



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 implemented new legislation that affects aspects of the reporting requirements for companies.
Impact on guidance:	Appendix A summarises the proposed changes to the FReM. Additional guidance will be required to ensure reporting requirements are met and this will be provided via the annual PES paper that gives further Annual Reporting guidance for the 2013-14 year end.
IAS/IFRS adaptation?	No – the relevant document is the Companies Act 2006 and its associated regulations.
Impact on WGA?	No – reporting requirements impacted are already not applicable for WGA
IPSAS compliant?	Not applicable
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 notes the changes to the FReM
Timing:	Applicable for financial reporting periods beginning ending on or after 30 September 2013. Requires 2013-14 FReM amendments.

DETAIL

Background

1. In 2012, BIS carried out two consultations which proposed changes to the reporting requirements for Directors' pay and the replacement of the business review with a strategic report. The changes proposed apply to reporting entities covered by the FReM. The main content of these consultations was outlined in the May FRAB paper on this topic.

Latest position

2. Following feedback from the consultation BIS modified their initial proposals and implemented them into legislation in August 2013. This legislation is applicable for financial reporting periods ending on or after 30 September 2013.

3. These changes will not significantly increased disclosure requirements; disclosure requirements have been removed as well as added. New processes to collate/capture information may be required to support the additional disclosure requirements.

4. The final legislation has not significantly changed in content following consultation. Changes since the previous FRAB paper are bold in the summary of the legalisation below.

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

5. The aim of the changes to the reporting requirements governing Directors' pay¹ is to grant shareholders enhanced powers and greater transparency in relation to directors' remuneration. The main features of this legislation are outlined below. The directors' remuneration report is to have two parts; policy and annual implementation.

- 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.

- 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.

¹ The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013

Strategic Report (changes to The Companies Act 2006)

7. The content of the strategic report, set out by the new legislation², will broadly match that of a business review save that:

- 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. It is proposed that these additional disclosure requirements will be applied in the public sector with no exemptions. The Treasury will work with the relevant departments and provide additional guidance where applicable to ensure the information is available and a practical approach is taken for 2013-14 annual reports and accounts.

9. The contents of the directors' report have also been amended to remove requirements to set out asset values, charitable donations and payment of creditors policy. The most significant change to the disclosure obligations is the new requirement for annual greenhouse gas emissions to be disclosed. It is proposed that current reporting guidance regarding sustainability reporting is sufficient to fulfill this requirement.

10. 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 in advance of laying accounts in Parliament and exemptions under the Companies Act for small entities do not apply, this is currently not an option that needs to be addressed.

Additional Considerations

11. Due to the short turn around and additional information required, the Treasury is not planning to consult on the proposed changes. The Treasury is planning to provide additional guidance, and work with the Cabinet Office to capture the necessary information for departments' 'single figure for total remuneration for each director' disclosure requirements.

12. Following recent PAC meetings, the Treasury, Cabinet Office and other Departments are also reviewing additional disclosure requirements that may be required regarding exit and severance payments.

13. The Treasury is also planning to review the applicability of the Companies Act in central government. This is in the context of the broader Streamlining and Simplifying accounts project.

Proposed text for the Government Financial Reporting Manual

14. See Appendix A for the proposed amendments to the FReM text.

² The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013

Summary and recommendation

15. The Treasury has reviewed the changes made 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.

16. The Treasury requests the FRAB to note the changes to the FReM text as summarised in Appendix A.

HM Treasury
10 October 2013



APPENDIX A

Suggested FReM text	Removed text <u>New text</u>	Basis of change (BC) / comments
<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 11 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> <p>Paragraph 13 to The Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 (as attached at Appendix B): Omit section 429 (summary financial statements: offences).</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 5 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(7)(a)</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(7)(b)(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(7)(b)(iii) requires information about social, community and human rights issues.</p>
<p>5.2.11 S417(6) <u>S414C(4)</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(2) and 414D(3) 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 “Approval and signing of strategic report”.</p> <p>Subsections 414D(2) and 414D(3) 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 414D(1) of the Companies Act 2006 shall not apply, and the sections 414D(2) and 414D(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>S414D “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 414D(2), 414D(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.</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>5.2 XX Schedule 7 of SI 2008 No. 410 outlines certain information required to be included in the Directors' report. The requirements in Part 7 of Schedule 7 regarding greenhouse emissions are fulfilled by complying with 5.2.9 of the FReM.</u></p>	<p>BC4:</p> <p>Paragraph 7 to The Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 – outline the changes to the content of the directors' report including additional requirements regarding greenhouse emissions.</p> <p>Current sustainability reporting is deemed to cover the requirements sufficiently.</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 of 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>BC5:</p> <p>Paragraph 2(c) to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013: "in regulation 11(3) for the words from "the part" to "Part 3" substitute "the information set out in the report as identified in Part 5"."</p>

Suggested FReM text	Basis of change (BC) / comments
<p style="text-align: center;">Removed text <u>New text</u></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>BC6:</p> <p>Paragraph 18(1)(a) to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013: “contain a line graph that shows for each of—...”</p> <p>Annual Report on Remuneration section of amended schedule is now Part 3.</p>
<p><u>5.2 XX Part 3 of Schedule 8 of Statutory Instrument 2008 No. 410 requires certain information to be include in the annual report section of the remuneration report. Where required, contact the Relevant authority for guidance regarding the single total remuneration figure disclosure requirements.</u></p>	<p>BC7:</p> <p>The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 includes a substitute Schedule 8 of SI 2008 No. 410. Part 3 of this schedule outlines the requirements for the annual report section of the remuneration report.</p>