

July 2017



FRC's Review of Corporate Reporting

Interim submission from the Steering Group of
The Purposeful Company

1. Submission objective and context

The objective of this submission is to provide initial views from the Purposeful Company Steering Group in response to the FRC's current consultation agenda. We recognise that the FRC is working at pace, so this paper is to inform direction and a more detailed submission will be provided later in the summer once we have consulted with the full Task Force. The Purposeful Company is also ready to work in the autumn with the FRC and other stakeholders, including the Bank of England and their work on sustainability, the UNPRI's initiative on Fiduciary Duty and the Integrated Reporting initiative to enable the acceleration of progress.

The submission recommends that the FRC be bold and overhauls companies' reporting requirements to cover a much broader set of measures. We also agree with the FRC's own submission to the BEIS Select Committee on Corporate Governance recommending that the interests of stakeholders are better reflected in the boardroom. This should include more focused reporting against s.172 duties with required public disclosure and with 'enforcement' brought within the ambit of the FRC's monitoring powers.

In addition to providing new standards and guidance, we are also calling on the FRC to show leadership and stimulate market-led investment and open innovation around methodologies for assessing long-term value and assurance for reporting so they are objective, verifiable and comparable. This requirement also needs to be signalled clearly in BEIS's Industrial Strategy White Paper. It is important that the UK does not continue with any legal and regulatory arrangements that are hostile to companies pursuing long-term value.¹

There is strong forward momentum to this agenda, from executives, investors, stakeholders and policymakers across all parties. In particular, a theme running through both Green Papers on Corporate Governance and Industrial Strategy was that capitalism must work for all of society if it is to retain its legitimacy in the public's mind. This involves not only investors but also employees, suppliers, customers and the environment. An enhanced reporting framework is central to the re-purposing of capitalism. For example:

- Reporting on value created to **stakeholders, not just shareholders** will hold businesses accountable for delivering value to all of society, not just the owners of capital.
- Reporting on **long-term, not just short-term value** will spur the critical investment and innovation highlighted by the Green Paper on Industrial Strategy, as will the improvements sought by the Green Paper on Corporate Governance.
- Reporting more holistic measures of value will lead to the **stock price more accurately capturing a company's long-term value creation**. This will have further beneficial consequences:
 - Executives' remuneration and reputations, which are largely based on the stock price, will be more linked to their long-term value creation. Pay will become a much fairer reflection of true performance, and not induce executives to sacrifice long-term value for short-term profit.
 - Companies with a long-term horizon will not be under-priced by the stock market, potentially attracting take-overs (e.g. Kraft-Unilever).
 - Investors will have much stronger incentives to engage in stewardship since they will be evaluated according to the stock returns of their portfolio. If reporting captures long-term value, stakeholder capital and intangible assets then investors will engage along these dimensions.

Thus, the benefits of an improved reporting framework are far-reaching, potentially including a re-vamped industrial strategy, superior corporate governance, fairer executive pay, more engaged

¹ The Purposeful Company. Interim Report (2016). Big Innovation Centre, Pages 41-59

shareholders, fewer takeovers of purposeful companies and a stock market environment that supports the creation of purposeful companies in the first place.

The Purposeful Company Task Force is well equipped to contribute to this consultation. Our approach is distinctive given that we bring together participants from multiple perspectives and our policy proposals are rooted in rigorous evidence. Our focus is on how the UK business ecosystem can become more supportive to the creation and development of value-generating companies that think and act for the long term and consistent with their purpose. We therefore welcome that the FRC are looking at both Governance and Reporting together and encourage too that plans to review the Stewardship Code be pulled forward as well. For the FRC to move the dial on reflecting interests of stakeholders in the boardroom then improvements must be bundled since there is little advantage to be gained from piecemeal, non-integrated initiatives.

2. Executive summary

The recent BEIS Select Committee report pointed out not just the vital role of reformed corporate governance and a re-fashioned industrial strategy, but also their interdependence.

These ideas chime with the direction outlined recently in the **Purposeful Company Policy Report**². The accumulated evidence outlined in the **Interim Report**³ is that superior profit and performance is entirely consistent with the pursuit of ‘purpose’ – the clearly articulated and self-conscious insistence, shared by customers, managers and owners alike that a company has a responsibility to contribute to human betterment and the creation of long-term value for all their stakeholders. This means being able to answer the question on ‘why’ the company exists in a way that goes deeper than a mere description of products, services and financial returns and addresses how the company fulfils a broader social purpose. The mind-set is one of moving beyond thinking of business as a nexus of contracts and ‘paying for a licence to operate unhindered’ and instead be about earning a mandate to be successful. Returns to shareholders still matter, but they are the outcome, not the purpose.

Companies that succeed in developing a profitable relationship with the outside world instead define themselves through what they contribute. This means that corporate governance and reporting – including eventually accounting – must be overhauled so stakeholders have timely access to the information they need to make decisions. We therefore recommend the FRC:

- **Aligns guidance on company reporting to the new UK Corporate Governance Code.**
- **Requires company performance to be reported in a way that is relevant to long-term value creation aligned to purpose.** This reporting to be included in the Strategic Report and to cover value creation linked to all material assets (both tangible and intangible). This approach is a recognition that is critical for companies to experiment with better ways of disclosing trusted information that meets the needs of stakeholders. This can then provide practical input for the IFRS to update standards.
- **Revitalises s.172 reporting.**
- **Stimulates market-led investment and open innovation into the long-term value-assessment and assurance methodologies.**

In support of these recommendations we are also making a submission to BEIS proposing that the FRC powers are extended to cover enforcement and a commitment made in the Industrial Strategy White Paper to modernise accounting and reporting methodologies.

Some of the proposals can be enacted immediately but others are going to require the FRC to inspire vision and use their convening power alongside BEIS. The need for this has become urgent. Failing to include intangible assets in the assessment of long-term value has real costs to the companies concerned. It means that these assets are often not fully valued by investors and lenders. This raises the cost of capital for those firms to sub-optimally high levels – a market failure. Remedying this by ensuring that all strategic assets are consistently and coherently valued is critical if these companies are to grow to their full potential.

² The Purposeful Company Policy Report. (2017). Big Innovation Centre. Available at: <http://bit.ly/Polreport>

³ The Purposeful Company Interim Report. (2016). Big Innovation Centre. Available at: <http://bit.ly/Intreport>

3. Problem statements and implications

The FRC state in their submission to the BEIS Green Paper on Corporate Governance that, ‘*The FRC considers it appropriate to amend the Strategic Report Regulations to guide boards about linking their duties under s.172 to their reporting under s.414C.... (but).... there is currently no specific reporting requirement on how the matters referred to in s.172 are taken into account by directors in promoting the success of the company*’.

We agree with this assessment and also recommend that other reporting gaps be addressed too:

3.1 Inadequate representation of value

The current reporting framework leads to a wholly inadequate representation of a company’s value. We recommend overhauling the framework to better capture the following dimensions:

Intangibles, not just tangibles

Intangible assets are an increasingly significant component of value in the modern firm, representing more than 50% of market value in most industries. NESTA estimate that, between 1990 and 2011, the value of intangible assets in the UK grew from £50.2bn to £137.5bn, while intangible assets increased much more slowly from £72.1bn to £89.8bn.

However, current accounting systems are based on the 20th century firm, where the key assets are tangible – machines, land, and buildings rather than innovative capability, brand strength, and human capital. As a result, there is a substantial disconnect between reported measures of value and a company’s true value. Indeed, a study entitled “Does the Stock Market Fully Value Intangibles?” found that the answer is a clear “No” – it takes the stock market 4-5 years to fully incorporate the value of employee satisfaction, an important intangible⁴.

A potential cause is that accounting principles, designed 100 years ago, are based on conservatism. This naturally biases reporting towards what can be measured, rather than what matters; value preservation, rather than value creation and innovation; and inputs, rather than outputs. For example, companies can report their spending on R&D, but not the output of such investment.

Long-term, not just short-term

A second consequence of conservatism is that accounting is inherently backward looking. A company’s past actions can be audited, but its future prospects can only be forecast. Profit is a short-term value indicator, while returns to shareholders and society accrue over the long-term. The focus on profit in turn induces executives to prioritise short-term actions in their decision-making. A study entitled “The Economic Implications of Corporate Financial Reporting” found that 78% would sacrifice long-term projects to meet short-term earnings targets⁵. In addition to distorting executive behaviour, this also induces investors to base their investment decisions on a company’s short-term prospects.

We are not recommending that assurance be provided over forward projections, however, there are many indicators of long-term value which are currently not reported and assured.

⁴ Edmans, Alex (2011): “Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices”. *Journal of Financial Economics*

⁵ Graham, John R., Campbell R. Harvey, and Shiva Rajgopal (2006): “The Economic Implications of Corporate Financial Reporting.” *Journal of Accounting and Economics*

Stakeholders, not just shareholders

A company's reporting must capture the value it creates for its stakeholders. This is for at least two reasons. First, a company's legitimacy requires it to be seen as contributing towards wider society, not just shareholders. Second, even focusing narrowly on shareholders, there is abundant evidence that stakeholder stewardship is critical for long-term shareholder value creation.

However, the value that a company creates for its shareholders (e.g. profit) can be more objectively measured than the value it creates to its other stakeholders (e.g. improving consumer health, or providing employees with dignified work). Thus, the conservatism principle also leads to an excessive focus on shareholders. Under our proposed new framework, companies would be required to identify not only their most material stakeholders – based on their stated purpose – but also specific qualitative and quantitative measures that they will report on to reflect their delivery of value to these stakeholders.

3.2. Problems around assurance

The conservatism principle, and associated focus on tangible assets, short-term value, and shareholders, has benefits. In particular, these dimensions historically could be measured more objectively, are comparable within a company over time and are comparable across companies at a point in time. The major challenge for the new reporting framework is for intangible assets, long-term value, and stakeholder capital to be reported in a way that stakeholders can trust.

Note that it is important not to over-exaggerate the differences in the difficulty of objective reporting. Even tangible assets are difficult to report unambiguously – for example, companies can have very different loan loss policies; as a result, banks can trade at a substantial discount to their net asset value due to investors not trusting their bad debt provisions. Similarly, profit accruing to shareholders hinges critically on what a company classifies as an expense versus an investment. There are increasingly objective ways to measure stakeholder metrics, such as employee engagement, workforce diversity and emissions. Thus, while the desire for conservatism, objectivity, and assurance is important, it should not hinder firms from innovating in what they report. This view is reinforced by the significant progress in the science of measuring customer value and environmental impacts. Our view is that the confluence of improved business science, technology and a real stakeholder trust gap creates the imperative to move now.

A second, and quite separate, dimension of assurance is the value provided by an audit. The financial statement audit is well regulated and highly standardised, this has led to improvements in the level of quality. The audit, however, does not provide any real assurance around anything outside the financial statements. In particular, as investors have become more litigious over the past 20 years, the audit profession has tightened the standards to be very clear on what an auditor is accountable for. This has led to a narrow focus on financial statements. This fact is not universally understood and there is an implicit perception that the rest of annual report carries the same level of assurance as the financial statements. As a result, in more than 90% of corporate failures, the auditor is not liable.

The scope, nature and purpose of the audit need to be radically re-thought if this important function is to be revived to provide true assurance. A series of standards that provide rigour around the requirements for the type of reporting expected for a purposeful company will go a long-way to provide the basis for a sound audit. Once this is established, the revised purpose and scope of the audit can be appropriately extended.

3.3. Problems around complexity

Increasing regulatory requirements have led to annual reports becoming excessively complex, in turn reducing rather than increasing the amount of relevant information that is truly communicated to shareholders.

The content of the Annual Report is now driven by requirements from multiple sources (Strategic Report regulations, IFRS, Listing Rules, Remuneration Regulations etc.) and given that these sources are all disparate and trying to address different issues, it has led to complexity that is not serving the interests of stakeholders.

For example, the growing ESG information requirements have not always resulted in the disclosure of material factors, but instead merely increased the reporting burden. Increased regulation and standardisation within the existing framework has simply led to an out-dated system becoming even more complex, with reports now running to hundreds of pages with endless footnotes, and even more of a behemoth – the more entrenched the current system is, the harder it is to innovate from it. Instead we need a fundamental re-think of how value is measured and communicated. Instead of adding layers on an increasingly irrelevant system, companies should report strategically important operating indicators that relate to their purpose, value drivers and strategic assets.

4. Recommendations

We now present a recommended approach for a new reporting framework, with more specific details to follow in the next submission. We recommend the FRC:

4.1 Aligns guidance on Company Reporting to the new UK Corporate Governance Code

We recommend overarching principles in the accompanying Corporate Governance Code submission and reporting should be consistent with these. We propose that principles would operate on a comply-and-explain basis and reporting would accordingly follow that approach. The expectation should be set by the FRC that:

- All principles in the Code should be referenced;
- In respect to each principle, narrative form explanations should be used to explain how the company has met the principles through their governance approach;
- The completed disclosures are assessed with the necessary enhancements made to ensure that it will enable the priority stakeholders using the report to fully understand how the principles have been applied and to make informed decisions about the material issues.

In addition to reporting on the principles on an apply-and-explain basis, there will be specific reporting requirements that continue from the current Code on a comply-or-explain basis as now. There is an opportunity for streamlining and re-organisation of these, although investors will expect many of them to persist. However, the biggest mind-set change would be for governance reporting to show how, in line with the new principles, the company is being governed to secure long-term success.

We recommend that the guidance the FRC issued in 2014 (Appendix A, Table 1) should be updated to reflect the proposed Corporate Governance Code and that principles and disclosure requirements be added.

We also recommend that the FRC develop an overarching philosophy of reporting and supporting practices as a basis for the simplification of the technical guidance on reporting. We will be recommending how this philosophy can be framed in the next submission but it is our view that the evidence on the importance of purpose and the long-term value implications, and the clear need to rebuild public trust in business, provide a compelling rationale that reporting be conducted in a way that serves business, stakeholders and society better.

This means the following responsibilities should be emphasised in the framing of the philosophy:

- **Purpose-inspired companies:** where the governing body should ensure that the company has an explicit statement of purpose and that reports issued by the company enable stakeholders to make informed decisions. These reports should be based on performance rooted in company purpose and the resulting strategy supported by assessments of value creation both for the short and long-term. Also, the extents to which they give regard to a range of other factors, such as long-term consequences, the environment, employees, suppliers and customers.
- **Stakeholder Mutuality:** where the mind-set of managers and owners should recognise the interdependent relationship between the company and its stakeholders. It is also important to recognise that the ability to create value is dependent on the company's ability to create value for others who are material to its purpose and strategy. This in turn means a commitment to

transparent and meaningful reporting so that stakeholders can assess the company's performance in the triple context of the economy, society and the environment.

- **Engaged Owners:** where the governing board of institutional investors should ensure that sustainable, long-term value creation is practiced by the organisations in which they invest. This means that investors should articulate their own purpose and attitude towards responsible investment and that this is transparent via an easily accessed investment code, principles, practices and metrics with clear reporting.

Appendix B outlines an example of the practices that could be developed to support the reporting philosophy and resulting responsibilities.

4.2. Requires company performance to be reported in a way that is relevant to long-term value creation aligned to purpose.

This reporting should be included in the Strategic Report and be required to cover value creation linked to all material assets (both tangible and intangible). This approach is a recognition that is critical for companies to experiment with better ways of disclosing trusted information that meets the needs of stakeholders. This can then provide practical input for the IFRS to update standards.

There is an urgent need for improvement. The way information is consumed and disseminated has changed radically over the past ten years. Three themes have emerged that will require companies and regulators to work together in order to improve the landscape:

- The nature, scope and content of information has changed;
- The frequency of information has changed; and
- Information needs to be presented in ways that are useful for the user.

The new information framework should therefore, at a minimum, meet the following requirements:

- **It should be clear about the context of the company.** Companies have differing lengths of business cycles, are impacted by the macro-economic environment and technology and respond to social changes. It is clear that investors are especially interested to understand how capital is allocated and re-allocated based on these macro factors.
- **It should be core to the purpose, strategy and business model:** Reporting must describe what the company stands for and how it is seeking to create value;
- **It must be assured and trusted;**
- **It should provide a more complete view of value:** The information should go beyond the financial reporting and provide information on the key drivers of value and cover both tangible and intangible strategic assets;
- **The reporting should be material to the stakeholders:** It should be significant enough to influence a stakeholder's decision-making.
- **It should be timely in order to facilitate decision-making:** The long reporting cycles, as is currently the situation, needs to be changed to reflect the dynamic nature of business. The vast majority of information in the annual report is already public knowledge by the time it is published;
- **It should be simple to understand and use:** In order to be most useful to the stakeholder groups, it should be focused on the information requirements of the specific stakeholder.

4.3. Revitalise section 172 Reporting

There are two components that need to be considered:

- First, a company should consider and report upon the relationship between a company's purpose and section 172 of the Companies Act 2006. Shareholders are prioritized in s.172 (1) however, s.172 (2), provides companies with the option of redefining corporate purpose in a way that does not simply equate success with the 'benefit of its members'. The option provided by s.172 (2) should be viewed as a way of encouraging a company both to reflect on the nature and specification of its purpose, but also to reflect on whether the shareholder focus of s.172 (1) is consistent with its understanding of purpose. Also, whether it supports or inhibits the embedding of that purpose throughout the culture and operations of the company. Accordingly, in our view the FRC should consider recommending companies engage in, and report on, these purposive-172 deliberations.
- Second, companies should report on how (and the extent to which), the factors listed in s. 172 (1) (a) - (f) are taken into account in board decisions. Also, to review, and report on, whether the compositions and structure of the Board is designed to ensure effective consideration of these issues in their decisions and processes as well as in the company's risk management and internal control systems.

4.4. Stimulates market-led investment and open innovation into the long-term value-assessment and assurance methodologies.

Reporting requirements against all of the Corporate Governance Principles and s.172 should be consolidated into a single report that should sit at the beginning of the Annual Report. This revised Strategic Report should report on purpose, strategy, material strategic assets, ownership arrangements and outcomes for priority stakeholders. Also how the interests of stakeholders have been taken into account in the priority decisions of the company. Market position, future prospects and key metrics can also be covered in this section. In the final submission on Reporting to the FRC later this year, we will also consider how much of the Director's Report could also be merged into the Strategic Report to enable greater clarity and further reduce complexity.

The Purposeful Company recommended in our recent Policy Report (2017), that the Strategic Report should be assured to the same rigour as today's financial reporting. The biggest criticism of alternative reporting methods today from investor and employee stakeholder groups is that the information is not assured and therefore used by some as a public relations exercise rather than being trusted. An assurance system needs to be developed in partnership with the investment chain and the FRC should be using its convening power to set expectations and accelerate improvement.

Some progress is already being made, for instance, EY have announced a commitment to fuel open innovation using pilots that will include both a methodology for assessing long-term value as well as an assurance system for validating metrics by sector. This type of effort needs to be galvanised to ensure that it meets the needs of investors and other stakeholders. It is likely that the ecosystem will evolve and the roles and outputs of each player will change. For instance:

- **Standard setters:** in order for the new model to work, reporting standard setting will need to move in faster cycles similar to technology standards. A foundation standard may take time to develop and agree but we advocate an approach of open innovation and frequent version updates.
- **Curators:** this is a new role in the marketplace. Curators will be a blend of academics, businesses and other bodies such as the IIRC and WBCSD who have particular experience

and interest in various areas of reporting such as the environment, social responsibility, people and investors. Curators will each own and facilitate algorithm quality control to ensure that they are representative of best thinking of stakeholder information.

- **Auditors:** The auditors' role changes significantly to ensure that the data sources have the integrity the business is committing to, that the algorithms are deployed in a secure and trusted environment and the presentation path to the stakeholder is not open to manipulation.

In order to simplify the requirement for organisations, the FRC should consider prioritising which information requirements are most stakeholder relevant, in other words:

- should companies focus on a more complete set of inputs with added assurance;
- should they add outcomes as well and have them assured; or
- focus mainly on outcomes that are assured?

Making progress will require the FRC and BEIS to convene key contributors and develop a timetable for the introduction of full auditing of the Strategic Report and national reporting standards for intangible reporting. There will be much to learn from Integrated Reporting although we expect that it will be *assured outcomes* rather than a more complete set of input reporting that is likely to meet the needs of investors and stakeholders going forward.

4.5. A supporting submission is being made to BEIS

We concur with the recommendations made by the FRC to the BEIS Select Committee on Corporate Governance that the FRC's enforcement powers are extended. The FRC state:

'... The UK's corporate governance framework promotes the role of directors and shareholders to scrutinise and ensure their companies are being led and managed to achieve success. Nonetheless, there is a need to encourage transparency and accountability to a wider range of stakeholders in order to promote sustainable growth and help UK businesses to regain public trust.

While guidance and the role of professional bodies plays an important part in holding directors to account there exists a complex regulatory framework under which a wide range of corporate investigations take place.... This has the capacity to delay and dilute effective enforcement against misconduct.'⁶

The FRC, therefore, recommends that, '*the Government reviews the enforcement framework in order to establish an effective mechanism for holding directors and others in a senior position to account when they fail in their responsibilities*'.

BEIS also has a critical role in signalling via the White Paper on Industrial Strategy that company reporting should be overhauled so intangible assets – including purpose – are properly valued, at a company and national level. This will increase both companies' incentives to invest and transparency around priority issues for investors, employees, customers, suppliers and society. Such a solution should be piloted in parallel with current standards, but ultimately replace them.

⁶ Financial Reporting Council. (2016) FRC Response to the BEIS Select Committee Corporate Governance Inquiry.

5. Roadmap for the way forward

We recognise that what we are recommending in this submission is bold. Some of the proposals can be incorporated into guidance straight away – particularly the need for the alignment of reporting with the revised Corporate Governance Principles, the improvement of reporting against s.172 and the overhauling of the Strategic Report.

Others require the tackling of more profound issues. This will require the FRC to play a leadership role in laying out a 5-10-year vision for reporting which can give time for experimentation to inform standard setting at both a national and international level. The FRC have done similar direction setting in the past, for instance, in the December 2015 Guidance of Narrative Reporting, where a section laid out ‘Developments on the Horizon’. But what we are recommending is on a much bigger scale. Much can be learnt from the process adopted by the UK government’s Natural Capital Committee is piloting a system of natural capital accounting and we urge that this be looked at.

In addition to the EY pilots, other experimentation is also underway and should be utilised. The Big Innovation Centre has committed to contributing to the development of national reporting protocols for intangibles. As this insight becomes available it can also be linked to assessments of long term value and will assist in the evolution of national standards.

We urge action given that the UK is at a critical juncture. There is a unique opportunity for the FRC and BEIS to make a generational shift in raising the quality and reliability of reporting and contribute in turn to the raising of UK competitiveness and living standards.

**The Purposeful Company Steering Group
July, 2017**

Appendix A: Table 1

Table 1

		Annual report			
Document	Annual report				
Document purpose	The purpose of the annual report is to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship.				
Component	Strategic report¹⁰	Corporate governance report^{11,12}	Directors' remuneration report¹³	Financial statements	Directors' report
Component objectives	<ul style="list-style-type: none"> To provide context for the related financial statements. To provide insight into the entity's business model and its main objectives and strategy. To describe the principal risks the entity faces and how they might affect its future prospects. To provide an analysis of the entity's past performance. To provide signposting to show the location of complementary information. 	<ul style="list-style-type: none"> To provide information necessary to explain how the composition and organisation of the entity's governance structures supports the achievement of the entity's objectives. 	<ul style="list-style-type: none"> To set out all elements of the entity's directors' remuneration policy and key factors that were taken into account in setting the policy. To report on how the directors' remuneration policy has been implemented. To set out amounts awarded to directors and provide details on the link between the entity's performance and directors' remuneration. 	<ul style="list-style-type: none"> To present the entity's financial position, performance and development in accordance with Generally Accepted Accounting Practice. 	<ul style="list-style-type: none"> To provide other statutory/regulatory information about the entity.
Main sources of annual report disclosure requirements for an unquoted UK company¹⁴	<ul style="list-style-type: none"> The Act s414C 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Accounting standards The Act SI 2008/410¹⁵ 	<ul style="list-style-type: none"> SI 2008/410 Schedule 7
Main sources of annual report disclosure requirements for a UK company with a premium listing on the London Stock Exchange	<ul style="list-style-type: none"> The Act s414C The Code, Provision C.1.2 DTR 4.1¹⁶ 	<ul style="list-style-type: none"> The Code Schedule B LR 9.8.6(5)-(6) DTR 7.1¹⁷ DTR 7.2 	<ul style="list-style-type: none"> SI 2008/410 Schedule 8 The Code Section D 	<ul style="list-style-type: none"> Accounting standards The Act SI 2008/410 	<ul style="list-style-type: none"> SI 2008/410 Schedule 7 DTR 4.1 DTR 7.2
	<ul style="list-style-type: none"> LR 9.8 requires the inclusion of certain specific disclosures in the 'annual report and accounts'. 				

¹⁰ The objectives of the strategic report are considered more fully in section 4.

¹¹ The corporate governance report is often included as a component of the directors' report by **cross-reference**.

¹² The corporate governance report will usually, in accordance with the recommendations of the Code, include separate sections detailing the work of the audit and nomination committees.

¹³ Separate guidance on the disclosures to be included in the directors' remuneration report has been published by the GC100 and Investor Group: <http://uk.practicallaw.com/6-540-9731>.

¹⁴ Small companies are not required to prepare a strategic report, corporate governance report or directors' remuneration report. Those companies should refer to SI 2008/409 'Small Companies and Groups (Accounts and Directors' Report) Regulations 2008' in respect of the requirements for the financial statements and **directors' report**.

¹⁵ SI 2008/410 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008'.

¹⁶ DTR 4.1 refers only to a 'management report' which will usually comprise the strategic report and directors' report.

¹⁷ LR 9.8.6(5)-(6) requires all of this information to be included in the annual report without specifying the location.

Appendix B: Sample practices to support reporting philosophy and responsibilities

- 1. Responsibilities for purpose-inspired companies:** where the governing body should ensure that the company has an explicit statement of purpose and reports issued by the company enable stakeholders to make informed decisions. These reports should be based on performance rooted in company purpose and the resulting strategy supported by assessments of value creation both for the short and long-term. Also, the extents to which they give regard to a range of other factors, such as long-term consequences, the environment, employees, suppliers and customers.

Practices:

- 1.1 The governing body should require that company purpose is articulated and that this flows through decisions on strategy, strategic assets, operating model, corporate form and culture.
 - 1.2 The governing body should oversee company reporting by setting direction for how it should be approached and conducted in a way that is consistent with the Corporate Governance Code.
 - 1.3 The governing body should oversee reporting and ensure that it complies with legal requirements and/or meets the legitimate and reasonable needs of material stakeholders.
 - 1.4 The governing body should oversee that the company issues an annual integrated report as part of the Strategic Report. This is to include both an assessment of long-term value and on director duties contained in s.172.
 - 1.5 The governing body should approve management's bases for determining materiality linked to purpose, strategy and strategic assets and therefore which information and metrics should be included in external reporting.
 - 1.6 The governing body should ensure the integrity of external reports both via external and internal auditing.
 - 1.7 The governing body should oversee that the following information is published on the company website or on other platforms or through other media for access by stakeholders:
 - Strategic Report
 - Corporate Governance Report
 - Directors Remuneration Report
 - Financial Statements
 - Directors Report
- 2. Responsibility for stakeholder relationships:** where the mind-set of managers and owners should recognise the interdependent relationship between the company and its stakeholders. It is also important to recognise that the ability to create value is dependent on the company's ability to create value for others who are material to its purpose and strategy. This in turn means a commitment to transparent and meaningful reporting so that stakeholders can assess the company's performance in the triple context of the economy, society and the environment.

Practices:

- 2.1 The governing body should approve policy that articulates and gives effect to its direction on stakeholder relationships.
 - 2.2 The governing body should delegate to management the responsibility for implementation and execution of stakeholder relationship management and, in particular, oversee that it results in the following both in practice and reporting:
 - Methodology for identifying material stakeholders and stakeholder groupings based on the extent to which they affect, or are affected by, the activities, outputs and outcomes of the company.
 - Management of stakeholder risks as an integral part of company-wide risk management.
 - Formal mechanisms for engagement and communication with stakeholders, including the use of dispute resolution mechanisms and associated processes.
 - Measurement of the quality of material stakeholder relationships and appropriate responses to the outcomes.
 - 2.3 The following should be disclosed in relation to stakeholder relationships:
 - An overview of the arrangements for governing and managing stakeholder relationships.
 - Key areas of focus during the reporting period.
 - Actions taken to monitor the effectiveness of stakeholder management and how the outcomes were addressed.
 - Future areas of focus.
- 3. Responsibilities and practices of engaged owners:** where the governing body of institutional investors should ensure that sustainable, long-term value creation is practiced by the organisations in which they invest. This means that investors should articulate their own purpose and attitude towards responsible investment and that they are transparent via an easily accessed investment code, principles, practices and metrics with clear reporting.

Practices:

- 3.1 The governing body should approve policy that articulates its purpose and direction towards responsible investment. This policy should provide for the adoption of a recognised investment code, principles and practices and this should be reported upon.
- 3.2 The governing body should delegate to management, if in place, or alternatively to the outsourced service provider if investment decisions and investment activities are outsourced, the responsibility to implement and execute its policy on responsible investment.
- 3.3 Where the institutional investor outsources investment decisions or investment activities to custodians, nominees, consultants or other service providers, the governing body should oversee that the outsourcing is regulated by formal mandate that reflects and gives effect to its responsible investment policy.
- 3.4 The governing body should ensure that service providers are held accountable for complying with the formal mandate.
- 3.5 The responsible investment code adopted by the institutional investor and the application of its principles and practices should be disclosed.

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Launched in September 2011, Big Innovation Centre is a hub of innovative companies and organisations, thought leaders, universities and 'what works' open innovators. Together we test and realise our commercial and public-purpose ideas to promote company and national innovative capabilities in a non-competitive and neutral environment. We act as catalysts in co-shaping innovation and business model strategies that are both practical and intellectually grounded. Our vision is to help make the UK a Global Open Innovation and Investment Hub by 2025, and to build similar initiatives internationally. For further details, please visit www.biginnovationcentre.com

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