



Financial Reporting Advisory Board Paper

Changes to the reporting requirements of the Companies Act 2006 and associated regulations

Issue:	The Department of Business, Innovation and Skills (BIS) has successfully moved for changes in the legislation that affects aspects of the reporting requirements for companies.
Impact on guidance:	Appendix A summarises the proposed changes to the FReM.
IAS/IFRS adaptation?	No – the relevant document is the Companies Act 2006 and its associated regulations.
Impact on WGA?	No.
IPSAS compliant?	Yes
Interpretation for the public sector context?	Yes
Impact on budgetary regime?	No
Alignment with National Accounts	Not applicable.
Impact on Estimates?	No
Recommendation:	That the Board comment on the proposed changes to the FReM as detailed below.
Timing:	Applicable for financial reporting periods beginning on or after 1 January 2014.

DETAIL

Background

1. In June 2012, BIS released 'Consultation on revised remuneration reporting regulations' (see Appendix B) which proposed changes to the reporting requirements governing Directors' pay as per Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (S.I. 2008/410).

2. Subsequent to this, in October 2012 BIS released a paper titled 'The future of narrative reporting: A new structure for Narrative Reporting in the UK' (see Appendix B). In effect, this paper proposes the replacement of the currently required business review with a strategic report.

Directors' Pay (changes to S.I. 2008/410)

3. Directors' Pay remuneration reforms only apply to quoted companies (see the BIS FAQ document at Appendix B). The main features of the proposals seek to grant shareholders enhanced powers and greater transparency in relation to directors' remuneration. The directors' remuneration report is to have two parts; policy and annual implementation.

4. The policy report will:

- i. set out the company's forward-looking policy on remuneration and potential payments (including the approach to exit payments); and
- ii. be subject to a binding vote at least every 3 years.

This part of the report will only be required when there is a shareholder vote on the policy.

5. The annual report on implementation of the policy will:

- i. set out the actual payments made to directors in the last financial year; and
- ii. be put to an annual advisory shareholder vote.

6. There will also be new disclosure requirements, including a single figure for total remuneration for each director. For variable elements of pay, the single figure will reflect actual pay earned rather than potential pay awarded. This includes full bonuses awarded for the reporting period and long term incentives where the reporting year is the last financial year of the performance cycle.

Strategic Report (changes to The Companies Act 2006)

7. The content of the strategic report will broadly match that of a business review save that, for quoted companies only:

- i. the strategic review must include a description of the company's business model and strategy;
- ii. the strategic report must state the gender split, in number, for its directors, managers and employees;
- iii. the strategic report must include a consideration of human rights issues, alongside social and community issues; and
- iv. the strategic report will not specifically require disclosure of persons with whom the company has essential contractual or other arrangements.

8. The report also contains recommendations that the strategic report can be distributed in lieu of summary financial statements. However, as reporting bodies are restricted under the FReM from issuing summary statements and exemptions under the Companies Act for small entities do not apply, this is not an option that needs to be addressed in this document.

Impact on disclosures in resource and other accounts

9. The content of the strategic report mirrors that required by the business review, with the exception of the disclosures around essential trading partners, which have been completely removed. As such, the impact on disclosures in resource and other accounts is nil.

Proposed text for the Government Financial Reporting Manual

10. See Appendix A for the proposed amendments to the FReM text. These updates are reference updates only – in form, the substance of reporting for non-quoted companies has not changed.

Summary and recommendation

11. HM Treasury has reviewed the pending changes to the Companies Act 2006 and S.I. 2008/410 and, having considered the impact on public sector reporting bodies, proposes updating the FReM as summarised by Appendix A.

12. The Treasury requests comments from the FRAB regarding the changes to the FReM text as summarised in Appendix A.

HM Treasury
24 May 2013



APPENDIX A

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></p> <p>Summary financial information</p> <p>5.1.7 A reporting entity that wishes to publish a document additional to its annual report and accounts that contains summary financial information should comply with the requirements of sections 426 and 428 of the Companies Act. (Sections 427 and 429 shall not apply). The summary data must not be published in advance of the full annual report and accounts being laid before Parliament² as to do so would be a breach of Parliamentary privilege.</p>	<p>BC1:</p> <p>Paragraph 8 to The Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 (as attached at Appendix B): Omit sections 427 (form and contents of summary financial statement: unquoted companies) and 428 (form and contents of summary financial statement: quoted companies).</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></p> <p>Contents of directors' report: business review <u>strategic report</u></p> <p>5.2.8 The annual report shall contain a Management Commentary, which shall disclose the matters required to be disclosed in the business review <u>strategic report</u> under section 417 <u>414C</u> of the Companies Act 2006, taking into consideration the recommendations outlined in the ASB's Reporting Statement <i>Operating and Financial Review</i>, as interpreted below.</p>	<p>BC2:</p> <p>Paragraph 6 to The Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013: "Omit section 417 (contents of directors' report: business review)."</p> <p>S417 is replaced with Chapter 4A "Strategic Report", sections 414A to 414E.</p>
<p>a) "Members" (s.417(2) <u>414C(1)</u>) shall be interpreted to be all users of the accounts;</p>	<p>See BC2.</p>
<p>b) (S.417(3) <u>414C(2)</u> and s.417(4) <u>414C(3)</u>) The Management Commentary should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament and the public. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents;</p>	<p>See BC2.</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></p> <p>c) (S.417(5)(a) <u>414C(4)(c)</u>) For departments, the Management Commentary should disclose, where applicable, the financing implications of significant changes in the department's objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other leasing contracts) in the light of the department's spending review settlement; and</p>	<p>See BC2.</p>
<p>d) Sections 417(5)(b)(i) and (iii) <u>414C(4)(d)(i) and (iii)</u> require information on environmental matters and social, and community <u>and human rights</u> issues respectively.</p>	<p>See BC2.</p> <p>S417(5)(b)(iii) required information about social and community issues.</p> <p>S414C(4)(d)(iii) requires information about social, community and human rights issues.</p>
<p>5.2.11 S417(6) <u>S414C(7)</u> Departments should disclose performance. <<no change to majority of paragraph>>... given in the Reporting Statement (IG example 1).</p>	<p>See BC2.</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></p> <p>5.2.12 In addition to the matters described in section 417 <u>414A to 414E</u> of the Companies Act 2006, reporting entities to which this Manual applies shall disclose the following information:</p> <p><<etc – no further changes>></p>	<p>See BC2.</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: right;">Removed text <u>New text</u></p> <p><u>Contents of strategic report: statement as to disclosure to auditors</u></p> <p><u>5.2.XX Sub-sections 414D(5) and 414D(6) of the Companies Act 2006 shall not apply.</u></p>	<p>BC3:</p> <p>Section 414D “Contents of strategic report: statement as to disclosure to auditors” has identical wording to section 418 “Contents of directors’ report: statement as to disclosure to auditors”.</p> <p>Subsections 414D(5), 414D(6), 418(5) and 418(6) address directors’ culpability when a false statement has been made in the respective reports.</p> <p>The FReM currently contains this wording:</p> <p><u>Contents of directors report: statement as to disclosure to auditors</u></p> <p>5.2.13 Sub-sections 418(5) and 418(6) of the Companies Act 2006 shall not apply.</p> <p>There should be similar wording for the strategic report.</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></p> <p><u>Approval and signing of strategic report</u></p> <p><u>5.2.XX Except for NDPBs that are companies, section 414E(1) of the Companies Act 2006 shall not apply, and the sections 414E(2) and 414E(3) shall not apply to any reporting entity covered by the requirements of this Manual.</u></p> <p><u>5.2.XY The Accounting Officer (or Chief Executive) shall sign and date the strategic report</u></p>	<p>Similar to BC3.</p> <p>S414E “Approval and signing of the strategic report” has the same wording as s419 “Approval and signing of the directors’ report” (but excludes s419(2) on reports prepared in accordance with the small companies regime).</p> <p>Sub-sections 414E(2), 414E(3), 419(3) and 419(4) address director culpability when a report is approved that does not meet the requirements of the Companies Act 2006.</p> <p>The FReM currently contains s419 equivalent wording equivalent of the text suggested to the left at 5.2.14 and 5.2.15.</p>
<p><u>Duty to provide information on the matters contained in the strategic report</u></p> <p><u>5.2 XX Sub-sections 414A(5) and 414A(6) of the Companies Act 2006 shall not apply.</u></p>	<p>See BC3.</p> <p>S414A “Duty to prepare strategic report” has the same wording as s415 “Duty to prepare directors’ report”.</p> <p>Sub-sections 414A(5), 414A(6), 415(4) and 415(5) address culpability when a report is not prepared as per the requirements of the Companies Act 2006.</p> <p>The FReM currently contains s415 equivalent wording of the text suggested to the left at 5.2.7.</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></p> <p><u>Contents of directors' remuneration report</u></p> <p>5.2.18 Section 421 of the Companies Act 2006 requires the preparation of a Remuneration Report containing certain information about the directors' remuneration in accordance with the requirements of Part 4 and Schedule 8 of Statutory Instrument 2008 No. 410. Certain of the information is subject to audit (see Part 3 <u>5</u> of Schedule 8 of SI 2008 No. 410) and will be referred to in the audit opinion.</p>	<p>BC4:</p> <p>See page 49 of the BIS consultation of revised remuneration reporting regulations.</p>
<p>5.2.19 Reporting entities covered by the requirements of this Manual shall include information under the headings in SI 2008 No. 410 to the extent that they are relevant. (For example, the Performance graph <u>line graph</u> required in Part 2 <u>3</u> of Schedule 8 will not be applicable to reporting entities covered by the requirements of this Manual.)... <<etc – no further changes>>.</p>	<p>As per BC4 link, refer page 45 "Comparison of overall performance and pay" – the phrasing is slightly different, but it is still a line graph requiring return on shares information as per the old Schedule 8 performance graph.</p>

APPENDIX B

1. Strategic report/Business review changes:
<http://www.bis.gov.uk/assets/biscore/business-law/docs/f/12-979-future-of-narrative-reporting-new-structure.pdf>
2. Directors' remuneration report changes:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31358/12-888-directors-pay-consultation-remuneration-reporting.pdf
3. FAQ document on Directors' remuneration changes:
<https://www.gov.uk/government/publications/directors-remuneration-reforms-frequently-asked-questions>