



The Governance
Institute

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Dear Deepa

ICSA response to the FRC draft amendments to the Guidance on the Strategic Report

We welcome the opportunity to comment on the exposure draft of amendments to the Guidance on the Strategic Report.

As you know, ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance. ICSA is the professional body that qualifies Chartered Secretaries, which includes company secretaries. Company secretaries have a key role in company reporting, including preparation of the Strategic Report, and our members are therefore well placed to understand the issues around the proposed amendments to the Guidance on the Strategic Report.

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 UK listed companies from the FTSE 100 and FTSE 250. However, the views expressed in this response are not necessarily those of any individual members of the ICSA Company Secretaries Forum nor of the companies they represent.

We set out below some general comments, followed by our responses to the specific questions set out in the exposure draft.



1. General comments

We generally support the proposed amendments to the Guidance on the Strategic Report. The proposed amendments appear sensible and useful. However, we think it would be helpful for the final draft to encompass any additional changes resulting from the recommendations contained in the Government's response to its consultation Green Paper on Corporate Governance. We would also highlight our comments under question 6 below and emphasise the importance of amending the 'encouraged' content to being described as 'suggestions', for the reasons given.

2. Responses to specific questions

Q1 Do you agree with the approach for updating the Guidance for the changes arising from the implementation of the non-financial reporting Directive?

Yes. We think the approach being taken is reasonable and sensible. However, we are concerned by the use of the term 'best practice' throughout the guidance. This is subjective and will depend, in a 'comply or explain' market, on the individual circumstances of the company concerned. We would suggest that the term 'best practice' be replaced with 'good practice' throughout the guidance.

Q2 Do you support the enhancements that have been made to Sections 4 and 7 of the Guidance to strengthen this link?

Yes. We support the enhancements and think it is helpful to make the linkages between the purpose of the Strategic Report and section 172 Companies Act 2006 more explicit.

Q3 Do you have any suggestions for further improvements?

Yes. As mentioned in our general comments above, we think it would be helpful for the amended Guidance on the Strategic Report to also include recommendations contained in the Government's response to the consultation on the Corporate Governance Reform Green Paper.

Q4 Do you agree with the draft amendments to Section 5?

Yes. The emphasis on only reporting information that is material is sensible. However, it must be remembered that companies listed in other jurisdictions are subject to the reporting requirements in those jurisdictions. This is particularly relevant for companies with US listings subject to SEC reporting requirements, especially the reporting of risk.

Q5 Do you have any suggestions on how the Guidance could encourage better linking of information in practice, or common types of disclosures that would benefit from being linked?

The linkage examples set out in Section 6 are very helpful and demonstrate how the Strategic Report can be 'brought to life'.

Q6 Do you agree with how the sources of value have been articulated in the draft amendments to the sections on strategy and business model in Section 7?

Yes. The proposed amendments to Section 7 are an improvement and the examples given are a useful to assist companies in their thinking around the entity's purpose, strategy and business model. However, we have some concerns around the sections on 'encouraged' content and believe it is likely this will create an expectation by some shareholders and their advisers, who will regard this as mandatory disclosure. We recommend that this content be described as 'suggestions'.

Q7 Do you consider that disclosures on how value is generated would be helpful?

Yes. We agree that disclosures on how value is generated is helpful. We have no concerns about this proposal.

Q8 Do you consider that the draft amendments relating to reporting of non-financial information give sufficient yet proportionate prominence to the broader matters that may impact performance over the longer term?

Yes, but much depends on the nature of the company and sector. The main concerns we have are around how disclosures will be interpreted by investors. It is important that the emphasis is on the overarching principles, rather than the detailed wording, as we have concerns that any detailed wording will become the focus. It should also be remembered that the annual report is subject to a verification exercise and much detailed wording on non-financial information is likely to be removed as part of this process.

Q9 Are there any other specific areas of the Guidance that would benefit from improvement?

We have some concerns that the examples included in the amended guidance are focussed on current issues and will not be relevant in the future. For example, there is much emphasis on cyber risk which is a very important current risk many companies are facing, but one which may not have the same level of importance two years from now. As currently drafted, the examples will need to be updated regularly.

We hope you find our comments helpful and would be happy to expand on any of these points should you wish to discuss them further.

Yours sincerely

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

Peter Swabey
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