



# *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](https://icaew.com/facultyrenew)



The webinar will begin shortly ...



# *Narrative reporting*

*24 January 2019*

# *Introduction*

Sally Baker  
Technical Manager  
ICAEW



## *Today's presenters*

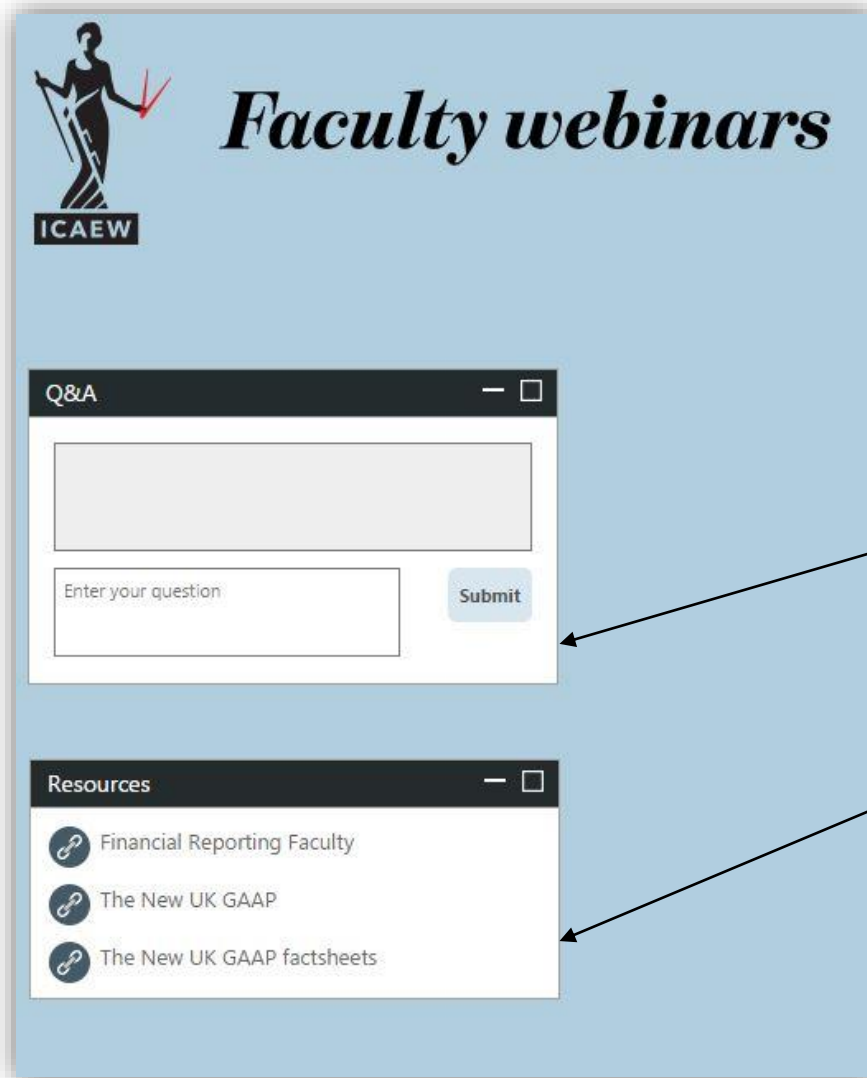
Debbie Crawshawe  
Project Director  
Financial Reporting Council



Amanda Swaffield  
Director  
National Accounting & Auditing  
Deloitte



# Ask a question



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[resources](#)

# *Contents*

The narrative reporting landscape

What's new in narrative reporting?

FRC areas of focus

Questions



*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

BEIS Green  
Paper  
response



CRR Annual  
Report  
FRC letter to  
AC Chairs &  
FDs



Hampton/  
Alexander  
Report 2017

FRC Thematic  
Reviews & Lab  
on Risk &  
Viability



FRC consults on  
Code &  
Guidance on  
Board  
Effectiveness

Launch of the  
Investment  
Association  
Public  
Register



Collapse of  
Carillion

DWP/BEIS  
Committee  
inquiry into  
Carillion



Kingman  
Review of  
the FRC  
launched

Gender Pay  
Gap  
reporting  
deadline



DWP/BEIS  
Committee  
Report on  
Carillion



BEIS  
legislation  
on CEO pay  
ratio, s172 &  
private cos

Wates  
Principles for  
large private  
companies



Revised UK  
Corporate  
Governance  
Code

Updated  
Strategic  
Report  
Guidance



Insolvency &  
Corporate  
Governance  
response



CMA Review  
of the audit  
sector  
launched

CRR Annual  
Report  
FRC letter to  
AC Chairs &  
FDs



BEIS Carbon  
and Energy  
Regulations

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

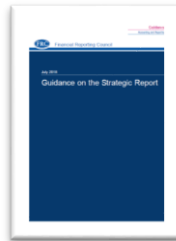
Section 172(1) statement required in the strategic report, plus two other statements in the directors' report.

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

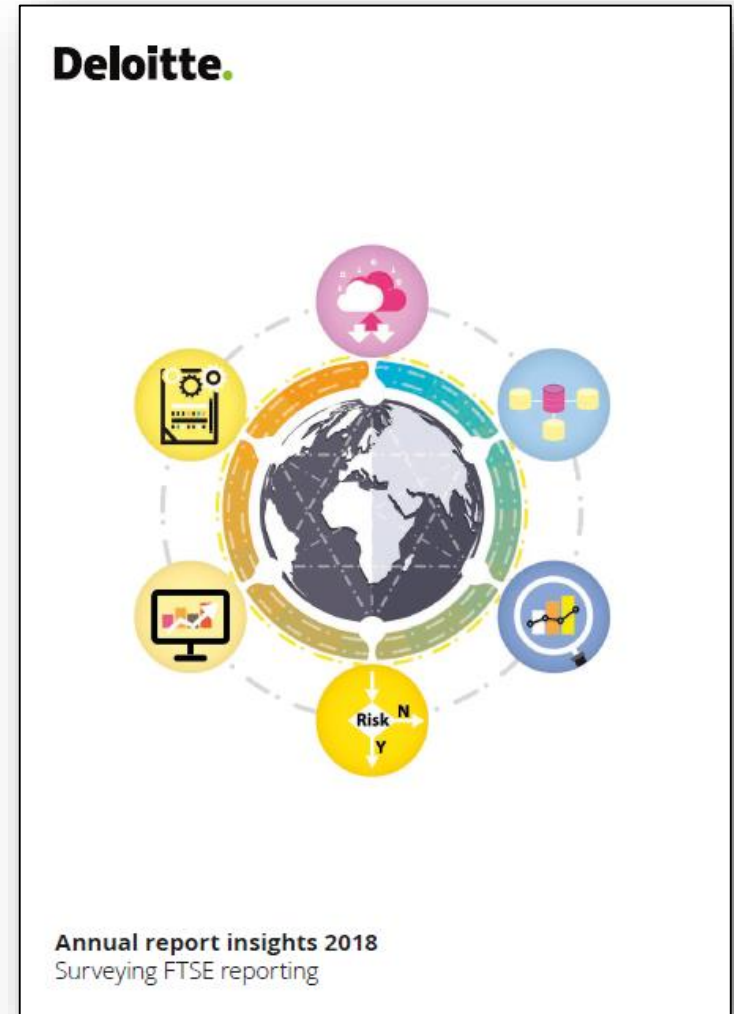
New directors' report disclosure, effective 1 April 2019:

- 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](http://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**

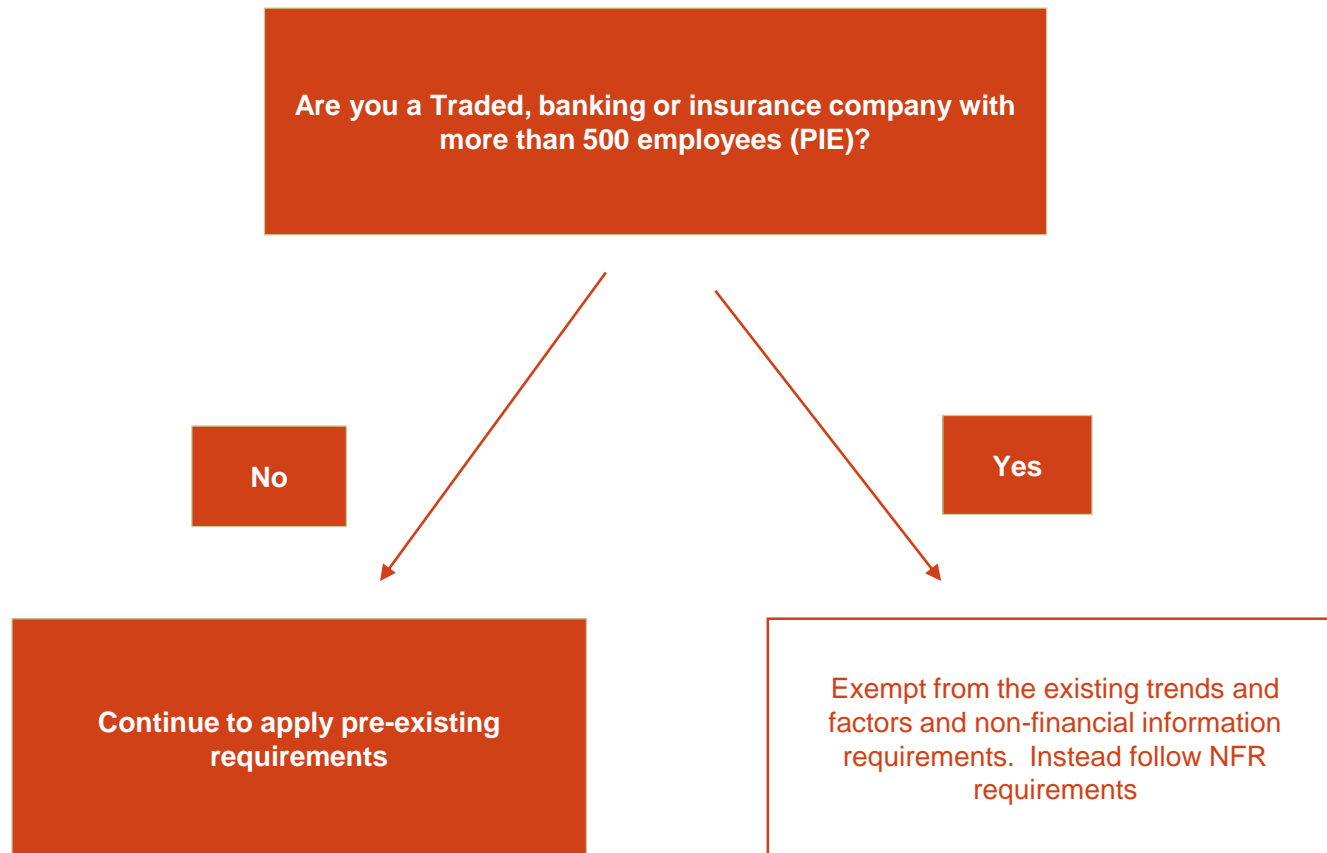
## **Information to include:**

- 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*



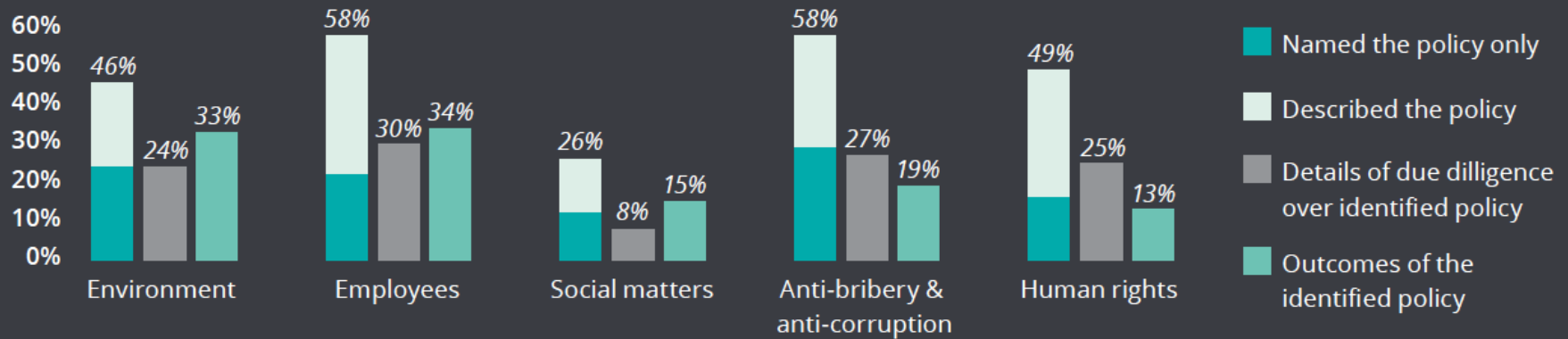
# ***Non-Financial reporting regs***

- 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?

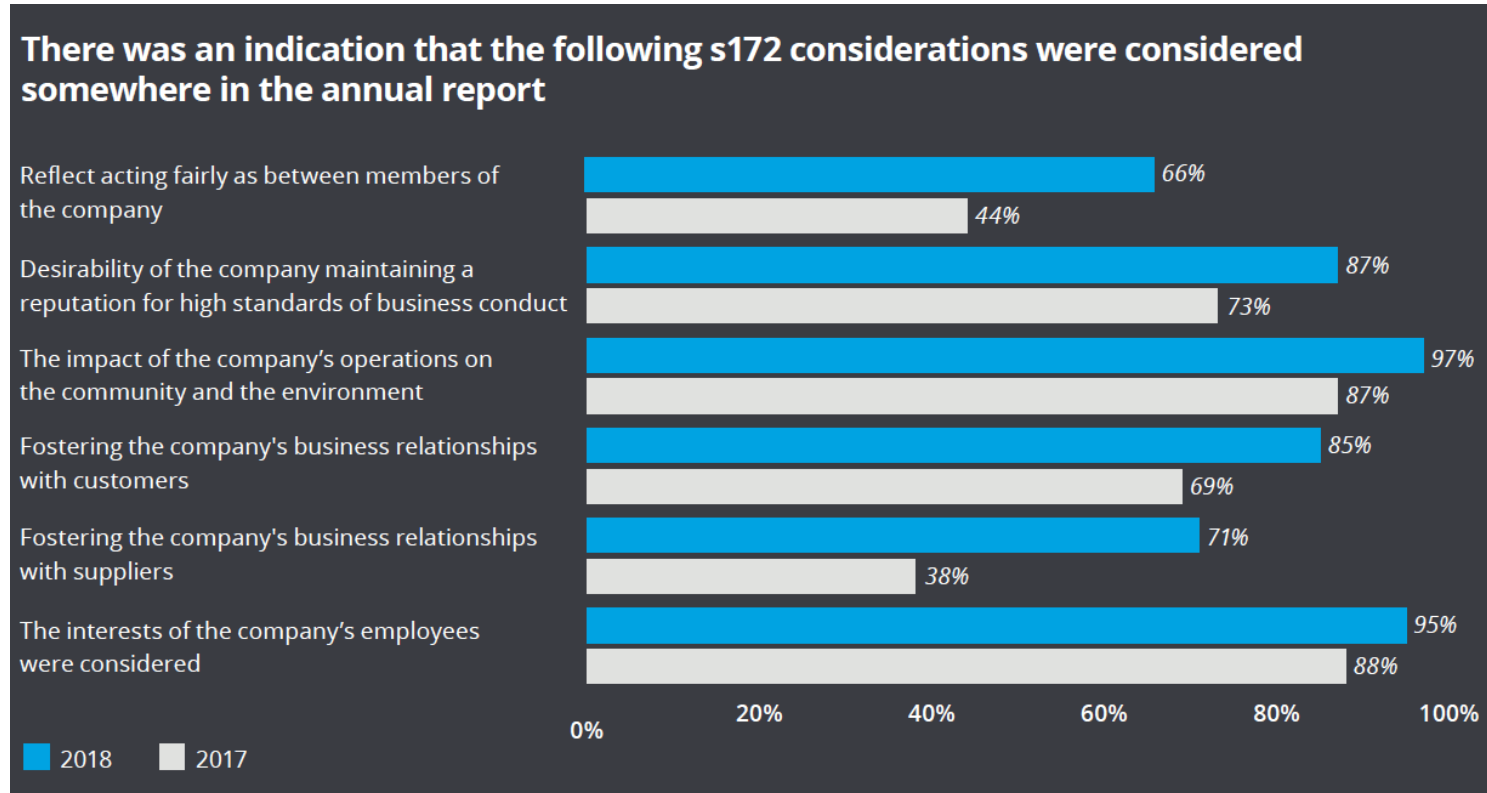
*For instance – the capital allocation / dividend decision*



*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

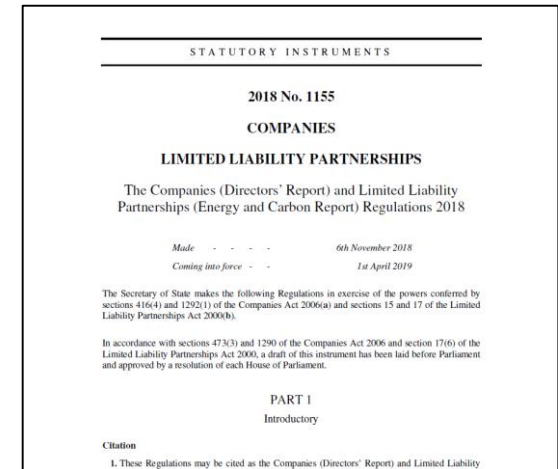


# *What's new in narrative reporting?*

## 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**



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newsletter at  
[www.ukaccountingplus.co.uk](http://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](http://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](http://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 E&T 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](http://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.

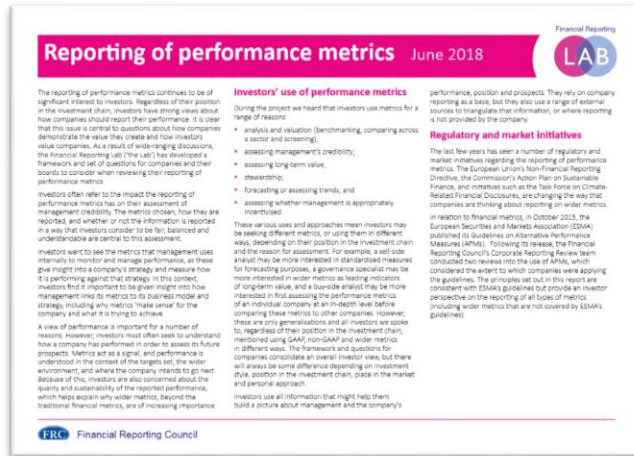
#### Next steps

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.

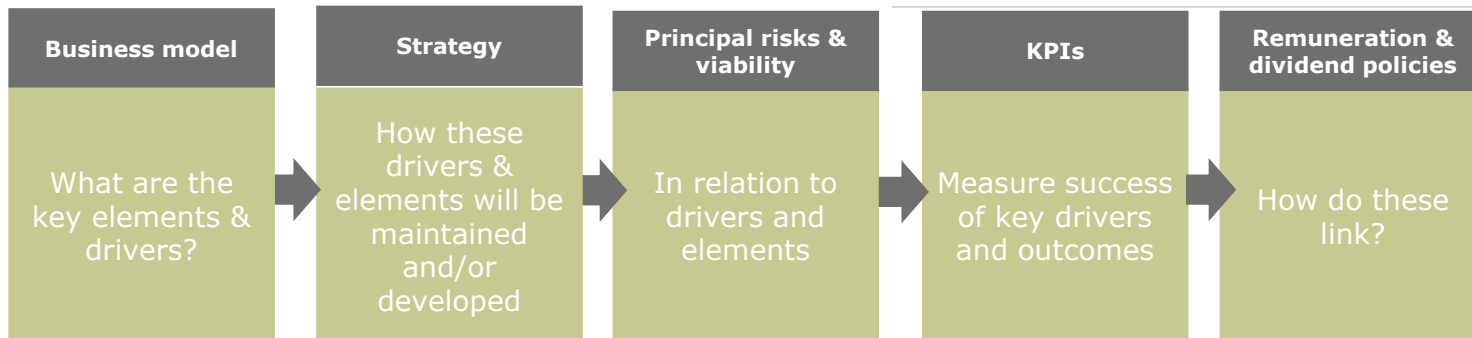
# *What's new in narrative reporting?*

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](http://www.frc.org.uk/investors/financial-reporting-lab/publications)

# ***FRC's guidance on the strategic report***

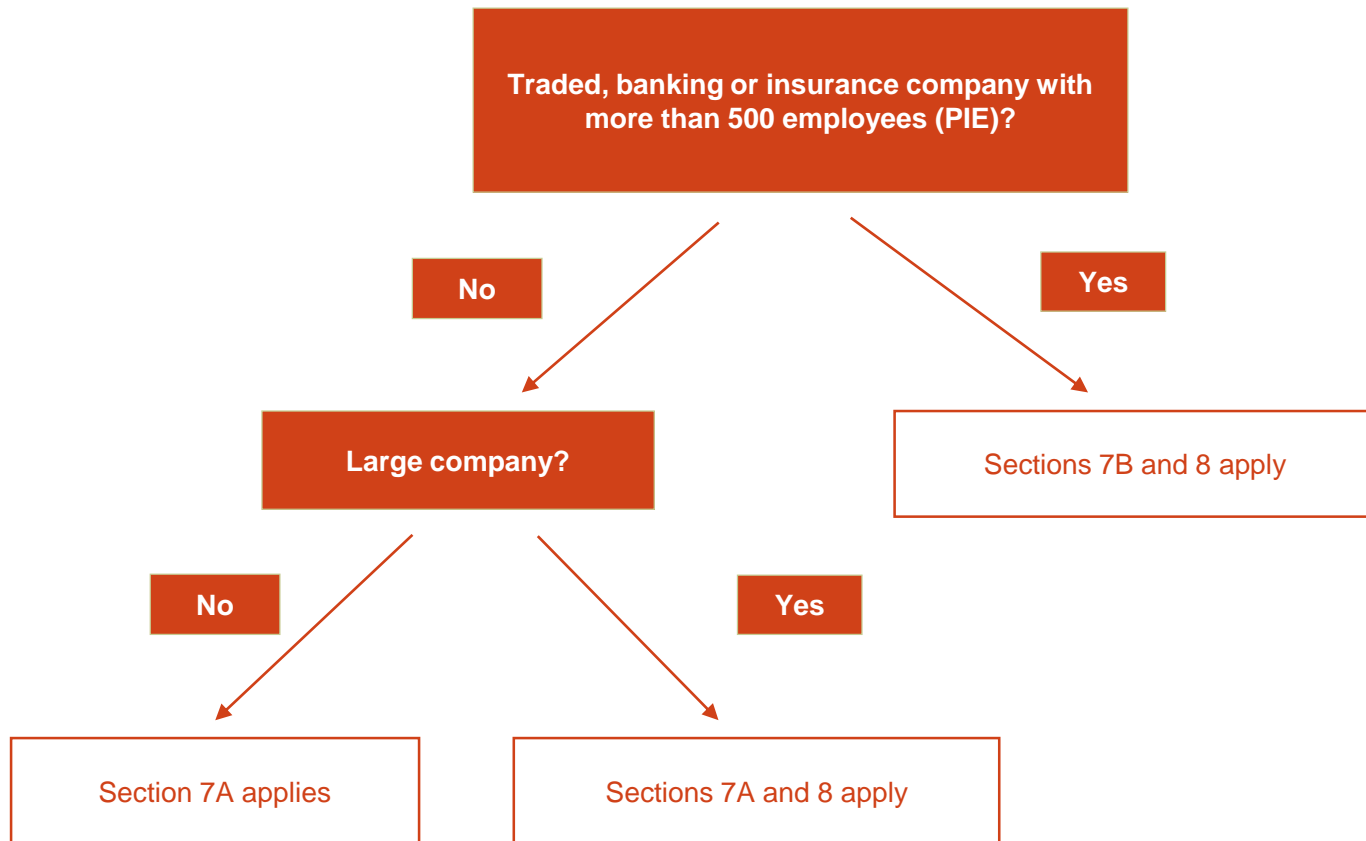
- The guidance covers:
  - The annual report
  - Communication principles
  - Materiality (in the context of narrative reporting)
  - Content elements
- Some principles in the guidance
  - Encourages companies to 'tell their story'
  - Encourages linkage between information within the strategic report 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*

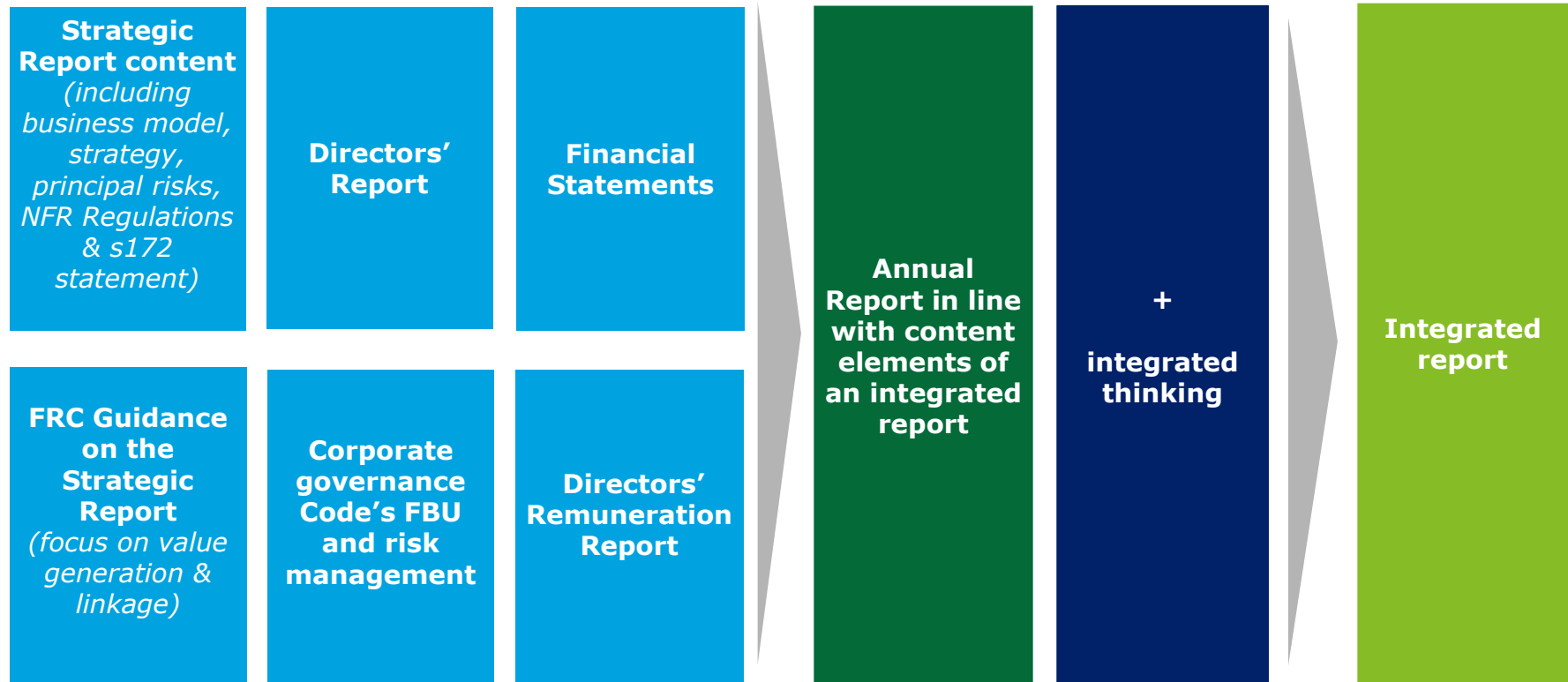
	Expectations	Practice
'Brexit'	<ul style="list-style-type: none"> <li>Challenges to the business model (both specific and from broader economic uncertainties)</li> <li>Particular threats (e.g. supply chain)</li> <li>Sensitivities</li> <li>Updated to the date of the annual report</li> </ul>	<ul style="list-style-type: none"> <li><b>25</b> companies identified Brexit as a principal risk and <b>34</b> referred to Brexit as part of a broader discussion of marketplace and economic uncertainty</li> <li><b>27%</b> disclosed Board attention to Brexit-related matters</li> <li><b>5%</b> noted that they had changed, would change, or might change their business model</li> </ul>
Distributions	<ul style="list-style-type: none"> <li>Policy on payment of dividends in the context of wider capital allocation decisions.</li> <li>Any associated risks and constraints.</li> <li>Practice under that policy, including a clear explanation of capital allocation decisions.</li> <li>"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."</li> </ul> <p><i>[BEIS Consultation – Insolvency and Corporate Governance]</i></p>	<ul style="list-style-type: none"> <li><b>32</b> companies disclosed a single number of retained profits available for dividend payments</li> <li><b>50%</b> of these disclosed this in the financial statements</li> <li><b>11%</b> linked the Viability Statement to the sustainability of dividends</li> </ul>

# ***FRC – narrative reporting areas of focus***

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

<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*

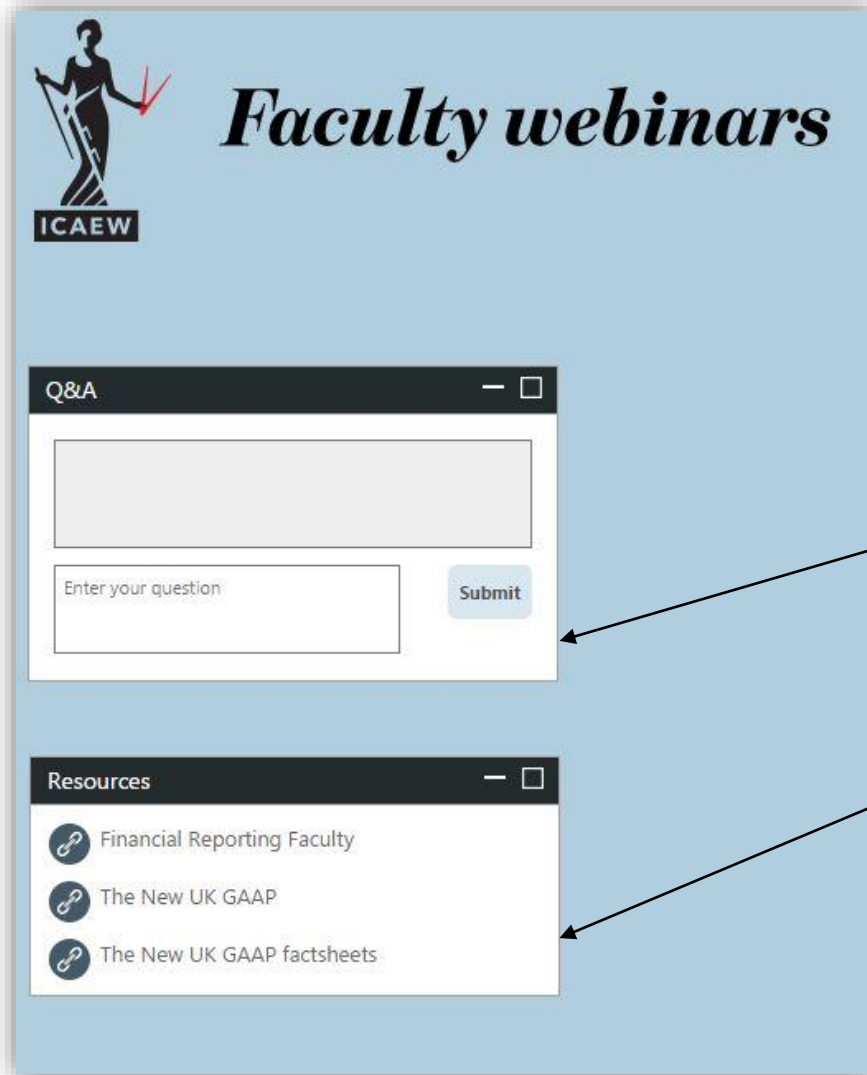
What's new?





*Close*

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[resources](#)

# Resources

[www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)

Includes Deloitte newsletters/publications

The screenshot shows the UKAccountingPlus website with a black header containing the Deloitte logo and the site name. A navigation bar includes links for Home, News, Publications, Standards, Governance, Other regulatory, Projects, and Resources, along with a search bar. The main content area features a green banner with the text 'All you need on UK Accounting, Reporting & Corporate Governance'. Below this, there are tabs for '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 graphic with a globe and various icons, and a box titled 'Annual report insights 2018 — Surveying FTSE reporting' which says 'The 2018 annual reporting survey is now available.' Below the article, there is a section for 'Important dates' listing the 'January 2019 IASB meeting' on 23 Jan 2019 in London, and the 'January 2019 IFRS Foundation Trustees meeting' from 29 Jan 2019 to 31 Jan 2019.

Deloitte annual report insights 2018 – [www.deloitte.co.uk/annualreportinsights](http://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](http://www.frc.org.uk/investors/financial-reporting-lab/publications)

# *Questions*

Debbie Crawshawe  
Project Director  
Financial Reporting Council



Amanda Swaffield  
Director  
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](https://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.

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*Thank you for attending*

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short survey

