



Renew your Financial Reporting Faculty membership today

CONTINUE TO STAY AHEAD

The dynamic economic market with its constantly changing landscape means you need to continually keep on top of emerging trends.

2019 promises to be another eventful year - areas of interest for us continue to be **UK GAAP** and **IFRS** as well as the implications of **Brexit**.

icaew.com/facultyrenew



The webinar will begin shortly ...



Narrative reporting

24 January 2019

Introduction

Sally Baker
Technical Manager
ICAEW



Today's presenters

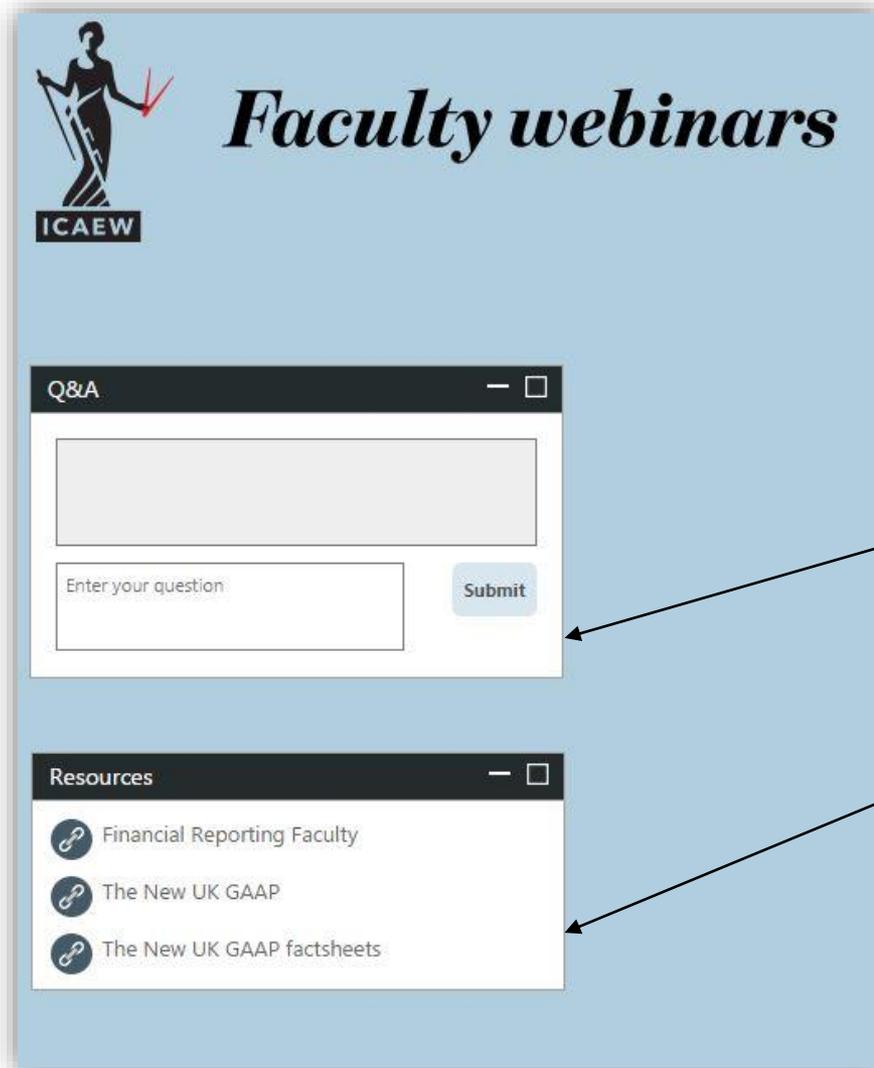
Debbie Crawshawe
Project Director
Financial Reporting Council



Amanda Swaffield
Director
National Accounting & Auditing
Deloitte



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Faculty webinars

Q&A

Enter your question

Resources

- [Financial Reporting Faculty](#)
- [The New UK GAAP](#)
- [The New UK GAAP factsheets](#)



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- If you experience poor sound quality try refreshing your page.

Ask a question

Type your question into the question box then click submit.

Download resources here
FRF members: [icaew.com/f-faculty](https://www.icaew.com/f-faculty) :

[resources](#)

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Poll: Which of the following regulatory developments do you fall within scope of?



The narrative reporting landscape

Why is this such an area of focus?

Responsible business trying to restore trust, reflected in governance reforms

Observing a boom in ethical investment portfolios/impact investing

An increased focus on non-financial information [*Non-financial information 'frequently' or 'occasionally' plays a pivotal role in 68% of investment – decision making (EY, 2017)*]

Quality of non-financial information and level of assurance

FRC area of focus

Timeline of developments



NFR
Regulations

BEIS Select
Committee
inquiry
report

General
election &
Queen's
Speech

Developments
in audit

FRC consults
on update to
Strategic
Report
Guidance

CRR Annual
Report
FRC letter to
AC Chairs &
FDs

Hampton/
Alexander
Report 2017

FRC consults on
Code &
Guidance on
Board
Effectiveness

BEIS Green
Paper
response

FRC Thematic
Reviews & Lab
on Risk &
Viability

Launch of the
Investment
Association
Public
Register



Collapse of
Carillion

Kingman
Review of
the FRC
launched

DWP/BEIS
Committee
Report on
Carillion

BEIS
legislation
on CEO pay
ratio, s172 &
private cos

Revised UK
Corporate
Governance
Code

Insolvency &
Corporate
Governance
response

CMA Review
of the audit
sector
launched

BEIS Carbon
and Energy
Regulations

DWP/BEIS
Committee
inquiry into
Carillion

Gender Pay
Gap
reporting
deadline

Wates
Principles for
large private
companies

Updated
Strategic
Report
Guidance

CRR Annual
Report
FRC letter to
AC Chairs &
FDs

FRC Lab report
on
performance
metrics



What's new in narrative reporting?

What's new in narrative reporting?

Non-Financial Reporting Directive

First year of implementation already completed.

FRC confirmation that this should be a separate statement.

The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016

s172(1) statement

Part of BEIS legislation on CEO pay ratio, s172 & private cos corporate governance

Section 172(1) statement required in the strategic report, plus two other statements in the directors' report.

Effective 1 Jan 2019

The Companies (Miscellaneous Reporting) Regulations 2018

Updated FRC Guidance on the Strategic Report

Revisions made to reflect increasing importance of non-financial information and a greater focus on the directors' duty to promote the success of the company under section 172.



FRC Lab reports

A few reports issued this year inc.

- Performance metrics
- Business models/risk & viability

Remains pertinent as sources of guidance.



Energy and Carbon Report Regulations

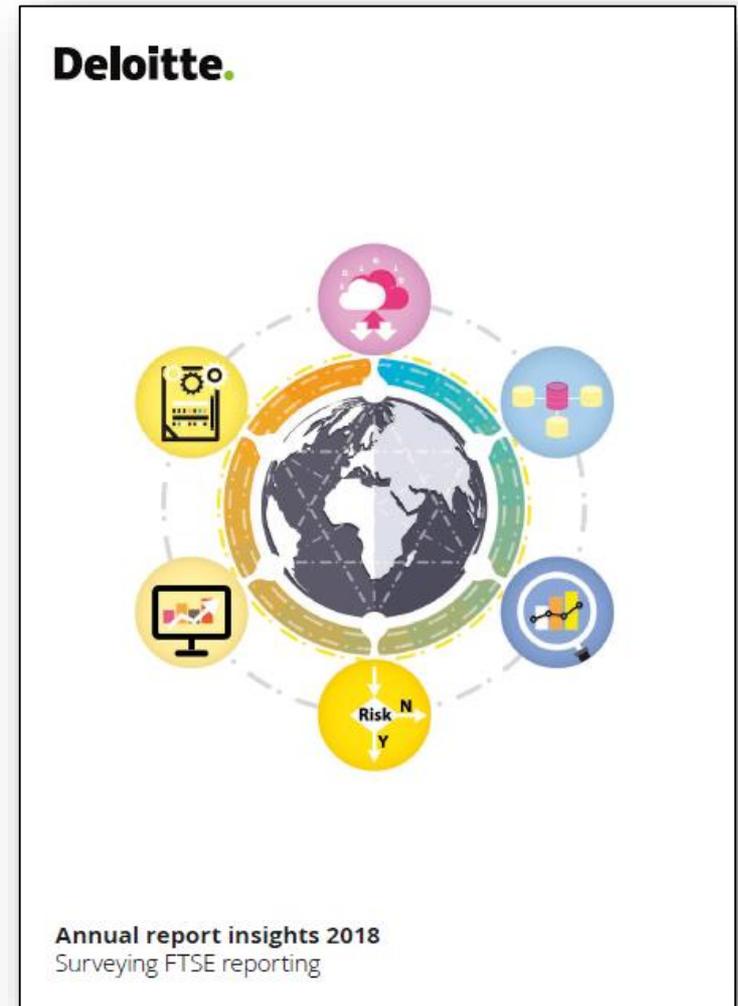
New directors' report disclosure, effective 1 April 2019:

- Quoted companies – energy use and efficiency
- Large unquoted companies – GHG, energy used, energy efficiency in the UK

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018

Annual report insights 2018

- Survey of 100 UK listed companies, examining trends in **narrative reporting**, **corporate governance** and **financial statements**
- Available at www.deloitte.co.uk/annualreportinsights
- Includes examples of good practice disclosure, “what to watch out for” and a regulatory overview



The strategic report... a reminder of the basics

The purpose of the strategic report is to INFORM members of the company and HELP THEM ASSESS how directors have performed their duty under section 172

TELL THE COMPANY'S STORY

The Strategic Report (pre NFR)

- All companies (other than small) are required to produce a strategic report that contains:
 - A fair review of the company's business
 - Principal risks and uncertainties
 - KPIS (including non-financial KPIs*)
- If quoted, the Strategic report must also contain
 - Business model
 - Strategy
 - Trends and factors
 - Policies and effectiveness relating to environmental matters (including impact), employees, social, community and human rights issues.

* Medium sized companies are not required to include non-financial KPIs

Non-Financial Reporting Regs

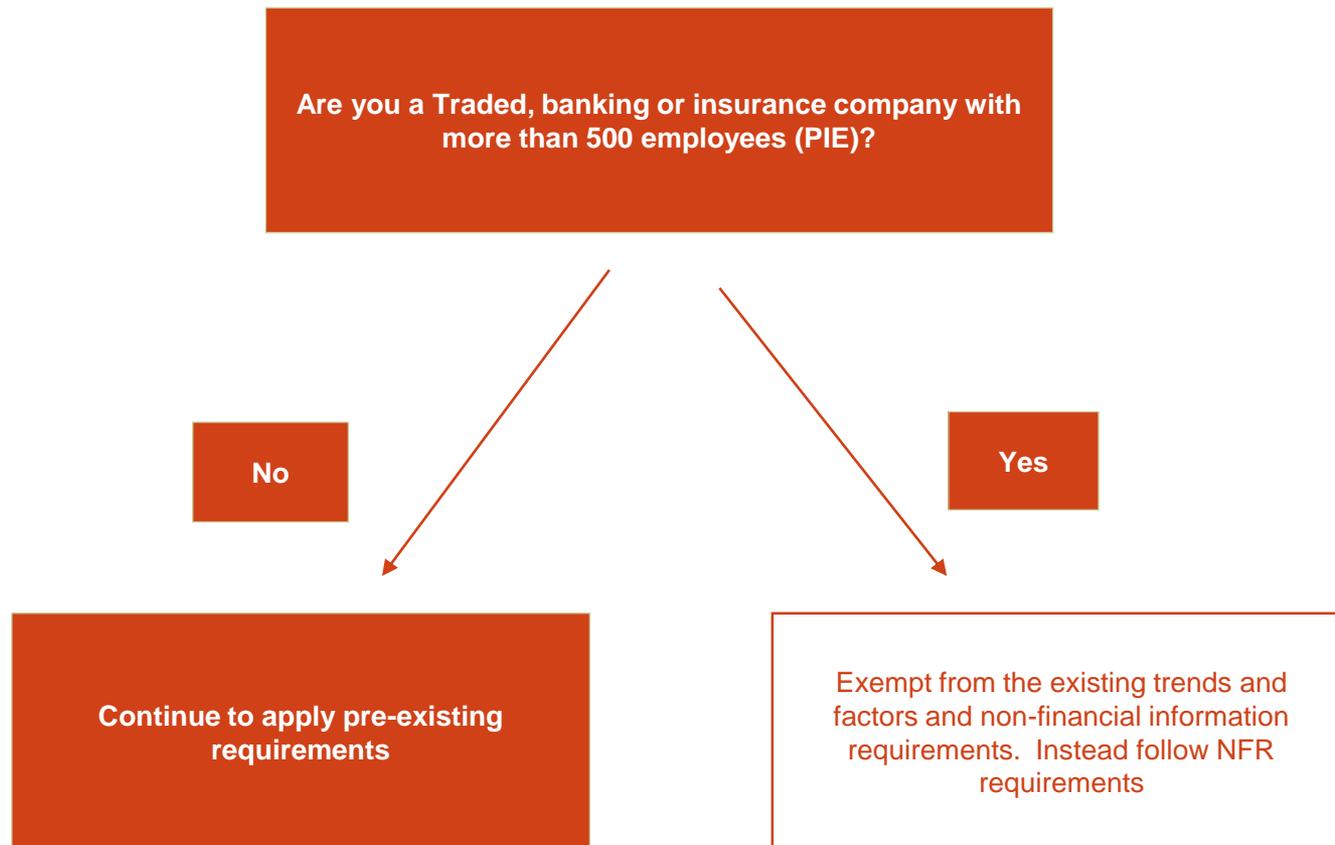
Information (to the extent necessary for an understanding of the company's development, performance and position and impact of its activity) about environmental matters, employees, social matters, respect for human rights, and anti-corruption and anti-bribery

Information to include:

- Business model
- Policies and due diligence implemented in respect of those policies
- Outcome of the policies
- If no policy pursued, a clear and reasoned explanation for not doing so
- Principal risks (including looking down the supply chain)
- Management of principal risks
- Non-financial KPIs

APPLIES TO PIEs WITH MORE THAN 500 EMPLOYEES

Scope



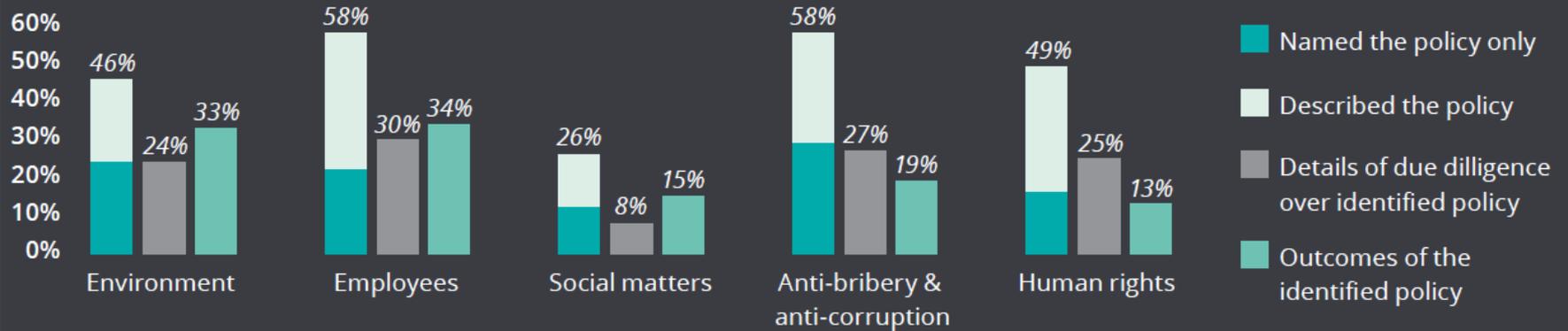
Non-Financial reporting regs

- A **separately identifiable non-financial reporting statement** is required – can be a series of cross references
- New areas:
 - impact on wider stakeholders but reporting through shareholder lens;
 - anti-corruption and anti-bribery matters;
 - due diligence processes;
 - Looking down the supply chain in areas of principal risk;
 - Disclosing reasons for having no policy; and
 - Outcomes of policies

Non-Financial Reporting Regs

What's the current status of disclosure?

Of those 70 companies in scope, which elements of the NFR Directive were identifiable?



A range of approaches taken by September 2018 reporters:

A statement including all the required information

A table with the requirements and a specific cross reference

A very brief statement with cross references to sections of the report

Don't forget.....

Describe your policies

NFR statement includes the business model



Poll: Did the introduction of the NFR Regulations change your reporting?

What's new in narrative reporting?

(Companies (Miscellaneous Reporting) Regulations 2018

- Large companies will need to include:
 - A statement in the **Strategic Report** (and website) describing how the directors have complied with their duty under s172(1)(a) to (f).

Must be a **SEPARATE STATEMENT** that either includes all relevant information or else x-refs to where the information can be found [para 8.5]

- A statement in the **Directors' Report** summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers & others, and the effect of that regard, including on the principal decisions taken by the company during the year.
- All UK companies with more than 250 employees will have to include:
 - A statement in the **Directors' Report** summarising how their directors have engaged with employees, how they have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the year.

Effective periods beginning on/after 1 Jan 2019



Department for
Business, Energy
& Industrial Strategy



Section 172(1) statement

- Directors must include a statement in their strategic report explaining how directors have had regard to the matters set out in section 172 (1).

Required for ALL companies that are not small or medium sized. There is NO GROUP EXEMPTION

An approach to reporting:

- Who are your key stakeholders?
- How have you engaged with those stakeholders?
- What are the key decisions made during the period?
- How has engagement with stakeholders affected decision making?

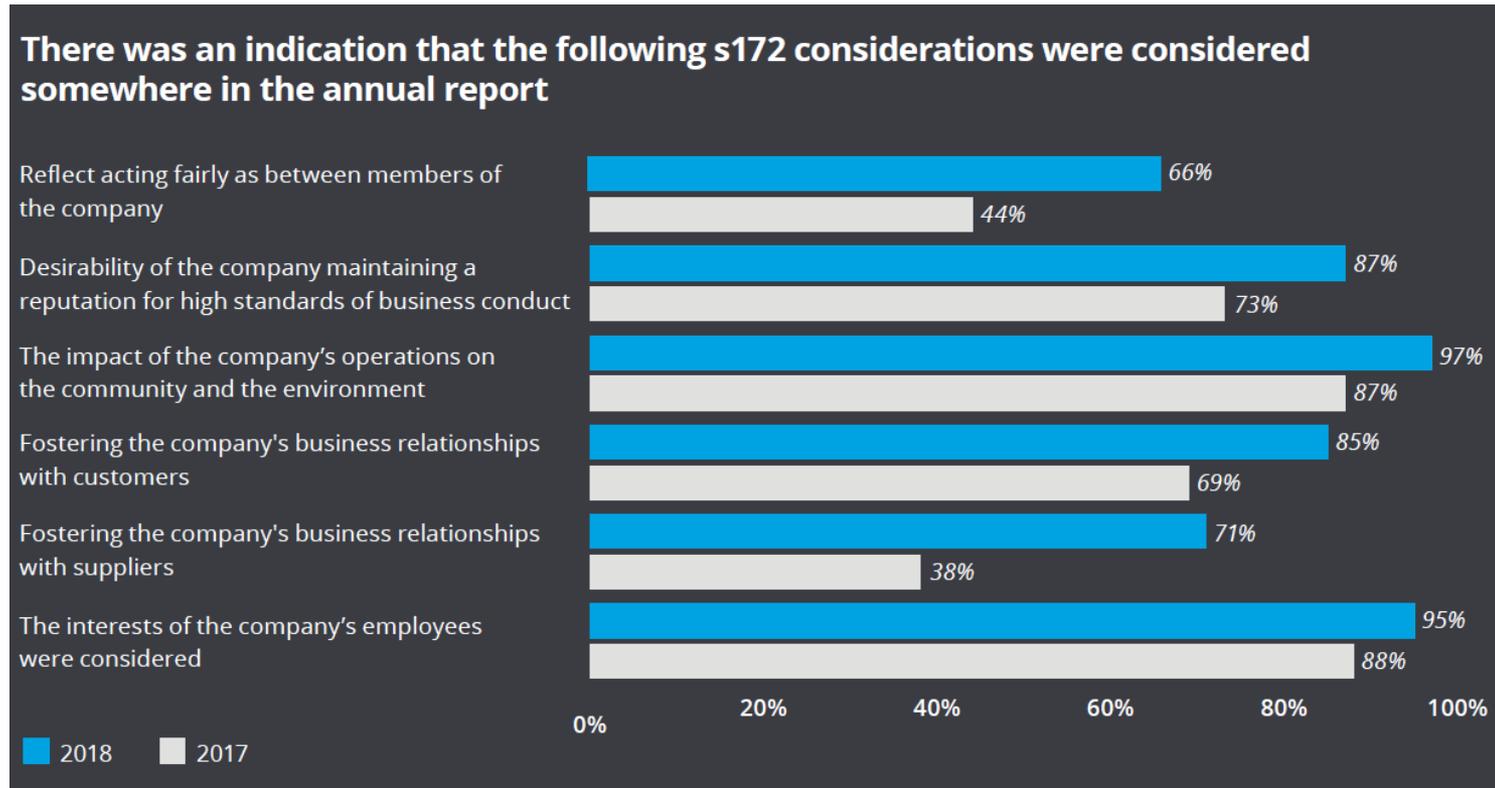
For instance – the capital allocation / dividend decision



Poll: How will the new s172 reporting requirement impact you?

s172(1) statement

What's the current status of disclosure?



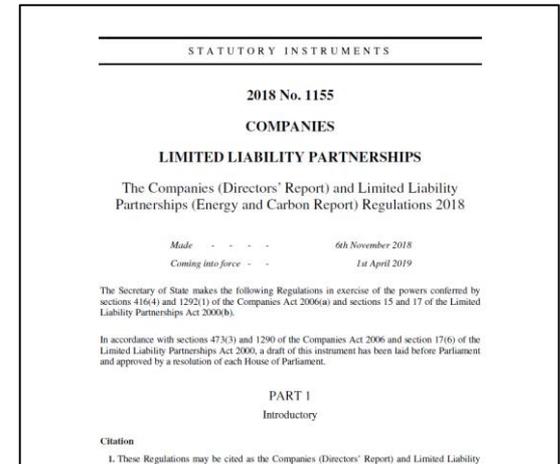
- **29%** referred to the responsibilities required by s172 (2017:17)
- **8%** explained how the directors had fulfilled those responsibilities and had regard to their s172 duties

What's new in narrative reporting?

Energy and Carbon Regulations

- Consultation on a “streamlined and more effective energy and carbon reporting framework” for the UK issued August 2017
- Resulting Regulations published in November 2018
- Quoted companies to make a statement in their directors’ report:
 - GHG emissions
 - Energy use
 - Action taken to increase energy efficiency
- Large unquoted companies:
 - GHG emissions
 - Energy use
 - Action taken to increase energy efficiency in the UK
- Applies to LLPs
- Doesn’t apply to subs (if included in a group directors’ report)
- Other exemptions :
 - consume less than 40,000kWh of energy during the period (must state this)
 - Would be seriously prejudicial

Effective periods beginning on/after 1 April 2019



Deloitte Need to know newsletter at www.ukaccountingplus.co.uk

Climate-related disclosures

Report by the Intergovernmental Panel on Climate Change (IPCC)

- Makes clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike.

FRC Expectations

- Consider the risks and opportunities arising from factors such as climate change and the environment, and where material, discuss the effect of these trends on the entity's future business model and strategy.

Risk of investor challenge

- Where companies are not factoring in the effects of the Paris Climate Agreement into their critical accounting judgements.

FSB Taskforce on Climate-related Financial Disclosures

Final report issued 2017

Applicable to all organisations, aiming to encourage market-led, industry-focused initiatives.

Responds to systemic risk in the financial system related to climate change.



Available at

www.ukaccountingplus.co.uk

TCFD climate-related risk disclosures

HSBC Holdings plc summarises its response to climate risk, utilising the TCFD's recommendations

Task Force on Climate-related Financial Disclosures ('TCFD')

Initial response to the Financial Stability Board

Reducing global carbon dioxide emissions is a critical challenge for everyone. We recognise its importance and seek to be a leader in managing climate change risk while developing opportunities with – and for – our customers. We welcome the new disclosure recommendations from the FSB taskforce, which assist the understanding of climate-related risks, and we were a signatory to the June 2017 TCFD report. This represents our first disclosure under the framework. We recognise this will evolve and expand over time.

Governance

Sustainability is a key concern of the HSBC Group Management Board, with five presentations taking place during 2017.

HSBC's 2016 Statement on Climate Change may be found on our website at www.hsbc.com/our-approach/measuring-our-impact. The site gives information on our approach to low/high carbon transition, managing our direct impact and partnerships.

Our Climate Business Council ('CBC'), established in 2010, is an internal strategic committee whose role is to coordinate across the bank, identifying and developing products and services to meet customers' sustainable finance needs. There is also a group-wide ESG steering group, chaired by the Group Finance Director, leading our approach to ESG issues, including external disclosure and materiality considerations.

Strategy

HSBC's strategy is to connect customers to opportunities across a diversified range of products and services. This, along with our geographical presence in developing markets, gives us a unique opportunity to engage with our customers and support their transition strategies. HSBC has committed to directing \$100bn of financing and investment to the low-carbon economy by 2025.

In order to facilitate the transition to the low-carbon economy for us and our clients, during 2017 we created a 'Global Head of Sustainable Finance' and an 'HSBC Centre of Sustainable Finance'. Additionally, via training, we have expanded our in-house sustainability expertise to approximately 1,300 employees across the Group. We are committed to strengthening our role as a thought leader in the financial services industry.

During 2017, HSBC's Global Research Climate Change Centre was ranked number one by Extel and HSBC was the second-ranked bookrunner by Dealogic for green, social and sustainability bonds. We will work with our customers in all our businesses to develop sustainable products and support innovation.

Risk Management

Climate risk, both physical and transition, is an increasing risk. During 2017 the Executive Risk Management Committee approved a framework for measuring transition risks across our loan portfolio. We have identified the higher transition risk sectors as oil and gas, metals and mining, power and utilities, automobiles, building and construction, and chemicals. We actively engage with clients in these sectors to support their transition strategies. We monitor and report our exposure internally, and will do so externally in 2018. Over time we expect a reduction in the carbon intensity of our portfolio.

Our Sustainability risk policies cover all our lending to sensitive sectors and we apply the Equator Principles to project finance. Details are available at www.hsbc.com/our-approach/measuring-our-impact. We also manage the physical risks to our global network relating to climate change by undertaking regular operational stress testing and contingency planning.

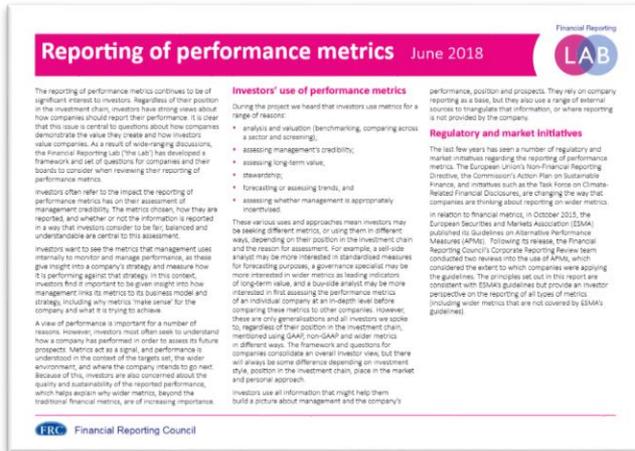
Next steps

The HSBC Centre of Sustainable Finance, Risk Management and Finance will work with external experts to develop climate-related scenario analysis and related disclosures.

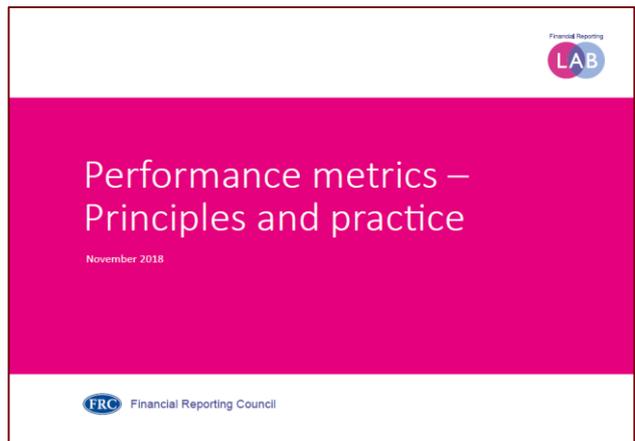
[HSBC Holdings plc Annual Report and Accounts 2017 \(p.27\)](#)

What's new in narrative reporting?

FRC Lab reports - Reporting of performance metrics



- June 2018 – 4 page summary arising from investor discussions
- Identified 5 principles for reporting metrics
- Investors want to see the metrics management use to monitor the business
- A framework and set of questions for boards to consider when reviewing metrics



- November 18 – final part of the project
- Provides guidance to companies and examples of how companies can apply those principles.

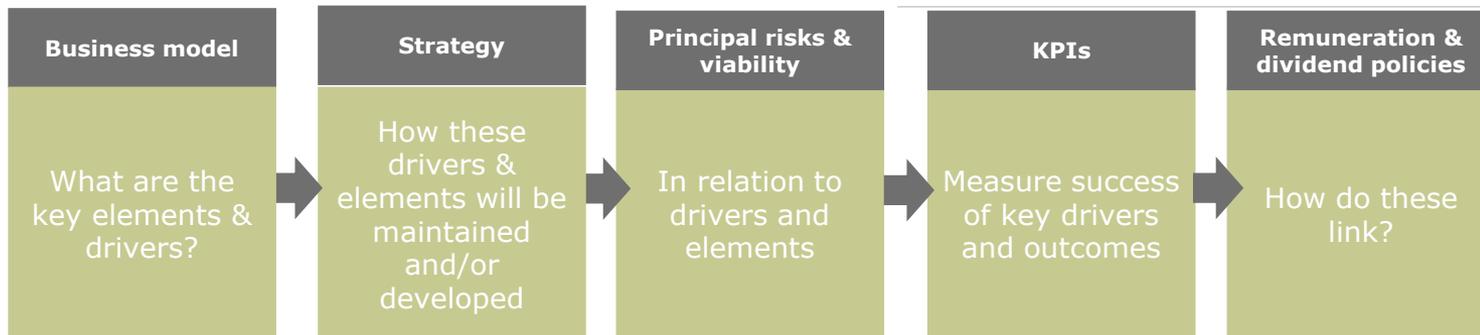
What's new in narrative reporting?

Lab reports - Business model reporting; Risk and viability reporting



- October 2018 – post implementation study
- Builds on:
 - Oct 16 – Business model reporting
 - Nov 17 – Risk and viability reporting
- Investors still want to see more linkage
- Practical examples
- Includes questions for Boards

How the business model should drive the disclosures in the front half of the annual report:



All available at www.frc.org.uk/investors/financial-reporting-lab/publications

FRC's guidance on the strategic report

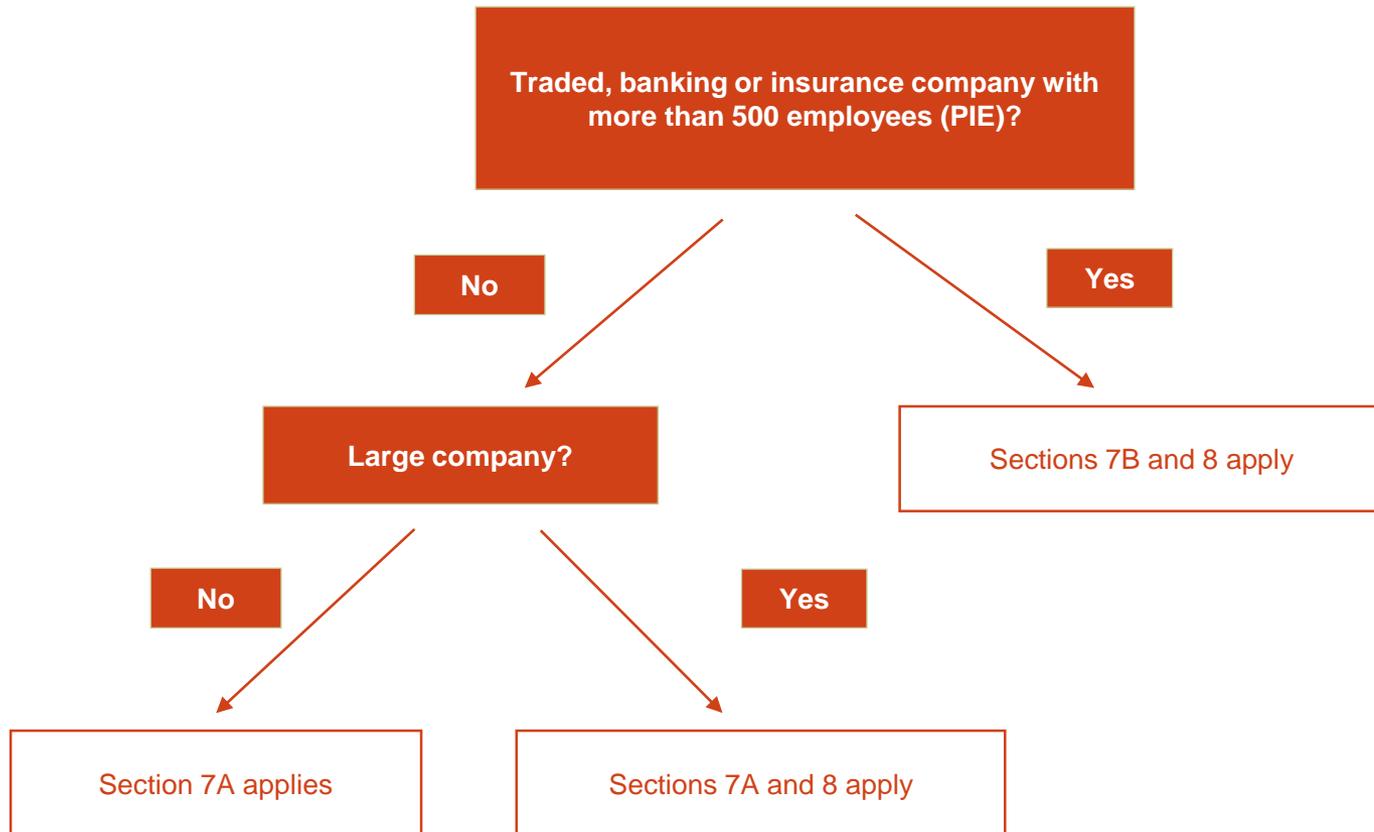
- The guidance covers:
 - The annual report
 - Communication principles
 - Materiality (in the context of narrative reporting)
 - Content elements
- Some principles in the guidance
 - Encourages companies to 'tell their story'
 - Encourages linkage between information within the strategic report and the rest of the annual report
 - Business model as a central concept
 - Understanding the drivers of long-term value creation
 - Increased focus on purpose and culture

Focus of the update to the guidance

Revised Guidance:

- Updates the guidance for the UK implementation of the EU Non-financial Reporting Directive (sections 7A and 7B of the Guidance)
- Includes new guidance on section 172 (1) reporting (Section 8 of the Guidance)

Structure of the content elements of the guidance





FRC areas of focus

FRC – narrative reporting areas of focus

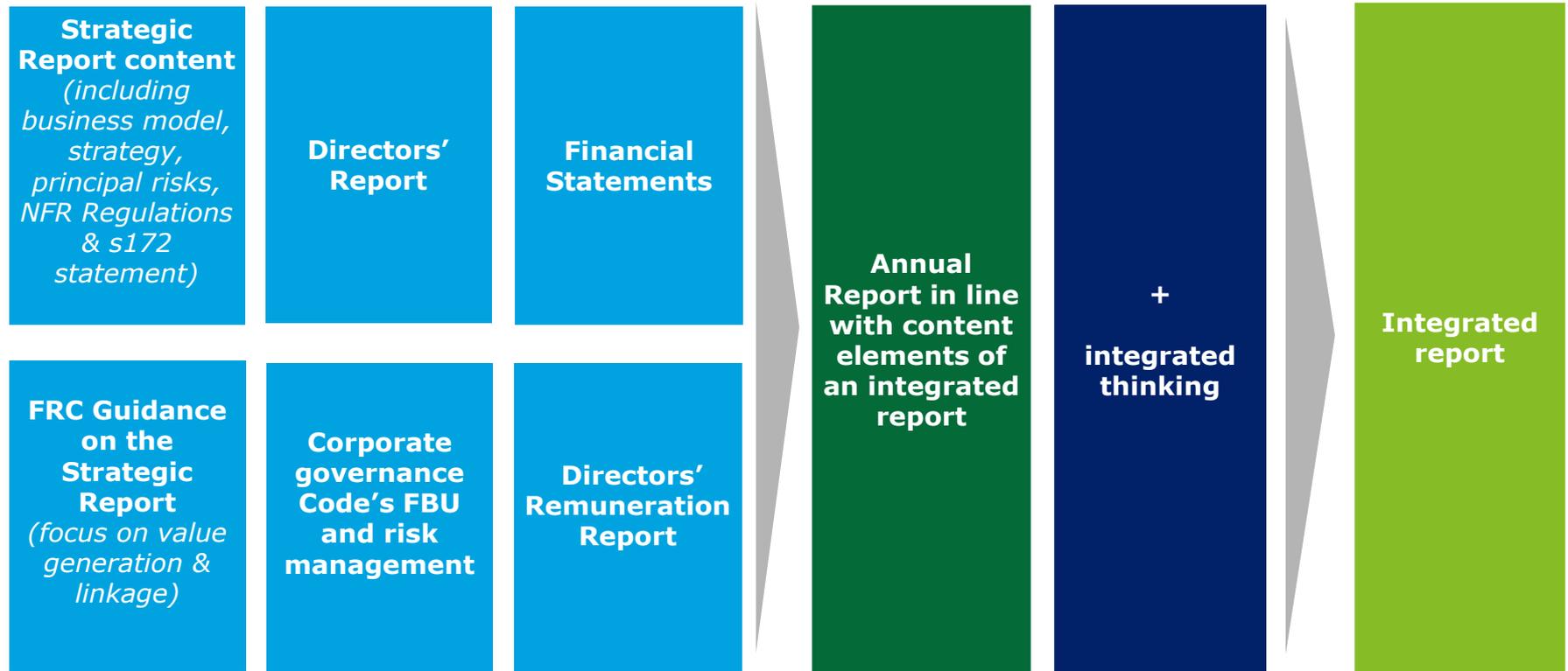
	Expectations	Practice
'Brexit'	<ul style="list-style-type: none"> Challenges to the business model (both specific and from broader economic uncertainties) Particular threats (e.g. supply chain) Sensitivities Updated to the date of the annual report 	<ul style="list-style-type: none"> 25 companies identified Brexit as a principal risk and 34 referred to Brexit as part of a broader discussion of marketplace and economic uncertainty 27% disclosed Board attention to Brexit-related matters 5% noted that they had changed, would change, or might change their business model
Distributions	<ul style="list-style-type: none"> Policy on payment of dividends in the context of wider capital allocation decisions. Any associated risks and constraints. Practice under that policy, including a clear explanation of capital allocation decisions. “The Government will legislate to require companies to disclose and explain their capital allocation decisions if investor pressure and new section 172 reporting requirements do not deliver sufficient progress.” <p><i>[BEIS Consultation – Insolvency and Corporate Governance]</i></p>	<ul style="list-style-type: none"> 32 companies disclosed a single number of retained profits available for dividend payments 50% of these disclosed this in the financial statements 11% linked the Viability Statement to the sustainability of dividends

FRC – narrative reporting areas of focus

	Expectations	Practice
Alternative performance measures	<ul style="list-style-type: none"> • Definitions • Explanations • Reconciliations • Prominence • Explanations for changes 	<ul style="list-style-type: none"> • 96% presented financial APMs in financial highlights, of which 91% presented an <i>adjusted profit measure</i> • 81% of Chairman's Statements and 82% of CEO's Statements contained APMs • 92% provided an explanation of APMs; but 71% of these were generic
Climate Change	<ul style="list-style-type: none"> • Understanding of impact • Principal risk • Management of that risks 	<p>1 company with climate-change principal risk and 9 companies referring to Task Force on Climate-related Financial Disclosures</p>
Supplier financing	<p>FRC expects strategic report and financial instruments disclosures to describe:</p> <ul style="list-style-type: none"> • nature and amount of any material supplier financing arrangements, and • impact on company's liquidity 	
Risk and viability reporting	<p>FRC expects a robust assessment of the principal risks that could threaten the business model, future performance, solvency or liquidity of the company.</p>	

<https://www.frc.org.uk/news/october-2018/frc-pushes-companies-for-improved-quality-reportin>

How does Integrated Reporting fit into the UK reporting landscape?



The missing link is **integrated thinking**

"We use different words in the UK. Strategic Report, not Integrated Report, but we are on the same journey with the same purpose. The principles in a UK strategic report are consistent with an integrated report."

The strategic report

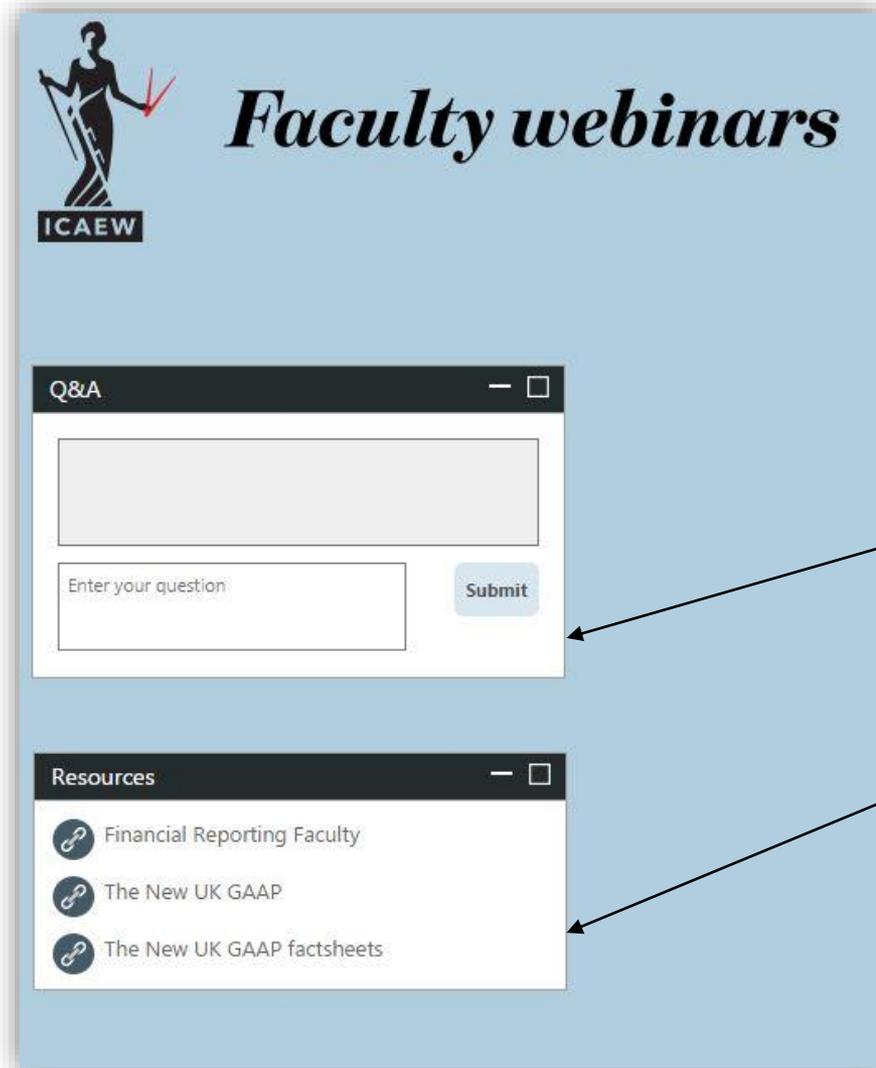
What's new?





Close

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Resources

www.ukaccountingplus.co.uk

Includes Deloitte newsletters/publications

The screenshot shows the UKAccountingPlus website interface. At the top left is the Deloitte logo, and at the top right is the UKAccountingPlus logo. Below the logos is a navigation menu with links for Home, News, Publications, Standards, Governance, Other regulatory, Projects, and Resources. A search bar is located on the right side of the navigation menu. The main content area features a header that reads "All you need on UK Accounting, Reporting & Corporate Governance". Below this header are three tabs: "Latest news", "Latest publications", and "Latest meetings". The "Latest news" tab is active, displaying an article titled "IOSCO statement on disclosure of ESG matters by issuers" dated 21 Jan 2019. The article text states: "The International Organization of Securities Commissions (IOSCO) has published a statement setting out the importance for issuers of considering the inclusion of environmental, social and governance (ESG) matters when disclosing information material to investors' decisions." To the right of the article is a featured section titled "Annual report insights 2018 — Surveying FTSE reporting" with the subtext "The 2018 annual reporting survey is now available." Below this section is a sub-section titled "Important dates" which lists two events: "January 2019 IASB meeting" on 23 Jan 2019 in London, and "January 2019 IFRS Foundation Trustees meeting" from 29 Jan 2019 to 31 Jan 2019.

Deloitte annual report insights 2018 – www.deloitte.co.uk/annualreportinsights



Resources

[Energy and Carbon Regulations](#)

[The Companies \(Miscellaneous Reporting\) Regulations 2018](#)

[The Non-Financial Reporting Regulations 2016](#)

[The FRC Guidance on the Strategic Report](#)

[FRC Annual Review of Corporate Governance and Reporting 2017/18](#)

[FRC letter to Audit Committee Chairs and Finance Directors 2018](#)

www.frc.org.uk/investors/financial-reporting-lab/publications

Questions

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National Accounting & Auditing
Deloitte



Future webinars and events



Webinars

- 21 February
Streamlined energy and carbon reporting
- 21 March
Hot topics in UK GAAP

Visit icaew.com/frfevents for details of our upcoming webinars



Events 2019

The faculty will be holding the Accounting / Financial Reporting Update, Spring 2019 roadshows, along with conferences and events throughout the year.

Visit icaew.com/frfevents for details of upcoming events.

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short survey

