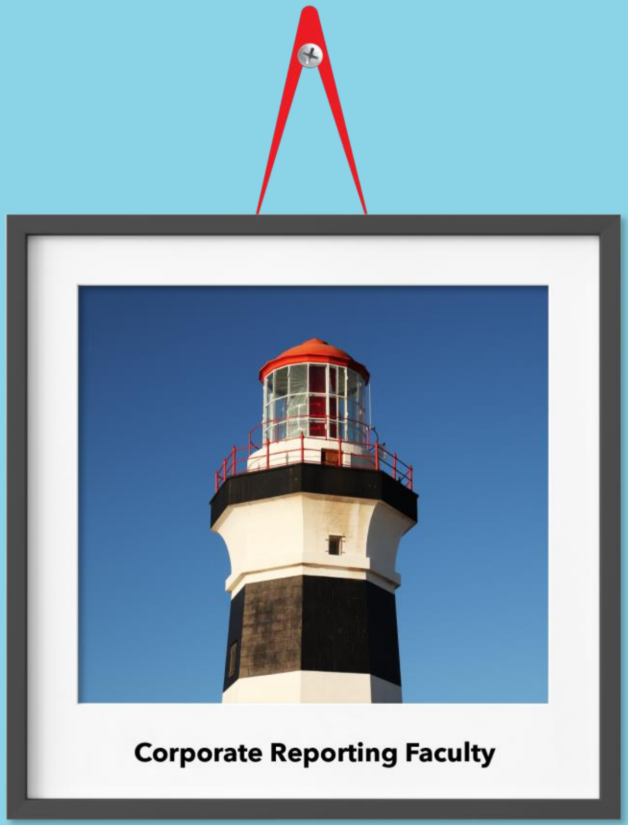
ICAEW KNOW-HOW

CORPORATE REPORTING FACULTY



Narrative reporting update

14 NOVEMBER 2024

THIS WEBINAR WILL COMMENCE SHORTLY ……

Introduction

Amy Trappe

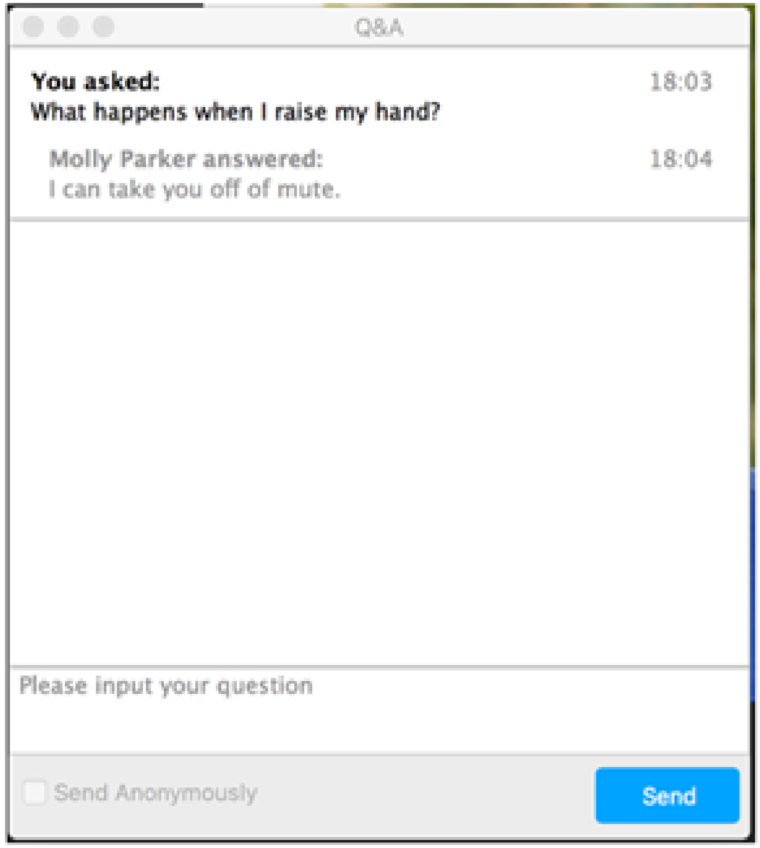
Technical Manager, Corporate Reporting Faculty, ICAEW

Today's presenters

Anne Warner
Senior Manager
Deloitte

Ollie Law
Senior Manager
PWC

Ask a question and access resources



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To ask a question

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Narrative reporting update

Contents

Poll question

How would you describe yourself?

1. Audit practitioner
2. Report preparer
3. Board member / charged with governance
4. Other

Narrative reporting update

CONNECTIVITY OF NARRATIVE REPORTING

The problem!

2013
Strategic report

2016
Non-financial information statement

2019
s172 statement

2021
Taskforce for Climate-related Financial Disclosures
(TCFD)

Plus….

Chair/CEO statements

Finance/operating review

Listing Rules

"CSR" content

Corporate governance statement

Directors' remuneration report

Directors' report

Corporate Sustainability Reporting Directive (CSRD)

International Sustainability Standards Board (ISSB)

Transition Plans Taskforce (TPT) Framework

At the heart of narrative reporting…

"The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company)."

"…strategic reports should have the following characteristics – be **fair, balanced and understandable**; be **concise**; have **forward-looking orientation**; include **entity specific** information; and **link** related information in different parts of the annual report."

Strategy and objectives

- Purpose-led?
- Holistic strategy – financial and non-financial/ESG
- Specific objectives, timeframes and KPIs
- How do objectives deliver on strategy?
- The role of governance

Business model

- Company purpose and values
- Inputs, value chain, outputs
- Principal risks
- KPIs and executive remuneration
- Value creation and stakeholders
- How does business model facilitate strategy?

S172(1) statement

- Focus on directors
- Address all six matters
- Include outcomes of stakeholder engagement
- Illustrate with key decisions made in the year
- Link to strategy and business model
- Consider location and layout

Do….

Double-check scope	Tell the story	Use the business model and s172(1) statement
Link narrative components	Consider balance	Focus on material information
Use clear headings	Cross-reference with care	Check front and back half consistency

Don’t….

Remove content that is required for compliance

Cross-refer to entire sections of the annual report

Forget about the older content requirements

Adopt a silo’d approach to reporting

Be afraid to suggest a novel approach

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SUSTAINABILITY REPORTING

A reminder of the differences between TCFD and NFSIS

NFSIS regulation is *'aligned with the TCFD's recommendations, but do not directly reference these'.*

	TCFD	NFSIS
Regulation	FCA Listing Rules	Companies Act 2006, s414CA and s414CB
Scope	Certain categories of company: • Equity shares (commercial companies) • Equity shares (international commercial companies secondary listing) • Non-equity shares and non-voting equity shares • Equity shares (transition) • Certificates representing certain securities (depositary receipts)	• All PIEs with >500 employees. • AIM companies with >500 employees. • Private companies (and LLPs) with >500 employees and >£500m turnover.
Req'ts	11 recommended disclosures under 4 pillars of Governance, Strategy, Risk management and Metrics & targets.	8 disclosures under the same 4 pillars.
Where?	All material information in the Annual Report, but other relevant information can be included outside with clear cross-reference	In a 'Non-financial and sustainability information statement' in the Strategic Report, information outside is purely complementary
Basis	'Report or explain'	Need to address ALL relevant requirements (subject to materiality)

NFSIS - reporting considerations and issues

Considerations and implications

- Make sure, if caught, an NFSIS is prepared!
- Impact on statutory / subsidiary accounts (including scoping and Directors' responsibilities).
- Parent (or intermediate parent) needs to consolidate the group that it heads in order to apply the size thresholds for reporting.
- Consideration and disclosure of differences in risks between group and subsidiary reports, where material.
- Difference to FCA Listing Rule, which allows signposting to information contained outside of the Annual Report.
- Balance / length of disclosure versus other strategic report disclosures

Reporting issues

- General awareness of requirements but not always clear on reporting impact.
- No significant change in disclosure for listed firms already subject to TCFD reporting requirements (although some modifications to ensure all material information is included within the Annual report).
- Where companies report inconsistency with TCFD, the implication for CA06 disclosures is not always addressed.
- It is generally not obvious whether climate-related risks and opportunities are actually material.
- (e) to (h) are generally included rather than explaining why they are not relevant for an understanding of the business.
- Need better linkage of targets to risks and impacts identified under (d), (e) and (f).

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IMPACT OF THE CHANGE IN GOVERNMENT

Status of the various reforms

	Reform activity*	Key content	Who is impacted	Status/effective date
Corporate Governance & Audit reform – DBT activity	Primary legislation – Audit Reform Bill	Creation of ARGA, expanded Public Interest Entity (PIE) definition, increased director accountability, audit market competition measures, insolvency practitioner regulation	UK companies and LLPs, directors, audit firms, insolvency practitioners	**Awaiting -** Included in the King's Speech in July 2024. Now awaiting the draft Bill
	Secondary legislation – Statutory Instrument	Audit and Assurance Policy (AAP), Resilience Statement (RS), Material Fraud Statement, Distributable Reserves	UK companies with over 750 employees and £750m annual turnover	**Withdrawn** – October 2023. Considered in wider review of non-financial reporting
Corporate Governance & Audit reform – FRC activity	Revision to the UK Corporate Governance Code (the Code)	Changes to board and audit committee responsibilities, particularly for risk management and internal controls.	Premium listed entities and other entities that voluntarily adopt the Code	**Issued** – January 2024. Effective date 1/1/2025 except for internal controls – 1/1/2026
	Audit Committees and External Audit: Minimum Standard (MS)	Audit Committee requirements for audit tenders and ongoing monitoring audit quality	FTSE 350 companies (once mandatory). All premium listed companies (Code)	**Issued** – Required for premium listed companies from 1/1/2025
	FRC Ethical Standard	Update for changes in international standard and potential removal of OEPI definition	All audit, assurance and non-audit engagements, particularly those for PIEs	**Issued** – January 2024. Effective date 15/12/2024

* There are other areas of regulatory reform that are not covered here in detail, including the FCA's Primary Markets Effectiveness review and the DBT consultation on non-financial information

Corporate reform announcements - Secretary of State for Business and Trade

- As part of the UK’s Modern Industrial Strategy, the Secretary of State for Business and Trade Jonathan Reynolds made several announcements in October 2024.
- The announcements include the Government's intention to lay regulations by the end of the year (to come into force on 6 April 2025) which aim at reducing reporting burdens particularly on small and medium-sized companies.
    - **Increased thresholds -** remove redundant reporting requirements and increase the monetary size thresholds for micro, small, and medium-sized companies. This change is expected to save businesses £240m annually and benefit up to 132,000 companies by allowing them to move to a smaller size category with lighter accounting and reporting obligations.
    - **Future of reporting -** a detailed consultation will take place next year, which aims to simplify and update non-financial reporting. This will also address the previous proposals around the employee number thresholds and reporting exemptions for medium sized companies, explore technological updates for shareholder communications and clarify the law around virtual AGMs.

A delayed pipeline

Sustainability Disclosure Requirements: Implementation Update 2024

International Sustainability Standards Board (ISSB)

- Make UK-endorsed ISSB standards available in **Q1 2025.**
- Consult on following proposals Q2 2025:
  - FCA introduce requirements for UK-listed companies
  - Requirements for other UK companies
- UK Sustainability Disclosure Technical Advisory Committee (TAC) and Policy and Implementation Committee (PIC) established
- Changes effective no earlier than periods beginning **1 Jan 2026**

Transition plan

- Commitment to introduce transition planning disclosures requirements.
- UK transition plan taskforce disclosure framework published **Oct 2023.**
- Final set of resources, including sector deep dives published **April 2024**
- FCA will consult on strengthening its expectations for transition plan disclosures as part of its ISSB consultation
- Government consult **shortly** on how UK's largest companies can effectively disclose its transition plans

UK green taxonomy

- GTAG established to provide non-binding technical guidance.
- Expects to consult in 'due course' on the proposed UK Green taxonomy
- Initially expect companies to report voluntarily (at least 2 years).

Taskforce for nature-related financial disclosures (TNFD)

- Final TNFD framework published **Sept 2023.**
- Encourages companies to:
  - engage with TNFD UK National Consultation Group
  - follow with interest ISSBs future priorities

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CLIMATE-RELATED TRANSITION PLANS

Climate transition plan disclosures

01 ALL companies disclosed one or more climate-related target and all indicated the timeframe over which the targets apply

02 60% of companies included information about their plans to transition to a low carbon economy, 34% included 'some but limited' information and 6% provided no disclosures

03 34% provided a link from their Annual Report to a standalone report described as a transition plan, with a further 10% stating that one was in development

04 22% stated that they had considered the TPT Framework when preparing their 2022 disclosures (up significantly from 6% in 2022)

05 58% clearly identified the board, board member or a board-level committee with oversight and accountability responsibilities for the transition plan (up significantly from 25% in 2022)

06 86% disclosed long term climate-related targets of 2040 and beyond, with 26% also disclosing interim targets beyond 2030 (up from 80% and 10% in 2022)

60% of companies included information about their plans to transition to a low carbon economy, 34% included 'some but limited' information and 6% provided no disclosures (broadly comparable to 2022)

58% clearly identified the board, board member or a board-level committee with oversight and accountability responsibilities for the transition plan (up significantly from 25% in 2022)

Climate transition plan disclosures

Actions to take

- Establish clear lines of responsibility and reporting for the development, implementation, and monitoring of a transition plan
- Evaluate existing commitments and transition plans to ensure interim targets are set at appropriate intervals across the full target horizon and clear actions are developed and agreed on how to achieve climate-related targets
- Get ready for evolving transition plan disclosure requirements

Get ready for evolving transition plan disclosures

- Assess existing disclosures
- Provide clear signposting and cross-referencing
- Use clearly defined and consistent terminology
- Evaluate the ISSB's new Climate Standard (IFRS S2) and the proposed TPT Disclosure Framework
- Engage proactively; read and respond to UK government consultations

For the full report, and other surveys in this Corporate Reporting Insights series:

https://www.deloitte.com/uk/en/services/audit-assurance/content/corporate-reporting-insights-2024.html

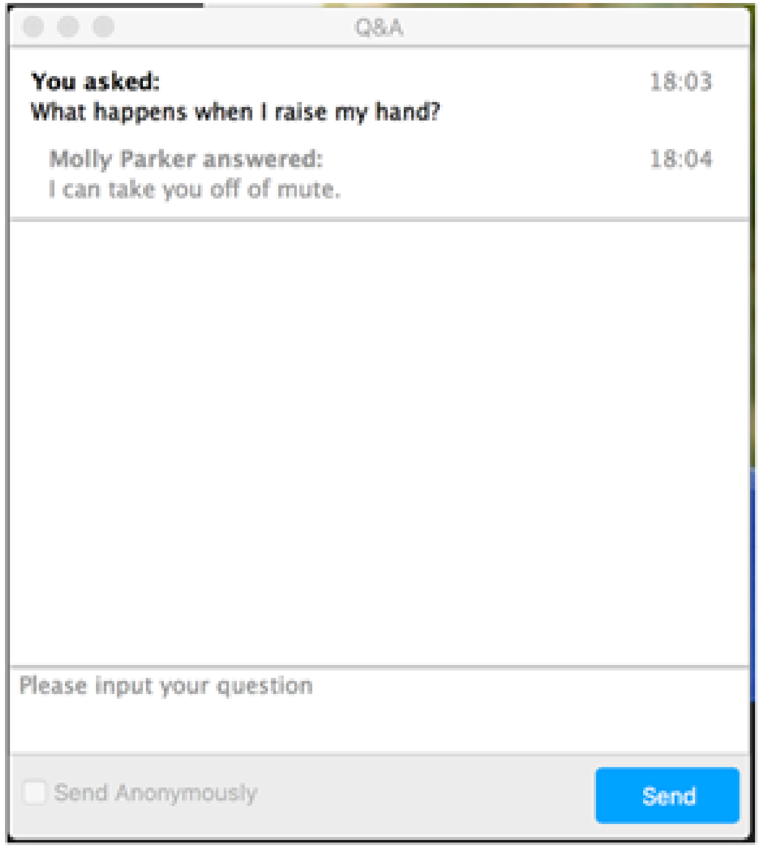
Narrative reporting update

THE WIDER PICTURE

Current and forthcoming developments in global non-financial reporting

- ISSB sustainability standards – global implementation and development
- EU Corporate Sustainability Reporting Directive
- EU Taxonomy Regulation
- EU Corporate Sustainability Due Diligence Directive
- US Securities and Exchange Commission climate rule
- Taskforce for Nature-related Financial Disclosures
- Taskforce on Inequality and Social-related Financial Disclosures (TISFD)

Ask a question and access resources



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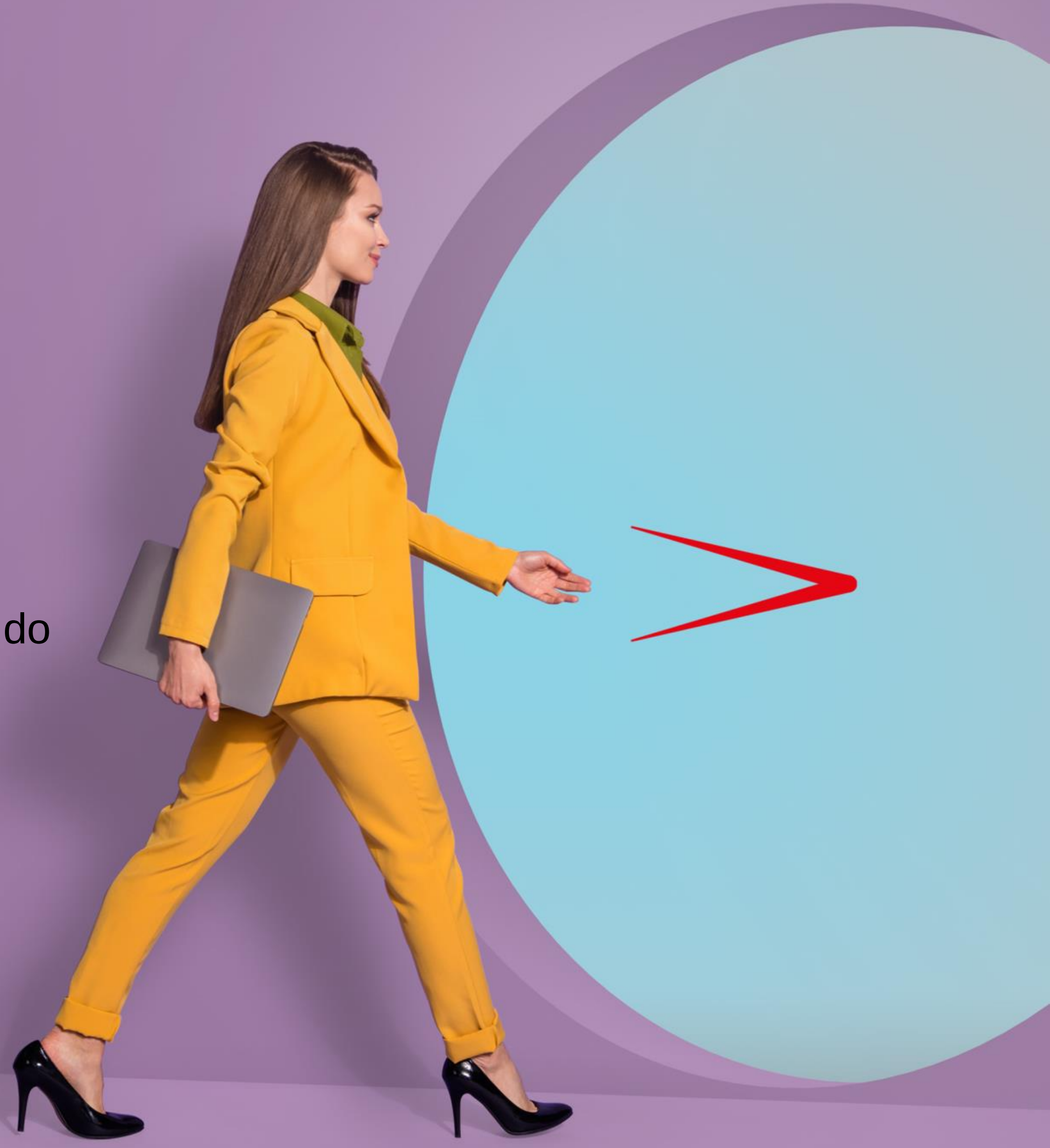

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If you are watching this webinar **on demand** via ICAEW.com, click on “verify your CPD” on the webinar webpage to add this to your CPD record.

Faculty resources

Hub pages:

- Non-financial reporting hub (icaew.com/nfr)
- UK regulation for company accounts hub (icaew.com/ukregulation)

Factsheets: (icaew.com/crffactsheets)

- Strategic Report and Directors' Report
- Climate-related Financial Disclosure Regulations

Webinars: (icaew.com/crfwebinars)

- Getting started with climate reporting parts 1 and 2
- Introducing the first IFRS Sustainability Disclosure Standards: webinars on IFRS S1 and IFRS S2

By All Accounts: (icaew.com/byallaccounts)

- The scoop on connecting sustainability and finance: corporate reporting and disclosure
- Integrating nature into corporate reporting

ICAEW Corporate Reporting Faculty

Resources

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- Factsheets and other online guidance
- Webinars and events
- By All Accounts - news features and articles

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Questions

Anne Warner
Senior Manager
Deloitte

Ollie Law
Senior Manager
PWC

Thank you for attending

- Please take the time to fill out our short survey.

- Contact the Corporate Reporting Faculty.
- Tel: +44 (0)20 7920 8533
- Email: crf@icaew.com
- Web: icaew.com/crf

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