. Regulatory Reforms

Q13. Definition of Senior Manager

We think that the definition of a Senior Manager should be in line with that for Persons Discharging Management Responsibility (PDMR). This would be preferable to creating another set of definitions.

Q14. Other comments on this requirement

We have no other comments on the proposals for gender reporting.

Q15. Reporting Regulations

Greenhouse Gas reporting is currently included in the Strategic Report and does not align well with the other strategically important information included in that section of the Annual Report.

Q16. Other information

Greenhouse Gas reporting, which is currently included in the Strategic Report and does not align well with the other strategically important information, could be moved outside the Annual Report.

Q17a-g. Analysis of the Costs and Benefits of implementing the NFR Directives

We believe that there is potential for some reduction in the printing costs as well as the time involved in preparing the Annual Report by moving certain information to the company's website; however the need to continue to prepare information in different formats will incur costs. We think the minor increase and savings in costs will be marginal and will probably balance each other out. The benefits are likely to be intangible.

Q18 Additional comments on the Directive

a) List of subsidiary companies

Our members have expressed concern that the implementation of the EU Accounting Directive has resulted in a new requirement for companies to list all subsidiaries in the notes to their financial statements. Previously the requirement was covered by s409 Companies Act 2016, but s410 allowed companies to report *principal* subsidiaries only in the Annual Report and file a full list of subsidiaries at Companies House with their annual return. However, this concession under s410 was removed as part of the implementation of the EU Accounting Directive. Reports published in 2016 and onwards will also need to disclose the address of the registered office for these subsidiaries.

A consequence of this requirement is to add a significant number of pages to the Annual Report, particularly for companies with a large number of subsidiaries in various locations. This would appear to go against the aim of concise reporting and the principle of materiality. We recommend that BIS look

again at the consequences of the implementation of the EU Accounting Directive and consider reinstating the option for companies to disclose *principal* subsidiaries only in their Annual Report and file a full list of subsidiaries with their annual return.

b) Future consultations

We would suggest that for future similar ideas for changes it would be worth BIS reflecting on the objective of this approach and consider consulting with interested parties with helpful ideas when developing proposals. Once proposals have been published there is little opportunity for organisations such as ICSA to make suggestions outside the proposals set out in the consultation. We think that it would have been useful for the proposed workshops to be held before the publication of proposals in this consultation.

We also think that, once the new reporting requirements of the Directive have been in place for a period of time, it would be useful to evaluate the impact of these additional disclosures to assess the nature of any benefits and to whom.

We hope our comments are useful. If you would like to discuss them, or would like further information, please contact me. We would also like to register our interest in attending the BIS NFR workshops.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Swabey', with a large, sweeping flourish at the end.

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