

Need to know

New UK narrative reporting regulations laid before parliament

In a nutshell

New narrative reporting proposals for UK companies, which will come into force for periods ending on or after 30 September 2013, have now been finalised and laid before parliament for approval.

The regulations:

- require all companies (except small companies) to prepare a strategic report which will be presented separately to the directors' report and will replace the current business review. Quoted companies will need to ensure they include specific information on the company's strategy, business model, human rights and gender diversity;
- require quoted companies to include information on greenhouse gas emissions in their directors' report;
- remove a handful of other currently required disclosures; and
- replace the option to prepare summary financial statements with an option to provide a 'strategic report with supplementary material'.

Reenergising narrative reporting

There is a general recognition that as annual reports get longer it is harder for investors (the primary users of the annual report) to draw out the most critical content. In line with the UK's agenda for 'cutting clutter' from corporate reports, the Department for Business, Innovation and Skills (BIS) began a project in 2010 to reinvigorate narrative reporting for all UK companies.

Following a consultation in 2011 and a request for feedback on the proposed regulations at the end of last year, the regulations have been finalised and put before Parliament. Assuming they are approved the regulations will come into force for periods ending on or after 30 September 2013, giving companies very little time to digest and comply.

These revised proposals will come into force alongside a raft of other new legislation and guidance including regulations to revise directors' remuneration reporting; the 2012 UK Corporate Governance Code and related Guidance on Audit Committees; and the FRC's encouragement to consider the Sharman Principles when drafting going concern disclosures, pending revised guidance for 2014.

New narrative reporting proposals for UK companies are now before parliament and expected to come into force for periods ending on or after 30 September 2013 – giving companies very little time to digest and comply.



The regulations regarding directors' remuneration, which include the requirement for quoted companies to disclose a single remuneration figure for each director, are expected to be laid before Parliament shortly.

All of these changes will have a significant effect on the 'front half' of the annual report.

Strategic report

All companies, other than those entitled to the small companies' exemption, will be required to prepare a strategic report. For many quoted companies, the introduction of a separate strategic report may not be that significant. It is already common to separate out the business review and present it as the first section of the annual report, as it is generally considered to contain the information which is of most interest to users. Because of this, the strategic report, which contains largely the same requirements as the current business review, will not form part of the directors' report, but must be presented and signed separately.

There are extended requirements for quoted companies, whose strategic report must include:

- a description of the company's strategy and business model. This reflects the existing Corporate Governance Code requirement for directors to provide the information necessary for shareholders to understand the business model and strategy of the company;
- information on social and community issues now extended to include human rights issues; and
- a number of additional disclosures relating to the gender split for directors, managers and employees.

Greenhouse gas emissions

The changes also include a new requirement for quoted companies to produce a 'report on greenhouse gas emissions' as part of the directors' report. This report will be required to contain an annual quantity of emissions, in tonnes of carbon dioxide equivalent, in respect of emissions:

- produced by 'activities for which that company is responsible', including fuel usage; and
- resulting from the purchase of 'electricity, heat, steam or cooling' by the company.

The terms used in the requirements for these disclosures are taken from section 97 of the Climate Change Act 2008.

The methodology used to calculate the figures is also required to be disclosed. Prior year comparative information will be required for the second and subsequent year of reporting.

Defra has issued revised guidance for companies on how to measure and report greenhouse gas emissions, which discusses the requirements for carbon reporting in more detail. This can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf

Information about the other new requirements being introduced is available in separate publications, which can be obtained from www.deloitte.co.uk/auditpublications

Observation

If companies are not already collecting the required data, they are likely to find complying with this requirement challenging. The regulations do provide relief around this, confirming that the disclosure does not have to be made where it is not practical for the company to obtain this information. However, a company relying on this relief will still have to explain why the disclosures have not been made.

Summary financial statements

The option for companies to provide summary financial statements to shareholders is withdrawn by the new regulations and replaced by an option to provide the strategic report, along with 'supplementary material'. The supplementary material consists of some administrative details, details of any qualifications made by the company's auditor in its report on the full annual accounts, and, for quoted companies, the 'single total figure table' for director's remuneration.

No additional financial information is required to be provided in the supplementary material. This means that the focus of the information provided to shareholders who choose not to receive the full annual report will move away from a summary of the numerical performance of the company to a more narrative-based description of its activities. This will increase further the need for the strategic report to be fair and balanced in its discussion of the company's performance.

Other changes

Companies will no longer have to provide information in the directors' report on:

- the principal activities of the company during the course of the year;
- asset values, i.e. the difference between the value of land owned as noted in the balance sheet and the directors' view of the value of that land;
- charitable donations; and
- the policy and practice on payment of creditors.

Additionally, private companies will no longer have to give information on the acquisition of own shares and quoted companies will no longer have to give details of essential contractual or other arrangements (other than those considered necessary for inclusion in the strategic report).

Observation

With the effective date now only months away, companies need to plan now. Some key questions to answer are:

- Does the annual report need restructuring to separately identify the information required by the strategic report?
- How will greenhouse gas emissions be disclosed and what governance and related processes will be required to meet the new information requirements?
- Can the data to comply with the gender diversity requirements be easily obtained?
- What are the company's policies in respect of human rights?
- If the company wishes to provide a strategic report and supplementary information to shareholders, what financial information should this include?

Further information

The regulations laid before parliament can be obtained at <http://www.legislation.gov.uk/ukdsi/2013/9780111540169>

The Financial Reporting Council is in the process of developing draft guidance to help in the drafting of a strategic report, which will be available from their website www.frc.org.uk

'Joined up writing', the Deloitte survey of annual reports, puts many of these narrative reporting initiatives and regulatory changes in context and gives a practical insight into how companies are reporting. Copies of the survey, as well as more UK accounting, reporting and corporate governance news can be found at www.ukaccountingplus.co.uk

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