| Title: The Companies (Non-financial Reporting) (Amendment) Regulations 2024 | Impact Assessment (IA) | |
|---|--|--|
| IA No: DBT-004-24-CMRR | Date: 18/03/2024 | |
| RPC Reference No: RPC-DBT-5328 (1) | Stage: Final | |
| Lead department or agency: The Department for Business and Trade Other departments or agencies: None | Source of intervention: Domestic | |
| other departments of agencies. None | Type of measure: Secondary legislation | |
| | Contact for enquiries: | |
| | Orkid.russell@businessandtrade.gov.uk | |
| Summary: Intervention and Options | RPC Opinion: GREEN | |

Cost of Preferred (or more likely) Option (in 2019 prices)

| Total Net Present | Business Net Present | Net cost to business per year | Business Impact Target |
|-------------------|----------------------|-------------------------------------|------------------------|
| Social Value | Value | | Status |
| £1,308.9m | £1,308.9m | - £152.1m (net benefit to business) | Qualifying provision |

What is the problem under consideration? Why is government action or intervention necessary?

The current non-financial reporting framework is subject to a combination of issues, these include: the growth of nonfinancial reporting requirements leading to lengthy and complex annual reports, outdated Companies Act 2006 (hereafter CA06) (monetary) company size thresholds which do not reflect the impact of inflation, and a complex process to enable digital sharing of annual accounts and reports. These issues have exacerbated **information asymmetries** between companies and stakeholders, leading to **high transaction costs** for users as well as **increased burdens for companies**. Regulatory intervention is necessary to ensure the corporate reporting framework is operating effectively. This is supported by responses to a call for evidence, covering a wide range of stakeholders, report producers, investors and other users, panel discussions with stakeholders and interested Government Departments.

What are the policy objectives of the action or intervention and the intended effects?

The policy objective of these measures is to: remove duplicative and 'low value' disclosure requirements from the Directors' Report and Remuneration Report thereby **streamlining the annual report**, increase the CA06 monetary thresholds which determine company size to account for past and future inflation to **reduce disproportionate regulatory burdens on** '**smaller' companies**, and amend the existing legislation to ease the sharing of annual accounts and reports via electronic means, **promoting a 'digital first' approach**. In addition, the changes to audit measures will ensure audit legislation is applied as intended, the PIE audit tendering process is made easier, and the FRC is able to monitor audit sector more effectively. This package of measures will **improve the accessibility of decision-useful information** for investors and other users and **reduce regulatory burdens on companies** who must produce this information.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1) Do nothing – continue with the status quo.

3)

- 2) Option 1 (do minimum) implement a combination of measures. These measures include:
 - a. removal of a set of requirements from the Directors' Report and Remuneration Report
 - b. enable easier sharing of annual accounts and reports digitally, and
 - c. make technical corrections to the audit regulatory framework.
 - Option 2 (preferred option) implement option 1 as well as:
 - a. uplift CA06 company size (monetary) thresholds.

| Will the policy be reviewed? If applicable, set review date: | | | | |
|---|--------------|-----------------------|----------------------|----------------------|
| Is this measure likely to impact on international trade and investment? No | | | | |
| Are any of these organisations in scope? | Micro Yes | Small Yes | Medium Yes | Large Yes |
| What is the CO ₂ equivalent change in greenhouse gas (Million tonnes CO ₂ equivalent) | emissions? | Traded: n/a | | raded: n/a |

I have read the Impact Assessment, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister

Date:

18/03/2024

Summary: Analysis & Evidence

Description: Implement measures related to the directors and Remuneration report and raise thresholds.

FULL ECONOMIC ASSESSMENT

| Price Base | PV Base | Time Period | Net Benefit (Prese | nt Value (PV)) (£m) | |
|------------|-----------|-------------|--------------------|---------------------|------------------------|
| Year 2019 | Year 2020 | Years 10 | Low: 1147.3 | High: 1470.8 | Best Estimate: 1,308.9 |

| COSTS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total (Present Value) | Cost |
|---------------|--------------------------------------|-------|---|---------------------------------|------|
| Low | | | | | |
| High | | | | | |
| Best Estimate | 0.2 | | | | 0.2 |

Description and scale of key monetised costs by 'main affected groups'

This package is largely deregulatory in nature; therefore, we do not anticipate any annual costs with these measures. With any changes to the legislative framework, we would expect familiarisation costs. However, we expect these to be negligible for most measures. The only measure in which a first-year familiarisation cost of **£0.3m** is estimated is 'technical improvements to audit regulation covering audit committees.'

Other key non-monetised costs by 'main affected groups'

This package will be removing certain regulatory requirements from the Directors' Report and Remuneration Report, as well as removing less economically significant companies from certain reporting requirements (through the company size uplift). There is a notional risk of an information **loss** to users, as well as the **loss of assurance** of the information they do provide where companies move to a size band that allows audit exemptions. However, we expect this potential cost to be non-material as many of the requirements are duplicative or lead to disclosures which are boiler plate or add little value to users.

| BENEFITS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|--------------------------------------|-------|---|---|
| Low | | | 133.3 | 1,147.3 |
| High | | | 170.9 | 1,470.8 |
| Best Estimate | | | 152.1 | 1,309.1 |

Description and scale of key monetised benefits by 'main affected groups'

Each of the measures under Option 2 have been estimated to achieve the following benefits: The Directors' Report removals estimates an annual benefit of **£0.8m**, the company size uplift estimates an annual benefit of around **£151m**, digitalisation and audit measures do not have any monetised benefits due to uncertainty around input estimates and no intended changes that will have a practical effect on the legislation.

Other key non-monetised benefits by 'main affected groups'

These measures will **streamline reporting requirements**, removing the duplication and low value information within the annual report, and as a result, improve the accessibility of relevant information for primary users. In addition, it will **reduce regulatory burdens** for companies required to produce non-financial information.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

We use the Fame database to estimate the number of companies in scope of benefitting from these measures. To determine the benefit accrued to these companies from this package, we use a cost of compliance approach to estimate potential savings from the removal of a) certain measures or b) the obligation to report certain information based on company size. We have not included the estimates from all measures in this package (i.e., digitalisation) in the overall impact estimates, nor do we quantify the impacts for all measures (i.e., removal of some Remuneration requirements).

BUSINESS ASSESSMENT (Option 1)

| Direct impact on business (Equivalent Annual) £m: | | t Annual) £m: | Score for Business Impact Target (qualifying |
|---|------------------|---------------|--|
| Costs: 0.03 | Benefits: 152.08 | Net: - 152.06 | provisions only) £m: - 760.3 (net benefit) |
| | | (net benefit) | |

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This Impact Assessment has been reviewed by the Regulatory Policy Committee (RPC-DBT-5328 (1)) and has been issued with a green opinion. The RPC did provide some feedback to further strengthen this assessment; however, this version has not been amended to reflect their comments and later comments received by the Financial Reporting Council (FRC). The changes required in response to feedback from the RPC and the FRC have been assessed and are determined to not materially affect the EANDCB or narrative. Therefore, this document will be revised to reflect all the relevant comments when the Final Impact Assessment is laid before parliament.

Evidence Base

Introduction

- 1. This Impact Assessment (IA) covers several measures to reform the non-financial reporting framework, which will be implemented via secondary legislation. These include amendments to:
 - a. Streamline reporting requirements by reducing duplication between the **Strategic and Directors' Report** to provide greater clarity within UK legislation and remove requirements for information deemed to be of low value from both the Directors' and Remuneration Report.
 - b. Uplift Companies Act 2006 **size thresholds** to reflect historical and future inflation and reduce regulatory burdens on business.
 - c. Improve the accessibility of information and reduce regulatory burdens on business by enabling **annual reports to be shared digitally** with members in the first instance.
 - d. make technical corrections to the audit regulatory framework to:
 - i. remove uncertainty about the audit committee definition in the Audit Regulation and the Statutory Auditors and Third Country Auditors Regulations 2016 ("SATCAR 2016");
 - amend the Statutory Auditors and Third Country Auditors Regulations 2013 ("SATCAR 2013") to enable Financial Reporting Council (FRC) to deregister third country auditors where regulatory requirements are not met;
 - iii. amend SATCAR 2016 to: give the FRC wider discretionary powers around tendering processes for auditors of PIEs, give the FRC wider powers to carry out inspections of UK audits of UK traded third-country companies; and change the €-denominated minimum size exemption threshold for debt securities issued by these companies to a £-denomination.
- 2. Non-financial information comprises of quantitative and qualitative data on company operations and principal risks, allowing a company to provide context and colour to its financial statements, helping readers understand company financial performance. It also gives companies an opportunity to describe broader information relating to the business that allows stakeholders to understand how a wide range of factors may affect the company's performance now and in the future. For example, information on how the management is running the business and managing the risks to the company's business model provides insights into culture and values and enables directors to set out their vision for the future strategy of the company. The provision of broader information also provides companies an opportunity to detail how they will take action to tackle wider societal issues. This information provides important insight about how a company interacts with the environment and wider society, and its approach towards fair treatment of employees, reflecting its culture and values.
- 3. This information is usually contained in the company's annual report, with the financial information in a separate section. Annual reports provide shareholders and investors with information on a company's financial and non-financial performance. The annual report is split into various sections including the Strategic Report and the Directors' Report which together contain most of the non-

financial information. As with the Strategic Report, the level of information that needs to be included in the Directors' Report depends on the size and/or type of the company.

- 4. In January 2022, in the Benefits of Brexit policy paper,¹ the Government committed to reviewing the company size thresholds that apply to financial and non-financial reporting with a view to reducing regulatory burdens on smaller companies.
- 5. In November 2022, the Government published a post implementation review of two of the main regulations underpinning non-financial reporting.² It found that greater comparability and harmonisation of standards was required to ensure this information was fully useful for decision making. The PIR recommended that the regulations be 'amended' following the adoption and endorsement of the ISSB's Sustainability Disclosure standards³. Whilst the measures set out in this IA do not address the PIR recommendations directly, they represent a first step to reforming the corporate reporting framework to ensure the delivery of relevant and decision-useful information to the market.
- 6. In May 2023, the Government published the Smarter Regulation non-financial reporting review⁴ call for evidence, which sought stakeholder views on the current non-financial reporting framework and how the reporting framework could be simplified and streamlined. This review was the first step in taking a fresh look at the UK's framework to see what opportunities there are to simplify it. The Government's ambition is to have a more streamlined regime, where companies focus on reporting the most important information.

Problem under consideration, rationale for intervention and approach to assessing impacts

Problem under consideration

- 7. The current reporting framework is subject to a combination of issues which create challenges with use and accessibility for investors and other users of the information:
 - a. Over time the Government and regulators have increased non-financial reporting requirements on companies in response to stakeholder and investor demand, public policy considerations and EU regulations and directives. Whilst each additional reporting requirement was designed to increase the transparency and accountability of companies to their members, and wider society, each new requirement also led to an increase in the size and complexity of annual reports and to duplication between different sections of the annual report (namely the Directors' and Strategic Report). All of which has resulted in a fragmented and complex framework, making comparability between companies very challenging for stakeholders. The 2019 PwC research⁵ found over half of the respondents mentioned the variations in reporting between companies and the consequent difficulties in comparing reports. One respondent said:

"The market is so different, you get some [organisations] that are doing a lot, some that are not doing anywhere near enough and lots of organisations in between. If I was going

¹ <u>https://assets.publishing.service.gov.uk/media/620a791d8fa8f54915f4369e/benefits-of-brexit.pdf</u>

²This PIR covered the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 (which implemented the EU directive). In summary, the policy objectives were too: increase transparency and accountability around non-financial risks and policies to mitigate those risks, by simplifying and thereby address the asymmetry of information problem and enable more informed investment decisions through greater comparability around companies' reporting.

³ <u>https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/</u>

⁴ <u>https://www.gov.uk/government/calls-for-evidence/smarter-regulation-non-financial-reporting-review-call-for-evidence</u>

 $^{^{5}}$ This involved 30 in-depth interviews with a range of organisations -

https://assets.publishing.service.gov.uk/media/5daec732e5274a5ca94bb613/stakeholder-perceptions-of-non-financial-reporting.pdf

to make a general criticism, it's that there's not enough linkage between what's being measured and reported and the actual business strategy and how it's informing the strategy." **Social Value Portal** (pp.19)

"Reporting so far is very inconsistent. Feedback we hear from investors is that narrative information about climate change-related factors is very incomplete, inconsistent and difficult to compare. It makes it very difficult for investors to do robust analysis based on the information that's been disclosed." **ClientEarth** (pp.16)

- b. Similarly, the company size thresholds, as defined in the Companies Act, which determine requirements for financial, non-financial reporting and audit, have not been revised since they were last updated in 2015. Evidence from the call for evidence, and subsequent stakeholder engagement, suggests that the current monetary thresholds are no longer appropriate given the impact of inflation since 2015, and particularly since 2020. Static thresholds mean that more companies have been drawn into reporting requirements than originally intended. The thresholds originate from EU law made in 2013. Recognising similar concerns, the EU recently consulted on increasing their monetary size thresholds by 25% to account for inflation over the previous 10 years, with changes likely to come into effect in January 2024⁶. The Government intends to go further than the EU both to future-proof the thresholds for future inflation and to reduce the burden of regulation on business, particularly on smaller companies.
- c. The current Companies Act provisions do not enable easy digital sharing of annual reports. Companies must first go through a process of either changing their articles of association to enable this or receiving explicit consent from each shareholder. This is incompatible with the Government's current position of 'digital first'⁷ to sharing and filing company accounts and it is also not in line with how most businesses now operate given advances in digital technology. Stakeholders have expressed their support for digital sharing in stakeholder engagement meetings, highlighting the greater ease and lower costs for companies and the environmental benefits of fewer printed reports.
- d. The Audit Regulation, SATCAR 2013 and SATCAR 2016 were retained in UK law and amended as part of the UK's exit from the EU. Subsequently they have become assimilated law. However, it has become clear that:
 - i. References to audit committees in the Audit Regulation and SATCAR 2016 are unclear due to the lack of definition and other references in the Audit Regulation are outdated post EU-exit.
 - ii. FRC's powers to deregister auditors in SATCAR 2013 are in need of clarification as they do not explicitly provide for deregistration in certain circumstances, including the non-payment of registration fees or the auditor's own request for deregistration.
 - iii. Article 5 of the <u>UK Audit Regulation</u> can lead Public Interest Entities (PIEs) to run less competitive tender processes or contribute to the failure of these processes to identify a first and second choice for appointment as auditor. Article 5 makes provision to restrict the services which a PIE can obtain from its auditor. Auditors find that they are conflicted out of tendering to audit a company because of minor amounts of non-audit services they have previously provided, so that too few firms can tender for appointment. Although SATCAR 2016 provides for an exemption from the application of the prohibition, it is too limited and inflexible to be of value.

⁶Based on <u>information from the European Commission on their planned increases in SME size criteria</u>. In their report, they estimated inflation between January 2013 and March 2023 to be 24.3% in the euro area and 27.2 in the EU27.

⁷ https://www.gov.uk/government/publications/transforming-for-a-digital-future-governments-2022-to-25-roadmap-for-digital-and-data/transforming-for-a-digital-future-governments-2022-to-25-roadmap-for-digital-and-data

- iv. The FRC lacks the powers in SATCAR 2016 to inspect audits by UK auditors of UK traded overseas companies incorporated in third countries with any form of equivalence status. Though FRC already inspects the relevant UK firms, it is unable to include these audits in the sample of audit work it inspects.
- v. Finally, the threshold, for defining those "large debt securities issuers" that are exempted from the regulatory framework for UK traded overseas companies, are outdated and, anomalously, expressed in € instead of £.

Rationale for intervention

- 8. The rationale for intervention is built around:
 - a. The current mix of corporate reporting requirements generates unnecessary complexity which can increase costs for business. This can also exacerbate the significant **information asymmetries** between managers of companies and shareholders and other stakeholders that use corporate reporting information, which ultimately could lead to poorer decisionmaking:
 - i. The non-financial reporting framework has grown substantially over the years with the intention to improve the information available in the market to drive effective investment decisions. However, some reporting requirements which were introduced into the CA06 nearly 45 years ago are no longer necessary or useful or have been superseded by new requirements.
 - ii. This growth in reporting requirements has resulted in some duplication across the annual report which creates confusion for investors and other stakeholders, and lack of engagement with the disclosures. In turn, this exacerbates the existing agency problem related to the separation of ownership and management and accountability of companies. For example, according to the Investment Association, in their response to the call for evidence:

Unlike the Strategic Report, most of the requirements for the Directors' Report are required irrespective of the directors' view of materiality. As a result, a number of reporting requirements have found their way into the Directors' Report which may not be immediately relevant to each company's specific circumstances but are required due to societal expectations or governmental aims. This runs the risk of creating a market dynamic whereby some entities view non-financial reporting as an obligation rather than a way of maximising the quality of communication to their shareholders about their business, and it prevents companies from focusing on those areas of reporting that they do well, in order to paint a compelling narrative for users." **Investment Association**

- iii. Reform offers the potential for more useful information flows between companies and users of their corporate reporting information. More relevant, simpler corporate reporting could reduce time spent complying with duplicative or unnecessary requirements and drive greater efficiency. As could decreasing uncertainty in audit regulation through technical changes and removing outdated provisions and terms.
- b. The diffuse nature of corporate reporting requirements also likely imposes high transaction costs for users in locating and parsing the information they need to make informed decisions. For example, investors may spend considerable time and other resources in searching for the information they need or may incur significant costs in engaging with specialist commercial data providers/rating agencies to distil the key company insights they rely on. Streamlining disclosure requirements will improve the ease of navigation of annual reports by investors and other users, which means they will be better able to access the

information required at a lower cost. Anything to reduce duplicative or unnecessary information is likely to be welcomed by users and preparers:

i. For example, a recent QCA report⁸ found that the average annual report and accounts – based on a sample of 100 AIM companies, 100 main market companies and 98 of the FTSE100 – had grown 46% in word length over the last five years, now averaging 95,000 words and 173 pages. Approximately 5,800 words (nearly eight pages) are added every year because of new reporting requirements including Remuneration and ESG.

"Longer annual reports reduce the ease of understanding, impedes comparability, makes decision-making more difficult and time-consuming, resulting in a situation where investors can be overwhelmed by a mismatch of unwieldy and complex information. Part of the issue is the difficulties companies face in linking aspects of the annual report and accounts together, but this is due to the complexity of multiple, and sometimes, overlapping requirements (pp.10)."

"Reducing repetition and inconsistencies in narrative reporting across website and annual reports can help to do this." (pp.18)

ii. PwC research⁹ on stakeholder perceptions of non-financial reporting suggested that investor frustrations with current reporting of non-financial information centre, in part, around the length of reports. In the call for evidence, it was noted that:

"Investors generally agree that annual reports are crucial for making informed investment decisions. However, there is general agreement that these documents have grown in both length and size, which has not only made reporting more complex but may be impacting their utility for users of reports." **Investment Association**

".... I simply don't have the time to wade through dozens of pages of information, some of which is repetitive, and most of which is not very helpful." Individual respondent

- iii. In the call for evidence, most preparers indicated that preparation of NFR information was valuable for their company (81 out of 96 respondents), highlighting that it informs company strategy and performance, as well as attracting investment. However, twice the number of respondents who identified exclusively¹⁰ as preparers indicated that the cost of preparation of NFR information outweighs the benefits of reporting (24) compared to those who said the benefits outweigh the costs (10). The greatest costs associated with the preparation of NFR information were staff resourcing and time, however, other costs included system, publication, and external costs.
- c. Company thresholds are defined in nominal terms, which means, in a process akin to how fiscal drag affects taxpayers, inflation draws more companies into larger size categories than was envisaged when the thresholds were set originally. As a result, more companies are subject to disproportionately high (and costly) reporting burdens. As the existing company size thresholds have not been adjusted for inflation in several years, including a period of historically high inflation, it is likely that a substantial number of companies have been drawn into larger size categories.

⁸ <u>https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/</u>

⁹ BEIS Research (2019) Non-financial reporting regime: stakeholder perceptions: <u>https://www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions</u>

¹⁰ Respondents were identified as either: preparer, user or other. The other category included both 'preparer' and 'user' type respondents.

Approach to assessing impacts

- 9. This section sets out how we have gathered evidence from multiple sources to inform the policy proposals and this impact assessment:
 - a. **Call for Evidence –** We received a total of 160 responses to the call for evidence from a mixture of preparers, users and other organisations over the 12-week period. The chart below provides a breakdown of respondent types:

Figure 1: Chart showing the breakdown of respondent types to the Call for Evidence (base size: 160 respondents)



We also received feedback from stakeholders who attended roundtables whilst the call for evidence was live. Although the call for evidence exercise did not seek public views on specific policy proposals, it did attract comment from stakeholders on some of the measures contained in this IA.

- b. Following the closure of the call for evidence, we convened follow on roundtable discussions with preparers (e.g., reporting companies), users (e.g., investors), consultancies, and representatives to gather feedback on the specific proposals set out in this IA between November and December 2023. Each meeting lasted approximately one hour. In total we convened 17 meetings, which were attended by over 57 individuals from over 32 external organisations. In addition to the Financial Reporting Council (FRC), who are closely involved in the review, we engaged with a range of stakeholders including preparers, professional bodies, companies and investors. Therefore, it was not deemed necessary or proportionate to conduct a further public consultation following the call for evidence. In addition to this, we convened discussions with other government department and offices such as the Department for Work and Pensions (DWP) and the Government Equalities Office (GEO) to seek their views on the measures contained in this IA.
- c. **Evidence Review** The Government published a post-implementation review (PIR) covering two sets of non-financial reporting regulations in 2022. This PIR provided a comprehensive review of the evidence on the impact of the regulations and whether the intended policy objectives were achieved. The PIR was informed by two pieces of externally commissioned research conducted by both Eunomia Consulting and PwC. We also reviewed several academic papers and other published reports by organisations such as

the FRC and the Quoted Companies Alliance (QCA) to name a few. In addition, we briefly reviewed the reporting frameworks in other jurisdictions to see how the UK compares internationally.

- d. **Scoping analysis –** We have used the Fame database¹¹ to estimate the number of companies in scope of the existing regulations, as well as the number of companies which will remain in scope after the proposed changes.
- e. **Unit cost analysis –** This IA estimates the impact of the proposed changes. In doing so, it focuses on the likely savings they would generate, as the costs associated with introducing the changes, and in companies adapting to them, are deemed to be marginal (for reasons discussed later in the IA). In estimating savings, we have relied on unit cost estimates for the measures from existing impact assessments. Where these were not available, we conducted analysis to develop unit costs of compliance.
- f. **Overall cost/saving estimation –** We developed a cost calculator to understand how the policy changes interact (for example, how changing size thresholds would impact the number of companies in scope of various financial and non-financial reporting requirements) and to estimate the total cost savings of the proposed changes.

Direct and indirect impacts

- 10. Under the Better Regulation rules, impacts can be classified as either direct or indirect. Direct impacts are, in an economic sense, first order as they have an immediate, unavoidable impact on the in-scope entities for example, a regulatory requirement for a company to complete an administrative form which imposes immediate additional costs to companies that must comply. Indirect impacts typically arise as some form of second (or subsequent) round effect for example, increases in regulatory compliance costs for companies in the first example may be passed through to their customers, which may make the company's products/services less attractive. In this case, the loss of demand for the company's product/service due to higher prices may be deemed to be an indirect effect of the regulations.
- 11. Our approach to classifying direct impacts in this IA was determined by using previously assessed unit costs from previous IAs ('unit cost precedents'). For the company size threshold uplift analysis, we identified, where possible, the change in the number of companies that would be subject to financial and non-financial obligations within each Companies Act 2006 size band, and estimated the likely aggregate saving, based on this change, using unit cost precedents. Where no unit cost precedents exist, we used a cost of compliance approach using the opportunity cost of time. We also considered, where relevant, any negative direct impacts that could arise, for example due to the reduction in company reporting information in the market from threshold changes.
- 12. There is the potential for indirect impacts from removing legislative requirements and increasing company size thresholds. For example, removing the disclosure obligations from companies could result in directors paying less attention to the issues that would otherwise surface via disclosure. On the other hand, the reduced disclosure burden could redirect company efforts to improve business operations and innovation. These impacts are discussed further in the relevant sections of the IA.

Evidence assumptions

13. For some measures in this IA, we have not quantified direct or indirect costs. In the main, this is because at the time of their introduction, they were assessed as unlikely to have a material impact and were not costed in their accompanying IAs. Where these assumptions about materiality were

¹¹ <u>https://login.bvdinfo.com/R0/Fame</u>

confirmed in more recent stakeholder engagement, we maintained that position, and have not quantified the impact. In some cases, obligations may have been imposed before the Better Regulation Framework existed and therefore no IA was produced.

14. Despite conducting a call for evidence exercise and subsequent stakeholder engagement events, it has proved challenging to get data directly from companies on existing compliance costs to inform the direct unit cost estimates. This is a common problem in estimating impacts of regulations. Stakeholders have expressed that compliance with these existing measures is often folded into compliance with other, more wider, obligations, making itemised costs difficult to disentangle.

Policy objective

15. The Government wants to reduce duplication and regulatory burdens on companies. These proposals are part of a wider package of reform to the non-financial reporting framework to ensure investors have the information they need to make informed investment decisions and that the reporting burden on businesses is proportionate. They represent the Government's first step towards reform.

Description of options considered

- 16. This IA assesses the Government's preferred option only. The impacts of the combined policy package are assessed against a *do nothing* counterfactual, in which no reforms are introduced, and the status quo is maintained. The Government sees the legislative policy package set out in option 1 as proportionate and targeted to deliver on the desired policy objectives.
 - a. <u>Option 0:</u> Do nothing, continue with the status quo, maintaining all the existing regulations and requirements with no changes. We do not see this as a viable option because 'doing nothing' would not meet the policy objective, and the current issues set out in the earlier sections of this IA would remain.
 - b. <u>Option 1:</u> Do minimum, implement a combination of measures set out in *Table 1* below. Although this package of measures would improve the current framework through streamlining requirements, improving accessibility, and reducing *some* compliance burden for companies, it would not address the significant reporting burdens faced by 'smaller' companies who are brought into larger size bands by inflation. As a result, they face burdensome reporting regimes not commensurate with their company size. They also produce a volume of reporting that is not commensurate to their actual size, and therefore add to an already complex and cluttered company reporting information environment without adding to the value users of that information derive from it.

| Table 1: Table summarising the list of measures under the do mi | ninimum option and the related policy objective. |
|---|--|
|---|--|

| Description | Policy objective |
|---|---|
| Directors' and Remuneration Report – Remove | Reduce unnecessary business costs by |
| several requirements from the Directors' Report. | reducing duplication between the Strategic |
| | and Directors' Report and removing low |
| | value requirements. |
| Digitalisation – Remove the presumption in the | Improving the accessibility of information |
| Companies Act 2006 that the duty to share annual | by enabling annual reports to be shared |
| accounts and reports is via physical copies of the | digitally with members in the first instance; |
| report. | and reduce costs. |
| Audit Technical Measures - Make technical | Remove regulatory uncertainty and |
| corrections to the audit regulatory framework on | improve the effectiveness of regulations. |
| audit committees and replace a € denominated | |
| exemption threshold for large debt securities issuers | |

| Description | Policy objective |
|---|------------------|
| with one in £s. Give FRC explicit discretionary | |
| powers including around deregistration of third | |
| country auditors, inspection of UK auditors third | |
| country work and tendering processes for auditors | |
| of PIEs. | |

c. <u>Option 2:</u> Preferred option, Option 1 (measures set out in *Table 1*) with the additional measure of uplifting company size thresholds to account for historical and future inflation. *Table 2* outlines the full set of measures under this option.

Table 2: Table summarising the list of measures under the preferred option and the related policy objective.

| Description | Policy objective |
|---|---|
| Directors' and Remuneration Report – Remove | Reduce unnecessary business costs by |
| several requirements from the Directors' Report. | reducing duplication between the Strategic |
| | and Directors' Report and removing low |
| | value requirements. |
| CA2006 Company Size Thresholds - Uplift | Reduce business costs, including those |
| Companies Act 2006 monetary size thresholds by | caused by the unintended consequences |
| 50% to reflect historical and future inflation and to | of inflation. |
| reduce regulatory burdens on business. | |
| Digitalisation – Remove the presumption in the | Improving the accessibility of information |
| Companies Act 2006 that the duty to share annual | by enabling annual reports to be shared |
| accounts and reports is via physical copies of the | digitally with members in the first instance; |
| report. | and reduce costs. |
| Audit Technical Measures - Make technical | Remove regulatory uncertainty and |
| corrections to the audit regulatory framework on | improve the effectiveness of regulations. |
| audit committees and replace a € denominated | |
| exemption threshold for large debt securities issuers | |
| with one in £s. Give FRC explicit discretionary | |
| powers including around deregistration of third | |
| country auditors, inspection of UK auditors third | |
| country work and tendering processes for auditors | |
| of PIEs. | |

- 17. Feedback from stakeholders through the call for evidence and other engagements has shown that a significant proportion of stakeholders would support these reforms. Taking each of the measures in turn:
 - a. <u>Directors' and Remuneration Report</u> We considered an alternative option to remove duplication within the Strategic Report and move the information from the Directors' Report to the Strategic Report (where the information is additional and not duplicative). However, stakeholders expressed the view that such information is not 'material'¹² and is rarely used (using the term 'low value') so would not be best placed in the Strategic Report. Therefore, we have not considered this alternative to be viable. For the Remuneration Report, the Directive introduced several overlapping requirements with existing UK requirements, which contributes to the complex and confusing nature of the framework. The alternative option

¹² The exact definition of materiality varies subtly depending on the reporting framework. However, in general, information is typically understood to be material when omitting, misstating, or obscuring it could be reasonably expected to influence the decisions of primary users of financial reporting. <u>https://www.frc.org.uk/library/frc-lab/themes/materiality/materiality-in-practice-applying-a-materiality-mindset/</u>

would be to leave these requirements as they are, however, this would not achieve the intended policy objective. Therefore, this is not considered to be a viable option.

- b. <u>Size Thresholds –</u> This measure would bring monetary thresholds that determine company size in line with inflation, introduce an element of future proofing to the threshold criteria and reduce burdens on businesses. It will alleviate financial and non-financial reporting burdens on smaller entities who have been inadvertently brought into more onerous reporting requirements. The preferred approach is to apply a 50% uplift to the current monetary thresholds.
- c. <u>Digitalisation –</u> This measure will remove the presumption that physical copies of the annual accounts and report must be shared, bringing the legislation in line with the wider Government agenda of 'digital first.'¹³ As a result, we expect (as echoed by stakeholders) a reduction in annual report publication costs for companies as well as an increased accessibility for users. The department recognises that this is the first step in digitalising reporting and more consideration will be given to digitising wider communications at a later stage.
- d. <u>Audit Technical Measures</u> These measures will correct technical errors in the definition of audit committees, thus removing potential uncertainty in legislation; give a wider discretion to FRC on issuing exemptions for audit tendering exclusions relating to non-audit services, thus widening the pool of auditors able to tender for PIE audit contracts; give FRC clearer powers to deregister third country auditors, improving protections for investors when audit regulatory requirements are not met; give FRC the power to inspect certain third country audit work by UK auditors, thus potentially improving the audit quality of UK traded overseas companies; change a €-denominated minimum threshold for an exemption to £-nomination; remove outdated measures left over from EU-legislation. The alternative would be to leave these errors uncorrected.
- 18. The proposals within this package are targeted and specific. They are designed with the aim of addressing the information available in the market to ensure that investors and wider stakeholders have relevant, timely and easily accessible information to inform decision making, whilst ensuring a proportionate burden on business. The Government has opted for a regulatory approach to reform because there is no other way to achieve the specific reforms above without legislative change to the existing framework.

Summary and preferred option with description of implementation plan

- 19. Our preferred option would be implemented through secondary legislation. Specifically, this will be done through a negative Statutory Instrument (SI). We have proposed to use powers under the Companies Act 2006, Part 15, Chapter 5 sections 416(4) and 468(1)(d)(ii), 1239(1)(b), 1241(2)(c) and the Retained EU Law (Revocation and Reform) Act 2023 sections 12 and 14.
- 20. The commencement date for these proposals will be 01 October 2024.
- 21. The enforcement of corporate reporting and the requirement to have audited accounts will remain the same. This policy will have the effect of giving companies the opportunity to take advantage of non-financial reporting exemptions, simpler financial reporting, and where applicable, audit exemptions. There are no penalties for companies wishing to report more information than required by the Companies Act; and no penalties for opting to have financial accounts audited where an exemption is available.
- 22. There is no intention to change the enforcement regime. The duty for companies to circulate copies of the annual report and accounts will remain unchanged. Section 425 outlines the offences

¹³ <u>https://www.gov.uk/government/publications/transforming-for-a-digital-future-governments-2022-to-25-roadmap-for-digital-and-data/transforming-for-a-digital-future-governments-2022-to-25-roadmap-for-digital-and-data</u>

associated with failure to comply with the duty. Formally, enforcement of this duty sits with the Insolvency Service, who are likely to work on a complaint basis – receiving complaints directly or passed on from Companies House (should a letter from Companies House to the offending company not then lead to compliance).

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Option 0: Do nothing

- 23. This option would leave the existing corporate reporting framework untouched. Therefore, the problems highlighted would not be addressed, and the policy objectives set out would not be achieved.
- 24. The earlier section of this impact assessment sets out the overarching rationale for reform. The 'do nothing' option acts as a counterfactual against which the impacts of option 1 are assessed.

Option 1: (Do minimum)

25. This option is to implement a series of measures summarised in *Table 1*, consisting of several legislative changes requiring secondary legislation. Whilst this option would deliver *some* benefits to companies and primary users of non-financial information, this would be limited, and would not address issues related to 'inflationary drag' (i.e., companies being defined by outdated monetary thresholds resulting in them being subject to more burdensome size-based reporting).

Option 2: (Preferred option): the combined policy package

- 26. This option is to implement a broad policy package summarised in *Table 2*, consisting of several legislative changes requiring secondary legislation. This section provides a summary of the likely impacts (monetised and non-monetised) associated with the individual measures.
- 27. In our discussions of costs and benefits, we do not consider there to be any Exchequer costs. We do expect some costs to regulators as a result of the measures in this package which include updating guidance However, where these might arise, we expect them to be negligible.
- 28. In line with Better Regulation requirements, all monetised impacts are presented in 2019 prices and use a 2020 base year for discounting (where indicated).

The Directors' and Remuneration Report

Background: Directors' Report

- 29. The origins of the Directors' Report dates back to 1947¹⁴ but the Companies Act 1985¹⁵ created a clearer function for the Directors' Report (see s.234). Over the years, the information required in the Directors' Report has grown significantly through the introduction of new legislation. Prior to the introduction of the Strategic Report in 2013¹⁶, the Directors' Report accompanied a company's accounts and provided additional narrative to the financial information. It included a business review, information on the directors and the like. However, when the Strategic Report was introduced as a requirement for all companies (except those with a small company exemption), it simplified the information in the Directors' Report (as some of the more strategic content that had previously been part of the Directors' Report was moved into the Strategic Report). Currently, all small, medium and large companies (as defined in the Companies Act 2006) in the UK must prepare a Directors' Report, however, there are differing regulatory requirements based on company size.
- 30. The following table outlines the existing Directors' Report requirements:

Table 3: Summary of Directors' Report requirements for each company size band

| | Existing Requirements |
|----------------------------------|---|
| Small Companies ¹⁷ | Names of directors Company policy employment, training, career, development and promotion of disabled persons (weekly avg. > 250 emps) Directors' qualifying indemnity provisions Political donations |
| Medium Companies | Names of directors Company policy employment, training, career, development and promotion of disabled persons (monthly avg. > 250 emps) Recommended dividends Directors' qualifying indemnity provisions Political donations Engagement with employees Information on financial instruments information on likely future developments, research & development Information on non-UK branches |
| Large Companies ¹⁸ | Names of directors Company policy employment, training, career, development and promotion of disabled persons (monthly avg. > 250 emps) Recommended dividends Directors' qualifying indemnity provisions Political donations Engagement with employees Engagement with suppliers, customers, others Information on financial instruments information on likely future developments, research & development |

¹⁴ <u>https://www.legislation.gov.uk/ukpga/Geo6/10-</u> 11/47/enacted#:~:text=An%20Act%20to%20amend%20the,the%20registration%20of%20business%20names.

¹⁵ https://www.legislation.gov.uk/ukpga/1985/6/part/VII/chapter/I/crossheading/directors-report/1991-02-01

¹⁶ https://www.legislation.gov.uk/uksi/2013/1970/part/2/made

¹⁷ Small companies not entitled to the small companies' regime will also have to disclose: information on financial instruments, information on important events affecting the company, information on likely future developments, research and development, and information on non-UK branches.

¹⁸ There are also further disclosures for sub-sets of large companies: for Public companies, these include information on acquisition of own shares, for certain Traded companies, information on capital structure and for very large Private companies, the Wates Corporate Governance Principles.

- Information on non-UK branches
- SECR information
- 31. The sections that follow will outline, in turn, each measure we propose to remove from the Directors' Report and the rationale to support this. This proposal to remove requirements from the Directors' Report has been informed by desk research and engagement with a range of stakeholders, including users as well as preparers of the information. The inclusion of users mitigates the risk that we remove decision useful information from the Directors' Report.
- 32. When considering the proposal to remove these regulations from the Directors' Report, we briefly looked at how the UK compares internationally. Taking the United States as an example, although their reporting system requires a narrative discussion of financial results (this is called 'the Management Discussion and Analysis') similar to the UK, there are no detailed disclosure rules required, and where they do exist, they only apply to SEC registrants (i.e., listed companies).¹⁹ Also, when looking at company size classifications, although they use similar criteria (i.e., annual receipts the business has and number of employees), 'size standards' vary by industry, therefore this jurisdiction is not a helpful comparator to the UK.²⁰
- 33. When looking to EU jurisdictions, some have similar frameworks to the UK; some examples include Germany²¹ and Italy, which require companies to prepare a version of the 'Directors' Report.' However, it appears that these reports are typically less detailed than those produced by UK companies, and it is not clear whether they vary by company size. Nonetheless, several publications indicate these countries are all experiencing very similar issues: a fragmented framework.

Policy proposal

Removal of information requirements related to the employment of disabled people

- 34. The Companies (Directors' Report) (Employment of Disabled Persons) Regulations 1980²² introduced a requirement on companies with, on average, more than 250 employees in a year, to report on the company's policy with respect of disabled people. This requirement was then integrated into the Companies Act 1985²³ and later included in the Companies Act 2006 (CA06).²⁴ Calculation of average employees does not include persons employed to work wholly or mainly outside of the UK. Several studies cast doubt on whether this requirement was complied with and whether the disclosures were meaningful²⁵.
- 35. In 2010 the Equality Act was introduced and imposed a duty for employers to act without discrimination towards any protected characteristic and to make reasonable adjustments if needed. The Act also included a legal requirement on public authorities and organisations to ensure that public bodies take account of equality in their day-to-day work and consider the impact of their policies on persons with protected characteristics²⁶ known as the Public Sector Equality Duty (PSED).
- 36. As a result, the Equality Act requires all employers, including companies covered by the CA06, to not discriminate based on protected characteristics, which includes disability. This, in combination with the common practice by many companies of producing a relatively high-level statement on their policy in the Directors' Report, means that currently the required disclosure does not provide much

¹⁹ https://www.investopedia.com/ask/answers/062415/private-company-required-disclose-financial-information-public.asp

²⁰ https://www.state.gov/what-is-a-small-business/

²¹ https://www.lawyersgermany.com/company-management-in-germany

²² https://www.legislation.gov.uk/uksi/1980/1160/made

²³ https://www.legislation.gov.uk/ukpga/1985/6/schedule/7/enacted

²⁴ The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008

²⁵ <u>https://eprints.bournemouth.ac.uk/792/2/Revised_Business_Ethics_submission_May_05_Woodward_and_Day.pdf;</u>

https://eprints.bournemouth.ac.uk/791/2/Disclosure_of_Information._Submitted_final_paper.pdf

²⁶ <u>https://www.legislation.gov.uk/ukpga/2010/15/section/149</u>

insight into the operations of a company in terms of their treatment of disabled employees. Therefore, there does not appear to be a clear rationale for the reporting requirement, or to treat one protected characteristic differently to the others. When reviewing Government guidance²⁷ and the advice provided by other organisations such as charities,²⁸ there was no reference to the information provided through this disclosure requirement. Instead, they would direct employees/prospective employees to the employer's disclosure under voluntary schemes or the Equality Act 2010.

- 37. Separately, Sections 414C and 414CB of the Companies Act²⁹ lay out requirements for the Strategic Report.³⁰ 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). Quoted companies are required to include information about, amongst other things, 'the company's employees' including information about any policies of the company in relation to employees and the effectiveness or outcome of those policies. This provides an opportunity for companies to report on their policies in relation to employees with protected characteristics, in so far as it is material and to the extent they consider it necessary to provide an understanding of the development, performance or position of the company's business.
- 38. Although the call for evidence did not ask a specific question on disability reporting, some stakeholders provided specific comments related to disability reporting. In summary, stakeholders did not see the current requirement as providing any useful information and they reported that most companies do not collect employee-specific disability information. Support for this proposal was echoed further during the roundtable meetings. Some illustrative quotes are below:

"If the disability disclosure had never been required in the report, I wouldn't say it should be there, but it is" **Big 4 Firm**

"We also suggest that DBT considers the purpose of the various information requirements and **assesses whether there is still a need for that particular information**, and if so, whether the annual report is the right location. It may be that some information could be moved to the company's website or an external database. We suggest that information on the employment of disabled persons would fall into this category as we consider it information that is likely to serve a wider public policy objective that could be located outside of the annual report." **ICAEW**

39. Variations between companies in terms of how they report also undermines the usefulness of reporting. Whilst this could be addressed by very prescriptive guidance, there is a general principle in corporate reporting that companies should be free to tell their own story to their key audience. Corporate reporting therefore does not sit well with prescriptive requirements:

"There is no guidance, either statutory or voluntary, for what should be covered in workforce reporting in company reports. This contributes to the variability between company reports, as there are major variations not only in quality and depth but also in the issues or categories that are covered in the reports. This limits the extent to which company reports can be used to assess employment practices and quality across the corporate sector as a whole.," **Trades Union Congress**

40. Having reviewed several disclosures, we have determined that the information being reported is of low value – see *Annex D* for more information. This was further supported by discussions held with DWP and GEO officials who provided policy insights and where possible, views from their

²⁷ https://www.gov.uk/government/publications/voluntary-reporting-on-disability-mental-health-and-wellbeing/voluntary-reporting-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-an

²⁸ https://www.scope.org.uk/campaigns/research-policy/employers-guide/

²⁹ <u>https://www.legislation.gov.uk/ukpga/2006/46/section/414C</u>

³⁰ Required to be prepared and included in the Annual Report for all companies other than those qualifying as small.

stakeholders (which included non-governmental organisations (NGOs)). In summary, they were unable to provide any evidence of stakeholders using the information disclosed.

- 41. There is also potential for similar or more in-depth insights into a company's policy to be found elsewhere. For example, through the voluntary reporting framework as devised and published by the Government's Disability Unit in the Cabinet Office. The voluntary reporting framework asks large employers (with over 250 employees) to:
 - a. provide a narrative to explain the activities in your organisation in relation to the recruitment and retention of disabled people, and
 - b. report the percentage of individuals within your organisation who consider themselves to be disabled or have a long term physical or mental health condition.
- 42. If employers sign up to voluntary reporting, their disclosures will go further and provide more detail than what they are currently required to disclose by law. In addition, there is the Disability Confident Scheme which has replaced the 2013 Two Ticks scheme)³¹ which encourages employers to 'think differently about disability and take action to improve how they recruit, retain and develop disabled people.' Channel 4 and Thames Water are examples of large companies who have taken up this scheme.³²

Removal of information requirements on financial instruments

- 43. The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 introduced a requirement to provide information in relation to the use of financial instruments³³ by a company. This legislation implemented two pieces of European legislation³⁴ which had the purpose of permitting fair value accounting for financial instruments. This requirement applies to medium companies and above.
- 44. However, since then, the International Financial Reporting Standard (IFRS) 7 on Financial Instruments: disclosures was introduced, requiring entities to make disclosures on the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. The FRC have stated that the Directors' Report disclosure was initially distinct from that of the financial statement disclosures, drawing focus specifically to the underlying business reasons for applying such accounting, rather than overlapping with the accounting disclosure requirements.
- 45. UK Companies that do not prepare IFRS accounts, prepare Companies Act 2006 accounts using UK GAAP accounting standards such purpose as Financial Reporting Standard 102 (applicable in the UK and Ireland)³⁵ which requires entities to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance" (paragraph 11.42 of FRS 102).³⁶ Other alternative standards available for companies when preparing Companies Act 2006 accounts include FRS 101, FRS 105, and FRS 103.
- 46. Finally, there is a further requirement in the Strategic Report (which applies to all companies except those with a small company exemption who do not have to prepare a Strategic Report), to include,

³¹ <u>https://www.gov.uk/government/collections/disability-confident-campaign</u>

³² https://www.channel4.com/press/news/channel-4-launch-new-initiative-help-mentor-screen-disabled-

talent#:~:text=Channel%204%20is%20a%20Disability,essential%20criteria%20for%20a%20role, https://www.thameswater.co.uk/medialibrary/home/about-us/careers/skills-strategy.pdf

³³ A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

³⁴ Directive 2001/65/EC and Directive 2003/51/EC

³⁵ FRS 102 is designed to apply to the general purpose financial statements and financial reporting of entities including those that are not constituted as companies and those that are not profit-oriented.

³⁶ <u>https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/</u>

on an annual basis, a '*fair review of the business including principal risks and uncertainties*' (Section 414C of the Companies Act³⁷). Companies whose use of financial instruments is significant may also include information in the review of the business if they deem the information 'material' to include in the Strategic Report.

47. In practice, companies often cross-refer to either their financial statements notes or the Strategic Report to fulfil the requirement in the Directors' Report, therefore, there is no clear need for this information to be required in the Directors' Report as it is already being sufficiently reported elsewhere.

Removal of information requirements on branches

- 48. The Companies Act 1985 (Disclosure of Branches and Bank Accounts) Regulations 1992³⁸ introduced a disclosure requirement on the existence of branches³⁹ outside the UK. The disclosure requirement originated from an EU Directive⁴⁰ which intended to achieve transparency of branches outside of the UK. The legislation noted that, while there are differences in laws between subsidiaries and branches⁴¹, in some respects the economic and social influence of a branch may be comparable to a subsidiary.
- 49. The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 was later introduced, requiring the Directors' Report to contain "(unless the company is an unlimited company) an indication of the existence of branches (as defined in section 1046(3) of the 2006 Act) of the company outside the United Kingdom." This requirement only applies to 'branches' within the EU and does not extend to subsidiaries. This requirement sits within the Directors' Report and requires all medium companies and above to report this information.
- 50. Stakeholders reported this information on branches contained within the Directors' Report to be of low value. They expressed that companies are providing more valuable information within their financial statements. For example, Barclays PLC Annual Report 2022 includes a line item on the "impact" of Barclays overseas branches being taxed locally and in the UK under the recurring items (pg.442) in their financial statement, however they only report the number of branches in the Directors' Report.⁴²
- 51. There are also Strategic Report requirements under section 414C and 414CB of the Companies Act 2006 for certain companies to provide a description of the company's business model. If the company determines this information to be 'material,' they could choose to include this in their Strategic Report. Companies may also provide relevant information as part of the 'operating segments' requirements under IFRS Accounting Standards⁴³ and FRS 102⁴⁴ or within the non-financial and sustainability information statement, which requires a brief description of the company's business model (Companies Act, Section 414CB⁴⁵).

³⁷ <u>https://www.legislation.gov.uk/ukpga/2006/46/section/414C</u>

³⁸ https://www.legislation.gov.uk/uksi/1992/3178/made

³⁹A branch is an extension of the parent company possibly operating under the laws of another jurisdiction or could be in the same jurisdiction. It is not a separate legal entity. A subsidiary is a separate legal entity though typically owned and run by the parent company. Branches are a commonly used structure by banks, retailers and charities within the same jurisdiction.

⁴⁰ <u>https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A01989L0666-20120706</u>

⁴¹ Both sets of companies are owned by the same parent company, however, subsidiaries have separate legal identity whereas branches is another office location but the parent maintains 100% ownership and there is no separation of legal identity between the branch and parent.

⁴² <u>https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2022/AR/Barclays-PLC-Annual-Report-2022.pdf</u>

⁴³ <u>https://www.ifrs.org/issued-standards/list-of-standards/ifrs-8-operating-segments/</u>

⁴⁴ <u>https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/</u>

⁴⁵ <u>https://www.legislation.gov.uk/ukpga/2006/46/section/414CB</u>

52. Evidence from stakeholders supports the removal of these disclosures from the Directors' Report. Stakeholders said in their response to the call for evidence (even though a specific question on branches was not asked):

"It is unclear that this information is typically material or relevant" **Deloitte.**

"The AIC recommends that much of the current content of the Directors' Report be removed. It could be disclosed separately from the report and accounts, for example, via the company's website. This is particularly relevant for information which does not tend to change often." **Association of Investment Companies**

Removal of information requirements on employee engagement

- 53. The Directors' Report requirement to report on engagement with employees applies to mediumsized and large companies with an annual average of more than 250 UK employees. This requirement is explicitly focused on employee engagement. The directors must describe how they have "systematically" provided information to employees; how they have encouraged the involvement of employees in the company's performance; and how they have consulted employees in making decisions which are likely to affect employee interests as well as describe their actions as a result of this engagement, including how they've engaged. A version of the need for directors to explain the engagement that they have had with employees dates back to the Companies Act 1985.
- 54. There are requirements within Part 15 of the Companies Act 2006 (Strategic Report requirements) which require certain companies to report on their employee matters (see *Table 3*) within the Strategic Report which creates an overlap with the Directors' Report requirement. For those companies in scope of both sets of requirements, directors have some choice of where they would like to make these disclosures, although matters of strategic importance *should* be disclosed in the Strategic Report under s414C(11).⁴⁶

| Part 15 CA06 "Strategic Report Requirements" | Description | Scope |
|--|--|---|
| 414C (4)(b) | Information relating to employee matters in their review of their company business in relation to development, performance, position of business | Large companies (companies that qualify as medium are exempt) |
| 414C(7)(b)(ii) | Information relating to the company's employees in their review of their company business in relation to development, performance, position of business | Quoted companies |
| 414CZA | Information on the interests of the company's employees in their section 172 statement | Large companies (companies that qualify as medium are exempt) |
| 414CB(1) | Information on the company's employees in the non-financial and sustainability information statement | PIEs ⁴⁷ with more than 500 employees |

Table 4: Comparison between DR and SR requirements on employee matters

⁴⁶ The strategic report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors' report as the directors consider are of strategic importance to the company. https://www.legislation.gov.uk/ukpga/2006/46/section/414C

⁴⁷ A traded, banking or insurance company (a public interest entity or 'PIE') with more than 500 employees or a parent company in a group headed by that company with more than 500 employees.

- 55. However, this overlap is not complete; as can be seen from the table, the scoping is different between both the Strategic Report and the Directors' Report requirements. In addition, the requirements in the Directors' Report are more prescriptive than those in the Strategic Report. The Directors' Report requirements are also explicitly focused on employee engagement. Although, given that relevant <u>material</u> information related to employee engagement is already required to be a part of the Strategic Report, what therefore remains in the Directors' Report is information that is immaterial but currently required under the section 11 requirements.
- 56. The FRC's Strategic Report guidance⁴⁸ explicitly notes that "There will be linkages and overlaps between information contained in the Strategic Report and that required to be included in the section 172(1) statement. Entities are encouraged to avoid repetition, maintain the cohesion of the narrative contained within the Strategic Report and incorporate information into the section 172(1) statement by cross-reference where appropriate."
- 57. Although the choice of making disclosures in either the Directors Report or Strategic Report provides the directors with flexibility in where they disclose this information, there is no evidence to suggest there is a benefit of having this choice to justify the duplication in requirements. While the Strategic Report does not specify reporting on "*engagement*," the requirements contained in 414C are flexible enough to allow a company to provide information on employee engagement if the directors consider this information 'material.' In addition, a Strategic Report for a financial year of a company must include a section 172(1) statement which describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) [which includes employees] when performing their duty under section 172.⁴⁹
- 58. The call for evidence did not ask specific questions on this requirement, however, it did elicit some specific feedback:

"Firstly, we recommend removing any requirements in the Directors' Report which amount to duplication of information given elsewhere in the annual report. This includes information about financial instruments, post-balance sheet events, going concern and **engagement with employees**, suppliers, customers and others." **Deloitte**

"Changes are required to eliminate unnecessary duplication and overlap of existing requirements across the different components of the annual report. For example, Currently, there are requirements for certain companies to report on engagement with stakeholders in the Directors' Report, **including the employee engagement statement** and the statement of engagement with suppliers, customers and others. This directly overlaps with the requirements of the s172 statement within the Strategic Report for directors to explain how they have had regard to the interests of the company's employees, and the need to foster the company's business relationships with suppliers, customers and others." **ICAEW**

Removal of information requirements on engagement with suppliers/ customers/ others

- 59. The Directors' Report requirement to report on employee 'involvement' was included in the Companies Act 1985 and was the basis for the requirement in Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008.
- 60. Although, there is no **direct** overlap between the current Directors' Report requirements and the Strategic Report requirements, the FRC Strategic Report Guidance states, in relation to how directors should interpret the information that they disclose under 414C (7) (that applies to quoted companies only) "Disclosures should not be limited to the matters stated in the Act. Entities should consider all the resources and relationships which are necessary for an understanding of the

 ⁴⁸ https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/
 ⁴⁹ <u>https://www.legislation.gov.uk/ukpga/2006/46/section/172</u>

development, performance or position of the entity's business. Such resources and relationships could include customers, suppliers, the entity's pension scheme and intellectual property." ⁵⁰

- 61. Although not direct, there is *some* overlap however with the section 172 statement in the Strategic Report that sets out how directors have complied with their duties under section 172 of the Companies Act 2006. The section 172 duty recognises that companies are run for the benefit of shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders and considering the external impact of the entity's activities on those stakeholders. The section 172(1) statement should explain how the board has had regard to the broader matters in their actions, behaviours, and decisions. This specifically includes that directors need to describe how they have taken account of, "the need to foster the company's business relationships with suppliers, customers and others."
- 62. Whilst the focus of the section 172 statement relates to the impact of decisions on a range of stakeholders, rather than a description of actions taken by the company, this statement nonetheless provides the opportunity for directors to set out their main business relationships, including with suppliers and customers, and the importance of those relationships to the business. The FRC Guidance states: *"Stakeholder relationships are often a key source of value that help to ensure that an entity's success is sustainable over the longer term. It is important that boards identify their key stakeholders and the importance of those stakeholders to the long-term success of the company."*
- 63. This proposal was further supported by responses to call for evidence:

"Firstly, we recommend removing any requirements in the Directors' Report which amount to duplication of information given elsewhere in the annual report. This includes information about financial instruments, post-balance sheet events, going concern and engagement with employees, **suppliers, customers** and **others." Deloitte**

"We recommend that DBT reviews the various disclosure requirements set out above and considers the removal of requirements which duplicate information provided elsewhere. In particular, this would be relevant for the requirements relating to financial instrument risk, post-balance sheet events, the employee engagement statement, and the statement of engagement with **suppliers, customers and others**, all of which either directly overlap with requirements in the Strategic Report or would be expected in the Strategic Report if material." **ICAEW**

Removal of information on important events, future developments and research and development

- 64. The existing Directors' Report requirement to report on important events, future developments and research and development originated from similar provisions within the Companies Act 1985. At the time, the requirements were intended to improve transparency over events and activities affecting, or important to, the company since the end of the financial year. They have remained a feature of the Companies Act since that time and the requirements contained under this part of the Act cover all medium companies and above.
- 65. These provisions are now deemed disproportionate as the information is now either standardised through other means i.e., company websites, Companies House register or duplicates information disclosed in the Strategic Report or in the Financial Statements, especially for the post balance sheet events, which is a direct overlap for all accounts.
- 66. For all companies required to produce a Strategic Report (which is an overlapping scope with these requirements), companies are required to produce information covering a "fair" review of the business and a description of principal risks and uncertainties. If a company deems it material information, they can still disclose it in their Strategic Report. This was supported by several

⁵⁰ <u>https://www.frc.org.uk/documents/1665/Guidance_on_the_Strategic_Report_aontvWr.pdf</u>

consultancy firms in their response to the call for evidence, and the existing evidence. The QCA report (2023) suggests that: *"If R&D is material to the entity then this should be identifiable in the financial statements" (pp.17).* The requirements for quoted companies are more extensive⁵¹ which means for certain companies, there is a more direct overlap with the Directors' Report requirements; this is particularly the case for disclosure on future developments and research and development.

- 67. Decisions about research and development would be relevant to disclosure of how decisions have been made to secure the long-term success for the company in the section 172 statement of the Director's Report. FRC's guidance on what to consider when preparing a section 172 statement says: "... directors are encouraged to consider the interests of the company's shareholders as a whole, while having regard to, for example, the long-term viability of the company, the need for research and development or capital investment."
- 68. Section 18 of FRS 102 requires an entity to disclose some details of research and development activities, such as the amount capitalised, and the amount recognised as an expense in the period and the associated accounting policies, where they are material (IAS 38 Intangible Assets⁵² and Section 18 *Intangible Assets other than Goodwill* of FRS 102⁵³). FRC Guidance on the Strategic Report (7A.16)⁵⁴ notes that a critical part of understanding an entity's business model is understanding its sources of value and that sources of value may include research and development.
- 69. The clearest duplication between the requirement to disclose information on "important events" in the Directors' Report is between this requirement and what companies are required to disclose under accounting standards. Under accounting standards (specifically IAS 10⁵⁵ issued in 2003 and UK GAAP standards, including Section 32 *Events after the End of the Reporting Period* of FRS 102⁵⁶) entities are required to disclose information about events after the reporting period, commonly known as "post balance sheet events" the nature and financial effect of material events arising after the balance sheet date, which are not reflected in the profit and loss account or balance sheet. Due to the overlap in these requirements, companies often cross refer from the Directors' Report to the financial statements note. Important events are generally also discussed in the Strategic Report. This allows for adequate disclosure of material information about important events affecting the company since the end of the financial year. The QCA report (2023)⁵⁷ supports this:

"Companies usually cross reference to the post balance sheet event note, meaning it's duplicated." (pp.17)

70. And one stakeholder response to the call for evidence also echoed this:

Post-balance sheet events are "...already required by accounting standards (IFRS and UK GAAP) so no further disclosure needed." **Big 4 Firm**

Background: Remuneration Report

⁵¹ a) the main trends and factors likely to affect the future development, performance and position of the company's business" (section 414c – 7a of the Companies Act 2006)

⁵² <u>https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/</u>

⁵³ https://www.accountingweb.co.uk/community/industry-insights/frs-102-section-18-summary-intangible-assets-other-than-

 $[\]label{eq:goodwill#:-:text} \underbrace{goodwill#:-:text=Section\%2018.2\%20defines\%20an\%20intangible, contractual\%20or\%20other\%20legal\%20rights.}{ }$

⁵⁴ <u>https://www.frc.org.uk/documents/1665/Guidance_on_the_Strategic_Report_aontvWr.pdf</u>

⁵⁵ https://www.ifrs.org/issued-standards/list-of-standards/ias-10-events-after-the-reporting-

 $period/\#:\sim: text = IAS\%2010\%20 prescribes\%3A, events\%20 after\%20 the\%20 reporting\%20 period.$

⁵⁶ https://www.icaew.com/technical/corporate-reporting/uk-gaap/frs-102-topics/events-after-the-reporting-

period#:~:text=FRS%20102%3A%20Events%20after%20the.end%20of%20the%20reporting%20period.

⁵⁷ https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/

- 71. The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019⁵⁸ were introduced to implement Articles 9a and 9b of the revised EU Shareholder Rights Directive (2017/828). Articles 9a and 9b introduced new directors' remuneration reporting requirements for EU traded companies. Most of the new measures were already reflected in the UK's existing company law framework for directors' remuneration reporting.⁵⁹ However, there were some elements not reflected in UK law in the same way or at all.
- 72. In general terms, the pre-existing requirements placed a duty on directors to prepare a remuneration report on remuneration policy, shareholder votes on the report and policy and certain other process provisions. However, this directive introduced the following requirements, as well as extending these requirements and pre-existing requirements to traded companies (the common definition for public companies used by the EU):
 - new content to the Directors' Remuneration Report and Directors' Remuneration Policy (for example, a requirement for the Remuneration Report to compare the annual percentage change in each director's remuneration to the average percentage change of employee remuneration as a whole, over a five year comparison period).
 - new requirements relating to the shareholder vote on the Remuneration Policy and the public availability of the Remuneration Report.⁶⁰
- 73. The 2019 regulations apply to all UK quoted companies⁶¹ and unquoted traded⁶² companies. Those regulations also extended the pre-existing Companies Act reporting framework on directors' remuneration to unquoted traded companies for the first time.

Policy proposal

Removal of EU-origin directors' remuneration reporting requirements

- 74. The overarching policy rationale for requiring UK listed companies to report on their directors' remuneration is to provide accountability to shareholders through greater transparency over what directors are paid each year and what they may be paid in the future depending on whether and how defined performance objectives are achieved. However, the Directive added requirements that overlapped considerably with existing requirements, or which added little if any material new information to help shareholders scrutinise executive pay arrangements. For a further assessment of the rationale for removal, see *Annex C*.
- 75. Therefore, the preferred option is to remove these requirements, except for the provisions that require:
 - a. remuneration reporting for CEOs even if they are not formally a director of a company. Stakeholder engagement has identified a small number of UK quoted companies that (for reasons unrelated to remuneration reporting) have CEOs on the FTSE who are not formally directors. Although these companies were already including CEOs in their remuneration reporting before the 2019 regulations made this mandatory, retaining this requirement ensures there are no possible loopholes and provides clarity for companies. We do not need to retain, though, the provision covering deputy CEOs, since UK plc boards do not include such a role.

⁵⁸ The provisions added to UK company law by these regulations also included changes to Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, which sets out the content of the Directors Remuneration Report and Policy.

⁵⁹ The main content of the renumeration report and policy is set out in Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. Schedule 8 has been updated over time.

⁶⁰ A triennial requirement the maximum variable pay awards that executive directors may receive based on defined performance targets, and Illustrations of potential pay outcomes based on different levels of performance.

⁶¹ Quoted companies are defined in section 385 of the Act as (UK-incorporated) companies quoted on the FCA's Official List, or officially listed in an EEA State, or on the New York Stock Exchange or NASDAQ.

⁶² As defined in section 360C of the Act, covering companies which trade equity securities on a regulated market (NB there is another definition of traded companies, in section 474, which includes companies trading any kind of securities on a regulated market).

- b. a company to bring a revised directors' remuneration policy to a shareholder vote within a year, should it lose a shareholder vote on the previously proposed new policy. In practice, it is highly unlikely that companies would not want to bring a revised new policy back to another vote as soon as possible, since it will generally be in their directors' and shareholders' interests to update the policy to cover new performance objectives and new potential remuneration outcomes. However, we agree on balance with investors that the law should continue to provide certainty on what should happen if a remuneration policy vote is lost.
- 76. Consideration was given to retaining the extension of directors' remuneration reporting to "unquoted traded companies" and involved consultation with investors, business and other stakeholders. 'Unquoted traded companies' are (for the purpose of remuneration reporting and as defined in s.360C of the Companies Act) companies with equity securities traded on a regulated market (which is the FTSE Main Market in the UK), but whose equity securities are not quoted on the FCA's Official List, meaning they are not subject to the FCA's Listing Rules. In practice, very few UK companies are traded but unquoted. We believe that only companies operating on the London Stock Exchange's Specialist Fund Segment fall into this category. All these companies are funds with a board of directors consisting solely of non-executive directors who outsource the day-to-day management of the fund to a third party. Those NEDs typically receive a fixed fee only, and not the kind of performance-related bonuses or long-term share awards that executive directors receive, and which receive most of the shareholder focus on company remuneration reports. We estimate that there are only a small number of UK companies falling into this category. London Stock Exchange data shows 8 UK issuers in the Specialist Fund Segment at the end of 2023⁶³.
- 77. Repealing the requirement for such companies to produce full directors' remuneration reports and policies (under Schedule 8 of the 2008 regulations) would mean that those companies would fall back to compliance with baseline remuneration reporting under Schedule 5 of the 2008 regulations, which requires only the pay of the highest paid director to be disclosed (if all directors' pay in total is above £200K).
- 78. Although the call for evidence did not ask direct questions about remuneration reporting and policy, several stakeholders expressed concerns that it has become too detailed and complex. For example,

The remuneration report is "*increasingly lengthy and duplicative*" and it would be helpful "*streamline it*", such as by removing the requirement to compare the annual change in each director's pay to average employee pay. (**Deloitte**)

"The current rules are complex and often result in many pages of detail that can obscure key messages and leave readers confused." (**Big 4 Firm**)

"A lot of remuneration reporting is duplicative or has excessive detail." (Mazars)

"Certain requirements add little or no value", and same suggestion to remove the above director-employee pay comparison. **(Quoted Companies Alliance)**

"If you went back to investors and asked what they really rely on, they'd probably take out half the DRR. A lot of this has been added iteratively... The remuneration report today is of great value to media, particularly the single figure table, but we really do question the value to investors in terms of decision-making about the good governance of the company in general. It also helps remuneration consultants. But where is the value for the decision makers." **Representative Body**

79. Similarly, the QCA Report (2023) supports the above, suggesting that the information has limited value; the charts or tables provided are illustrative and duplicates information already publicly

⁶³ LSE Instrument List, as at December 2023

available. They also add that there is 'little evidence' to show that investors use or consider this information in their decision making (pp.16).⁶⁴

Summary of entities in scope

80. *Table 5* below outlines the number of companies affected by the removal of the requirements from the Directors' Report.

Table 5: Summary of entities in scope of Directors' Report requirements for removal

| Location of reporting | Measure (Removal of) | Entity types in scope | Number of companies (current number of companies affected) ⁶⁵ |
|-----------------------|--|---|--|
| | Information relating to employment of disabled people | Small companies with >250 employees' weekly calculation and medium companies and above with >250 employees' monthly calculation ⁶⁶ | c 120 small; c 2,130 medium; and c 16,700 large |
| | Information on financial instruments | Medium companies and above | c 51,100 medium and c 26,100 large |
| Directors' Report | Information on branches | Medium companies and above | c 51,100 medium and c 26,100 large |
| | Information on employee engagement | Medium and above if annual average of >250 UK-based employees (<i>at the</i> <i>group level</i>) ⁶⁷ | c 2,130 medium and c 16,700 large |
| | Information on supplier / customers/ others engagement | Large companies (which do not meet ineligibility criteria) ⁶⁸ | c 26,100 large |
| | Information on events affecting the company, future developments and research and development activities | Medium companies and | c 51,100 medium and |

⁶⁴ <u>https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/</u>

⁶⁵ Based on the company data captured in Fame, which captures global company activity.

⁶⁶ Fame data does not report average employee counts on weekly or monthly bases. We have therefore applied the respective employee tests to the annual average number of employees for the companies' latest available reporting year.

⁶⁷ The requirement applies at the group level. However, Fame does not readily allow for reliable disaggregation of group activity due to issues with double counting and would require several steps of cleaning and further analysis. On the basis of proportionality (given the relatively small Impact associated with the changes assessed here), we have applied eligibility tests for this requirement at the individual company level only.

⁶⁸ This classification includes companies large and above, as well as non-large companies that are ineligible for the small companies' regime under section 384 of CA2006, i.e., a listed and/or banking or other ineligible financial services company. However, the estimate does not include non-large companies that are ineligible for the small companies' regime.

| | | above ⁶⁹ (group considerations apply ⁷⁰) | c 26,100 large |
|------------------------|---|---|---|
| Remuneration Report | Information on EU-origin directors' remuneration reporting requirements | Quoted and unquoted traded companies | c 910 quoted UK companies ⁷¹ and 8 companies on the LSE SFS |

Assessment of monetised and non-monetised costs of preferred option (Option 2)

Monetised – Costs/benefits to companies

One off costs/benefits

- 81. We consider the familiarisation costs for compliance with these measures to be sunk costs, therefore we do not claim these in the benefit estimates below.
- 82. Familiarisation costs associated with the changes to the framework are usually based on time reading the guidance. Although companies will incur some familiarisation costs, we anticipate these to be immaterial essentially it will require companies to review the legislation/guidance to determine that the requirements no longer exist.

Recurrent costs/benefits

- 83. The potential saving from removing the requirements listed is summarised below. As there were no recurring costs for these measures in the original IAs, we conducted some desk research to develop simplified estimates for this assessment.
- 84. This involved drawing a random sample of 10 in-scope companies from the Fame database and reviewing their Directors' Reports for lines of meaningful text related to the requirements under consideration. The average word count per requirement was calculated for the sample assuming 15 words per line of text.
- 85. We also calculated the cost of companies preparing and the relevant text in their reports. In doing so, we assumed that the lines of text were written by a corporate manager/director⁷² in the company and review by a senior official/chief executive.⁷³ We assume a slow writing speed of 5 words per minute⁷⁴ and a slow reading speed of 150 words per minute⁷⁵ for writing and reviewing, respectively.
- 86. Given the small sample size, our estimates are subject to some uncertainty. To address this, we create a range of +/- 50% of unit costs for each requirement on the broad assumption that at the extreme, costs are unlikely to be 50% higher or lower than those estimated from our sample review. Costs are presented in 2019 prices.
- 87. Across all measures, we expect current cost of complying with the reporting requirements under consideration to range from £453,000 to £1.4m, with a best estimate of £907,400 (in undiscounted terms). We assume that once these reporting requirements are disapplied, companies currently in

⁶⁹ This requirement applies to all companies that are not entitled to the small companies' regime. This classification includes companies medium-sized and above, as well as small companies' that are ineligible for the small companies' regime under section 384 of CA2006, i.e., a listed and/or banking or other ineligible financial services company. However, the estimate does not include non-large companies that are ineligible for the small companies of the small companies that are ineligible for the small companies.

⁷⁰ The requirement also applies on the group parent company level. However, as with the case above, we apply the relevant test on the company level only.

⁷¹ Based on Fame data.

⁷² assuming a total cost per hour of £55.86 (in £, 2019 based on ASHE 2022, with non-wage uplift costs).

⁷³ assuming a total cost per hour of £86.29 (in £, 2019 based on ASHE 2022, with non-wage uplift costs).

⁷⁴ Based on <u>https://capitalizemytitle.com/writing-time/2-pages/</u>

⁷⁵ Consistent with other DBT/BEIS Impact assessments that assume reading speed per page is 6 minutes, which corresponds to a slow reading speed of 150wpm. <u>https://swiftread.com/reading-time/100-pages</u> "

scope of reporting will save the entire cost of their current reporting.⁷⁶ We therefore estimate the benefit of removing the reporting requirements to be equal in magnitude to companies' current costs.

- 88. On this basis, we estimate that removing the reporting requirements will generate a present value benefit (PVB) to companies between £3.4 and £10.2m over a 10-year period (best estimate of £6.8m) with an Equivalent Annual Net Direct Benefit to Business (EANDBB) of £0.8m.
- 89. *Table 5* summarises the total benefits to all companies in scope as a result of each measure being removed.

Table 6: Summary table of estimated current costs to companies in scope of each measure (best estimate)

| Measure | Entity types in scope | Unit cost (£) | Number of entities | Total benefits (£, undiscounted) |
|--|---|---------------|--|--|
| Information relating to employment of disabled people | Small companies and above with >250 employees' weekly calculation | £4 | c 120 small; c 2,130 medium; and c 16,700 large | c £68,200 |
| Information on financial instruments | Medium companies and above | £0 | c 51,100 medium and c 26,100 large | Cost assessed as non- material |
| Information on branches | Medium companies and above | £0 | c 51,100 medium and c 26,100 large | Cost assessed as non- material |
| Information on employee engagement | Medium and above if annual average of >250 employees | £13 | c 2,130 medium and c 16,700 large | c £246,500 |
| Information on supplier / customers/ others engagement | Large companies | £4 | c 26,100 large | c £91,300 |
| Information on events affecting the company, future developments and research and development activities | Medium and above (group considerations apply) | £7 | c 51,100 medium and c 26,100 large | c £501,500 |

⁷⁶ There is some duplication of reporting between these Directors Report requirements and the FCA's disclosure requirements for listed companies. Listed companies in scope of the removals assessed in this IA will continue to incur the costs of complying with FCA requirements and are therefore unlikely to benefit from the full amount of the saving assessed here. We have not adjusted for this in our analysis but note that the impact on our estimates is likely to be small, as listed companies make up a small subset of the company populations in scope of the various removals assessed.

| Information on EU-origin directors' remuneration reporting requirements | Quoted and unquoted traded companies | We have not quantified the impact of removing th additional remuneration reporting requirements introduced by the EU, as the original IA assumed the costs to in-scope companies from these 'add- ons' would not be material, therefore removing these 'add-ons' are not expected to generate a |
|---|---|---|
| reporting requirements | | • |

Non-monetised - costs

- 90. As this measure is removing existing legislative requirements, we do not anticipate significant costs to companies as a result. We anticipate that there will be some **familiarisation costs** with this legislative change but expect these to be negligible. Stakeholders have suggested that many organisations such as the ICAEW and the CBI are likely to produce information and guidance to support their members through the transition, which will reduce familiarisation costs further.
- 91. As discussed above, the requirements set out in the Directors' Report are more prescriptive than the similar requirements in the Strategic Report. It could be argued that by removing this prescription, companies may not feel obliged to offer all the detail currently required for the Directors' Report. This could result in a **loss of information** to the market. However, stakeholders, including primary users of such information, have expressed that this information is rarely used. They have expressed that the benefit of removing these disclosures (as this will result in more streamlined reports) outweighs the cost of the information loss. One respondent to the call for evidence stated:

"The Directors' Report, however, has become a repository for reporting that doesn't necessarily fit within the flow of the strategic narrative but is nonetheless required and has likely ended up in the Directors' Report as a result of public policy. Members are not convinced that this reporting is required in every instance as it will not be material to all companies- and for those corporates where it likely to manifest as a material risk, they should already be reporting on this." **The Investment Association**

Non-monetised – benefits

- 92. The benefits of these proposals have been discussed throughout this IA but the key benefits are summarised below.
- 93. Stakeholders have strongly supported these removals; this has been communicated to Government via the call for evidence responses and through follow up stakeholder engagement. Removing the requirements in the Directors' Report will **streamline reporting requirements**, remove the duplication within the Companies Act and directors will have the flexibility to provide more information on several matters if they determine this to be material in the Strategic Report. Christensen et al. (2021) found in his study on the effects of mandated disclosures and reporting standards that mandated reporting can result in bland, boilerplate disclosures which serve no purpose.⁷⁸ In the case of remuneration reporting, for example, the requirement to compare every director's annual pay change (including non-executive directors) to the average annual employee pay change, building up over a rolling 5-year period (i.e. recording every comparison every year for 5 years in every annual remuneration report), is likely to save at least 2 pages.
- 94. Stakeholders have echoed that the disclosures covered in this impact assessment are in fact 'low value' and do not provide valuable insight. Other organisations support this streamlining; the QCA, in their latest report, stated:

⁷⁷ Although unquantified, this removal will likely result in the shortening of the renumeration report, which is discussed below in para 93.

⁷⁸ <u>https://www.economicsobservatory.com/mandatory-corporate-reporting-on-sustainability-what-is-the-likely-impact</u>

"As a general comment, companies should consider the use of other channels of communication as a whole. Reducing repetition and inconsistencies in narrative reporting across website and annual reports can help do this." (pp.18).⁷⁹

95. One of the Big 4 firms commented on investors' use of these disclosures and explicitly stated there would be no loss of valuable information to investors.

'I can't name one [investor] who reads the Directors' report." Big 4 firm

96. An additional benefit of removing these requirements is that it will **reduce the inconsistency of scopes** which apply to some of these Directors' Report requirements that do not align with similar reporting covered by the Strategic Report. The requirement to report on the employment of disabled people (small companies with a weekly average of > 250 employees and medium and above companies with a monthly average of greater than 250 employees) and the requirement to provide information on employee engagement (medium companies and above with an annual average of greater than 250 employees) differ significantly from the Companies Act definitions. Stakeholders are calling for greater consistency in scopes; an issue that the Government seeks to address in its wider package of reforms.

Risks and uncertainties

- 97. There is some uncertainty around our estimates of unit costs for the requirements proposed for removal in developing unit cost estimates, we drew a random sample of 10 companies from the Fame database. Within the sample examined, we noted significant variation between companies in the level of detail companies chose to include in their Directors' Reports. Some companies provided a short, condensed report, typically between one to eight pages long, while others produced a combined report of considerably greater length. There was also some variation in how companies labelled their reports some companies chose to label their whole Strategic and/or Corporate Governance Report as 'Directors' Report', while others did not label their reports or used alternative naming conventions, such as 'Consolidated Management Report'. This variability means that our estimates may not capture the full extent of companies actual reporting under the requirements. We have attempted to address this uncertainty by assuming actual costs lie between a range of +/- 50% of our sample estimates. We expect that this range will cover the extent of companies' current experience of cost.
- 98. Additionally, manual scanning of the reports suggested that many companies in the sample did not report on the requirements proposed for removal at all within their Directors' Report, nor did they include a cross-reference to this information in other parts of their Annual Reports. Stakeholders also expressed that even though there is duplication between the Directors' and Strategic Report requirements, "it doesn't actually result in duplication in the report" (GC100), which may suggest the Directors' Report obligations do not impose additional burden on companies. The wider implication is that removing the requirements may, overall, generate a smaller saving than our best estimates suggest.
- 99. **Non-monetised measures** As far as possible, we have quantified the potential benefits of these measures, and where this has not been possible, a rationale has been provided. Although we have not monetised the costs associated with these measures, we assume these to be marginal as these measures are not imposing any new burdens but instead removing requirements on certain companies.
- 100. **Measures have not been tested through a Public Consultation –** Although a call for evidence exercise ran between May-August 2023 seeking views on the non-financial reporting framework, we did not solicit views during this exercise on the specific proposals set out in this IA. As a result, there are some audiences we have not yet heard from, e.g. employees/prospective employees. Research conducted by Eunomia Consulting (to support the non-financial post-implementation

⁷⁹ <u>https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/</u>

review referenced above) surveyed 504 employees and prospective employees and found that the influence on this group is less clear cut compared to say investors. The research showed that financial gain was the primary motivator in selecting a job, and appetite for 'purpose' over 'profit' remains small.⁸⁰ However, the views that we've sought through stakeholder engagement between November-December, from a range of stakeholders, has evidenced the boilerplate nature of these disclosures. One stakeholder to the call for evidence clearly stated some of the existing challenges with the framework:

"According to research undertaken by the Alliance for Corporate Transparency, reporting at large is insufficient. It is difficult to interpret non-financial reporting disclosures given that it tends to be presented in a non-accessible way. Lack of information on risk management and the impact of company action also contributes to the difficulty in interpreting non-financial reporting disclosures." **Anti-Slavery International**

CA2006 company size thresholds

Background

- 101.High-quality, proportionate corporate reporting and audit is part of the bedrock of a well-functioning UK economy. The UK's corporate reporting frameworks help to ensure that shareholders and other users of UK company accounts and reports can make sound investment decisions, and where necessary, hold their companies to account.
- 102. The type and level of financial and non-financial reporting, and audit, that UK companies and corporate groups must undertake is determined largely by company and corporate group size thresholds set out in the Part 15 of the Companies Act 2006 (CA 2006). Size thresholds are applied to a company's (or group's) (i) annual turnover, (ii) balance sheet total (defined as total assets) and (iii) average number of employees, with companies falling within a size definition if they meet at least two out of the three defining thresholds for that size band.
- 103.Under CA 2006 definitions, companies may be micro, small, medium, and large⁸¹, based on the threshold criteria outlined in *Table* 7 below⁸². The criteria and the ways in which they could be applied in determining the size of groups⁸³ are the same as those for individual companies, in that a group must meet at least two out of the three defining thresholds for a given size in order to qualify as that size. However, in the case of groups, aggregate turnover and the aggregate balance sheet total can be calculated on a net basis *or* gross basis, depending on the entity's preferences. Calculations on a net basis excludes intra-group transactions and balances and consolidation adjustments, whereas the gross calculation is a simple addition of the individual company figures. As the gross figures will always be greater than the net figures, the group thresholds applied on a gross basis are therefore higher than the net thresholds.

| 2 out of 3 of: | Micro | Small | Medium | Large | | | |
|-----------------------------|---|-----------------|--------|--------|--|--|--|
| Cor | Company and group size thresholds (net) | | | | | | |
| Annual turnover (£) | ≤632k | ≤10.2m | ≤36m | >36m | | | |
| Balance sheet total (£) | ≤316k | ≤5.1m | ≤18m | >18m | | | |
| Average no. of employees | ≤10 | ≤50 | ≤250 | >250 | | | |
| | Group Size T | hresholds (gros | ss) | | | | |
| 2 out of 3 of: | | Small | Medium | Large | | | |
| Annual turnover (£) | | ≤12.2m | ≤43.2m | >43.2m | | | |
| Balance sheet total (£) | | ≤6.1m | ≤21.6m | >21.6m | | | |
| Average no. of employees | | ≤50 | ≤250 | >250 | | | |

Table 7: Current company and group size thresholds

104. The current thresholds were set via the implementation of the EU Accounting Directive, which introduced the latest micro company criteria in 2013 and small and medium company criteria in 2015 and have not since been updated. This is particularly problematic where the monetary criteria

⁸¹ Large companies are not explicitly defined in CA 2006 but are those entities which surpass the criteria to be classed as a medium-sized company.

⁸² In Companies Act 2006 s384A (micro entity), s382 (small), s465 (medium and, by extension, large), with exclusions set out in s384 (companies ineligible the small companies' regime) and s467 (companies ineligible for the medium companies' regime). The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 set out additional rules for companies and groups.

⁸³ A parent company qualifies as a small or medium company if the group headed by it qualifies as a small or medium group, respectively. A parent company that prepares group accounts cannot qualify as micro-entity.

- annual turnover and balance sheet total - are concerned, as it means they have not been adjusted to reflect inflation over the intervening period.

- 105. The combined effect of relatively static criteria and inflation on the sizing of companies is that companies' unadjusted turnover and balance sheet totals will drag them into larger size bands if inflation adjustments are not applied. For example, over time, some micro-entities that were below but near to the small company threshold may have been inadvertently moved into the small company threshold may have been inadvertently moved into the small company threshold in their monetary criteria in effect, a 'reporting drag'.
- 106. These monetary criteria were first adopted in the 1978 European Council Directive and were last updated in 2013 (for micro companies) and 2015 (for small and medium companies). Since then, the EU have revisited their thresholds to adjust them for inflation, and in some instances have gone beyond inflation-only adjustments. In 2023, they conducted a light-touch consultation on updating their 2013 thresholds to bring them in line with inflation, which the EU has estimated at 25% from 2013 to 2023.
- 107.Companies that are dragged into larger size bands by inflation a mix of micro, small and mediumsized companies – face disproportionately burdensome reporting regimes, which divert their resources away from more productive uses. They also produce a volume of reporting that is not commensurate to their actual size, and therefore add to an already complex and cluttered company reporting information environment without adding to the value users of that information derive from it.

Policy proposal

- 108. This option aims to address the issue by bringing the monetary threshold criteria in line with inflation⁸⁴. Doing so will directly alleviate any disproportionate financial and non-financial regulatory burdens placed on smaller companies subject to this 'reporting drag.' Two main testing options were considered for the uplift an inflation-matching 25%⁸⁵ increase, and a more ambitious uplift of 50%, which would match inflation since 2013, build in a degree of future-proofing and reduce the reporting burden on companies:
 - a. An inflation-matching uplift would be relatively straightforward to implement. However, inflation between February 2020 to 2023 was significantly higher than the inflation experienced from 2013 to 2020⁸⁶. These recent and unprecedented high levels of inflation which are not expected to return to the Bank of England's 2% target for some time⁸⁷ would likely mean relatively soon after monetary thresholds are increased by 25%⁸⁸, they will need to be revised further to keep in step, especially if further economic shocks arise in the near term.
 - b. A 50% uplift is considered to strike a good balance between future-proofing the thresholds and providing stability. It ensures that reporting burdens remain proportionate for some time, in line with the Government's ambition to reduce burdens on smaller companies and ensure that larger, more economically significant companies, remain subject to an appropriate level of reporting. This is therefore the basis of our preferred option, and is the only option we assess in this IA.

⁸⁴The employee threshold is not subject to inflationary effects, and so would not be changed by this option.

⁸⁵ Since micro company criteria were introduced in 2013 and small and medium company criteria in 2015, we calculated inflation from 2013-2023 and from 2015-2023 using the UK GDP deflator (as at June 2023, when options were decided) and used the average as our inflation uplift. This works out to 25%.

 $^{^{86}}$ The annual average inflation rate between 2013 and 2020 was around 2.2% based on the UK GDP deflator, while at points between 2020 and the end of 2022, the rate of inflation was more than double this estimate (e.g., inflation between 2021-2022 was 5.4%)

⁸⁷December 2023 Bank of England Monetary Policy Report Summary.

⁸⁸November 2023 Autumn Statement

109.A 50% uplift on the current thresholds would result in the following (with rounding to simplify the thresholds⁸⁹):

| 2 out of 3 of: | Micro | Small | Medium | Large | | | |
|--------------------------|---|-----------------|--------|-------|--|--|--|
| Сог | Company and group size thresholds (net) | | | | | | |
| Annual turnover (£) | ≤ 1m | ≤ 15m | ≤ 54m | >54m | | | |
| Balance sheet total (£) | ≤ 500k | ≤ 7.5mk | ≤ 27m | >27m | | | |
| Average no. of employees | ≤ 10 | ≤ 50 | ≤ 250 | >250 | | | |
| | Group Size T | hresholds (gros | ss) | | | | |
| 2 out of 3 of: | | Small | Medium | Large | | | |
| Annual turnover (£) | | ≤ 18m | ≤ 64m | >64m | | | |
| Balance sheet total (£) | | ≤ 9m | ≤ 32m | >32m | | | |
| Average no. of employees | | ≤ 50 | ≤ 250 | >250 | | | |

Table 8 - Company and group size thresholds with a 50% uplift on current levels⁹⁰

- 110.We considered a significantly larger uplift, but this was discounted from the outset on the basis that whilst it would build in long-term future proofing, it would have the effect of shifting several, truly large companies into the smaller company categories, which would reduce the information they provide, and undermine the quality and usefulness of the reporting they produce. It would also allow companies access to audit exemptions which would reduce the level of assurance over the accuracy of their financial reporting. This would have wider negative effects on the trustworthiness of information available to investors and the wider public on the underlying performance of these companies.
- 111. There was strong support for the uplifting of size thresholds from the call for evidence responses. Most respondents indicated that the current thresholds are not appropriate (41 out of 70 respondents to this question). One respondent said:

"Our view is that the size thresholds should be increased to reflect the impact of inflation since they were last amended and that a process be put in place to revisit those size limits periodically." **Chartered Accountants Ireland**

Summary of entities in scope

- 112. The entities in scope of the changes assessed in this section are taken to be those companies that would be moved into a smaller size band i.e., from large to medium, medium to small and small to micro when monetary criteria are increased. These entities would, as a result, benefit from more proportionate, size-appropriate reporting and audit regimes, and lower associated costs.
- 113.We summarise our approach to estimating the numbers of these companies, and provide more detail in *Annex A*.

 $^{^{89}}$ The previous figures were a relic of converting Euros to GBP.

⁹⁰ The micro threshold figures have been rounded up from £948,000 and £474,000 for turnover and balance sheet total, respectively. This rounding, in effect, increases the current micro threshold by close to 60%. For other size categories, we have rounded down, which mean increases are, in effect, slightly less than 50%.

- 114.**For individual companies**, we used the Fame database to assess the number of companies in each size band under current thresholds, and under the proposed new thresholds. This data was used to isolate the change in the number of companies in each size band, and to determine the net flow of companies between size bands.
 - a. We were unable to repeat these searches to identify the number of groups currently, and post-threshold change, within each size band. This is due to limitations in the Fame database related to how data on companies within groups is captured at accounts consolidation points across these groups: Fame does not reliably present disaggregated turnover and balance sheet figures groups (i.e. correctly apportioned to the individual companies within these groups), which makes it extremely challenging to aggregate these variables to the group level without significant risk of double-counting, and the associated high risk of mis-identifying groups as being of a given size. This issue is especially pronounced where, for example, within a group, multiple consolidations happen at subsidiary level, but the group parent prepares unconsolidated accounts, where consolidations happen across subsidiary levels *and* at the parent level.
 - b. Therefore, identifying groups in scope would require significant time and other resources to conduct manual scanning of each of the 3 million plus companies on the UK company register for sorting into corporate groups, prior to further manual work to estimate the aggregates for those groups, which may itself require referencing multiple data sources and companies' published accounts. It is therefore impractical, for the purposes of this IA, for this level of analysis to be conducted.
- 115.For individual companies, and **on the basis of the applied sizing criteria only**, Fame data showed the following:

| Companies ⁹¹ | Current size criteria | With 50% uplift | Net Change in size-band ⁹² |
|-------------------------|-----------------------|-----------------|---------------------------------------|
| Micro | 3,228,000 | 3,345,000 | + 117,000 |
| Small | 394,000 | 291,000 | - 103,000 |
| Medium | 51,000 | 43,000 | - 8,000 |
| Large | 26,000 | 20,000 | - 6,000 |

 Table 9 - Number of companies within each CA 2006 size band before and after changes to monetary size criteria (to nearest 1,000)

- 116. There are additional factors beyond size that determine the accounting and audit regime to which a company must be subject. Some companies, despite meeting a given size definition, may be ineligible for reporting under the size- appropriate regime or taking up certain size-based accounting or audit exemptions.
- 117.For example, CA 2006 makes available micro, small and medium-sized company reporting regimes, under which qualifying companies can prepare accounts according to special provisions, which means they can choose to make use of greatly reduced reporting requirements and exemptions⁹³. However, CA 2006 requires all public or financial services companies (broadly, Public Interest Entities or PIEs), irrespective of size, to file full accounts⁹⁴. This means that those non-large companies that fall within this requirement by virtue of the nature of their business or their listing

⁹¹ Companies covered are private, public, limited by guarantee and unlimited. Limited Liability Partnerships (LLPs) are also included.

⁹² Net change after accounting for companies entering the size band from the size above. For example, 6,000 large companies would be reclassified as medium and 13,000 medium companies would be re-classified as small. The net change in the number of companies in the medium size band is 8,000.

⁹³ Where companies are not ineligible for these exemptions on the basis of s384 of CA2006.

⁹⁴ <u>https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts</u>

status would not be able to prepare accounts and reports based on the requirements for their size band. They are effectively treated, for accounting purposes, and also audit purposes, as large companies.

118.Our analysis therefore considered these ineligibility criteria in our scoping estimates. The adjusted scope counts are presented in *Table 10* below (as 'effective size').

Table 10 - Estimated number of companies adjusted for reporting regime eligibility criteria (to the nearest 1,000)

| Effective size | Current size criteria | With 50% uplift | Net Change in size-band ⁹⁵ |
|---------------------|-----------------------|-----------------|---------------------------------------|
| Micro | 3,168,000 | 3,281,000 | + 113,000 |
| Small | 381,000 | 281,000 | - 100,000 |
| Medium | 49,000 | 40,000 | - 9,000 |
| Large ⁹⁶ | 104,000 | 99,000 | - 5,000 |

119. The figures in *Table 10* are taken to be the entities in scope used in estimating costs and benefits from the threshold change. The main caveat to this is that utilising the reduced preparation obligations made available under small, micro and medium company regimes is a choice for companies. For example, Companies House management information tables show that for 2022-2023⁹⁷, only around half of the micro-companies on the register filed micro-company accounts (c. 1.6 million). For example, this means that some companies may choose to 'file up' if there is some benefit to them in doing so, i.e., some eligible small regime companies may choose to file full audited accounts in order to more easily access credit. We do not take this into account in our analysis, and instead treat all companies as filing within their eligible regime. We therefore treat the estimated scope and the associated impact from threshold changes as an upper bound.

Assessment of monetised and non-monetised costs of preferred option

Monetised costs/benefits to companies

One off costs/benefits

120. We do not expect companies in scope of the threshold changes to face any one-off costs or benefits as a result of the change. Whilst regulatory changes typically require some degree of familiarisation on the part of companies, we anticipate that this would be minimal for the change assessed here, as companies affected by the threshold change will need only to review the new threshold criteria and asses their current sizes against it. We expect the associated costs to be negligible.

Recurrent costs/benefits

121.We do not anticipate any recurring costs arising from the threshold changes. The changes are deregulatory in nature and would therefore present a saving to companies in scope. We assess this in more detail below.

⁹⁵ Fame is an imperfect data source and there are slight variations in the total number of companies captured under the different threshold options when additional search criteria (such as filing eligibility criteria) are applied. This has resulted in the counts not matching perfectly across runs.

⁹⁶ All micro, small and medium-sized public and financial service companies are added to the count of large companies as they would be required to prepare full accounts, subject to a full audit.

⁹⁷ Companies House Management Information Tables – Table 11
122. The potential benefits to companies in scope of threshold changes are expected to arise as a result of companies moving from more onerous (in terms of regulatory reporting) to less onerous size bands. We have identified the following sources of regulatory saving:

i. Moving to size bands/accounting regimes requiring less detailed accounts

- 123.Companies moving from medium to small and small to micro would be eligible to produce and file less detailed accounts relative to those required in their current size bands⁹⁸. In assessing the impact of this change, we adopt the approach used in the IA developed to accompany The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008⁹⁹, which assessed the impact of raising size thresholds on the accounting costs of the companies involved.
- 124. That IA calculated the potential saving to companies on the basis that they would each save 6 hours of internal accountancy time¹⁰⁰. However, for the purposes of this assessment, we develop this approach further to reflect our current understanding of the minimum accountancy resourcing more closely within companies in the various size bands. We expect a 6-hour time saving to be more in line with the lower bound for small companies, who we assume would be more likely to save around 10 hours of accounting time in the typical case. We use the difference between the old IA estimate and our current estimate for small companies as a basis for drawing ranges around our best estimates for each of the company size bands.
- 125. Therefore, we assume that companies moving from medium to small and from small to micro¹⁰¹ could save between 9 21 hours (best estimate of 15 hours) and 6 14 hours (best estimate of 10 hours), respectively from producing less detailed accounts. We also assume that within companies, this time saving would be distributed among senior management (who provide accounts sign-off), accounting staff, and admin/secretarial staff. This split of the time saved, by staff level, is provided in the tables below for each size band, along with the associated estimated cost saving per company (*Table 11*).

| Estimated time-saving: companies moving from medium to small (15 hrs) | | | | | | |
|---|-----|-------|-------|--|--|--|
| PositionAssumed time savingCost Per Hour (£ 2019)Related cost- saving (£ 2019) | | | | | | |
| Chief Executives and Senior officials | 1.5 | 59.35 | 89.0 | | | |
| Accountant | 6 | 29.68 | 178.1 | | | |
| Administrative and Secretarial 8 16.52 123. | | | | | | |
| Total cost saved per company 391.0 | | | | | | |

Table 11 - Estimated Accountancy time and cost saving¹⁰²(best estimates)

⁹⁸ We do not expect companies moving from large to medium-sized to benefit from this change, as medium companies are also required to prepare full accounts. Therefore, we do not expect any accountancy time savings for large companies that are redefined as medium.

⁹⁹ https://www.legislation.gov.uk/uksi/2008/410/memorandum/contents

¹⁰⁰ Not including audit fees or other professional advisory fees.

¹⁰¹ On a net basis.

¹⁰² Hourly wage data taken from ONS ASHE (2022) Table 14.5A for the 75th percentile of the respective positions, with an 18.6% non-wage uplift applied. All estimates given in £ 2019.

| Estimated time-saving: companies moving from small to micro (10 hrs) | | | | | | |
|---|---|-------|-------|--|--|--|
| PositionAssumed time savingCost Per Hour (£ 2019)Related cost- saving (£ 2019) | | | | | | |
| Chief Executives and Senior officials | 1 | 59.35 | 59.4 | | | |
| Accountant | 4 | 29.68 | 118.7 | | | |
| Administrative and Secretarial 5 16.52 82.6 | | | | | | |
| Total cost saved per company | | | 260.7 | | | |

126.Based on these estimated per company costs and the number of entities in scope outlined above, we estimate that overall, companies in scope could save between £17.5m and £40.8m per year, with a best estimate of £29.1m (in undiscounted terms) from moving to less onerous accounting regimes. This represents a total PVB between £131.1m and £305.9m over a 10-year period, with a best estimate of £218.5m and EANDBB of around £25.4m per year. Further detail is provided in *Table 12*.

Table 12 - Estimated savings from moving to less onerous accounting regimes (best estimates)

| Company size | Number in scope ¹⁰³ | Annual saving per company (£ 2019) | Aggregate Annual saving (£ 2019) |
|--------------|---|---|--|
| Small | 100,000 | 260.7 | 25.9m |
| Medium | 8,000 | 391.0 | 3.2m |
| | Total undiscounted annual saving by all companies in scope (£ 2019) | | 29.1m |
| | PVB, 10-year period (£ 2019) | | 218.5m |
| | EANDBB (£ 2019) | | 25.4m |

ii. Savings related to the CA2006 s477 Small Companies Audit Exemption

- 127.Medium-sized companies that are redefined as small would become eligible to take up an exemption from the requirement to have their annual accounts audited. This exemption is made available to small companies under s477 of CA2006. We assess the related impact for a net reduction in the medium size-band of around 8,000 companies. We assume that these companies would benefit from a saving that is equivalent to their current audit fee. Using Fame audit fee data, we estimate that these companies have a median audit fee of around £13k¹⁰⁴. We consider the median audit fee more reliable than the mean, as a very small number of high outliers would skew the mean upwards in a potentially non-representative way.
- 128.If all redefined medium companies were to take up the audit exemption, they would generate an aggregate saving of around £105m per year (undiscounted). On this basis, we estimate that this change could generate a PVB of around £787.3m over a 10-year period, and an EANDBB of around £91.5m per year.

¹⁰³ On a net basis. We use a net calculation since the effective change in the population within the medium size-band is the difference between the number of medium companies re-classified as small and the number of large companies classified as medium.

¹⁰⁴ Median audit fee converted to 2019. In current prices, which is the basis provided by Fame, the median audit fee is £14.5k.

iii. Savings related to exemptions from company Strategic Reporting under CA 2006 s172

- 129.All large companies and companies ineligible for the medium, small, and micro company CA 2006 regimes are required to produce a statement within their Strategic Report of how their directors have complied with their duty to have regard for matters in CA2006 s172.The threshold changes will therefore mean that all currently large companies that are redefined as medium-sized would benefit from having the option to not prepare this s172 report. We estimate there are around 5,000 of these large companies.
- 130. In estimating the potential benefit, we replicate the methodology applied in the IA that accompanied the introduction of The Companies (Miscellaneous Reporting) Regulations 2018¹⁰⁵. The IA estimated companies' ongoing reporting costs on the assumption that the report would require work form company directors (2 hours per report), professional staff (6.5 hours per report) and administrative staff (8 hours per report)¹⁰⁶. We assume that actual reporting time spent by each of these staff levels could be +/- 25% of the IA's estimates.
- 131.We consider companies' likely saving to be equivalent to their current annual costs. The split of time saved, and the associated cost-saving are provided in the table below.

| | Assumed time saving (hours) | | | Cost Per hour | Related cost-saving (£ 2019) | | aving |
|--------------------------------|-----------------------------|------|------|------------------|---------------------------------|-------|-------|
| Position | Low | Best | High | (£ 2019) | Low | Best | High |
| Directors | 2 | 2 | 3 | 39.08 | 58.6 | 78.2 | 97.7 |
| Professional | 5 | 7 | 8 | 29.78 | 145.2 | 193.5 | 241.9 |
| Administrative and Secretarial | 6 | 8 | 10 | 16.52 | 99.1 | 132.2 | 165.2 |
| Total cost per company | | | | | 302.9 | 403.9 | 504.9 |

Table 13 - Estimated s172 reporting time and cost saving¹⁰⁷

- 132.Assuming all eligible companies make use of the option to take up the exemption, we estimate this could generate an aggregate saving of between £1.6m and £2.7m per year, with a best estimate of £2.1m (undiscounted). The associated PVB of this change is therefore estimated to be between £12.2m and 20.3m over a 10-year period, with a best estimate of £16.2m and an EANDBB of around £1.9m per year.
- *iv.* Savings related to exemptions from general Strategic Reporting under The Companies Act 2006 (Strategic Reports and Directors' Reports) Regulations 2013
- 133.All medium-sized and large companies are required to prepare and file an annual Strategic Report that includes the high-level information that shareholders need to gain an immediate understanding of the business. All medium-sized companies that are redefined as small by threshold changes

¹⁰⁵ https://www.legislation.gov.uk/uksi/2018/860/impacts

¹⁰⁶ Based on 2016 research to inform the UK's implementation of the EU Non-Financial Directive.

¹⁰⁷ Hourly wage data taken from ONS ASHE (2022) Table 14.5A for the 75th percentile of the respective positions, with an 18.6% non-wage uplift applied. All estimates given in £ 2019.

would be able to take up an exemption from preparing these Strategic Reports. We estimate the impact on the basis of a net reduction in the medium size-band of around 8,000 companies.

- 134. To assess the associated cost-saving, we used estimated company costs of Strategic Reporting identified via a 2019 research project to inform a BEIS Post-Implementation Review¹⁰⁸. The research collected information from companies on the staffing and time requirements for ongoing reporting, from which they estimated a median reporting cost of £3,700 per year¹⁰⁹. We take this to be our best estimate of current costs, but as with s172 reporting, we assume that actual current reporting costs will fall with a range of +/-25% of the median.
- 135.On this basis, if all 8,000 redefined medium companies took up the Strategic Reporting exemption, they could save between £22.4m and £37.3m per year, with a best estimate of around £29.9m (undiscounted). We estimate a PVB of between £168.0m and £280.1m over a 10-year period, with a best estimate of £224.1m an EANDBB of around £26m per year¹¹⁰.

v. Savings related to exemptions from Directors' Reporting Requirements

- 136. We assess the potential saving to companies related to the following Directors' Reporting requirements:
 - a. Reporting on names of directors under s416 of CA 2006
- 137.All non-micro companies and micro companies that are ineligible for size-based reporting are required to include in their Directors' Report the names of all persons who were directors in the company at any point during the financial year covered by the report. Following threshold changes, small companies that are redefined as micro would have the option to stop producing a Directors' Report and could therefore benefit from any associated cost-saving. We estimate the associated impact on the basis of a net reduction in the small company size-band of around 100,000 companies.
 - b. Reporting on recommended dividends under s416 of CA2006
- 138.All large and medium-sized companies, and small and micro companies that are ineligible for sizebased reporting are required to report on the amount that directors of the company recommend should be paid by way of dividend. All medium companies that are redefined as small by threshold changes could benefit from no longer needing to include this information in their reports. We estimate the associated impact on the basis of a net reduction in the small company size-band of around 8,000 companies.

¹⁰⁸ <u>https://www.legislation.gov.uk/uksi/2016/1245/pdfs/uksiod_20161245_en.pdf</u>

¹⁰⁹ The research report did not provide sufficient information on the staff and time breakdown for the estimates to be re-run as in the case for s172 requirements.

¹¹⁰ The Government intends to consult on removing strategic report requirements from medium companies. If the remaining 40,000 medium companies after the change in the size thresholds were exempted from the strategic report requirements, then that could yield a saving of $\pounds148m$ a year (40,000* $\pounds3700$).

- c. Reporting on qualifying indemnity provisions under s236 of CA2006
- 139.All large, medium-sized and small companies, including micro companies that are ineligible for size-based reporting are required to disclose in their Directors' Report whether any qualifying indemnity provisions (outlined in s236) were in place for the benefit of the company's directors at any point in the financial year covered by the report, along with details of those provisions, as well as information on whether any provisions were in place for the directors of an associated company at any point in the financial year covered by the report. All medium-sized companies that are redefined as small would be able to take up the option to not make these disclosures and could benefit from any associated cost-saving. As with b. above, we estimate the associated impact on the basis of a net reduction in the medium company size-band of around 8,000 companies.
- 140.We use estimates of in-scope companies' current costs to estimate the likely savings from the changes outlined in (a) to (c) above. For this, we replicated the methodology used for Directors' Report-related savings earlier in this IA, using the same +/- 50% adjustment to account for uncertainty. Our estimates of the current costs from each requirement are set out in the table below:

Table 14 - Estimated current per company reporting cost related to requirements in (a) to (c) (undiscounted)

| Requirement | Low estimate (£ 2019) | Best estimate (£ 2019) | High estimate (£ 2019) |
|--|--------------------------|---------------------------|---------------------------|
| Directors' Report: names of Directors | 8.7 | 17.3 | 26.0 |
| Directors' Report: recommended dividends | 1.5 | 2.9 | 4.4 |
| Directors' Report: qualifying indemnity provisions | 1.1 | 2.1 | 3.2 |

141.Based on these unit costs, we estimate that in aggregate, if all companies took up the exemption from these elements of Directors' Reporting, the change would lead to the following cost-savings:

Table 15 – Potential cost-saving related to requirements in (a) to (c) (undiscounted)

| Requirement | No. of companies | Low (£ 2019) | Best (£ 2019) | High (£ 2019) |
|--|------------------|--------------|---------------|---------------|
| Directors' Report: names of Directors | 100,000 | 862k | 1,720k | 2,585k |
| Directors' Report: recommended dividends | 8,000 | 11.7k | 23.4k | 35.1k |
| Directors' Report: qualifying indemnity provisions | 8,000 | 8.5k | 16.9k | 25.4k |

142.Overall, we estimate that a PVB of between £6.8m and 19.8m over a 10-year period, with a best estimate of £13.2m and EANDBB of around £1.5m per year from this change.

- vi. Savings related to Prompt Payment Reporting Requirements
- 143.Under s3 of the Small Business, Enterprise and Employment Act 2015, all large companies are required to report on a half-yearly basis on their supplier payment practices, payment policies and payment performance. Following threshold changes, all large companies that are redefined as medium would be able to benefit from an exemption from this reporting. We estimate there are around 5,000 of these companies.
- 144.We base our approach to estimating costs on the 2016 IA that accompanied the payment practices regulations. The IA identified 3 drivers of per company cost:

- a. Maintenance of reporting systems and processes (£100 per year),
- b. Preparation of twice-yearly reports (£593 per year), and
- c. Collating, approving and submitting twice-yearly reports (£319 per year).
- 145.The total cost per company per year was estimated to be £1,012 and the IA considered a range of +/-10% around this central estimate. We adjusted this range to 2019 prices to give low, best and high estimates of £963, £1,070, and £1,177, respectively.
- 146.Based on this, if all eligible currently large companies take up the available exemption after being redefined as medium-sized, they could realise an aggregate cost-saving of between £5.2m and £6.3m per year, with a best estimate of £5.7m. We estimate a PVB of between £38.7m and £47.3m over a 10- year period, with a best estimate of £43m and an EANDBB of around £5m per year.

vii. Overall Impact

147.We estimate that overall, changes to the current company size thresholds could generate a net benefit with a PVB of £1,302.3m over a 10-year period, with an EANDBB of £151.3m per year. The breakdown of this is provided in the table below.

Table 16 - Overall potential benefit from threshold changes – best estimates (discounted)

| Source of cost-saving | PVB, 10-year period (£m) | EANDBB (£m) |
|--|-----------------------------|-------------|
| Moving to size bands/reporting regimes requiring less detailed accounts. | 218.5 | 25.4 |
| Savings related to the CA2006 s477 Small Companies Audit Exemption | 787.3 | 91.5 |
| Savings related to exemptions from company Strategic Reporting under CA 2006 s172. | 16.2 | 1.9 |
| Savings related to exemptions from general Strategic Reporting | 224.1 | 26.0 |
| Savings related to exemptions from Directors' Reporting Requirements | 13.2 | 1.5 |
| Savings related to Prompt Payment Reporting Requirements | 43.0 | 5.0 |
| Total | 1302.3 | 151.3 |

Non-monetised costs

148. Threshold changes may result in a loss of corporate reporting information to primary users when companies move to producing fewer or reduced disclosures. There may also be a loss of assurance of the information they do provide where companies move to a size band that allows audit exemptions. However, we expect this potential cost to be immaterial, as threshold changes would mean that companies will report under regimes that are commensurate with their size. Therefore, we expect there to be more proportionate reporting and assurance across company sizes. This potential cost may also be offset to some degree as companies may choose to provide more information or apply more stringent assurances that their new reporting regime would require.

Non -monetised benefits

149. We have not identified any non-monetised benefits.

Risks and Uncertainties

- 150.As discussed above (under non-monetised costs), companies that are re-classified into smaller size bands post-threshold changes would be able to access reduced reporting and audit requirements, especially if movement is from the medium size band to small or from small to micro. The application of lighter touch requirements could lead to a loss of high-quality corporate reporting information, reporting inaccuracies and the potential for corporate opacity and illicit activity (such as fraud or money laundering). We lack data with which to assess this risk. However, the companies that are redefined would still need to produce some form of size-appropriate accounts, and in cases where audits are not legally required, their shareholders may, if they choose out of concern or other reasons, require a company audit (under CA2006 s476). We therefore expect this risk to be small and outweighed by the potential overall benefit of the threshold changes.
- 151.Our assessments of impact rely on IA cost estimates produced at the time of implementation of some of the regulations considered here. We assume these estimates broadly reflect companies' current experience of costs but recognise that real-world costs may differ to some degree. We have updated input estimates and developed the approach to assessments where we have the evidence and information to do so.
- 152. In our estimation of Directors' Report savings here, we rely on a sample of 10 companies randomly selected from the Fame database. Time and resourcing constraints meant that we were not able to draw and analyse a larger sample of companies, which may mean that the estimated preparation and review costs for companies may not be representative of the overall company population. However, as noted for Option 2 (Directors' Report), our desk research suggested that many companies did not report on the measures considered here, nor did they cross reference information elsewhere in their annual reports, which lines up with our conclusion, based on stakeholders' views, that directors reporting may not impose a significant additional burden on companies. Nevertheless, we use a range of +/-50% of our best estimates to address this uncertainty.
- 153. The Companies Act 2006 covers a broad and complex range of requirements on companies. We have endeavoured to include all of the size-related requirements on companies that will change when thresholds change. However, there may be further relatively minor interactions with other regulatory requirements that we have not covered in this IA.
- 154.We do not account for any impacts related to changes to the scope of application of SECR information. Whilst the SECR scope copies the large company definition in the CA2006, the definition is drafted directly into the SECR legislation, which means changes to the CA2006 large definition will not automatically affect the application of SECR disclosure requirements.

Digitalisation

Background

- 155. The Companies Act 2006, s423(1) imposes a duty on companies to send a copy of its annual accounts and reports each financial year to (a) every member of the company, (b) every holder of the company's debentures, and (c) every person who is entitled to receive notice of general meetings. This duty does not explicitly require that the copies of the accounts and reports sent out are physical; however, the use of 'current address' in clauses (2) and (3) create a reasonable presumption that the duty to share copies of annual accounts and reports mean that physical copies must be shared.¹¹¹ This is because the definition of 'current address' in this part of the Act is only a physical address.
- 156.In current legislation, a company does not need to share their annual accounts and reports as physical documents with those entitled to receive copies where the company makes use of s1144 and Schedule 5 of the Companies Act 2006:
 - a. Documents or information can be sent by a company in electronic form to a person who has agreed (generally or specifically) that the document or information may be sent or supplied in that form;¹¹²
 - b. Documents or information can be sent or supplied by the company via their website if the members and debenture holders have resolved (voted and agreed) that the company can supply/share documents that way, or.
 - c. Documents or information can be sent or supplied by the company via their website to members if the company's articles say as such, and to debenture holders if the instrument creating the debenture also says as such.¹¹³
- 157.Based on these provisions in the Companies Act, a company would need to seek the agreement of all those entitled to receive a copy of the annual reports to share their reports via email, and to do so specifically through a resolution to share the reports via their website. Alternatively, the company's articles of association would need to be changed, via special resolution¹¹⁴, to include a provision that the company shares its annual reports with entitled persons via email.
- 158. The above highlights that companies may find it challenging to share a digital version of their annual accounts and report. Considering the new Companies House power to require companies to deliver their accounts electronically to the Registrar, (new power from the Economic Crime and Corporate Transparency Act 2023), allowing for easier circulation of digital reports is an obvious course of action.

Policy proposal

- 159. The Government proposes to append the relevant clauses in the Companies Act that define "address" as including "an address used for the purposes of sending or receiving documents or information by electronic means." This will remove the current presumption that annual accounts and reports should be circulated as physical copies.
- 160.Recent stakeholder engagement showed broad support for this proposal. Many companies are already making use of greater digital sharing of their annual accounts and report and reported that printing of physical reports has reduced significantly over the years: one preparer said they print

¹¹¹ This section of the act defines current address as a 'service address' and the Companies Act defines a service address as somewhere you can be 'served' which legally, means a physical address since legal papers must be served in person.

¹¹² Companies Act, Schedule 5 Communications by a company, paragraph 6

 $^{^{113}}$ Companies Act, Schedule 5 Communications by a company, paragraphs 10 & 11 $\,$

¹¹⁴ A resolution that is passed by at least 75% of the company's members.

less than 1,000 copies, down from 20,000. Another stakeholder said they print approximately 400 copies. The main reason cited for these decisions, and for the support received by this proposal, is the high costs associated with printing and postage of annual reports. For example, the M&S Chair, Archie Norman, stated that M&S incur a cost of £100,000 every time there is a mail out to shareholders.¹¹⁵

161. These costs to companies have also been increasing over time. The QCA reviewed the average annual report length for three market segments in 2021/22 and compared this with 2016/17.¹¹⁶ Their findings show that across all segments, the length of annual reports has increased substantially (see Figure 2 below). The implication is that the costs of printing and distributing physical copies of these reports, would have also increased in line with report length.



Figure 2 - Extract from QCA 2023 Report, page 6

Summary of entities in scope

- 162.All companies must prepare an annual report.¹¹⁷ There are **4.9m** active companies on the UK company register¹¹⁸. However, of these, there are a number of companies who would have already sought a special resolution or changed their articles of association to share documents in an electronic form. Therefore, we can reasonably assume that not all companies on the register would benefit from this measure.
- 163.Of the companies that do stand to benefit, we expect publicly listed companies would experience the greatest impact from this measure as they typically have a greater number of shareholders compared to private companies and are therefore likely to be incurring higher costs under current requirements. The measure assessed here would therefore likely reduce printing and postage costs most significantly for publicly traded companies. Given the typically small number of shareholders in the vast majority of private companies, we expect their current costs, and any benefit from this measure to be very small. On this basis, we present illustrative estimates of the potential impact that are focussed on publicly listed companies only.

¹¹⁵ https://corporate.marksandspencer.com/give-all-shareholders-voice-bringing-company-law-21st-century-share-your-voice-campaign

¹¹⁶ They did not assess the average page length for private company reports.

¹¹⁷ Micro companies are required to prepare and file accounts. Small companies, in addition to preparing and filing accounts, must also make some non-financial disclosures (as discussed above).

¹¹⁸ Companies House Data 2022-23

164.For this assessment, we consider publicly traded companies on the London Stock Exchange (LSE) AIM and Main Market. LSE data¹¹⁹ identifies 595 AIM and 766 Main Market-listed UK companies.

Assessment of monetised and non-monetised costs for chosen option

Monetised – costs/benefits to companies

One off costs/benefits

165.Familiarisation costs associated with the changes to the framework are typically based on time spent reading the guidance and understanding what compliance would look like. For this change, we expect familiarisation costs to be immaterial as companies will need only to acknowledge that the definition of 'address' has been amended to include electronic addresses.

Recurrent costs/benefits

166. The potential saving from this measure is summarised below. As there were no IA precedents that existed for this measure, we conducted stakeholder engagement and desk research to develop estimates for this assessment. This included engagement with a design firm on report design and printing costs, (see case study below), and with other stakeholders to collect information on the approximate number of physical copies of annual reports printed by companies of different sizes and in different market segments. We also conducted desk research to inform our estimates of the costs incurred by these companies in posting physical copies of their annual reports, using information on the weight of the average report (from the QCA's estimate of average pages for annual reports¹²⁰) and postage costs from the Royal Mail Business Price Guide.¹²¹

Design and printing costs: based on a case study of a design agency

- 167.Companies have suggested that the bulk of costs are in the setup and design of annual reports as opposed to the printing and postage (although this can vary across companies based on the number of physical copies printed and posted). This was supported by one design agency we spoke with, Radley Yeldar,¹²² who provided ballpark estimates of the design and printing costs for typical annual reports produced by their listed clients in the AIM, Main Market and FTSE 350 segments of the LSE, and based on their wider market intelligence. The agency suggested the costs borne by companies to produce (design and print) an annual report is variable and can range from as little as **£15k** to the **£low millions**. They expressed that these costs would reduce from the second year onwards as the bulk of the cost would be in the upfront setup/design phase of the reporting, which would not change substantially year on year. However, they also explained that companies continue to include these design costs in their budgets from the second year, but typically hold the amount budgeted in reserve or reallocate it to different uses, and therefore do not count it as an associated cost.
- 168.According to Radley Yeldar, companies on the lower end of the range (~£15k) tend to focus on compliance with the regulations and are less interested in using it as a communication tool. Companies on the upper end of the range (£low millions), tend to be focused on communicating their company's story, and are willing to spend more to get this right. However, there is also a correlation between the amount spent on the annual report and the number of reporting requirements for certain companies (i.e., listed companies and/or financial services).

¹¹⁹ LSE Issuer List, as at December 2023

¹²⁰ https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story/

¹²¹ https://www.royalmail.com/business/prices

¹²² https://ry.com/

- 169.Radley Yeldar charge their clients separately for the design and printing of annual reports and indicated a typical split between design and printing costs of 90-95% design and 10-15% printing. Printing costs are also variable and naturally dependent on the number of copies requested, but on average, less well-known companies sometimes print and circulate more copies of their annual report, and therefore, could spend up to **30%** of the planned budget on printing. However, printing costs are typically smaller than design costs, especially in recent years, as companies opt to print fewer physical copies of reports.
- 170. The firm provided some ballpark costs/budgets for annual report design and printing for different company types. These are outlined below.
 - a. Small cap / AIM listing £20k £100k
 - b. FTSE 350 (with a mid-level ambition) £100k £250k
 - c. FTSE 350 (Ambitious communicative reporters) £250k £500k+
- 171.Our cost estimates for the design and printing of companies' annual reports, based on the information provided for each segment are given in *Table 17* below.
- 172. These estimates only cover printing costs we assume, based on the case study that design costs are not likely to apply on an annual basis and that they are largely sunk and, if not, would likely be incurred for an electronic report. For each of the segments, we used the mid-point of the ranges provided to generate an illustrative estimate of the likely cost based on the indicated split between design and printing cost.
- 173.We further assume that the mid-level ambition would apply for the main market constituents outside of the FTSE 350 (416 companies).

| | | Illustrative printing cost saving (undiscounted, £ 2019) | | |
|--|------------------------|---|----------------|--|
| Market Segment | Number of companies | Lower estimate | Upper estimate | |
| AIM | 595 | 3.2m | 9.6m | |
| Low Ambition FTSE 350 | 350 | 5.5m | 16.5m | |
| More Ambitious FTSE 350 | 350 | 11.8m | 35.3m | |
| Main market (<i>outside of the FTSE</i> 350, and assuming equivalence with low ambition FTSE 350) | 416 | 6.5m | 19.6m | |

Table 17 - an illustration of the potential cost savings to listed company segments related to printing company reports for distribution

174.We recognise that the breakdown on which these estimates are based captures the views of only one agency, and that design and printing costs will differ across agencies. For example, some agencies may have different charging schemes or may provide different, more or fewer services. Therefore, we do not include this in our estimate of the overall impact of the package of changes assessed in this IA due to the wider uncertainty around current costs to companies.

Postage costs

175. In our stakeholder engagement, preparers of reports were unable to provide cost estimates for the costs related to postage and distribution of their annual reports. Therefore, we use the postage fees

provided by Royal Mail and the estimated weight of a typical set of company reports (based on page length) for the companies within the market segments referenced in the case study above. These are summarised in the table below.

| Market Segment | Average report length | Weight per A4 page (g) | Total report weight (g) | 1 st Class postage cost per report (£ 2019) | 2 nd Class postage cost per report (£ 2019) |
|-------------------|-----------------------------|---------------------------|----------------------------|--|--|
| AIM | 101 | 10.625 | 1,073.125 | 3.69 | 2.99 |
| Main market | 182 | 10.625 | 1,933.75 | 3.69 | 2.99 |
| FTSE 100 | 237 | 10.625 | 2,518.125 | 6.99 | 5.99 |

| Table 18 - typical c | omnany report post | ane costs per compan | y by market segment |
|----------------------|--------------------|----------------------|---------------------|
| Table TO - Lypical C | οπραπγ τεροπ ροзι | aye cosis per compan | y by market segment |

176. The postage cost estimates, based on these inputs *in Table 18*, are given in *Table 19* below. For estimates, we assume postage costs will arise from a mix of 1st and 2nd Class postage, and therefore take the mid-point of these as our best estimate. The lower and upper estimates presented in the table represent the number of reports likely to be sent out by companies. Our stakeholder engagement suggested that companies typically distribute between 400 and 1,000 copies of their annual reports per year.

| Table 19 - an illustration of the aggregate potential cost savi | ngs to listed companies related to postage costs |
|---|--|
|---|--|

| | | Illustrative postage cost saving (undiscounted, £ 2019) | | |
|---|---------------------|--|----------------------------------|--|
| Market Segment | Number of companies | Lower estimate (400 copies) | Upper estimate (1,000 copies) | |
| AIM | 595 | 1.1m | 1.4m | |
| FTSE 100 | 100 | 375k | 438k | |
| Main market (<i>outside</i> of the FTSE 100) | 666 | 1.2m | £1.5m | |

177.As with the expected printing cost saving, given the uncertainty around the input estimates available, we consider our calculated potential savings to be illustrative, and do not include them in our estimate of the overall impact of the package of changes assessed in this IA.

Non-monetised costs

178.Some stakeholders stated that investors prefer physical copies of the annual report. However, this measure does not preclude companies from providing physical copies if their shareholders prefer; but as the presumption of it being a physical copy will now be removed, users will need to express their interest for a physical copy. Shareholders currently, and will continue to, have the right under the CA06 to request a physical copy of their companies' accounts.

There is potentially a cost to printing and delivery firms who may experience a decline in orders or scale of orders following the implementation of this measure. However, it is challenging at this stage,

to estimate the potential impact, for two main reasons, a) firstly, as mentioned above, we do not have reliable data on the number of companies that would benefit from this measure (including the number of companies who are already sharing reports digitally), b) secondly, we do not have evidence on the expected take-up of this benefit from companies not already sharing reports digitally.

Non-monetised benefits

179. This measure has a positive environmental impact through the reduction of printing physical copies of company annual reports. The QCA Report (2023) found, based on a sample of 100 AIM companies, 100 main market companies and 98 of the FTSE100, the average number of pages per report is now 173. If we multiply this average by the (lower) estimate provided by stakeholders of the number of copies printed (400), we can estimate (at a minimum) that per company, around c.70k pages, per year is dedicated to preparing physical copies of the annual report. This measure will promote a greener alternative and ultimately lead to a reduction in the use paper.

Risks and Uncertainties

- 180. As indicated above, there is some uncertainty around the input estimates used in this assessment as we were unable to obtain reliable estimates on costs/budgets available to prepare the company's annual report (as this is commercially sensitive information that is not publicly available). We reached out to several design firms to develop a better understanding of fees for designing and printing annual reports. However, only one agency responded to the request, and although they provided helpful estimates on fees/budgets (which we would expect to be similar across firms), we lack information from other agencies with which to validate them. Therefore, caution should be exercised when extrapolating out the savings per company to the wider company population. In addition, we only received estimates for publicly listed companies as the agency was unable to comment on private company annual reports. However, as discussed earlier, it is fair to assume that printing and postage costs for private companies (even the largest private companies) would likely be minimal as they typically have a very small number of shareholders and are therefore unlikely to be generating material costs.
- 181. There is uncertainty over the number of companies who would benefit from this measure although this measure will apply to all Companies Act entities, we consider it reasonable to assume that not all companies will benefit from this measure, not least because of status e.g., listed, or private¹²³ (as discussed above) but because some companies would already be benefitting from digitally sharing their annual report, as echoed during stakeholder engagement. Despite our efforts to source the data, Companies House were not able to provide estimates on the number and types of companies which have already sought a special resolution or changed their articles of association, therefore it is challenging to determine the scale of the benefit (in terms of number of companies).

¹²³ There are several stakeholders entitled to receive annual accounts and reports; aside from shareholder recipients, entities include holders of debentures and anyone entitled to receive a notice of AGMs. Private companies can issue debentures and they do hold AGMs.

Audit Technical Measures

- 182. There are a series of audit-related measures being proposed under this package of reforms, that are to:
 - a. Make technical improvements in assimilated law in the audit regulatory framework, including to fix deficient rules on audit committees.
 - b. Improve competition for significant audits by giving the audit regulator greater discretionary powers to allow an audit firm that has previously performed minor non-audit services for a Public Interest Entity (PIE) still to be selected as statutory auditor of that PIE.
 - c. Update the outdated minimum threshold for the size of large debt securities that may be issued for a UK traded overseas company to qualify as a "large debt securities issuer" so that its home country auditor need not register as third country auditor with the FRC in the UK.
 - d. Clarify FRC's powers to deregister auditors in SATCAR 2013 so as to explicitly provide deregistration powers in certain circumstances, including the non-payment of registration fees by the auditor or a request from them that they no longer be included on the register.
 - e. Providing FRC with powers in SATCAR 2016 to inspect audits by UK auditors of UK traded overseas companies incorporated in third countries with any form of equivalence status. Though FRC already inspects the relevant UK firms, it is unable, where necessary to include these audits in the sample of audit work it inspects.

Each will be discussed in turn.

Background and policy proposal: Audit Committees: Technical improvements

- 183. Two small cross-referencing errors arising from the assimilation of former EU audit legislation into UK law need correcting, and some wording in these provisions is outdated or misleading. In addition, the Audit Regulation and SATCAR 2016¹²⁴ both refer to audit committees of PIEs while failing to define the term "audit committee".
- 184. This change makes technical improvements to the framework relating to audit committees and to the assimilated Audit Regulation. These include technical corrections to language and references in the Audit Regulation, while retaining the practical effect.

Assessment of monetised and non-monetised costs for chosen option

Monetised – costs/benefits to companies

- 185.We do not expect this proposal to have any implementation costs or recurring costs for PIEs or their Audit Committees. This is because the proposal involves removing redundant text and changes in language or emphasis, retaining the current practical effect of the legislation.
- 186.We do expect there to be minor familiarisation costs for Audit Committees of audit PIEs and providers of legal research platforms. In estimating the costs for this measure, we assume:
 - a. The largest professional services firms and major legal research information providers will seek to complete a fact-finding and comparison of the consolidated reforms, and prepare a short summary of the effect, confirming no effective change.

¹²⁴ https://www.legislation.gov.uk/uksi/2016/649/contents/made

- b. We assume there will be a total of ten large firms¹²⁵ that will provide this short summary of the consolidated audit regulation.
- c. As the technical improvements to Audit Committees is not expected to materially change the approach taken by PIEs or their Audit Committees, we assume a short, one-page summary note is sufficient.
- d. The work for each summary would require in-house legal research, at a rate of a junior lawyer working for half a day, and senior lawyer working for half a day.
- e. The wage assumptions use 75th percentile for junior lawyer and 90th percentile for a senior lawyer¹²⁶. We have used the 90th percentile salary for senior lawyers due to feedback on previous impact assessments, where median and 75th percentile wages were said to be too low to be representative of typical wage costs in this sector.

One-off costs

187. In estimating the costs for PIEs of familiarising themselves with the proposed changes we assume:

- A one-page note has been prepared for dissemination by the large professional services and legal information providing services.
- Each PIE with an Audit Committee will have a chief executive or a senior official, the chair of Audit Committee and three members of the Audit Committee read the one-page note.
- Consistent with other DBT/BEIS Impact assessments¹²⁷, we assume that reading speed per page is six minutes, consistent with a slow reading speed¹²⁸ given that the guidance is technical.

| Cost of legal summary (2019 £) | |
|--------------------------------|--------|
| Wage (h) junior lawyer | £37.27 |
| Wage (h) senior lawyer | £48.57 |
| Working h / day | 7.5 |
| Days worked (junior) | 0.5 |
| Days worked (senior) | 0.5 |
| Number of companies | 10 |
| Total cost | £3.2k |

Table 20: Cost of producing a legal summary note for Audit Committees technical changes

188. The cost for ten large professional services and legal information companies to provide a legal summary of the proposed changes has been estimated to total £3.2k.

¹²⁵ These include large professional services firms such as Big 4 companies (Ernst & Young, KPMG, PwC, and Deloitte) and large legal research information providers such as Thomson Reuters, Bloomberg and LexisNexis.

¹²⁶ ASHE Table14 2022, uplifted to consider non-wage costs applicable to businesses and calculated in 2019 prices.

¹²⁷ DBT Corporate reporting related obligations, p. 24, <u>https://www.legislation.gov.uk/ukdsi/2023/9780348250220/impacts;</u> BEIS Climate-related financial disclosures IA, p. 29 <u>https://www.legislation.gov.uk/ukia/2022/13/pdfs/ukia_20220013_en.pdf</u>

¹²⁸ <u>https://swiftread.com/reading-time/100-pages</u>

Table 21: Cost of familiarisation for the legal summary for PIE Audit Committees

| Cost of familiarisation for legal summary in PIEs with Audit | Committees (2019 £) |
|--|---------------------|
| Companies with audit committees | 1,765 |
| Chief exec / senior official salary | £86.29 |
| Audit Committee Chair salary | £363 |
| Audit Committee non-exec salary | £341 |
| N. of non-exec members in Audit Committee | 3 |
| N. of pages | 1 |
| Estimated reading speed (h) / page | 0.1 |
| Cost of Audit Committee Chair reading | £36 |
| Cost of three Audit Committee members reading | £102 |
| Cost of Chief Executive reading | £9 |
| Cost per company | £147 |
| Total cost | 260k |

189. In estimating the cost of familiarisation in PIEs with Audit Committees we estimate that there are 1,765 PIEs with Audit Committees¹²⁹. We then assume that the person familiarising themselves with the changes would be at chief executive and senior official level¹³⁰. We have used the 90th percentile salary due to feedback on previous impact assessments, where median wages were said to be too low to be representative of typical wage costs. We have also assumed the Audit Committee Chair and three Audit Committee members will also familiarise themselves with the summary. The hourly salary costs for the Chair and members are £363 and £341 respectively¹³¹. This results in estimated costs of £423k.

Table 22: Total familiarisation costs for Audit Committees technical changes

| Total familiarisation costs (2019 £) | | | | |
|--------------------------------------|------|--|--|--|
| Legal summary creation | 3.2k | | | |
| Legal summary familiarisation | 260k | | | |
| Total | 263k | | | |

190.We estimate that the total first-year familiarisation costs are £263k when legal summary creation, and familiarisation costs for companies with Audit Committees have been combined. On this basis, we estimate the PVC and EANDCB of the technical changes to the audit framework to be around £230k and £27k, respectively.

Non-monetised benefits

191.Changing outdated or incorrect drafting in legislation may indirectly reduce the potential for error when applying the legislation. There are no intended changes into the practical effect of the legislation, thus we do not expect companies to directly accrue any benefits.

Background and policy proposal: Greater discretionary power to FRC to grant exemptions in the approval of non-audited services by the statutory auditor of a PIE

¹²⁹ The technical corrections in the Audit Regulation and SATCAR 2016 only affect PIEs, thus the costings have been completed for PIEs Audit Committees only.

¹³⁰ ASHE Table14 2022, uplifted to consider non-wage costs applicable to businesses and calculated in 2019 prices. Further detail in Annex A.

¹³¹ These costs are used in Corporate Reporting Impact Assessment 2023 <u>https://www.legislation.gov.uk/ukdsi/2023/9780348250220/contents</u>, where it states that "we developed our estimates of CEO, CFO and other board members hourly remuneration using the median remuneration of CEO and CFO given in Deloitte's 2021 Director's Remuneration Report for the FTSE 250 market cap band."

- 192.Article 5 of the on-shored Audit Regulation makes provision to restrict the services which PIEs can obtain from statutory audit firms. The regulations currently deem auditors to be conflicted and unable to provide audit services to some PIEs even if the auditor has only provided very minor amounts of non-audit services and these were prior to their appointment. This means that PIEs then must run restricted tender processes. An exemption is currently not available under the FRC's auditing standards. Though SATCAR 2016 includes assimilated law providing for the standards to include a limited exemption if FRC choose, the provision is so narrow and inflexible as to be unworkable in the UK standards and unable to fulfil the purpose intended by this amendment. The services which the FRC has discretion to allow are listed in regulation 13A of SATCAR 2016 through cross references to the list of "prohibited non-audit services" in the second subparagraph of Article 5(1) of the on-shored Audit Regulation (this list is of services which a statutory auditor may not provide to the audited entity). These are:
 - (a) tax services relating to the preparation of tax forms);
 - (a)(iv) to (a)(vii) tax services relating to support for public subsidies and tax incentives, inspections, calculations of direct and indirect tax and deferred tax and tax advice; and
 - (f) valuation services.
- 193. The policy proposal is to continue with the exemption regime, noting its interaction with the FRC ethical standard framework¹³², but to widen the permitted activities. This change makes it possible for an auditor that has already provided prohibited non-audit services to a PIE in the relevant financial year, or who will be unable to withdraw from providing those services in readiness, to take part in a tender process to become the auditor to that PIE.

194. This will be achieved by:

- Including all the non-audit services listed in Article 5(1) subparagraph (2) of the UK Audit Regulation as part of allowed exemptions. This would enable exemptions in points (a)(ii) and (iii) (tax services relating to payroll tax and customs duties), (b) (services involving a part in management or decision making), (c) (bookkeeping and accounting records), (d) (payroll), (e) (designing and implementing internal control or risk management procedures or financial information technology systems), (g) (legal services), (h) (services related to internal audit), (i) and (j) (finance services), (k) (HR services), in addition to those already included.
- Replacing regulation 13A(a) of SATCAR2016 with a wider concept requiring that FRC must be satisfied that exceptional circumstances exist before granting an exemption similar to the concept in regulation 13(2) used in exemptions to the 70% cap on the value of permitted non-audit services.
- 195. While the category of exemptions and ability of FRC to use its judgement on exemptions are widened, a time limit is also introduced. FRC cannot grant an exemption for the provision of prohibited services once the auditor has been appointed. This means that the period for which any exemption can be granted can only relate to the part or whole of the financial year of the accounts to be audited *before* the auditor's appointment. In addition, the exemptions cannot exempt the auditor from their other obligations under the ethical standard.

¹³² <u>https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/ethical-standard-for-auditors/</u>

Assessment of monetised and non-monetised costs for chosen option

Monetised – costs to companies

196.We do not expect there to be material familiarisation costs or implementation costs arising from this proposal. There may be a negligible familiarisation cost to PIEs and auditors of PIEs to note this change and to note the new FRC exemption process. We also do not expect there to be other costs arising from this proposal, as these are voluntary by nature and arise from commercial decision-making.

Non-monetised – benefits

197. This measure might benefit between 2-7 tenders per year:

- One proxy for potential exemptions applied for could be the failure rate of qualifying selection procedures. PIEs that meet the large company ("Larger PIE") definition need to follow the "qualifying selection procedure" when tendering for audit contracts. If only a single auditor followed the tendering process, the qualifying selection procedure has failed and the "Larger PIE" must submit evidence to FRC for it to waive enforcement and sanctions in respect of this requirement. There are 1,336 "Larger PIEs"¹³³ in scope for this procedure. The current failure rate is 2 tenders a year¹³⁴.
- Around 7 exemptions a year are given for the 70% cap on fees for non-statutory audit versus statutory audit fees¹³⁵.
- 198. If potential auditors of PIEs offer PIEs certain non-audit services, they are currently excluded from tendering for an audit contract for that PIE. The policy proposal increases and widens the type of exemptions for non-audit services that these auditors can gain from FRC, which means more of them can potentially enter tendering for audit contracts of their existing PIE clients. However, these exemptions are time-limited, and only last until the appointment of the auditor. This means that there are no specific actions imposed on the audit companies and their decision to apply for an exemption and enter a tender process for PIE audit contract, or to accept it and move away from providing non-audit services will be a commercial decision based on each auditors' circumstances.
- 199.Due to this being a commercial decision that is heavily impacted by the type and amount of nonaudit services provided by that auditor to a PIE, and the potential profit from an audit contract to audit a PIE, we are not able to provide reliable cost estimates. In addition, the non-audit services would move from statutory auditors of PIEs to other companies, and the audit contract from one auditor to another – this is cost and savings neutral.

200.Other benefits include:

- potentially increased competition where more auditors of PIEs are able to enter tendering process, which may improve services and decrease costs.
- potentially reduced tendering processes that fail called "qualifying selection procedures"
 which may reduce costs to PIEs and auditors in terms of needing to seek extensions or

¹³³ Qualifying selection procedure applies to PIEs that fall within the large company definition. 2022 figures from FRC estimate there to be 1,765 PIEs in total. We have estimated there are 429 "Smaller PIEs" (e.g. PIEs that meet small-and-medium company thresholds) of these 1,765 PIES, leaving 1,336 "Larger PIEs".

¹³⁴ Based on discussions with Companies House officials.

¹³⁵ This existing process enables FRC to upon a request by the statutory auditor or the audit firm and on an exceptional basis, allow an exemption from the 70% cap on fees for non-audit services for a period not exceeding two financial years. FRC publishes the decisions it has taken on applications for exemption from cap on non-audit fees on <u>https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/processes-in-relation-to-pie-audits/</u>. While not an exact match for the proposal, we are using these applications as a proxy for approvals of non-audited services. We reviewed the decisions for each quarter for the past two years (quarters ending 31st July 2023 to ending 31st Oct 2021). There were 14 exemptions applied for and all were granted by FRC in this time period.

to re-run tendering processes. A failed tendering process is typically a considerable exercise¹³⁶.

Background and policy proposal: Third Country Auditors

- 201. The Government proposes amendments to SATCAR 2013 to clarify existing powers to de-register third country¹³⁷ auditors in the following situations:
 - First, the regulations should be clear as to the power of the FRC to remove an auditor from the register in cases of non-payment of registration fees. The Government would prefer this power were clear in the regulations to avoid unnecessary disputes.
 - Second, the regulations should explicitly provide a power for FRC to remove an auditor from the register upon their request. The regulations are very codified in several respects, but this is another one where no explicit provision is included.
- 202. The Government also considers an update is needed to an outdated €-denominated minimum threshold for the size of large debt securities that may be issued by a UK traded overseas company for it to qualify as a "large debt securities issuer" and for its overseas auditor to be exempt from registration as a registered third country auditor. Conversion to a £-denominated threshold, from minimum €100,000 to minimum £70,000 by amending regulation 21 of the Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR 2016). The new threshold is based on the most favourable exchange rate between €s and £s that has applied during the period in which the exemption has been in place. This is intended to make sure than any securities issued in future of the same size as those that previously enabled the issuer to benefit from the exemption, should continue to do so.
- 203. The Government also proposes to amend regulation 11 of SATCAR 2016 to reduce the exemptions of UK auditors from inspection of their work auditing UK traded overseas companies. This amendment will address deficiencies in SATCAR 2016 and the amendments made upon the UK's exit from the EU whereby inspections of audits in third countries granted any form of equivalence are not possible even if the audit is not inspected by the relevant third country competent authority. This amendment will not increase the burden of inspections upon the relevant UK audit firm, as the firms are already subject to FRC inspection. It will simply enable FRC to include the relevant audits in the sample it can considers as part of the inspection. This will increase the size of the wider population of audits from which FRC can select those it inspects, but not the underlying population.

204. The proposed amendments to the SATCAR 2016 regulations address the following two issues:

- A deficiency in the powers of the FRC to carry out audit inspections in third countries which have been granted audit equivalence status.
- The out-of-date exemption for "large debt securities issuers" from the definition of a "UKtraded third country company" whose overseas auditor must register as a third country auditor with the FRC.

Assessment of monetised and non-monetised costs for chosen option

Non-monetised costs and benefits

205.We do not expect there to be any familiarisation or implementation costs to companies of any of these proposals.

¹³⁶ FRC officials suggest that in the case of failed tendering processes, typically a Chair would have reached out to 10+ audit firms and received responses declining tendering, and engaged in extended discussions (written engagement) with Tier 1 firms. This could be expected to be several days of work.

¹³⁷ By a "third country audit" we mean the audit of a "UK traded third country company", which can be conducted by a person who is eligible for appointment as a statutory auditor in the UK, if this is permitted in the relevant third country or a third country auditor there, who must register with the FRC.

- 206.**Removing third country auditors from FRC register:** For third country auditors, we do not calculate any costs as they are companies resident outside the UK, and the de-registration is only in the case of non-payment of registration fees, or if an auditor indicates they do not wish to remain on the register.
- 207. Updating minimum exemption threshold denomination levels for large debt securities issuers: For Large Debt Securities Issuers proposal, previously the companies could only issue bonds at or above the minimum exemption threshold (€100,000) and this threshold exchange rate in £ sterling was calculated at the time of the issue. This method has been in place since 2010. We have used the Bank of England annual average spot rate to identify the lowest threshold that could have been used since 2010¹³⁸ and have chosen this to ensure that any companies that may have used this threshold in the past and chose to again would not be impacted.
- 208.Reducing exemptions for inspections of UK audit firms work auditing third country companies: Amending regulation 11 of SATCAR 2016 to increase the scope for FRC to inspect work of UK audit firms that conduct third country audit work is expected to be cost neutral and the overall burden for UK audit firms to remain the same. This is because FRC is not expected to increase the overall number of inspections a year, or to change its usual risk-based approach for selecting audit firms and individual audits to inspect.
- 209.We estimate¹³⁹ that there are currently 15 audits potentially in scope of regulation 11 of SATCAR 2016 is amended to reduce exemptions for inspections of UK audit firms work auditing third country companies. These may be covered by inspections by the relevant Third Country Regulatory Authority, in which case FRC would not inspect them. Typically, FRC conducts 150 inspections of audits at the firms a year across all sectors and selects inspections with a risk-based approach.

Summary of direct costs and benefits to business calculations

- 210. The estimated impacts of measures included in option 2 are presented in the table below (as present value benefits/costs and as Equivalent Annual Net Direct Benefits/Costs to Business).
- 211. We estimate the measures included in option 2 would collectively deliver a NPV of £1,308.9m over a 10-year period, with an EANDBB of £152.06m per annum.

¹³⁸ Using Bank of England XUAAERS data and Annual average Spot exchange rate, Euro into Sterling on 31st Dec 2015 at 1.3782, led to €100,000 be valued at £72,558 – this was rounded downwards to £70,000 for the proposal.

¹³⁹ Based on discussions with FRC officials.

| | Measure | Entities in Scope | PVB / <i>(PVC)</i> (£m) | EANDBB / (EANDCB) (£m) |
|--------------------|--|---|----------------------------|------------------------------|
| | removing requirement for information on employment of disabled people | around 120 small; 2,130 medium; and 16,700 large companies | 0.5 | 0.1 |
| r | removing requirement for information on employee engagement | around 2,130 medium; and 16,700 large companies | 1.8 | 0.2 |
| Directors ' Report | removing requirement for information on engagement with suppliers/customers/ others | around 26,100 large companies | 0.7 | 0.1 |
| Directo | removing requirement for information on events affecting the company which have occurred since the end of the financial year, future developments, and research and development activities | around 51,100 medium and 26,100 large companies | 3.8 | 0.4 |
| | Total | | 6.8 | 0.8 |
| | Moving to size bands/accounting regimes requiring less detailed accounts. | around 100,000 currently small and 8,000 currently medium | 218.5 | 25.4 |
| splot | Savings related to the CA2006 s477 Small Companies Audit Exemption | around 8,000 currently medium companies | 787.3 | 91.5 |
| ize Thresholds | Savings related to exemptions from company Strategic Reporting under CA 2006 s172. | around 5,000 currently large companies | 16.2 | 1.9 |
| mpany S | Savings related to exemptions from general Strategic Reporting | around 8,000 currently medium companies | 224.1 | 26 |
| CA2006 Company S | Savings related to exemptions from Directors' Reporting Requirements | around 100,000 currently small companies reporting on names of directors; and around 8,000 currently medium reporting on dividends and qualifying indemnity provisions | 13.2 | 1.5 |
| | Savings related to Prompt Payment Reporting Requirements | around 5,000 currently large companies | 43 | 5 |
| | Total | | 1,302.3 | 151.3 |
| Audit Technical | Audit technical measures | 1,765 PIEs (with Audit Committees) | (0.23) | (0.03) |
| Measures Total | | | (0.23) | (0.03) |
| Overall Tota | I | | 1,308.9 | 152.06 |

Impact on small and micro businesses

- 212. There are two measures covered in this Impact Assessment which will have a direct impact on small and micro businesses:
 - Removal of the requirement to disclose information on the company policy on the employment, training, career, development and promotion of disabled persons This measure will reduce the reporting burden from around 120 small companies who qualify as small under the gross assets and turnover criteria but have more than 250 employees.¹⁴⁰ There is a direct benefit for these companies. Using the unit cost of compliance, we estimate the monetary cost saving to these companies from the removal of this requirement to be around £480.¹⁴¹ Although this measure does not represent a significant cost saving, it does provide wider administrative benefits by streamlining the reporting.
 - More substantially, small companies will benefit from an uplift of CA06 monetary size thresholds. The effect of changing thresholds would be to allow companies across the size distribution to make use of less burdensome, more proportionate reporting frameworks and requirements. The typical small business can be expected to save around 10 hours of reporting and internal accountancy time per year. This is mainly expected to arise from accountancy time-savings for those small companies that are reclassified as micro-companies and choose to take up the available accounting exemptions. Our analysis indicates that around 100,000 small companies would be redefined as micro companies and benefit significantly from the change.

Medium-sized business regulatory exemptions assessment

- 213.Likewise, we would expect medium sized companies defined here by the Better Regulation Framework¹⁴² as having 500 employees or less to benefit from the removal of requirements and from changes in thresholds. The purpose of the changes is to streamline companies subject to non-financial reporting for companies across company size bands (medium companies included).
- 214.Excluding small or medium sized companies from these regulatory changes would not achieve the aims of the policy which is to remove unnecessary regulatory burdens from companies. This is because most companies are small.

Wider impacts

- 215.*Equalities impacts:* We have considered the equalities impacts of these measures and do not anticipate there will be any adverse or disproportionate negative impact on persons or groups with a protected characteristic. The most significant impact of these reforms applies to companies or legal persons and not natural persons. These reforms will affect all companies in the same way if they are in the same scope for reporting requirements. This has been discussed further in *Annex B*: The Public Sector Equalities Duty (PSED).
- 216.*Environmental impacts:* The QCA estimate the average length of annual reports and accounts of quoted companies to be 173 pages. For FTSE 100 companies, the averages are even higher, at 237 pages. Over the past five years, the size of public company reports has grown by nearly 50%. Replacing print-based reporting via the digitalisation measures will directly reduce the

¹⁴⁰ The requirement currently applies to small companies who have a weekly average of more than 250 employees, however, the Fame analysis estimates the number of small companies with an annual average of 250 employees as weekly average was not an available filter on Fame.

¹⁴¹ Unit cost of compliance with measure £4 * number of small companies with an average of 250 employees = £480

 $^{^{142}\} https://www.gov.uk/government/publications/better-regulation-framework/medium-sized-business-regulatory-exemption-assessment-supplementary-guidance--2$

environmental footprint associated with paper production and transportation. It will also reduce the transport costs associated with the distribution of reports to investors. Waste in the form of disposal of hard copy reports will also be reduced.

- 217. However, by uplifting thresholds, we will be removing the obligation for some businesses to disclose information on their environmental impact e.g., 5000 businesses who move from the large to medium category will no longer be required to conduct analysis using KPIs including KPIs related to environmental and employee matters as well producing a s.172 statement where they are required to explain how the director has had due regard for the company's impact on the environment. *Annex E* provides examples of the disclosures made by a sample of companies that would be reclassified as medium:
 - a. In some cases, it is evident that the risk to a loss of valuable information to the market is minimal. This is because companies either a) just cross-reference to their website where they detail their approach to meeting wider environmental, social and governance (ESG) objectives, or b) provide largely boilerplate statements expressing their commitment to limiting their impact on the environment.
 - b. In others, they refer to their obligations under the SECR regulations to set out energy use and UK emissions. It should be noted that the SECR regulations will still apply as the size thresholds for these are set out in separate regulations. Companies that move from the large to medium category would therefore still need to report under SECR.

218.As part of the review process, we will assess the impact of removing these obligations.

- 219.*Innovation test:* We do not anticipate any direct impact of these measures on innovation, however there could be an indirect positive impact, where the potential savings from this package are redirected to enhance investment in innovation. Nonetheless, it is difficult to predict whether this would happen in practice as it could be dependent on a several factors.
- 220. *Competition impacts:* We do not anticipate that these measures will result in any adverse competition impacts. It is possible that audit competition will increase through the measure enabling auditors to bid for audit contracts for PIEs they provide non-accounting services for.
- 221.*Household impact:* We do not anticipate any direct impacts on households or other person units as a result of these measures. There is a possibility of an indirect (positive) impact on employees and/or consumers. However, it is not possible to estimate the likelihood (and scale) of this prior to implementation as we are unfamiliar with how price mechanisms operate within companies, and this is likely to be highly variable between companies.

A summary of the potential trade implications of measure

222.We do not anticipate that these measures will have any trade implications. Foreign residents can own UK companies - they will be affected in a non-discriminatory way: UK residents owning similar companies will be affected in a similar way. By reducing unnecessary burdens, we would expect the UK to become a slightly more attractive place to do business.

Monitoring and Evaluation

223. This impact assessment covers a combination of measures, some of which include the removal of legislative requirements as well as amendments to others. We propose that the department conducts an administrative review (non-statutory) to evaluate the impact of this package.¹⁴³

¹⁴³ https://www.gov.uk/government/publications/business-regulation-producing-post-implementation-reviews

- 224.We recommend the review should take place five years after the regulations come into effect. It will seek to validate the cost and benefit assumptions used in this IA as well as provide early evidence on the indirect effects of the regulation. The judgement on whether the regulations should continue in their current form will depend on performance against the success factors (see table below).
- 225.As well as reviewing the impact of the amendments in this package, this review should broadly consider whether the removal of the requirements in this package continue to serve stakeholders in the way it had intended. One potential interaction with the future review is the Government's on-going review of non-financial reporting, which may lead to future changes in reporting obligations or thresholds.

Logic model

- 226. The earlier sections of this impact assessment outline the rationale for these measures, but the intervention logic for those changes to non-financial reporting is as follows:
 - a. <u>Inputs:</u> Government introduces reform to the non-financial reporting framework through legislative amendments such as uplifting CA06 size thresholds and removes requirements to ensure investors and stakeholders have access to decision useful information by the relevant companies, and companies are relieved of the burden of producing 'low value' information.
 - b. <u>Activities</u>: companies will streamline the information within their annual reports and circulate fewer physical copies of the annual report to shareholders and other stakeholders.
 - c. <u>Outputs</u>: companies report required information to users. Users better engage with and test the information provided by companies as a result of improved accessibility.
 - d. <u>Outcomes</u>: users better understand and engage with information presented by companies enabling investors to make more informed decisions. It may also affect corporate behaviour as companies will be able to redirect funds that would have been spent on certain reporting requirements (and printing) to other parts of the business.
 - e. <u>Impacts</u>: Reduced economic burden on reporting companies and reduced economic losses to creditors and investors as a result of more informed decision making.
- 227. The early stages of the intervention logic can be tested using qualitative research, for example desk reviews of existing literature and research. DBT has recently commissioned Eftec Ltd to conduct research into the value of non-financial information to investors. The purpose of this research is to baseline the value of different types of non-financial information to the various investor types. The first phase of the research project involves in-depth interviews with various types of professional and private investors. The second phase involves a choice experiment with investors on their willingness to pay for certain non-financial information using a stated preference methodology. The findings will provide valuable insight into the use and value of existing non-financial information as well as investors' preferences for more or less information. However, consideration will be given as to whether this study should be replicated to assess the value of non-financial reporting following the streamlining measures covered in this package. We would also recommend consulting a wider range of users, such as shareholders, civil society organisations/non-governmental organisations, employees/prospective employees to get their views towards the amendments of this package, and whether they have experienced significant 'information losses,' if any.
- 228.Outcomes can be tested usings surveys of companies to understand the reduction of economic burden as a result of these measures. This might be a challenge for companies to isolate the economic impact of these specific changes. However, we would look to test how these changes to

the framework have impacted their overall compliance journey with the remaining requirements, and then estimate the impact of these changes. We could also ask companies to consider cost reduction to the business in terms of scale. The greatest challenge for the evaluation will relate to impacts as changes in the economic environment will create noise. However, if the evaluation provides good evidence that the reform to the framework is valued by users and has benefitted companies then that would give reasonable assurance that impacts are being achieved.

| Logic model step | Indicators |
|------------------------|---|
| Inputs | Companies' general views on the reformed framework, guidance and support provided by the regulator (and other organisations if applicable) |
| | Companies' views on reduced compliance burden |
| | Evidence of greater use of the annual report |
| Outputs | Number of preparers sharing and users receiving reports digitally |
| outputo | For companies that remain in their original size band, evidence of compliance with existing regulations |
| | Evidence on the number of companies that choose take up the benefits in this package |
| Outcomes | User views (i.e., investors, shareholders, civil society organisations/non-governmental organisations, employees etc) on how measures have impacted accessibility and readability of annual reports and how this has impacted decision-making |
| | User views on the extent of the 'information loss' (if at all) from removing requirements from the Directors' and Remuneration Report and from companies moving to smaller size band (resulting in reduced reporting burdens) |
| | Impact on corporate behaviour |
| Impacts | More informed decision making by investors |
| | Reduced regulatory burdens for companies |

Success indicators

229.As a high-impact measure, we will take the following approach to evaluation via a postimplementation review of the most significant measures, covering:

- Evidence from the regulator on compliance with the reporting requirements, and the quality and effectiveness of reporting.
- Research into preparers' and users' views on corporate reporting burdens and the value of the reforms to the framework, including indirect effects, any unintended consequences, or interactions with other related measures.
- A review of literature might inform judgements about the effectiveness and impact of the changes to the framework.
- Estimates of users' valuation of measures and how the reform to the framework has influenced investment and other decision-making processes. This will inform judgements about impacts.
- Re-estimation of benefit estimates and the number of entities affected by the changes to the framework. This will involve qualitative and quantitative research, involving companies varying size and type.

• Based on the above, a judgement of whether the regulations have met their objectives and a recommendation of whether the thresholds should remain as they are or be uplifted further. A judgement should also be taken as to whether the removal of requirements have had any unintended consequences.

Annex A: Scope analysis for changing company thresholds

Given the nature and effect of the threshold changes, the entities in scope of the changes assessed are taken to be those companies that would be moved into a smaller size band - i.e., from large to medium, medium to small and small to micro - when monetary criteria are increased. The current thresholds and the proposed 50% uplift are copied below for ease of reference.

Current and new company size thresholds

For accounting purposes, a company can be classified as micro, small, medium or large. To be categorised within one of these groups, companies must meet at least two out of three of the following criteria:

Table 24 - Current company size thresholds

| 2 of 3 out of: | Micro | Small | Medium | Large |
|--------------------------------|-------|--------|--------|-------|
| Annual turnover (£) | ≤632k | ≤10.2m | ≤36m | >36m |
| Balance sheet total (£) | ≤316k | ≤5.1m | ≤18m | >18m |
| Average number of employees | ≤10 | ≤50 | ≤250 | >250 |

With a 50% uplift on the current thresholds, the criteria will continue to be applied in the same way (as a '2 out of 3' test), but the monetary thresholds would be increased. Employment thresholds are not uplifted:

| Table 25 - New company s | ize thresholds under a 50 | % uplift in monetary criteria |
|--------------------------|---------------------------|-------------------------------|
| rabio 20 rion company c | | , o apine in monotary oncona |

| 2 of 3 out of: | Micro | Small | Medium | Large |
|--------------------------------|-------|-------|--------|-------|
| Annual turnover (£) | ≤1m | ≤15m | ≤54m | >54m |
| Balance sheet total (£) | ≤500k | ≤7.5m | ≤27m | >27m |
| Average number of employees | ≤10 | ≤50 | ≤250 | >250 |

Scoping Approach

The Fame database was used to determine the numbers of these companies. Fame contains information on companies registered at Companies House¹⁴⁴, which we use to estimate size.

The database was queried to identify which are <u>required</u> to file accounts with Companies House in line with the Companies Act 2006. Therefore, **our scoping only considers the following entity types (based on Fame descriptions): private limited, public, limited by guarantee and unlimited. Limited Liability Partnerships (LLPs) are also included.**

The threshold changes would apply to individual companies and groups.

a. For individual companies, we queried the overall number of companies within each size band under current thresholds, and under the proposed 50% uplift. We then ran additional searches in Fame to identify the number of companies that actually move from each size band into a lower size band. The latter step allows us to isolate the net change in size bands. *Figure 3* provides an example of a query to identify companies within each size band, *Figure 4* is an example of query to identify companies moving between size bands, and *Table 26* explains how the net flows

¹⁴⁴ Figures from the Fame database may differ slightly from Companies House annual publications, as Fame extracts and captures data from the companies register more frequently.

(which determine the actual number of companies that could access regulatory savings) were calculated.

| Boolean search: | 1 and 2 and 3 and ((4 and 5) or (4 and 6) or (5 and 6) or (4 and 5 and 6)) and not ((7 and 8) or (7 and 9) or (8 and 9) or (7 and 8 and 9)) | Total: | 393,720 |
|-----------------|---|--------|------------|
| X 🗹 9. Nur | nber of employees, using estimates: max=10, Last available year | > | 8,666,340 |
| × 🗹 8. Tota | al Assets (m GBP): max=0.316, Last available year | > | 7,286,212 |
| 🗙 🔽 7. Turi | nover, using estimates (m GBP): max=0.632, Last available year | > | 7,921,209 |
| 🗙 🔽 6. Nur | mber of employees, using estimates: max=50, Last available year | > | 9,061,635 |
| 🗙 🔽 5. Tota | al Assets (m GBP): max=5.1, Last available year | > | 8,233,095 |
| 🗙 🔽 4. Turi | nover, using estimates (m GBP): max=10.2, Last available year | > | 9,073,276 |
| 🗙 🔽 3. Leg | al form: Private limited, Public, Limited Liability Partnership (LLP), Guarantee, Unlimited | > | 14,624,890 |
| 🗙 🔽 2. Cou | ntry: Prim. trading address, R/O address: England, Northern Ireland, Scotland, Wales | > | 15,197,920 |
| 🗙 🔽 1. Acti | ve/Inactive: Active companies | > | 7,147,606 |

Figure 3 - Fame query to identify small companies under current thresholds

| Boolean search: | 1 and 2 and 3 and ((4 and 5) or (4 and 6) or (5 and 6) or (4 and 5 and 6)) and not ((7 and 8) or (7 and 9) or (8 and 9) or (7 and 8 and 9)) | Total: | 116,912 |
|-----------------|---|--------|-----------|
| × 🗹 9. Num | iber of employees, using estimates: max=10, Last available year | > | 8,666,340 |
| 🗙 🔽 8. Tota | l Assets (m GBP): max=0.316, Last available year | > | 7,286,21 |
| 🗙 🗹 7. Turn | over, using estimates (m GBP): max=0.632, Last available year | > | 7,921,20 |
| 🗙 🔽 б. Num | ber of employees, using estimates: max=10, Last available year | > | 8,666,34 |
| 🗙 🔽 5. Tota | l Assets (m GBP): max=0.5, Last available year | > | 7,541,54 |
| X 🗹 4. Turn | over, using estimates (m GBP): max=1, Last available year | > | 8,335,09 |
| 🗙 🔽 3. Lega | l form: Private limited, Public, Limited Liability Partnership (LLP), Guarantee, Unlimited | > | 14,624,89 |
| 🗙 🔽 2. Cour | ntry: Prim. trading address, R/O address: England, Northern Ireland, Scotland, Wales | > | 15,197,92 |
| X 🗹 1. Activ | re/Inactive: Active companies | > | 7,147,60 |

Figure 4 - Fame query to identify the number of companies that would move from the small threshold to the micro company threshold under a 50% uplift

| Identifying the net flow of companies between size bands when thresholds change | | | | |
|---|---|---|---|--|
| | | Number of companies changing size | Net change for the size band (rounded to nearest 1,000) ¹⁴⁵ | |
| Change in Large Population | Large companies re-classified as Medium | - 5,822 | - 6,000 | |
| Change in Medium | Large companies re-classified as Medium | +5,822 | 8 000 | |
| company population | Medium companies re-classified as Small | - 13,991 | - 8,000 | |
| Change in small | Medium companies re-classified as Small | + 13,991 | 102.000 | |
| company population | Small companies re-classified as Micro | - 116,912 | - 103,000 | |
| Change in Micro Population | Small companies re-classified as Micro | + 116,912 | +117,000 | |

b. The current population of corporate groups, and the net changes within group size bands should also be considered for this analysis. However, group level analysis is not possible using the Fame database.

We were unable to repeat these searches to identify the number of groups currently, and post-threshold change, within each size band. Fame does not reliably present disaggregated turnover and balance sheet figures for the individual companies within groups, which means that any group level analysis would be subject to double counting and a high potential for mis-sizing groups.

Fame data would need to be used alongside manual searches and scanning, which, given the number of companies on the UK register, is not possible to deliver. Therefore, our scoping, and the resulting analysis, only considers the impact on individual companies from threshold changes.

Company size determines some of the reporting requirements with which companies must comply. However, the reporting regime to which a company is subject is also determined by other factors, namely, the nature of the company's business.

Not all companies that are micro, small and medium-sized are allowed to report under their size-based regimes – public and financial services companies are not able to access the special provisions available to non-large companies under CA 2006. Therefore, our scope analysis also considers filing eligibility.

Using data in Fame to identify public and financial services companies, we estimate the number of companies in each size band that are eligible (and ineligible) to report under the respective regimes. These are captured in the tables below. The tables show the number of companies that might file under these regimes, but not necessarily the actual filing decisions made by these companies.

¹⁴⁵ Totals may vary slightly due to rounding.

Table 27 – Companies within each size band by filing eligibility (current scope, to nearest 1,000)

| Size/regime | All companies | All public and financial companies | Companies that can file in respective size-based regimes |
|----------------------|------------------|------------------------------------|--|
| Micro | 3,228,000 | 60,000 | 3,168,000 |
| Small | 394,000 | 13,000 | 381,000 |
| Medium | 51,000 | 2,000 | 49,000 |
| Large ¹⁴⁶ | 26,092 | N/A | 104,000 |
| Total ¹⁴⁷ | 3,698,000 | | 3,702,000 |

Table 28 – Companies within each size band by filing eligibility (50% uplifted thresholds, to nearest 1,000)

| Size/regime | All companies | All public and financial companies | Companies that can file in size- based regimes | Net change relative to the current threshold |
|----------------------|------------------|---|--|---|
| Micro | 3,345,000 | 64,000 | 3,281,000 | + 113,000 |
| Small | 291,000 | 10,000 | 281,000 | - 100,000 |
| Medium | 43,000 | 2,000 | 40,000 | - 9,000 |
| Large | 20,000 | N/A | 99,000 | - 5000 |
| Total ¹⁴⁸ | 3,698,000 | | 3,701,000 | |

Table 29 - Calculating net changes in company size bands by filing eligibility (50% uplifted thresholds, to nearest 1,000)

| Identifying the net flow of companies between size bands when thresholds change | | | |
|---|---|---|---|
| | | Number of companies changing size | Net change for the size band (rounded to nearest 1,000) ¹⁴⁹ |
| Change in Large Population | Large companies re- classified as Medium | - 5,355 | - 5,000 |
| Change in Medium company population | Large companies re- classified as Medium | +5,355 | 0.000 |
| | Medium companies re-classified as Small | - 13,428 | - 9,000 |
| Change in small company population | Medium companies re-classified as Small | + 13,4281 | 400.000 |
| | Small companies re- classified as Micro | - 113,067 | - 100,000 |
| Change in Micro Population | Small companies re- classified as Micro | + 113,062 | +113,000 |

The net changes given in *Table 29* are used as inputs to our calculations and form the core scope for the analysis included on thresholds.

¹⁴⁶ There is no large company regime as all large companies must file full accounts. All public and financial services companies are added to the number of large companies (i.e. companies filing full accounts).

¹⁴⁷ Totals may vary slightly due to rounding.

¹⁴⁸ Totals may vary slightly due to rounding.

¹⁴⁹ Totals may vary slightly due to rounding.

Annex B: Public Sector Equality Duty (PSED)

Equality analysis form for non-financial reporting programme: negative statutory instrument (Summer 2024).

This document records the analysis undertaken by the Department for Business and Trade (DBT) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires Ministers to pay due regard to the need to:

- 1. Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- 2. Advance equality of opportunity between people who share a protected characteristic and those who do not.
- 3. Foster good relations between people who share a protected characteristic and those who do not.

The protected characteristics which should be considered are:

- Age,
- Disability,
- Sex,
- Gender reassignment,
- Marriage or civil partnership,
- Pregnancy and maternity,
- Race,
- Religion or belief,
- Sexual orientation.

SECTION 1

Policy

Aims and objectives

This Impact Assessment (IA) outlines the impact of the Government proposals to reform the existing framework for the reporting of non-financial information by companies and other entities. The statutory instrument that will implement these changes is in development and is to be laid before Summer Recess 2024.

Policy Summary

The Government intends to legislate on the following proposals in a statutory instrument that will be laid before Summer 2024.

- Uplift the monetary elements of the current company size thresholds by approximately 50%. This will see the thresholds for micro-entities, small, medium-sized, and large companies increase to better reflect historic and future inflation, and as a result will have a deregulatory effect. Current thresholds do not reflect the last 10 years of inflation.
- Remove several reporting requirements currently required to be included in the Directors' Report that either duplicate requirements in the Strategic Report, the financial statements, are obsolete now that the UK has left the EU, or no longer provides useful information. This will include requirements to disclose:
 - Information on financial instruments
 - o Information on important events
 - Information on likely future developments
 - o Information on research and development

- Information on branches
- Information on the employment of disabled people
- Information on engagement with employees
- o Information on engagement with suppliers, customers, and others
- Remove content from remuneration report and remuneration policy, which was introduced by a 2019 EU directive, and which many stakeholders feel has somewhat onerous requirements.
- Make it easier for companies to digitally circulate annual reports to their members, in line with the Government's digital first approach.
- Make some technical fixes to address issues with audit caused by the retention and subsequent assimilation of EU law into UK law.

Outcomes

The Summer 2024 statutory instrument is part of a wider proposed package of work to streamline and improve the reporting framework. The proposals within it are intended to enact well-supported, low controversy policy changes that will be welcomed by the business community (both the users and preparers of accounts), making the reporting burdens on business more proportionate and commensurate with their size. These proposals are supported by the results of a Call for Evidence on Non-Financial Reporting (which ran May-August 2023) and by further targeted stakeholder consultation in November and December 2023 (see above for more detailed content on the measures).

Impacts

The most significant impact of these reforms is set to be at a company level, rather than an individual level. These reforms will affect all companies in the same way if they are in the same scope for reporting requirements. Some leaders and staff at UK companies, investment firms, law firms, consultancy, audit, and accounting firms may be affected by the proposed changes, in regard of the time taken to familiarise themselves with changes in reporting requirements. Although, such impact is measured at the company level by way of the resources of time and wages that go towards understanding regulatory changes. We also anticipate these familiarisation costs to be marginal.

There may also be some impact on wider civil society and academia as the measures will affect what information companies are required to publish in the public realm – the environmental, social and governance information companies publish often informs the work and policy development of civil society organisations.

However, we do not anticipate that such users will suffer a loss of information as the assessment above shows that this information being removed from the Directors' Report is of 'low value' to stakeholders and in the case of remuneration reporting, duplicates requirements from previously introduced regulations. In the case of uplifting company size thresholds, this measure will remove companies from certain corporate reporting obligations, which are determined by size. However, our research and engagement activities have found widespread support for this uplift. In addition to this, the removal of the requirement for companies to produce this information does not prohibit such companies from continue to disclose this information voluntarily if they determine it to be material.

SECTION 2

Summary of the evidence considered in demonstrating due regard to PSED

During this initial consideration of equality issues, officials have relied on stakeholder feedback from both the NFR Call for Evidence and other stakeholder engagement activities, input from OGDs, and desktop research in reaching conclusions of the impact of these proposals on protected characteristics. During the call for evidence period (May-August 2023), Department for Business and Trade officials met with over 60 organisations and received 160 written responses to the Call for Evidence. The stakeholders spanned

large companies that prepare accounts and use the accounts of smaller companies to make decisions, audit firms, investors and investor representative groups, and some civil society organisations. Following that, officials further tested certain proposals with stakeholders in roundtables in Nov-Dec 2023. This also included representatives of investors, some of the largest audit firms, accounting bodies, and large companies. Officials also spoke to academics, charities and OGD officials, including the Government Equalities Office.

Regarding age, sex, marriage or civil partnership, pregnancy and maternity, race, religion or belief and sexual orientation, we believe there is no specific impact on any one or multiple of these protected characteristics. All the measures we intend to implement, will affect the scope and/or amount of work required by many companies (and other entities) to produce an annual report, and will affect the process and frequency of tendering for audit services by a subset of UK companies. **However, this package will not disproportionately affect any of these protected characteristics over another.**

In addition, there is no evidence that the proposed changes to the information disclosed will significantly affect the amount or quality of information available publicly about anyone (or several) protected characteristic(s). Whilst affected entities will employ individuals who have protected characteristics, the impact of proposal will be on the entire firm or company and not on any specific individual or groups therein. We therefore expect the actual impact on employees to be the same regardless of their individual characteristics.

One proposal within this package has been reviewed more closely, given that it concerns company reporting on employees with one protected characteristic: disability.

The proposed policy is described below and the PSED considerations are described in section 2.2.

Summary of the evidence considered in demonstrating due regard to PSED

The law currently requires companies to include a disclosure in the Directors' Report providing information on the employment of disabled persons including, among other things, the company's policy for ensuring that disabled persons are given full and fair consideration when applying for employment by the company, where the average number of persons employed during the year exceeded 250 on the current-year basis.¹⁵⁰

The Government proposes removing the requirement to disclose information relating to disabled persons employed by the company in the Directors' Report. This would mean companies of any size would no longer be required to include this disclosure in their Directors' Report.

Assess the impact

1. *Eliminate unlawful discrimination*, harassment, victimisation, and any other conduct prohibited by the 2010 Act.

This proposal is not expected to treat any individuals or groups more favourably (or unfavourably) than others, nor is it expected to result in any direct impact on groups or individuals with protected characteristics. We also do not expect it to have a direct impact on people with protected characteristics as a result of them possessing those characteristics, or any unintended impact on any of those groups.

We closely examined this proposal because it concerns information companies disclose on the treatment of people with a disability – a protected characteristic. Regulation introduced in 1980 amended the Companies Act to require reporting on the treatment of disabled employees; this requirement has been

¹⁵⁰ <u>Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) Sch 5, para 5; Large and Medium-sized</u> <u>Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) Sch 7, Part 3, para 10</u>

carried through various amendments of the Companies Act since with little change to it. It remains a requirement for a basic description of a company's policy towards its disabled employees.

Though the current legislation does not set any requirements around the company's policy itself or of its efficacy, there is the possibility that removing the requirement for companies to disclose this information in the Directors' Report, results in a **loss of information** overall. Though many larger companies include employment policies (including additional detail) in different locations, such as a website, some do not. Once this requirement is removed, some companies may cease this voluntary additional reporting which could prevent or hinder some future employees with disabilities from identifying supportive employers. **However, we think that the likelihood in this resulting in a significant impact on these individuals in practice is minimal to none:** engagement and desk-based research¹⁵¹ indicates that employees/prospective employees do not commonly access annual reports as a source of this kind of information.

Additionally, the provision does not require companies to provide granular detail in terms of the policies they put in place– often the disclosures in the Directors' Report are high-level and give little insight into the actual application or ways of working within the company beyond what would be expected to comply with the law (according to Equality Act 2010 requirements). Again, demonstrating that the loss of this information would be highly unlikely to result in a negative impact on current or prospective disabled employees. We conducted analysis of a sample of company reporting based on this requirement and found that it resulted in boiler-plate disclosures that were unlikely to provide useful information to disabled employees (who would be likely have access to any company policies in any case) or prospective disabled employees, as the disclosures are regularly very high-level, amounting to little more than statements that the company complies with their legal responsibilities as an employer (*see Annex D*).

2. Advance equality of opportunity between people who share a particular protected characteristic and people who do not share it.

Removing this requirement will mainly affect directors and other preparers of accounts and those who use accounts; generally, the main audience is shareholders and investors.

It is possible that current or prospective disabled employees as well as investors might wish to access information about a company's employment/ anti-discrimination policy. By law, employers are not required to have a written discrimination/diversity and inclusion policy, but they are required to abide by the anti-discrimination aspects of the Equality Act 2010. Since the introduction of the Equality Act 2010, which imposed a duty to make reasonable adjustments for disabled persons, reporting against this Companies Act requirement has been largely a straightforward description of what companies are now required to do under the Equality Act. It sheds no further light on how companies treat their disabled employees beyond stating that they comply with their legal obligations. **Removing this reporting requirement would not change the legal obligations companies have to current or prospective disabled employees, or necessarily reduce the amount of information in the public domain about companies' policies towards disabled employees as most disclosures provide little to no company-specific information (see** *Annex D* **for some examples).**

Many companies (especially larger employers with over 250 employees) will seek to actively communicate their policies for promoting diversity and inclusion, by publishing it on their website or taking part in voluntary schemes like the Disability Confident Scheme. Larger employers are also likely to include these kinds of policies in their employee handbooks.

¹⁵¹ This involved c.20hours of stakeholder engagement meetings in addition to the roundtables convened whilst the Call for Evidence was live. As well as this, we've engaged with the other departments such as the Government Equalities Office and the Department for Work and Pensions to seek their views (and those of their stakeholders) on the removal of disability reporting.

Evidence gathered to-date suggests that the disability policy disclosure in the Directors' Report provides limited insight into the ways of working within a company and that it is not used by prospective or current disabled employees. The main audience for annual reporting is shareholders and investors. Research conducted by Eunomia Consulting (to support the non-financial post-implementation review referenced above) surveyed 504 employees and prospective employees and found that the influence of NFR information on employees and prospective employees is less clear cut compared to, for instance, investors. For example, the research showed that financial gain was the primary motivator in selecting a job, and appetite for 'purpose' over 'profit' remains small. Additionally, the Call for Evidence and subsequent stakeholder engagement indicated that the information disclosed is of low value.

While there is no other legislation requiring companies to disclose information about their policies with respect to disabled employees, there are voluntary reporting schemes that stakeholders suggest are more useful. *Voluntary reporting on disability, mental health, and wellbeing: A framework to support employers to voluntarily report on disability, mental health and wellbeing in the workplace* was published in 2018. This framework is aimed at large employers with over 250 employees with the intention of supporting organisations to record and voluntarily report on information on disability, mental health and wellbeing in the workplace was published in 2018. This framework is aimed at large employers with over 250 employees with the intention of supporting organisations to record and voluntarily report on information on disability, mental health, and wellbeing in the workplace. There is also the *Disability Confident Scheme* which encourages employers to 'think differently about disability and take action to improve how they recruit, retain and develop disabled people.' Of course, the voluntary nature of this reporting means only some companies will take part. Those companies that are more invested in reporting are likely to be those that would provide additional information, with the counter also being likely.

The requirement is for a statement that describes such policy as the company has applied during the financial year for giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities; for continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company; and, otherwise for the training, career development and promotion of disabled persons employed by the company. There is an argument that requiring this information in the Directors' Report, which is signed off by the company directors, encourages the Board to consider the treatment of existing and future disabled employees.

However, from reviewing examples of disclosures in annual reports, it appears that statements vary little year-on-year and as mentioned above, are often high-level and lacking in any meaningful detail. In combination with feedback from stakeholders that suggests preparers of reports see the information in the Directors' Report as low value, it seems unlikely that this disclosure would encourage Board scrutiny of these kinds of issues and may be more likely to occur during broader discussions on diversity and/or on legal requirements from the Equality Act 2010. The 2023 PwC annual survey of corporate directors supported this and found 41% of directors would like to see a reduction in the volume of information presented to the board, and instead see more meaningful metrics (24%) and useful insights (24%).¹⁵²

3. **Foster good relations** between people who share a particular protected characteristic and people who do not share it.

We expect these measures to ultimately benefit the wider UK population – by rationalising and simplifying the UK's non-financial reporting framework, we aim to reduce unnecessary burdens on UK businesses. By removing barriers to attract large businesses to invest in and operate within the UK, the Government

¹⁵² Sample size of 595 corporate directors - <u>https://www.PwC.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html</u>

aims to maintain the UK's global reputation as a great place to do business and support the UK economy. This measure will also alleviate reporting burdens from small and medium sized businesses.

The policy proposals in the non-financial reporting package does not intend to directly encourage actions to tackle prejudice or promote understanding between different groups. More importantly, we do not expect any of the measures taken under this proposal to hinder any action to tackle prejudice or promote understanding between different groups or give rise to, or create an increased risk of, discrimination, harassment, victimisation, or any other conduct prohibited by or under the Equality Act 2010.

Aims 1, 2 and 3 Assessment

| Protected Characteristic | Expected Impact |
|-------------------------------|-----------------|
| Disability | None |
| Race | None |
| Age | None |
| Gender reassignment | None |
| Religion or belief | None |
| Pregnancy & Maternity | None |
| Sexual orientation | None |
| Sex | None |
| *Marriage & Civil Partnership | None |

Conclusion

We conclude that the proposals assessed here should have no adverse or disproportionate negative impact on persons or groups with a protected characteristic, and no steps need to be taken to advance equality of opportunity and foster good relations because of, or in relation to, them.

The measures under these proposals are not expected to give rise to discrimination, harassment, victimisation, or any other conduct prohibited by or under the Equality Act 2010. Further, they do not make specific or direct provision in respect of any of the protected characteristics, and they are not expected to result in outcomes where people who share protected characteristics are treated differently from people who do not. They are not expected to give rise to a direct or indirect impact on individuals as a result of any protected characteristic they may have.

Summary of the analysis

Disclosure concerning employment etc. of disabled persons

After consideration, we conclude that there are no significant negative impacts of removing the legal requirement that companies report on matters concerning the employment of disabled persons. The requirement pre-dated the Equality Act 2010 and has since become a reason for companies to produce boilerplate statements that they are fulfilling their obligations as employers under the Equality Act 2010 in so far as they relate to disabled employees. The reporting requirement itself does not contribute to the elimination of unlawful discrimination. In addition, the disclosures it engenders do not provide decision-useful for those interested in issues concerning disabled persons. In other words, the information this requirement produces does not advance equality of opportunity or foster good relation. On that basis, removing the legal requirement to produce this reporting should not create any adverse impacts.

Decision making

Disclosure concerning employment etc. of disabled persons

Ministers decided to proceed as planned with the policy to remove the legal requirement to disclose information relating to disabled persons employed by the company in the Directors' **Report.** This would mean companies of any size would no longer be required to include this disclosure in their Directors' Report. Officials' analysis and feedback from stakeholders suggests that currently, this requirement does not advance equality of opportunity, eliminate unlawful discrimination or contribute to fostering good relations. On that basis, the proposed removal of this legal requirement should have a neutral effect on equality matters.

Monitoring arrangements

The removal of the reporting requirement concerning the employment of disabled persons (alongside the other proposals in this package) will be assessed in a future post-implementation review to determine whether there have been any unintended consequences of this removal.

Furthermore, in 2024 the Government intends to publish a consultation document on other aspects of nonfinancial reporting. While the measures in this package will not be subject to consultation, they will be referenced. The consultation period will include significant stakeholder engagement where we expect to receive comment on the proposals we are not explicitly consulting on. We expect responses from preparers and users of accounts, investors, audit firms, regulators, and interested civil society organisations. The analysis of the consultation proposals that follows will give ample opportunity to record and reflect on any perspectives and analysis we have not yet considered, for example from prospective and current employees.

Sign-off by the decision-maker (SCS1 or above) Name: Andrew Death Job Title: Deputy Director Date: 23 January 2024

1.4 Save a copy for your records and send a copy to email: <u>equalities@trade.gov.uk</u> Annex C: Table outlining rationale for removing most of the provisions in the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019

| Requirement | Rationale for removal |
|-----------------------------------|--|
| The report must compare the | The pre-existing framework already gives shareholders insight |
| annual percentage change of | into the relationship between executive pay and wider employee |
| each director's pay to the | pay by requiring the annual disclosure, and explanation, of the |
| average percentage change in | ratio of CEO pay to the median (and lower and upper quartile) of |
| annual employee pay, over a | employee pay. |
| rolling five-year period. | Also, this EU-origin rule applies only to parent companies, who |
| [Schedule 8 to 2008 | may not have many employees. |
| regulations, para 19] | [Schedule 8, para 19A-G] |
| | |
| The report must show the split | The pre-existing Single Total Figure table already breaks each |
| of total fixed and total variable | director's total pay down into specific fixed and variable |
| pay for each director, as two | components (fixed – salary, pension and other benefits; variable – |
| additional columns to the | annual bonus and long-term share awards) |
| existing 'Single Total Figure' | [Schedule 8, para 5] |
| table. | |
| [Schedule 8, para 5] | |

| Requirement | Rationale for removal |
|----------------------------------|---|
| Whether there has been any | The pre-existing framework already provides a lot of detail on any |
| change in the exercise price or | planned share option awards, including the share price used |
| date for any share options | (price at grant or price over performance period) and the |
| awarded to directors. | corresponding date or other time period. And it specifically |
| [Schedule 8, para 14(b)(v)] | requires an explanation of any difference between the exercise |
| | price for the face value of the award and the actual price when the |
| | share option was exercised. |
| | [Schedule 8, para 14(b)(v), 14(3)] |
| The report must be freely | Section 430 already requires all company reports and accounts to |
| available on the company's | be made available on the company website, until at least the |
| website for ten years. | following year's reports and accounts have been made available. |
| | In practice, most companies keep reports and accounts from |
| [Section 430(4ZA), Companies | previous years on their websites, and they are also available |
| Act] | online from Companies House. It is therefore unnecessary, and |
| | inconsistent, to single out the remuneration report to be kept |
| | available on company websites. |
| Remuneration reports must not | This provision inconsistently singles out one part of the annual |
| include any sensitive personal | report for protection of personal information. It is not clear that |
| data, revealing racial or ethnic | what value it adds given existing broader data protection law – |
| origin, political opinions or | this kind of information would be appear to be "special category |
| religious beliefs. | data" which is protected by UK GDPR. It is not clear either what |
| - [Sobodulo 9, poro 24] | problem the provision is seeking to address given directors are |
| [Schedule 8, para 2A] | responsible for signing off remuneration reports and therefore |
| | would not approve disclosures that would reveal sensitive |
| | personal information about themselves. |
| Information on any vesting and | This arguably adds little value. The UK Corporate Governance |
| holding periods related to | Code already stipulates (albeit on a comply or explain basis) that |
| share based remuneration. | share awards should be subject to a total vesting and holding |
| [Schedule 8, para 26(ba)] | period of five years or more. |
| Information on any deferral | Also arguably adds little value. The remuneration report already |
| periods related to directors' | provides details of any deferrals around annual bonus awards |
| remuneration. | [Schedule 8, paras 10 and 12] and other information on when |
| [Schedule 8, para 26(b)] | shares and share options can be exercised while, as above, the |
| | Code stipulates a minimum vesting and holding period. |
| An indication of the duration of | Adds no value. The remuneration policy already requires |
| directors' service contracts. | disclosure of any obligations on the company contained in |
| [Schedule 8, para 30A] | directors' service contracts, and contract duration arguably |
| | constitutes an obligation. [Schedule 8, para 30]. Also, section 188 |
| | of the Act requires that no director's contract can be more than |
| | two years without shareholder approval, and directors are subject |
| | to annual reappointment by shareholders in any case. |
| Information on the desision | Arguebly adda little value while heine diagram tigeste. Och study |
| Information on the decision- | Arguably adds little value, while being disproportionate. Schedule |
| making process for devising | 8, para 22 already provides detail on the work of the remuneration |
| the policy, and key changes | committee, including third party advice. And the Code stipulates |
| compared to the previous policy. | comply or explain disclosures on the need for remuneration committees to exercise independent judgement when receiving |
| | management or other views on directors' remuneration, as well as |
| [Schedule 8, para 24(1A) | to set out the work of the committee. |
| | |
| | |

| Requirement | Rationale for removal |
|--|--|
| The company must put the date and results of the shareholder vote on its policy on its website as soon as reasonably practicable. [Section 430(2C), Companies Act] | Not needed. Section 341(1A) +(1B) of the Act already requires this information in respect of all shareholder votes on company resolutions. (Schedule 8, para 23 also requires remuneration voting results from the previous AGM to be in the following year's remuneration report). |
| A company cannot make a payment to a director that is inconsistent with the policy unless it first amends the policy and has the amended policy approved by shareholders. [Sections 226A-E, Companies Act] | Not needed. The pre-existing framework [Sections 226A-E] previously required that any payment to directors that was not consistent with the remuneration policy needed shareholder approval. The Directive replaced this with a need for the policy to be amended and then approved by shareholders in order to make a payment that would otherwise have been inconsistent. This has arguably made for a more cumbersome and less agile process for companies making one-off payments outside the policy (e.g. to recruit a new CEO urgently). |
| Unquoted traded companies to be in scope of remuneration reporting. [various amends to the Act and to Schedule 8 which provide for "unquoted traded companies" as well as "quoted companies" to be in scope both of the Directive additions, and all other Companies Act remuneration reporting requirements. | In the UK, there are very few companies which are traded (i.e. trade equity securities on a regulated market) but not quoted (i.e. not quoted on the FCA's Official List). Our analysis suggests that such companies consist solely of funds on the London Stock Exchange's Specialist Fund Segment, whose boards of directors are exclusively non-executive directors. Such directors do not receive the performance-related and variable pay which the directors' remuneration reporting framework is primarily concerned with, and it is arguably disproportionate and unnecessary to include them in that framework. Directors of those companies would still be subject to Schedule 5 of the 2008 regulations, which require disclosure of the pay of the highest paid director (if the pay of all the directors is above £200k in total). These companies outsource the management of their funds to fund managers whose fixed and variable pay is subject to disclosure requirements under FCA rules. |

Annex D: Examples of disclosures related to disabled persons in Directors' Reports

Information gathered October 2023 and taken from a sample of companies' most recent Annual Reports.

| Company | Туре | Disclosure |
|---------------------------------------|-------------------------------|--|
| Anglo American plc | FTSE100, mining | It is the Group's policy that everybody should have full and fair consideration for all vacancies. Employment is considered on merit and with regard only to the ability of any applicant to carry out the role. We endeavour to retain the employment of, and arrange suitable retraining, for any employees in the workforce who become disabled during their employment. Where possible we will adjust a person's working environment to enable them to stay in our employment. |
| <u>National Grid</u> <u>plc</u> | FTSE100, energy | Our policy is that people who identify as having a disability should be given full and fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable accommodations and provide additional resources for employees who identify as having a disability. We are committed to equal opportunity in recruitment, training, promotion and career development for all colleagues, including those with disabilities. |
| <u>Barclays plc</u> | FTSE100, banking | Additionally, as part of the UK Government Disability Confident scheme, we encourage applications from people with a disability, or a physical or mental health condition. We require people leaders to give full and fair consideration to those with a disability on the basis of strengths, potential and ability, both when hiring and managing. We also ensure opportunities for training, career development and promotion are available to all. |
| <u>Domino's</u> <u>Pizza Group</u> | FTSE250, retail | The Group is committed to ensuring that its employees feel respected and valued and are able to fulfil their potential and recognises that the success of the business relies on their skill and dedication. The Group gives full and fair consideration to applications for employment from disabled persons, with regard to their particular aptitudes and abilities. Efforts are made to continue the employment of those who become disabled during their employment. |
| Intermediate Capital Group | FTSE250, private equity | Approach to discrimination and consideration of disabled employees The Group is committed to creating an environment where all its employees are treated with dignity and respect at work and which is free from discrimination, victimisation, harassment and bullying. Such conduct is harmful to our employees and our business and we seek to address any form of discrimination, victimisation, harassment or bullying where it occurs in the workplace. All our employees and other third parties working for or with us, without exception, have a duty to comply with our policies to ensure that their colleagues are treated with dignity and respect and wherever possible to prevent discrimination, victimisation, harassment or bullying. We aim to: • ensure that all job applicants are treated fairly and judged on criteria relevant to a vacant position • ensure that all employees are treated in a fair and equitable manner which allows each individual to reach their full potential |

| | | ensure that decisions on recruitment, selection, training, promotion, career management, transfer, terms and conditions of employment and every other aspect of employment are based solely on objective and job-related criteria provide the Group with a workforce of the highest ability which reflects the population as a whole avoid any type of unlawful discrimination ensure all managers actively promote equal opportunities within the Group |
|---|------------------------------------|--|
| | | We strongly disapprove of and will not tolerate unlawful discrimination, victimisation, harassment, bullying or any other inappropriate behaviour towards our employees by managers, other employees or any third party such as clients, suppliers, visitors, consultants or contractors. All our employees and third parties working for or with the Group are required to make sure they treat everyone fairly and without bias. |
| | | The Group treats applicants and employees with disabilities fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Arrangements are made as necessary to ensure support to job applicants who happen to be disabled and who respond to requests to inform the Group of any requirements. |
| | | Should an employee become disabled during their employment, efforts would be made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within the Group. |
| | | Financial support is also provided by the Group to support disabled employees who are unable to work, as appropriate to local market conditions. |
| <u>Spire</u> <u>Healthcare</u> <u>Group</u> | FTSE250, health | We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the clinical and financial performance of the hospital that they work in as well as the group more widely. Examples of colleague involvement and engagement are highlighted throughout this annual report. When appropriate, consultations with employee and union representatives take place. The group gives full and fair consideration to applications for employment from disabled persons. Should an employee become disabled during their employment with Spire Healthcare, every effort is made to enable them to continue their service with the group. |
| Brewdog plc | Private company, hospitality | The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities. |
| Bristol Waste Company Limited | Private company, | Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In |

waste management the event of members of staff becoming disabled every effort is made to ensure that they employment with the company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Annex E: Examples of environmental disclosures from companies defined as large who will move into the medium category following CA2006 size uplift.

Information gathered in January 2024 and taken from a random sample of 10 companies' most recent Full Accounts. The *Table* below is based on the first 10 companies selected. Some information has been removed where it is disclosive.

| Company | Sector | Disclosure |
|---------|-----------------------------------|--|
| A | Transport, Freight and Storage | This company includes a section in their Strategic Report on ESG considerations. However, the first paragraph is a cross reference to the company's strategy on their website. ¹⁵³ The remaining paragraphs are below: The key underlying principles have been communicated to the company's managing directors, and the company's key staff are now actively engaged in developing plans to meet the company's ESG objectives. The directors are committed to ensuring that the company remains a good corporate citizen, and in balancing the needs of its stakeholders, understands that each decision that is made in respect of ESG will have an impact on shareholders, employees, customers, communities and suppliers. However, it is the belief of the directors that only in addressing ESG responsibilities proactively, reducing pollution, boosting social impact and complying fully with governance obligations that the company will be able to deliver growth and support its stakeholders in the long term. |
| В | Wholesale | The company carefully considers the impact of its operation on the community and environment, seeking efficiencies in transport and energy usage wherever possible. We invest in more energy efficient technologies when we can and have recently completed the installation of solar panels to reduce our energy usage. |
| С | Business Services | The Company is passionate about the town and the local environment. encourages staff to minimise the impact on the environment, trying to ensure waste is minimised and actively encourages recycling. |
| D | Retail | Environment – We are committed to minimising the impact of our business operations on the environment and our conscientious of our footprint, we encourage the same conscientiousness from our stakeholders too, including energy reduction, reduction in waste, and sustainability. |
| E | Food & Tobacco Manufacturing | The impact the Company has on the environment is a key non-financial concern for the business. The Company continues to fully monitor its environmental impact, constantly implementing new strategies to combat and reduce waste striving toward its it clearly stated goal of being carbon free by 2050. |
| F | Computer Software | No reference to impact on the enviornment in the Strategic Report. |
| G | Media and Broadcasting | This company includes a section in their s.172 statement, which forms part of their Strategic Report. However, this excerpt contains disclosive information. In summary, they express their commitment to being carbon neutral by 2035, and mention that they have recently joined the Science Based Target Initiative (SBTi). They provide a few examples of what they'll focus on to achieve these goals, i.e., sourcing clean energy, improving energy efficiency, and creating more sustainable products and packaging. They continue to state their commitment, see below: The directors and management of the company are responsible for ensuring the company contributes to the progress toward these Group wide goals, and consideration of these goals, together with wider environmental impact considerations, are incorporated into the company's decision-making processes. For more information on Group wide environmental performance and progress, see the 2022 Carbon Footprint Data Report, the Sustainability Accounting Standards Board (SASB) Report, the Task Force on Climate-Related Financial Disclosures (TCFD) Report and the Carbon Disclosure Project (CDP) Report, all available on Comcast Group's ESG Reporting website |
| Н | Communications | No reference to impact on the enviornment in the Strategic Report. |
| I | Utilities | Environment The company recognises its corporate responsibility to carry out its operations whilst minimising environmental impacts. The directors' continued aim is to comply with all applicable environmental legislation, prevent pollution and reduce waste wherever possible. |

 $^{^{153}}$ This has not been included in the excerpt as it is disclosive.

| J | Banking, | No reference to impact on the enviornment in the Strategic Report. |
|---|---------------|--|
| | Insurance and | |
| | Finance | |