Department for Business, Innovation & Skills

Non-Financial Reporting consultation response form

The consultation is available at: https://www.gov.uk/government/consultations/non-financial-reporting-directive-uk-implementation

The closing date for responses is 15 April 2016

Please return completed forms to:

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Department for Business, Innovation and Skills
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Please be aware that we intend to publish all responses to this consultation.

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes. Please see page 9 of the consultation for further information.

If you want information, including personal data, that you provide to be treated in confidence, please explain to us what information you would like to be treated as confidential and why you regard the information as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

I want my response to be treated as confidential ☐

Comments: Click here to enter text.

Questions

Name:

Yen-pei Chen, Subject manager - corporate reporting and tax, Professional Insights

Organisation (if applicable):

Think Ahead ACCA

Association of Chartered Certified Accountants (ACCA)

Address: The Adelphi, 1-11 John Adam Street, London, WC2N 6AU

Please tick which best describes your organisation.

	Respondent type
☐	Business representative organisation/trade body
☐	Central government
☐	Charity or social enterprise
☐	Individual
☐	Large business (over 250 staff)
☐	Legal representative
☐	Local government
☐	Medium business (50 to 250 staff)
☐	Micro business (up to 9 staff)
☐	Small business (10 to 49 staff)
☐	Trade union or staff association
☒	Other (please describe) *Global Professional Accountancy Body*

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **178,000** members and **455,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **95** offices and centres and more than**7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers. More information is here: www.accaglobal.com

Q1) Flexibility on where to provide the non-financial statement:

What is your view on permitting companies flexibility to place information where they feel most appropriate within the boundaries laid out by the EU NFR Directive? Please explain your reasons.

Comments

We believe that the placement of non-financial information is linked to the application of materiality. Where information is material to shareholders' decision-making, it should be included in the Strategic Report. Immaterial supplementary information or regulatory disclosures can be reported separately, for example on company websites. References can be made to the location of supplementary information within the Strategic Report.

Based on discussions with our Global Forum of corporate reporting specialists, we believe that non-financial information is crucially connected to financial information, providing important context in which shareholders may understand the entities' development, performance, position and impact. The Government should encourage companies to demonstrate the connectivity between non-financial and financial information. In our view, the preferred approach would be for material non-financial information to be disclosed within the annual report – specifically in the Strategic Report.

On this basis, we would urge the Government not to reduce the existing disclosure requirements in the Strategic Report. Non-financial information which is relevant to shareholders' decision-making should be presented in the Strategic Report. The concept of materiality should prevail in identifying the information which should be disclosed in the Strategic Report: information of strategic importance should be reported in the Strategic Report, while supplementary information may be reported elsewhere.

Sufficient flexibility should be permitted to enable entities to make judgements regarding what information should feature in the Strategic Report and what information should be reported separately. We would encourage the Government and FRC to provide clear, practical guidance around the application of materiality in reporting non-financial information, by extending the FRC's *Clear and Concise* initiative to apply to reporting under the EU NFR Directive. In the context of concerns around the increasing length of annual reports leading to their loss of relevance, the exclusion of immaterial information is as important as the inclusion of material information. Where non-financial information is concerned, judgements around materiality are particularly complex.

Q2) Information that could be placed in a Separate Report:

We would welcome suggestions for information, currently required by law that could be placed in the separate report.

Comments

Non-financial information which is material to shareholders' decision-making should be included in the Strategic Report. Therefore, disclosures required under the EU NFR

Directive should be reported in the Strategic Report, to the extent that such disclosures are ‘necessary for an understanding of the undertaking’s development, performance, position and impact of its activity’ (Directive 2013/34/EU Article 19a paragraph 1).

For disclosures required by law or regulation, considerations of materiality should underpin the decision to report information separately: the types of information that could be placed in separate reports will therefore differ from one entity to another.

Non-financial information currently required by law that could be placed in a separate report may include the following, provided they are immaterial:

- Disclosure of employment of disabled persons (if not repealed)
- Employee involvement
- Supplementary information related to the structure of the company’s capital
- Supplementary information related to Greenhouse Gas Emissions

Whether disclosed in the annual report or in a separate report, non-financial information should be clearly cross-referenced to the financial statement where it has an impact on the entity’s financial position and performance.

Q3) Advantages and Disadvantages of a separate non-financial statement:

What do you see as the advantages and disadvantages, for your organisation of the separate statement?

Comments

Reporting a separate statement may help to reduce the administrative costs associated with annual reporting, by allowing non-financial information to be reported after the publication of the annual report. Given increasing investor complaints about the increasing length of the annual report, separate reporting also avoids over-cluttering the annual report.

However, potential disadvantages should be considered. In our view, on the whole, these disadvantages outweigh the advantages to separate reporting.

- Director responsibilities for the annual report are clearly defined; they are less so for information disclosed outside of the annual report. Investors and other stakeholders need to be able to trust the non-financial information reported: if directors are not perceived to be accountable, non-financial information will not be credible.
- Integrated thinking is increasingly important for corporate reporting. Non-financial considerations are having a direct and increasingly material impact on companies’ financial position and performance. Reporting non-financial information separately causes the connection between financial and non-financial aspects to be lost, and negates the recent FRC initiatives to encourage companies to ‘tell their story’ through the Strategic Report.

- The EU NFR Directive requires separate reports to be published 'not exceeding six months after the balance sheet date' and to be 'referred to in the management report [in the UK, the Strategic Report].' Given that annual reports, which contain the Strategic Report, are laid before shareholders earlier at annual general meetings, non-financial information may not be presented to shareholders if they are reported separately. This could further erode the accountability over, and the relevance of, non-financial information.

We believe that material non-financial information should be presented with due prominence to investors and other affected stakeholders. Materiality, not the financial or non-financial nature of the information, should determine where information is reported. Material information, whether financial or non-financial, should be reported within the annual report.

Assurance – whether external or internal – plays a major role in determining the credibility of the non-financial information. The scope and form of assurance must be considered regardless of where the information is reported. We discuss this in greater detail in our responses to questions 7 to 9.

Q4) Advantages and disadvantages of the Implementation Options.

What do you see as the advantages and disadvantages of the various implementation options?

Comments

We believe that the scope of the current Strategic Report requirements, which provide leading guidance for the non-financial reporting requirements under the EU NFR Directive, should not be reduced.

With this in mind, we do not support repealing the current Strategic Report requirements for quoted companies outside the scope of Articles 19a and 29a of the EU Accounting Directive (Option 2 in the consultation document, Option 4 in the impact assessment). While we note the aim of this approach is to minimise the additional regulatory burden on companies, exempting smaller quoted public companies from the requirement to make bribery and anti-corruption disclosures may send the wrong message about the UK's regulatory approach.

We also do not support implementing separate requirements for large PIEs within the scope of the EU NFR Directive, and for quoted companies within the scope of the UK CA 2006 requirements (Option 1 in the consultation document, option 2 in the impact assessment). Very few EU NFR Directive requirements exceed the scope of the existing CA 2006 Strategic Report requirements. On this basis, the creation of two similar, but separate, sets of requirements would seem to introduce undue complexity in return for little improvement in reporting quality. This is particularly unhelpful where, as BIS notes (page 19 of the consultation document), companies may be required to comply with different reporting requirements from one year to another, depending on changes to its average number of employees.

We believe that it would be preferable to extend the scope of the existing CA 2006 Strategic Report requirements, such that it incorporates the additional requirements under the EU NFR Directive (for example, anti-corruption and bribery disclosures). The extended CA 2006 requirements should then apply to all listed companies as well as unlisted PIEs.

Q5): Preferred option relating to scope

Considering the possible advantages and disadvantages provided by the flexibilities contained within the EU NFR Directive, which would be your preferred option in terms of which companies should be required to disclose non-financial information?

Comments

As explained above, we would not support either of the two options set out in the consultation document.

Q6) Alternative Options

Are there any other options for implementing the EU NFR Directive the Government should consider?

Comments

As explained in our response to Q4), it would be preferable to incorporate the EU NFR Directive requirements within the CA 2006 Strategic Report requirements, and extend the scope of the requirements to apply to all listed companies as well as non-listed PIEs. This allows the EU NFR Directive requirements to be implemented within an existing and well-understood framework, with one single set of requirement applying to all affected companies. Care will be needed to ensure that the scope of the Strategic Report requirements is fully aligned with the scope of the EU NFR Directive, particularly with regards to companies with debt securities listed on a regulated market.

Quoted public companies within the scope of the EU NFR Directive should not suffer significant incremental costs, as they already prepare the Strategic Report under CA 2006. Companies outside of the scope of the Strategic Report requirements, including unquoted PIEs and companies with listed debt securities, will incur initial implementation costs, but will benefit from the certainty of the existing legislation.

We acknowledge that this approach would exceed the intended scope of the EU NFR Directive by extending the enhanced non-financial reporting requirements to quoted public companies with less than 500 employees. However, in our opinion the benefits outweigh the incremental costs, especially as these quoted public companies already comply with the Strategic Report requirements under CA 2006 as explained above.

Q7) Assurance of Non-Financial Information Should the Government require that the non-financial statement be verified by an independent assurance service provider'?
Comments The government's consultation uses a number of terms in this section, including such language as 'validation' and 'verification'. While the term 'verification' is derived from the language used in the Directive (eg Paragraph 3(6)), we suggest the Government avoids it. An assurance engagement can at best provide 'reasonable assurance'. In most assurance engagements over non-financial information, assurance providers are commissioned to give a 'limited assurance' opinion. The term 'verification' – derived from the Latin word for 'truth' – suggests a higher level of assurance than either type of engagement will provide, or indeed any assurance engagement *could* provide. As the Government department responsible for the accountancy profession in the UK, we would encourage BIS to align its legislation more closely to assurance terminology used in the International Standards on Auditing (ISAs) and the International Standards on Assurance Engagements (ISAEs) to reduce scope for misunderstanding. That said, we do not believe the Government should require that the non-financial statement be assured by an independent assurance service provider. Demand for additional assurance should be market-led, and not mandated by legislation.
Q8) Advantages and Disadvantages of third-party validation What do you see as the advantages and disadvantages of requesting third party assurance?
Comments Mandating independent assurance may boost confidence in non-financial information. On the other hand, it would also impose costs on businesses while perhaps only boosting confidence to a limited extent. We note that non-financial information would be likely to fall within the scope of ISA 720 *The Auditor's Responsibilities Relating to Other Information*. ISA 720 requires the auditor to read other information that accompanies the audited financial statements and state, based on the knowledge obtained in the audit, whether there is a material inconsistency either between that information and the financial statements or that information and the knowledge obtained in the audit. While explicitly not an assurance engagement, this should help to rebut the (incorrect) view that auditors allow information they know to be misstated to be published on the grounds that it is outside the scope of their audit. We believe the scope of the minimum requirement in the EU NFR Directive for auditors to '[check] whether the non-financial statement […] or the separate report […] has been provided' (Article 19a paragraph 5) is unclear. Clarification is needed regarding whether

the requirements under Article 34 paragraph 1 of the EU Accounting Directive should apply to the non-financial statement. Without clarification on this matter, there is a significant risk that the expectation gap between the audit work that shareholders perceive to have been undertaken, and the audit work actually undertaken, will be widened.

Q9) Other Options

Are there any other options the Government should consider for Third Party Verification?

Comments

As an alternative to mandatory assurance, Government could encourage businesses and investors to consider commissioning independent assurance over some or all of their non-financial disclosures and determine whether such services are found by users to be beneficial.

In addition, we suggest that other mechanisms for improving the credibility of and trust in non-financial disclosures be explored, such as guidance for boards, perhaps from the FRC, on how to present non-financial disclosures in a fair, balanced and understandable way.

Q10) Advantages and Disadvantages

What do you see as the advantages and disadvantages of preparing or receiving the non-financial statement electronically via a company's website?

Comments

Financial statements are now published electronically by most listed companies, and non-financial statements – whether published along with the financial statements as part of the annual report, or released as a separate statement – are likely to be published in the same way. Not providing a legal basis for the electronic publication of non-financial statements would, in today's environment, restrict the audience of non-financial reporting and thus run counter to the aim of non-financial reporting.

Besides expanding the audience of non-financial reporting, the use of technology can help companies to produce interactive reports that better target the information needs of different stakeholders. Technology also allows dynamic, regularly changing information to be updated on a timely basis, providing users with more up to date information.

FEE's 2015 Cogito paper, 'The Future of Corporate Reporting – creating the dynamics for change,' describes how technology could be used to transform the content, timing and presentation of corporate reporting. While much work is required before a feasible model can be achieved, we believe that the role of technology in shaping the future of corporate reporting must be embraced. As blockchain and other forms of mutual information transfer develop, further evolution is expected in this area and corporate reporting should be ready to respond to future changes.

However, the scope and dynamic nature of electronic reporting is likely to widen the expectation gap and give rise to concerns around accountability. For non-financial statements to be credible, it is critical that issues relating to the integrity of data and director and auditor responsibilities are resolved.

Q11) Additional Protections

Considering your response to Q7, are there any additional protections that the government should consider?

Comments

Crucial protections to be considered include:

- *Integrity of data*: Robust internal control processes are required to prevent the corruption of data when the final non-financial statement is converted into electronic format (such as XBRL), as well as protect against unauthorised changes once the data is online. External taxonomy-focused assurance (separate from any external content-focused assurance) may also be needed. Legislation should provide for minimum standards for protecting the integrity of data, taking into account the balance of cost and benefits.
- *Scope of director responsibility*: Electronic reporting could further blur the boundaries of director responsibility. Information for which directors have responsibility, to which shareholders could hold the directors to account, need to be clearly distinguishable from other information (for example, information of a public relations nature).
- *Scope of auditor responsibility*: Assurance over the non-financial statement – whether separate independent assurance or work carried out under ISA 720 as part of a statutory audit – focuses on the underlying content, and is likely to take place at a specified point in time (for example, once a year). Provisions should be made to enable to assurance providers to describe the limitations to the scope of the assurance engagement (for example, the assurance opinion does not encompass the integrity of data in XBRL), or the timing of the work done (for example, specify that dynamic KPIs reviewed at a specific date were materially consistent with the financial statements.)

Q12) Number of Companies Providing an Electronic Report

We are interested in the number of companies that currently send their annual report electronically. Considering your shareholders, how many, as a percentage, opt to receive their annual report as a printed copy?

Comments

ACCA is a non-corporate professional body. However, our annual reports are made available in electronic format on the ACCA website.

Q13) Definition of Senior Manager

BIS would welcome suggestions as to how this definition may be improved to reflect better the intention of this requirement.

Comments

Different companies – even those within the same sector – operate different decision-making and reporting structures. Given the range of organisational structures that exist, the application of one single definition would be artificial and create inconsistency in application.

Instead of developing a new definition, we believe that companies should be encouraged to disclose gender diversity within the different levels of their specific organisational structures. Most companies have internal systems for categorising their work force by level of responsibility and pay grade for human resources purposes. We would therefore recommend that the Government revises Section 414C(8)(c) of CA 2006 such that gender reporting is aligned to each company's existing internal categories, in a way that is meaningful to the company and its stakeholders. The structure and culture of each company could be demonstrated by the number of employees within each category and the relative proportion of each category to the total work force population. Flexible reporting requirements to enable companies to communicate with their shareholders in the way that is most relevant to the organisation help to reduce the compliance burden, and makes for more meaningful reporting.

Q14) Other Comments on this requirement

BIS would also welcome other comments on this regulation including views on the approach suggested.

Comments

We support the retention of the gender reporting regulation, and encourage the Government to explore flexible reporting requirements that can make gender reporting more meaningful to both the companies and their stakeholders, as discussed above.

Further, we note that the EU NFR Directive refers to the obligation for large undertakings to disclose diversity policies 'with regards to aspects such as, for instance, age, gender or education and professional backgrounds.' We would encourage the Government to consider how UK legislation should incorporate disclosure requirements in relation to these other diversity aspects. In particular, we would ask the Government or FRC to clarify what disclosures on educational and professional backgrounds should entail.

Q15) Reporting Regulations

What other reporting regulations would you suggest that could be repealed?

Comments

None. We would encourage the Government to reconsider the repeal of the reporting regulations listed on page 24 of the consultation document.

We note that the reporting of the policy on the employment of disabled persons is not specifically referred to in Article 20(a)(g) of the Accounting Directive. The other reporting regulations identified on the list should not be repealed, as they are relevant for consideration by shareholders at annual general meetings.

Q16) Other Information

Is there any information that could be moved outside the Annual Report?

Comments

Please refer to our response to Q2).

Q17) Analysis of the Costs and Benefits of implementing the NFR Directive

Type of Organisation

Q17a) Are you a company (not a PIE), a company which is a PIE (as described in para 2.6), an NGO, institutional investor or other type of organisation? If you are a PIE please specify whether you are a parent company or a subsidiary company.

PIE (Parent)	
PIE (Subsidiary)	
Non-Governmental Organisation	
Institutional Investor	
Other (please specify)	Global Professional Accountancy Body

When considering your answers, we would very much appreciate information on any costs you will incur as a result of the proposals for implementing the EU NFR Directive, both in terms of money and time (e.g. describe which type of staff will be involved, for how long). We would appreciate any information on new systems or practices your organisation may adopt, or existing processes that may change, because of the Directive.

Q17b) Do you expect to incur any “one off “or “ongoing costs” as a result of having to comply with the requirements of the EU NFR Directive over and above what you incur currently on your non-financial reporting obligations? Please describe these costs. (One off costs could include staff time to familiarise your organisation with the regulations or updating of internal guidance for staff; on-going costs could include additional time to review non-financial data in each year subsequent to first year)

Q18c) How would your costs change if you were allowed to provide your non-financial statement separately within six months of the balance sheet date on your financial report?’

Q18d) How would your costs change if you were allowed to provide this report electronically on your website and did not have the obligation to provide hard copies except in exceptional circumstances?’

Q18e) What additional costs would you expect if the government required that an independent assurance services provider verify the non-financial statement? This may be in terms of money or resources costs such as staff time.’

Benefits to your company of the EU NFR Directive?

Q18f) Please describe any benefits to your company you expect will arise because of the EU NFR Directive (to your organisation or more widely).

If you are happy for BIS officials contact you with further questions about the impact of the EU NFR directive, please provide your contact details.

Comments

As a global professional accountancy body, ACCA is not directly affected by the EU NFR Directive. Therefore, we cannot comment on the specific costs and benefits of implementing the EU NFR Directive requirements.

As a general comment on the Impact Assessment, we note that the on-going costs of ‘verification / due diligence’ have been estimated. As noted in our response to Q7), we believe neither ‘verification’ nor ‘due diligence’ are accurate terms for the activities to be undertaken to improve the credibility of non-financial reporting.

We believe that while limited external assurance over certain measurable non-financial information may be beneficial, other forms of internal assurance should be considered. The Government or the FRC could issue further guidance in this area, for example identifying best practice around extending the scope of the internal audit function, improving board accountability and oversight over non-financial performance, and clarifying the company’s reporting policy for non-financial information. Some such

activities may involve greater one-off costs, but reduced on-going costs.
Q18g) Any Other Comments Do you have any other comments about the costs and benefits that will result from the EU NFR Directive?
Comments None.
Q19) Additional Comments Do you have any additional comments on this directive
Comments Practical guidance around the implementation of the EU NFR Directive is urgently needed, to ensure that the Directive can be applied consistently and meaningfully across Member States. We would urge the Government to push for the EU Commission to make the non-binding guidelines as helpful and practical as possible for the companies applying the Directive. Given the implementation of the EU NFR Directive for financial years is due in 2017, we encourage the Government to deliver relevant legislation as soon as practicable, so that the FRC can judge the extent to which further practical, consistent guidance is required for UK companies. In doing so, the FRC will also need to consider the timing and content of the non-binding guidelines to be published by the European Commission by 6 December 2016. Guidance in the following areas is particularly important: • *Framework for non-financial reporting*: The EU NFI Directive identifies numerous applicable national and international frameworks for non-financial reporting (paragraph 9), some of which (such as ISO 26000) are not reporting frameworks. The multiplicity of non-financial reporting risks undermining consistency of reporting across the European Union. ACCA believes that the Integrated Reporting (<IR>) Framework provides the best framework for the implementation of the EU NFR Directive, demonstrating as it does the interaction between financial and non-financial information. Within the overarching framework of integrated reporting, the GRI (G4) and SASB provide the best bases for comparable general and sector-specific reporting. We would encourage the Government to explore how the EU NFI Directive can be achieved by adopting the <IR> Framework. • *Materiality*: At present, numerous approaches to determining materiality for non-financial information exist under different frameworks. Consistent guidance on determining the materiality is needed to ensure that non-financial reporting is

relevant and understandable to users. In our view, materiality with regard to non-financial information comprises two aspects: firstly, impact on the reporting entity's past, present and future financial performance and position; and secondly, influence on the decisions that users make about the reporting entity.

The determination of materiality is related to the identification of the main users of the non-financial statement. On the basis that we believe the non-financial statement should form part of the Strategic Report, the main users of the non-financial statements should consist of existing and potential investors. The main user of the non-financial statement should be clearly identified in the statement, although this does not preclude other stakeholders from using the information.

Workshops

BIS also intends to hold a series of workshops to discuss the issues in this consultation in more depth. We anticipate holding these in Spring 2016. If you would like to send a representative, pleased tick the box below and we will contact you in due course with further details.

☒ Yes, I would like to register interest to attend the BIS NFR Workshops

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☐

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

☒Yes ☐No

BIS/16/35/RF