



Narrative reporting update 2023

23 November 2023

This webinar will commence shortly

Introduction



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Technical Manager, Corporate Reporting Faculty, ICAEW

Today's presenters

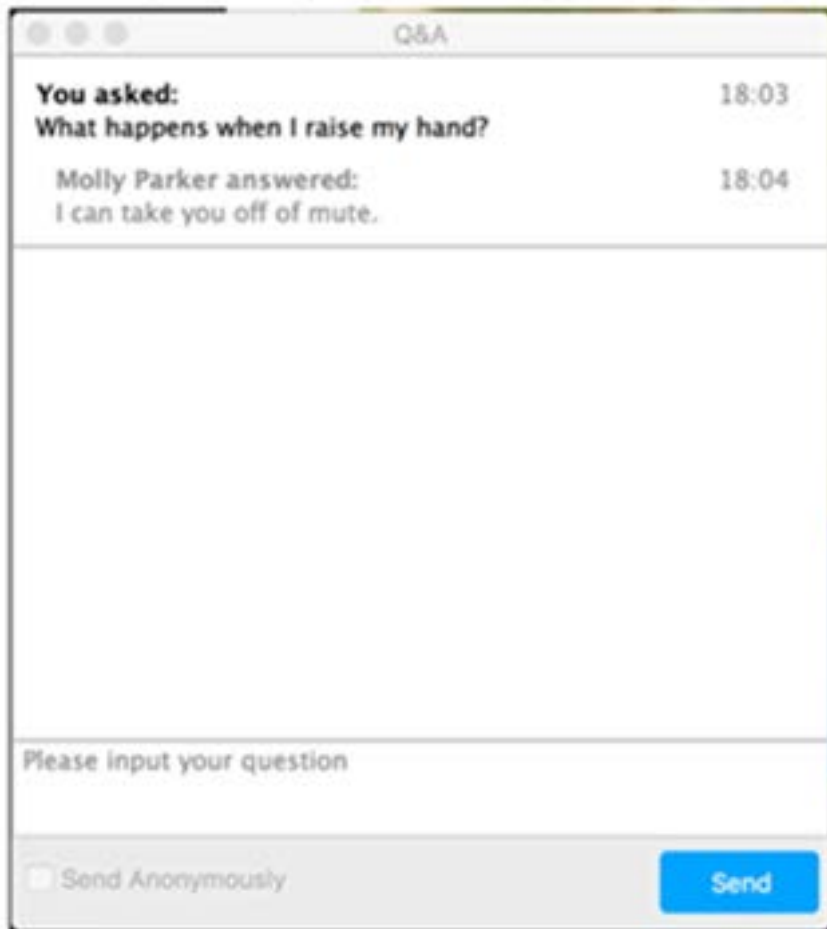


Anne Warner
Senior Manager
Deloitte



Patrick Leach
Senior Manager
PwC

Ask a question and access resources



The screenshot shows a Q&A interface with a title bar 'Q&A'. It displays a question and answer history:

Text	Time
You asked: What happens when I raise my hand?	18:03
Molly Parker answered: I can take you off of mute.	18:04

Below the history is a large empty text area for asking a question. At the bottom, there is a text input field with the placeholder 'Please input your question', a checkbox labeled 'Send Anonymously', and a blue 'Send' button. An arrow points from the 'Send' button to the text 'Type in your question and press send.' in the adjacent text block.

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To ask a question

Click on the **Q&A** button in the bottom toolbar to open the question box.

Type in your question and press **send**.

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Poll question

How would you describe yourself?

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

Overview of the current landscape

Overview of the narrative reporting landscape for UK entities

	Current requirements	31 December 2023 year ends	31 December 2024 year ends	Future developments
UK	<ul style="list-style-type: none"> Strategic report including: <ul style="list-style-type: none"> section 172(1) statement non-financial and sustainability information statement Directors' report including streamlined energy and carbon reporting (SECR) FCA Listing Rules: statement of consistency with TCFD (Taskforce on Climate-related Financial Disclosure), All Sector Guidance and supplemental guidance 	<ul style="list-style-type: none"> Climate-related Financial Disclosures (CFD) for companies and LLPs FCA Listing Rule on diversity and inclusion 		<ul style="list-style-type: none"> UK Sustainability Disclosure Standards (UK SDS – endorsement of IFRS S1 and S2) UK Green Taxonomy consultation Transition plan disclosure consultations Environmental Reporting Guidelines and SECR consultation Taskforce on Nature-related Disclosures (TNFD) Review of UK non-financial reporting regime
EU			<ul style="list-style-type: none"> Corporate Sustainability Reporting Directive (CSRD) phased in from 1 January 2024 European Sustainability Reporting Standards (ESRS) EU Taxonomy Regulation 	
Global				<ul style="list-style-type: none"> ISSB's IFRS Sustainability Disclosure Standards US SEC 'Enhancement and Standardization of Climate-Related Disclosures' California climate legislation

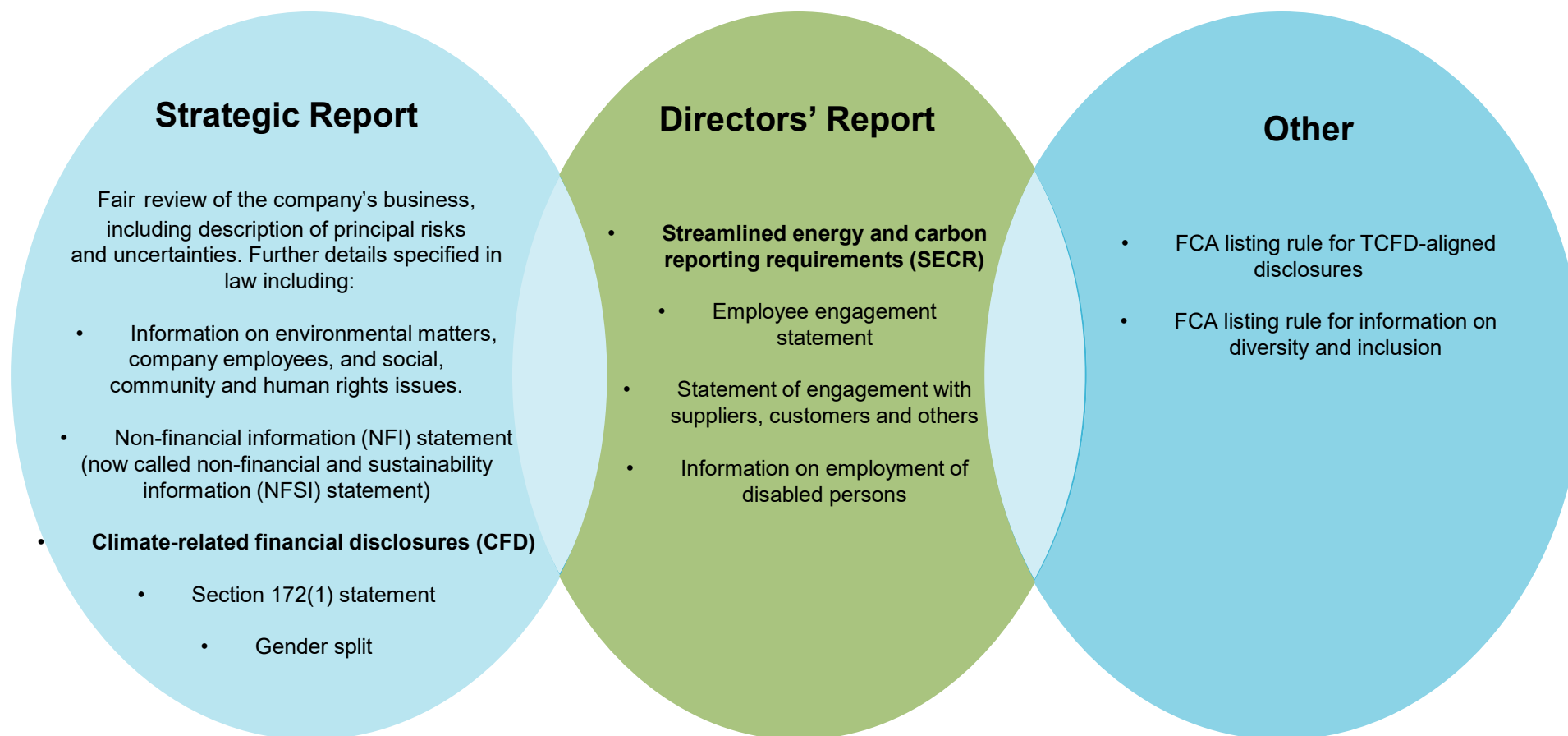
Poll question

In which section of your upcoming annual report do you expect to see the most change?

1. Climate-related financial disclosures
2. Strategic report (other than CFD)
3. Corporate governance report
4. Financial statements

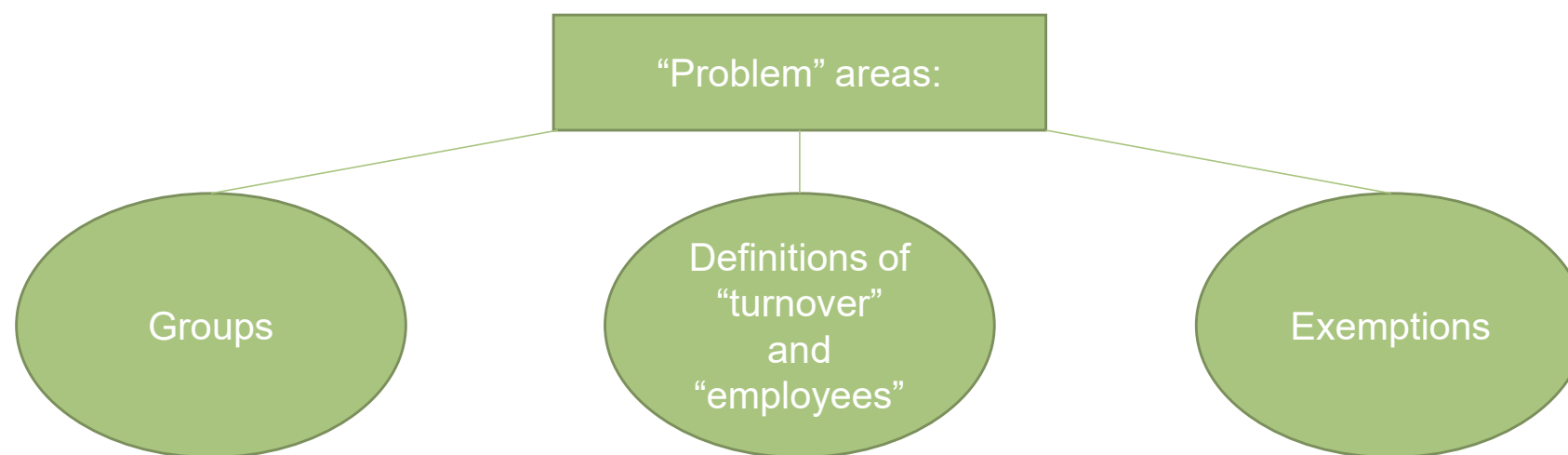
Sustainability reporting

Sustainability reporting in the annual report

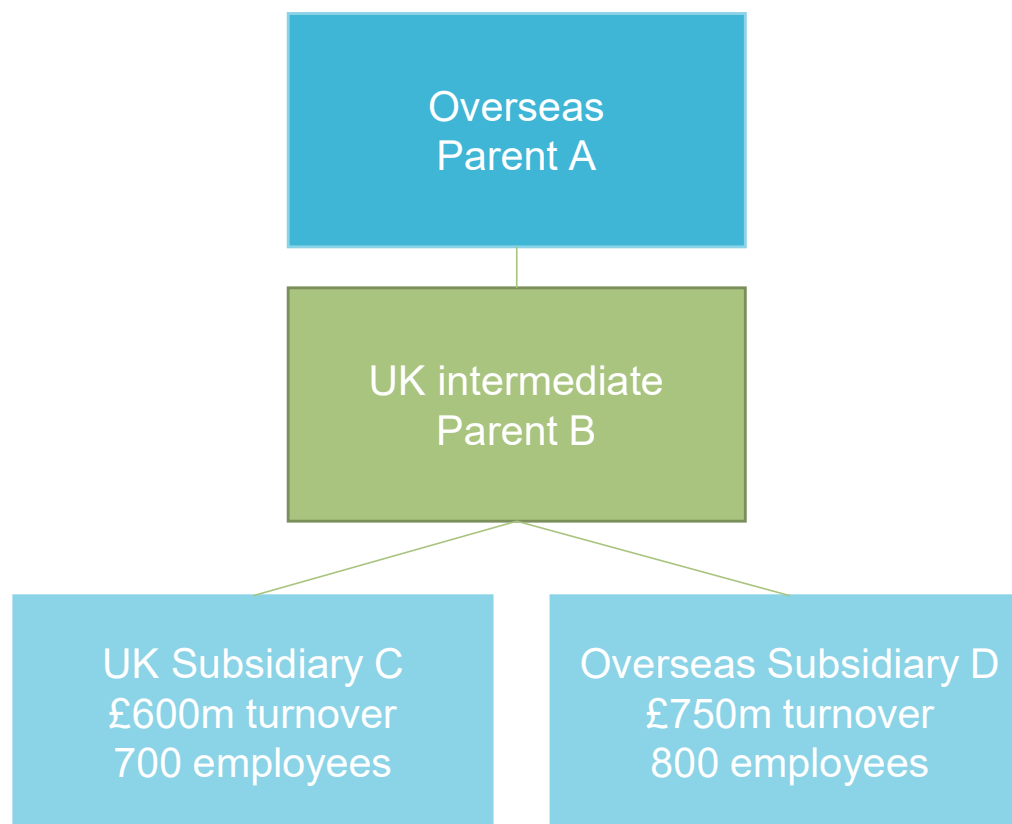


Scoping is complex, particularly within groups. Different rules apply to individual sets of reporting requirements. Care is needed when determining which companies are within scope of individual requirements.

Climate-related financial disclosure (CFD) regulations – scope



CFD regulations – scope worked example



Overseas Parent A prepares a consolidated annual report which includes comprehensive climate-related financial disclosures that are fully consistent with the TCFD recommendations and all-sector guidance.

UK intermediate Parent B does not prepare a consolidated annual report. It takes the exemption in s401 of the Companies Act 2006 because it is included in the consolidated annual report of Parent A.

Q: Which entities are in scope of the CFD requirements?

CFD regulations – requirements

Government regulations – climate-related financial disclosure

Governance	Strategy	Risk Management	Metrics and Targets
<p>a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.</p>	<p>d) a description of:</p> <ul style="list-style-type: none"> ○ the principal climate-related risks and opportunities arising in connection with the company's operations, and ○ the time periods by reference to which those risks and opportunities are assessed; <p>e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy;</p> <p>f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios.</p>	<p>b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities;</p> <p>c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process.</p>	<p>g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets;</p> <p>h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.</p>

Alignment to TCFD pillars

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>

Climate-related financial disclosures – frequently asked questions

Reporting under
both TCFD and
CFD

Location of
reporting

Interaction with
SECR

Disclosure of
targets

Intermediate
holding
companies

What if I
haven't...?

SECR – key compliance and regulatory reminders

Emissions and energy use

- Not complying fully with the requirements
- Unclear on type of assurance obtained
- No explanation of how targets will be achieved

Methodology

- Clarify which entities are included in a group's SECR disclosures
- Disclose the method of calculating GHG emissions

Ratios

- Selected intensity ratios did not always appear meaningful
- Should be recalculable

Measures taken to increase efficiency

- Should disclose principal measures
- Progress against long-term initiatives should be clear
- Disclose if no action has been taken

Future developments in UK sustainability reporting



ISSB sustainability standards – UK adoption and implementation



Government's non-financial reporting review



Scope 3 call for evidence and SECR post-implementation review



Transition Plan Taskforce framework implementation consultation



UK Green Taxonomy consultation



Taskforce for Nature-related Financial Disclosures



EU + US reqts!

Connectivity

Connectivity

PwC FTSE 350 survey 2022/23 – ‘A Window of Opportunity’

Growing volume	Telling the strategic story	Focusing on the future
<p>4% Increase in the length of the average strategic report since last year</p> <p>65% Increase in the length of the average strategic report over last 5 years</p> <p>35% Of the strategic report covers ESG matters</p>	<p>60% Link strategy and KPIs</p> <p>43% Explicitly link core strategic priorities to ESG</p> <p>31% Underpin their strategy with an ESG focus</p>	<p>73% Set out targets for climate change looking out beyond 10 years</p> <p>Less than 10% Provide quantified strategic targets beyond 4 years</p> <p>22% Disclose no specific forward-looking strategic targets</p>

Connectivity

FRC Annual Review of Corporate Reporting



- Issue identified by the Corporate Reporting Review Team: 'Fair, balanced and comprehensive'
- Expectation: *'Give a clear description in the strategic report of risks facing the business, their impact on strategy, business model, going concern and viability, cross-referenced to relevant detail in the reports and accounts.'*

Connectivity

Example

Strategic Pillar and 2022 Priorities | 2022 progress

Sustain

Health, safety and wellbeing

- Deliver milestones on the Health and Safety (H&S) roadmap with completion of site specific action plans from the standards and procedures maturity matrix
- Complete wellbeing and health actions

- Further progress on safety roadmap with the delivery of several key projects
- Tracking ahead of achieving reduction in Last Time Injury Frequency Rate (LTIFR) by 2023 (from 2016 baseline)
- Concrete division achieved a full year without any Last Time Injuries (LTIs) (more detail on page 34)
- Health and wellbeing action areas/initiatives continued to gather momentum with a well established Wellbeing Working Group and focus on mental health training and awareness weeks now in place and operating successfully

KPIs/Measure (pages 40 to 41)	Risks (pages 60 to 69)
<ul style="list-style-type: none"> LTIFR % completion against target actions % employees trained 	<ul style="list-style-type: none"> Regulatory and Compliance Maintaining Customer Relationships and Market Reputation
<ul style="list-style-type: none"> Revenue Adjusted EBITDA* Return on Capital Employed (ROCE) Adjusted EPS* Net Promoter Score † 	<ul style="list-style-type: none"> Material Operation Disruption Financial Risk Management Product Quality
<ul style="list-style-type: none"> Carbon reduction metric 	<ul style="list-style-type: none"> Climate Change Material Operational Disruption

Our Strategy | Progress and Targets

Delivering against our Strategy

Link to ESG

Example: Istock Plc
Annual Report and Accounts 2022, pp 32-33

Connectivity Example

Link to business strategy

 To double our size and profitability

Opportunity

The Group's ability to reposition our business model outside of traditional sources of supply.

Key risk indicator

Eurozone GDP growth rate.

Risk tolerance


















Risk outlook



Our principal risks

Our risk universe encompasses a wide range of potential risks that could impact our operations and performance. These are defined and prioritised into 12 principal risks that we manage on a cyclical basis on a top-down and bottom-up approach. Our internal alignment and external validation through the annual risk reporting cycle enable us to make well-informed decisions.

Macroeconomic impacts	Paper/fibre price volatility	Cyber attacks
<p>23/24 1</p> <p>22/23 1</p> <p>21/22 1</p> <p>Definition</p> <p>Multiple political/economic factors from foreign exchange/interest rates to weakening major economies significantly impact the level of consumer spend and customer demand for the Group's packaging products.</p> <p>Key defence/mitigations</p> <p>A robust Corporate Plan process where macroeconomic trends are evaluated alongside investments to improve production cost base, efficiency and deliver other initiatives such as sustainable growth and innovation priorities to strengthen resilience.</p> <p>Focus remains on supplying packaging quality, service and volume to fast-moving consumer goods (FMCG) customers with a constant focus on quality, service and volume growth, as these customers tend to show greatest resilience against GDP volatility.</p> <p>Our dynamic energy hedging strategy over five-year horizons smooths pricing volatility, and other developments in our procurement and logistics flows are helping to make our operating model and cost structure more resilient.</p>	<p>23/24 2</p> <p>22/23 3</p> <p>21/22 2</p> <p>Definition</p> <p>Volatile commodity pricing for recovered paper (including old corrugated cases (OCC) and containerboard grades) can create significant short-term challenges to capture appropriate returns by aligning raw material costs to packaging sales revenues.</p> <p>Key defence/mitigations</p> <p>A strategy demonstrating the Group's commercial credentials/services in Packaging to build up low prices regardless of raw material cost and sell the additional value of our products, services, innovations, sustainability credentials and customer brand/benefits.</p> <p>Strong discipline to maintain optimal positions on CDM manufacture and recovered paper sourcing and manufacture with external selling strategies of excess recovered paper (if an excess is necessary for security of supply). Trading position through paper sourcing to maximise integration between internal CDM and box plants.</p> <p>A disciplined approach in managing volume, margin and pricing of stock keeping units, using technology innovations, performance packaging with-in balance between contracts, index-ed those freely negotiated to support greater resilience with input pricing volatility.</p>	<p>23/24 3</p> <p>22/23 2</p> <p>21/22 3</p> <p>Definition</p> <p>The threat posed to our information or operational technology from ransomware and/or a failure to stop/identify sophisticated/malicious cyber intruders on our IT infrastructure.</p> <p>Key defence/mitigations</p> <p>Regular awareness training and testing to better equip our employees with the knowledge to identify potential phishing/other social engineering techniques.</p> <p>Investments in IT security controls to improve our capability to detect, respond to and prevent malicious cyber activity, including hardening of the IT estate via network segregation between within IT and operational technology environments.</p> <p>Regular improvements in, and testing of, IT disaster recovery planning through cyber drills, policies and procedures, including penetration/vulnerability testing.</p> <p>Continued expansion of the IT and operational technology security capabilities through increased internal resourcing and external partner support.</p>
<p>Link to business strategy</p> <p> To double our size and profitability</p> <p>Opportunity</p> <p>The Group's ability to reposition our business model outside of traditional sources of supply.</p> <p>Key risk indicator</p> <p>Eurozone GDP growth rate.</p> <p>Risk tolerance</p> <p></p> <p>Risk outlook</p> <p></p>	<p>Link to business strategy</p> <p> To double our size and profitability</p> <p>Opportunity</p> <p>Strengthening our value proposition and the fibre and efficiency programmes.</p> <p>Key risk indicator</p> <p>Paper/recovered fibre market price and box selling price.</p> <p>Risk tolerance</p> <p></p> <p>Risk outlook</p> <p></p>	<p>Link to business strategy</p> <p> To double our size and profitability</p> <p>Opportunity</p> <p>Accelerated investment in a strong cyber security programme and culture of awareness to enhance our business continuity credentials.</p> <p>Key risk indicator</p> <p>IT security training effectiveness and phishing campaign statistics.</p> <p>Risk tolerance</p> <p></p> <p>Risk outlook</p> <p></p>
<p>Risk rank change by year key</p> <p>Principal risk example 1 - Highest 12 - lowest</p> <p>23/24 1</p> <p>22/23 1</p> <p>21/22 1</p>	<p>Net risk tolerance key</p> <p>Unacceptable Re-assess Acceptable</p> <p>  </p>	<p>Risk outlook</p> <p>Increasing Stable Decreasing</p> <p>  </p>

Example: DS Smith Plc
Annual Report 2023, p 45

Corporate governance

Corporate Governance

Recent developments

Government withdrawal of the statutory instrument	The King's Speech	FRC Policy update
<p>On 16 October, legislation for companies of a certain size to have an Audit and Assurance Policy, Resilience Statement, Material Fraud Statement and capital maintenance disclosure has been withdrawn pending completion of a broader review of non-financial reporting.</p>	<p>On 7 November, the Audit Reform Bill was not included in the King's Speech, delaying the creation of ARGA (the Audit, Reporting and Governance Authority), the expansion of the PIE (public interest entity) definition and other planned reforms in the Bill, most likely until after the next General Election.</p>	<p>On 7 November, the FRC issued a Policy update regarding its recent consultation on revisions to the UK Corporate Governance Code.</p> <p>The FRC considers the right balance at the current time is to take forward only a small number of the original 18 proposals we set out in the consultation.</p>

FRC annual review of corporate governance reporting

Recent developments

“We are encouraged that in line with previous years, companies are more **transparent in reporting departures** from the Code. This is a positive development, although explanations sometimes lack clarity...”.

“We urge all companies to pursue a goal of strong, clear and informative **reporting of governance outcomes, and the actions** that this drives. Genuine insights, rather than repetition of generic language, are essential...”.

“While **risk assessment and internal controls** have been a focus over the past year, **little improvement** was seen in the quality of reporting in these critical areas. More work is needed by most companies to demonstrate robust systems, governance and oversight”.

“[We were] encouraged by the increased focus on **workforce engagement and stakeholder reporting**. It would now like companies to show how engagement has led to high-quality **outcomes** by better reflecting on the feedback received and its impact on board decisions.”



Corporate Governance

Audit committees and the external audit: Minimum standard

Applicability and status

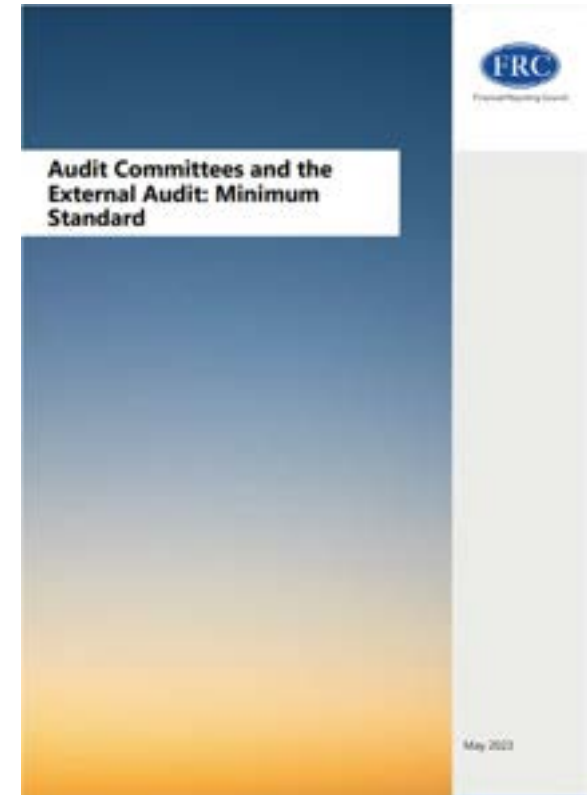
- New kind of standard issued by FRC - issued as a “shadow” standard until ARGA is established and new powers to enforce such standards are provided
- Applicable to companies in the FTSE 350 with immediate effect - on a “comply or explain” basis (until the above powers make it mandatory)

What does the standard involve?

- Largely brings together existing Code provisions and Guidance
- Emphasis on audit committee responsibilities around tendering, appointment and monitoring the audit - and reporting on this work - so not all of the AC’s responsibilities
- Some limited new content and expectations on, for example:
 - Achieving audit market diversity
 - Engaging with shareholders on audit scope
 - Application of entity’s accounting policies

Key message - much of the content was not previously covered by comply-or-explain

FTSE 350 companies should therefore check the extent to which they have addressed the content of the existing FRC Guidance, Practice Aids and other materials on which the standard is based because there may be elements that they should now look at again and consider reporting against on a comply-or-explain basis.



Business models

Business models

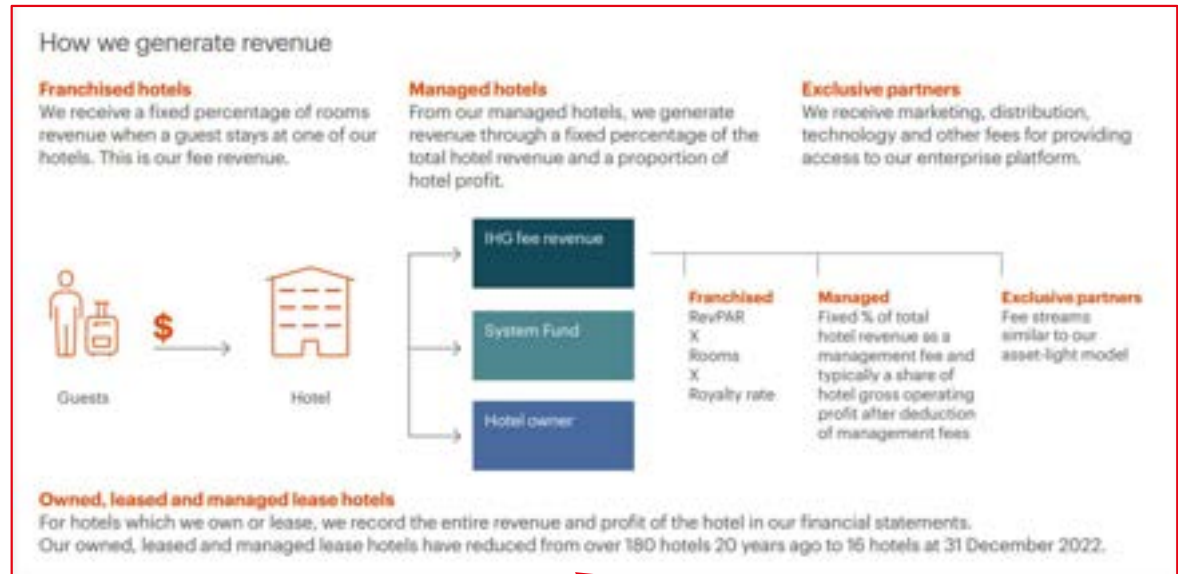
FRC Guidance on the Strategic Report:

'The business model should explain how the company generates and preserves value over the longer term.'

- Companies are encouraged to explain value creation, competitive advantage, market, location in value chain, and relationship to other annual report disclosures
- Iterative updates to disclosure as companies strive to reflect ESG-related aspects of operations
- FRC Lab report due out soon

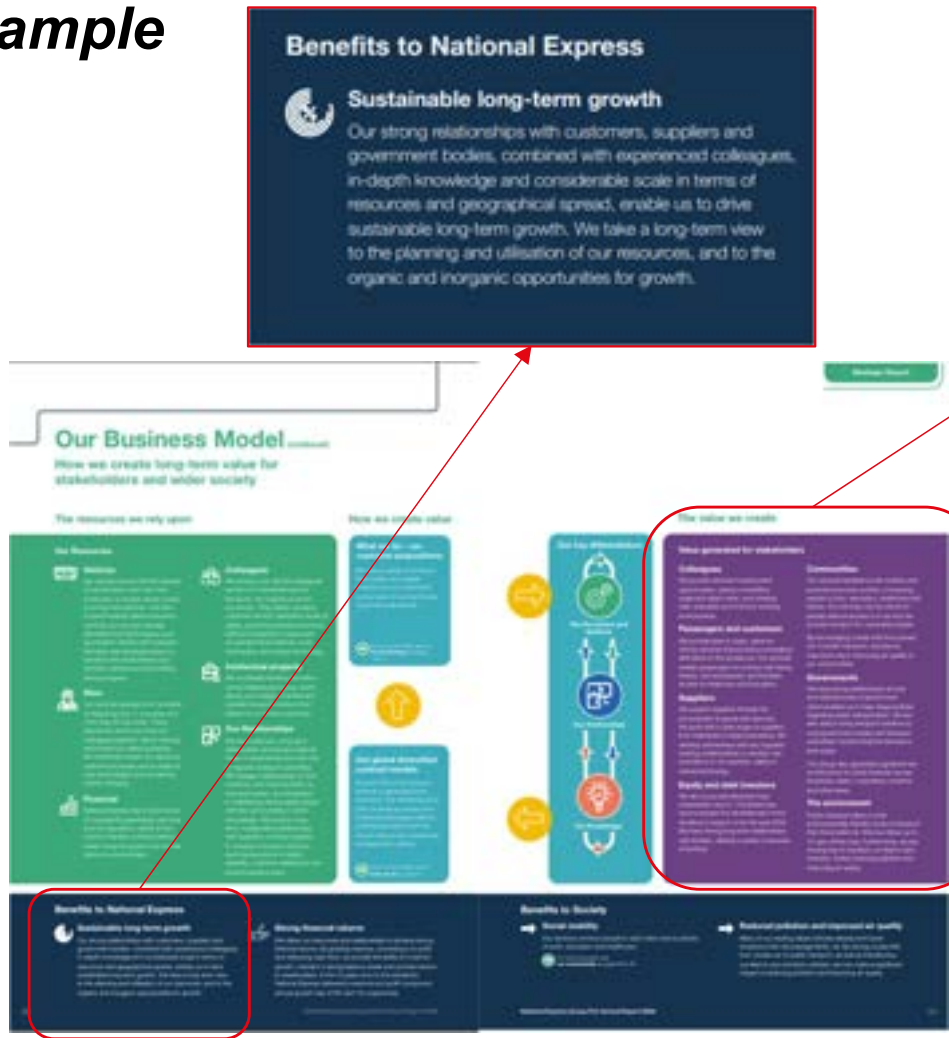
Business model Example

Our broad geographic spread and weighting towards essential business and domestic leisure travel has driven comparative resilience during times of economic downturn. Though this continues to be a core component of our business, we have made excellent progress in expanding our presence in the Luxury & Lifestyle segment, which generally generates higher fees per room. This category is currently 13% of IHG's system size, though comprises 20% of the future growth pipeline.



Example: IHG Plc
Annual Report and Form 20-F 2022, pp 10-13

Business model Example



Example: National Express Group PLC Annual Report 2022, pp 18-23

s172 statement

s172 statement

- The Corporate Reporting Review Team identified several companies which did not make the s172 statement Strategic Report requirement, but also referenced in FRC UK Corporate Governance Code
- Not just about stakeholders:
 - the likely consequences of any decision in the long term
 - the desirability of the company maintaining a reputation for high standards of business conduct
- Reporting should
 - **Identify** stakeholders and issues
 - **Explain** methods of engagement
 - **Describe** the impact on company's and board's decisions and strategies

s172 statement

Example



Fostering business relationships with suppliers, customers and others	Chair's statement	10–11
	CEO's review	12–15
	Business model	22–23
	Strategic priorities	24–35
	Our approach to sustainability	44–67
	Non-financial information statement—Ethics and governance	68
	Stakeholder Engagement: Customers & Society	69, 72–73, 74–75
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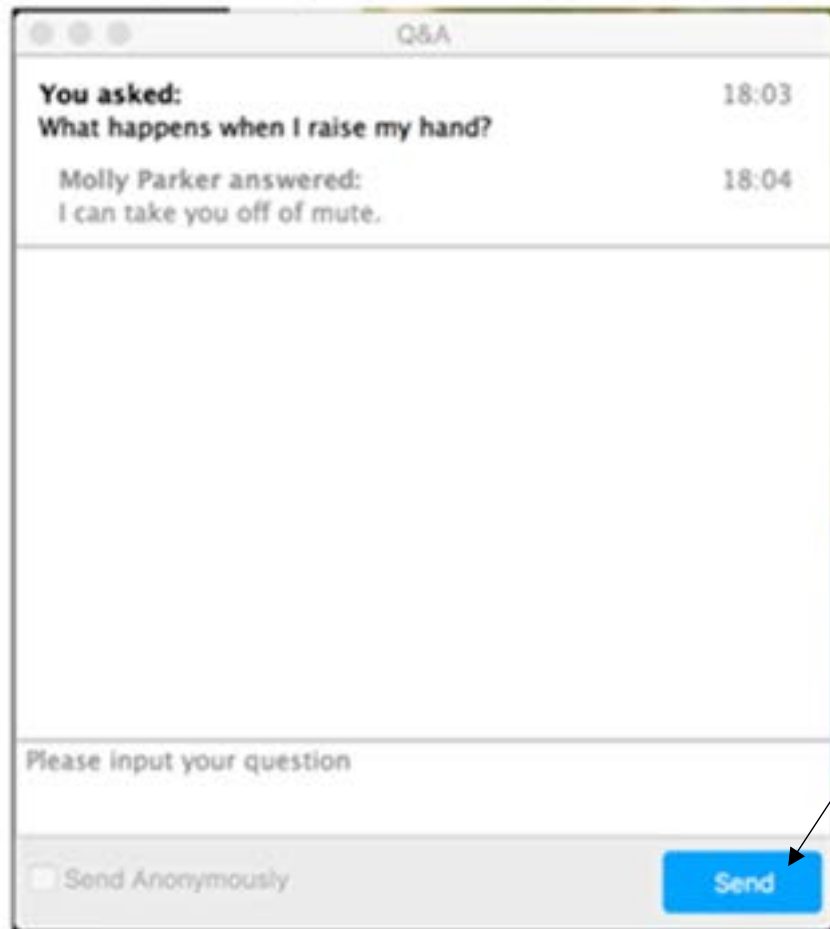


Outcomes from engagement:

- Regular monitoring of Net Promoter Scores across the Group allows Sage to assess customer sentiment and identify areas where we can refine the customer experience. This will help address pain points as well as generate additional value for customers in areas which would help them most
- The Customer Connect initiative enables Sage to keep its finger on the pulse with customers, allowing us to make sure we remain attuned to their needs and help their businesses to thrive
- The launch of Sage People Customer Ideas Hub aims to make Sage People customers feel empowered, valued and listened to—and at the centre of the Group's product vision and strategy

Example: The Sage Group Plc, Annual Report and Accounts 2022, pp 72-73, 78

Ask a question and access resources



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- **Hub pages**
 - Non-financial reporting (icaew.com/nfr)
 - UK regulation (icaew.com/ukregulation)
- **Factsheets** (icaew.com/crffactsheets)
 - Strategic Report and Directors' Report
 - Overview of UK Regulation for Company Accounts
- **Webinars** (icaew.com/crfwebinars)
 - Getting started with climate reporting, parts 1 and 2
 - Introducing the Climate-related Financial Disclosure Regulations



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Questions



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