Title: The Companies (Non-financial Reporting) (Amendment) Impact Assessment (IA) Regulations 2024 IA No: DBT-004-24-CMRR Date: 10/05/24 RPC Reference No: RPC-DBT-5328 (1) Stage: Final Lead department or agency: The Department for Business and Trade Source of intervention: Domestic Other departments or agencies: None Type of measure: Secondary legislation Contact for enquiries: Suresh.Rao@businessandtrade.gov.uk **RPC Opinion: GREEN**

Summary: Intervention and Options

cost of Freiened (or more likely) Option (iii 2019 pinces)				
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status	
£2,067.3	£2,067.3m	- £240.2m (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, which include the growth of nonfinancial reporting requirements leading to lengthy and complex annual reports, and outdated Companies Act 2006 (hereafter CA06) monetary company size thresholds which do not reflect the impact of inflation. 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, and increase the CA06 monetary thresholds which determine company size to account for past and future inflation to reduce disproportionate regulatory burdens on 'smaller' companies. 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.
- 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; and
 - b. make technical corrections to the audit regulatory framework.
- 3) Option 2 (preferred option) implement option 1, as well as uplifting CA06 company size (monetary) thresholds by 50%.

Will the policy be reviewed? If applicable, set review date:					
Is this measure likely to impact on international trade and investment?	Is this measure likely to impact on international trade and investment? No				
Are any of these organisations in scope? Micro 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.

4	Date:	20/09/2024
	4	Date:

from Acado

Summary: Analysis & Evidence

Policy Option 2

Description: Implement measures related to the directors and renumeration report and audit technical corrections, and raise company size definition thresholds.

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
Year 2019	Year 2020	Years 10	Low: 1,847.2	High: 2,287.8	Best Estimate: 2,067.3

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 remove certain regulatory requirements from the Directors' Report and Remuneration Report and, through company size definition criteria uplifts, it will also remove less economically significant companies from certain reporting requirements that are deemed to be disproportionate to their actual size and scale. 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 any potential cost to be non-material: many of the Directors Report and Remuneration Report requirements are duplicative or lead to disclosures which are boiler plate or add little value to users; and where companies are re-classified into smaller size-bands under threshold changes, they would still need to produce some form of size-appropriate accounts and reporting, which would be more streamlined and easier for users to understand.

BENEFITS (£m)	Total Transition		Average Annual	Total Benefit
` ,	(Constant Price)	Years	(excl. Transition) (Constant Price)	(Present Value)
Low			214.6	1,847.2
High			223.2	2,287.8
Best Estimate			240.2	2,067.5

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

Each of the measures under this option have been estimated to generate the following benefits: The Directors' Report removals will deliver an estimated annual benefit of £0.9m and the company size thresholds uplift will deliver an annual benefit of around £239m. Audit technical corrects have not been monetised due to there being no expected change in the practical effect of 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 so doing, it will **reduce regulatory burdens** for companies required to produce non-financial information. Moreover, in making companies' reporting more proportionate to company size, raising company size definition thresholds would also have the effect of de-cluttering the company reporting environment of duplicative and low value reporting and information, which would save users of this reporting time in identifying and understanding decision-useful information, and should ultimately lead to better decision-making.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

We use the Fame database to estimate the number of companies in scope of benefitting from changes under this option. We use a cost of compliance approach to estimate the potential savings these companies would be able to access once their obligations to report under currently disproportionate requirements change. Our analysis assumes that all eligible companies take up these potential savings. However, some companies may choose not to do so, and to continue reporting as they are now. We do not take this into account in our analysis, and therefore treat the benefits estimated as an upper bound.

BUSINESS ASSESSMENT (Option 1)

, , ,			Score for Business Impact Target (qualifying
Costs: 0.03	Benefits: 240.2	Net: - 240.2 (net benefit)	provisions only) £m: - 1,200.8 (net benefit)

Contents

Evidence Base	5
Introduction	5
Problem under consideration, rationale for intervention and approach to assessing impacts.	6
Policy objective	12
Description of options considered	12
Summary and preferred option with description of implementation plan	14
Monetised and non-monetised costs and benefits of each option (including administrative burden)	14
Option 0: Do nothing	14
Option 1: Do minimum	15
Option 2: The combined policy package (Preferred option)	15
Summary of direct costs and benefits to business calculations	51
Impact on small and micro businesses	53
Wider impacts	53
A summary of the potential trade implications of measure	54
Monitoring and Evaluation	54
Annex A: Scope analysis for changing company thresholds	57
Annex B: Public Sector Equality Duty (PSED)	60
Annex C: Table outlining rationale for removing most of the provisions in the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019	67
Annex D: Examples of disclosures related to disabled persons in Directors' Reports	70
Annex E: Examples of environmental disclosures from companies defined as large who will move into the medium category following CA2006 size uplift	

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. make technical corrections to the audit regulatory framework to:
 - remove uncertainty about the audit committee definition in the Audit Regulation and the Statutory Auditors and Third Country Auditors Regulations 2016 ("SATCAR 2016");
 - ii. 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.
 - c. Uplift Companies Act 2006 monetary **size thresholds** to reflect historical and future inflation and reduce regulatory burdens on business.
- 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 November 2022, a post implementation review of two of the main regulations underpinning non-financial reporting was published.¹ It found that greater comparability and harmonisation of

¹This 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

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 standards². 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.

5. In May 2023, the Smarter Regulation non-financial reporting review³ call for evidence was published and 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 aim was 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

- 6. 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 Governments 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, they each 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 this has resulted in a fragmented and complex framework, making comparability between companies very challenging for stakeholders. The 2019 PwC research⁴ 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 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

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.

² https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/

 $^{^{3}\ \}underline{\text{https://www.gov.uk/government/calls-for-evidence/smarter-regulation-non-financial-reporting-review-call-for-evidence}$

⁴ This involved 30 in-depth interviews with a range of organisations -

https://assets.publishing.service.gov.uk/media/5 daec 732 e 5274 a 5 ca 94 bb 613/stakeholder-perceptions-of-non-financial-reporting.pdf

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 2024⁵. 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 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:
 - 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.
 - 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

7. The rationale for intervention is built around the following:

- 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

⁵Based on information from the European Commission on their planned increases in SME size criteria. 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.

- 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 report⁶ 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)."

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 $^{^{6}\ \}underline{\text{https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/}$

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

ii. PwC research⁷ 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 exclusively⁸ 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.

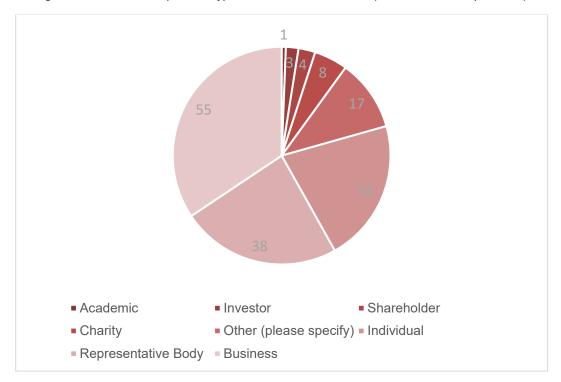
Approach to assessing impacts

- 8. 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:

⁷ BEIS Research (2019) Non-financial reporting regime: stakeholder perceptions: https://www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions

⁸ Respondents were identified as either: preparer, user or other. The other category included both 'preparer' and 'user' type respondents.

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 This included a post-implementation review (PIR) covering two sets of non-financial reporting regulations published 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 database⁹ 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

- 9. 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.
- 10. 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.
- 11. 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

12. 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 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.

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⁹ https://login.bvdinfo.com/R0/Fame

13. 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, wider, obligations, making itemised costs difficult to disentangle.

Policy objective

14. This 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.

Description of options considered

- 15. **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 2 as proportionate and targeted to deliver on the desired policy objectives.
 - a. Option 0: 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. Option 1: Do minimum implement the combination of measures set out in Table 1 below. Although this package of measures would improve the current framework through streamlining requirements, 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 would continue to face burdensome reporting regimes not commensurate with their company size, therefore adding 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 minimum 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.
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.	

Option 2: In addition to option 1, uplifting Companies Act 2006 monetary thresholds by **50%** to account for historical and future inflation. **This is our preferred option.** *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.
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.	
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.	

- 16. Feedback to 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' 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 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>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.

13

¹⁰ 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. https://www.frc.org.uk/library/frc-lab/themes/materiality/materiality-in-practice-applying-a-materiality-mindset/

- c. <u>Size Thresholds</u> This measure will bring monetary thresholds that determine company size in line with inflation, introduce an element of future proofing to the threshold criteria and 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.
- 17. 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

- 18. 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.
- 19. The commencement date for these proposals will be 01 November 2024.
- 20. The enforcement of corporate reporting obligations 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.

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

- 21. This section provides a summary of the likely impacts (monetised and non-monetised) associated with the individual measures.
- 22. 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 costs might arise, we expect them to be negligible.
- 23. In line with Better Regulation requirements, all monetised impacts are presented in 2019 prices and use a 2020 base year for discounting (where indicated)¹¹.

Option 0: Do nothing

24. This option would leave the existing corporate reporting framework untouched. Therefore, the problems highlighted would not be addressed, and the policy objectives would not be achieved.

25. 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 options 1 and 2 are assessed.

¹¹ A new Better Regulation Framework was introduced in September 2023, and becomes mandatory in September 2024 after a one-year transition period. Analysis started during the transition period could follow either the pre-September 2023 framework or the new framework. This IA was developed under the pre-2023 framework and requirements.

Option 1: Do minimum

26. This option will implement the package of measures 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: The combined policy package (Preferred option)

- 27. This option combines the option 1 with the uplifting the CA2006 monetary company size thresholds. It therefore consists of the following sets of measures intended to reduce regulatory burdens and streamline corporate reporting requirements:
 - a. **Directors' and Remuneration Report –** Remove several requirements from the Directors' and Remuneration Report.
 - b. CA2006 Company Size Thresholds Uplift Companies Act 2006 monetary size thresholds by 50% to reflect historical and future inflation and to reduce regulatory burdens on business.
 - c. Audit Technical Measures Make technical corrections to the audit regulatory framework on 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.
- 28. The subsections that follow detail each component in the package that form this option. We present the overall monetised estimates in the summary table at the end of the section.

a) The Directors' and Remuneration Report

Background: Directors' Report

- 29. The origins of the Directors' Report dates back to 1947¹² but the Companies Act 1985¹³ 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 2013¹⁴, 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:

¹² https://www.legislation.gov.uk/ukpga/Geo6/10-

 $[\]underline{11/47/enacted\#:\sim:text=An\%20Act\%20to\%20amend\%20the, the\%20registration\%20of\%20business\%20names.}$

¹³ https://www.legislation.gov.uk/ukpga/1985/6/part/VII/chapter/I/crossheading/directors-report/1991-02-01

¹⁴ https://www.legislation.gov.uk/uksi/2013/1970/part/2/made

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

	Existing Requirements		
Small Companies ¹⁵	 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	 Political donations Names of directors Company policy employment, training, career, development and promotion of disabled persons (monthly avg. > 250 emps) Recommended dividends Directors' qualifying indemnity provisions 		
Large Companies ¹⁶	 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 important events affecting the company Information on likely future developments, research & development 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). ¹⁷ Also, when looking at company size classifications, although they use similar criteria (i.e., annual receipts

¹⁵ 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.

¹⁶ 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.

 $^{^{17}\} https://www.investopedia.com/ask/answers/062415/private-company-required-disclose-financial-information-public.asp$

- the business has and number of employees), 'size standards' vary by industry, therefore this jurisdiction is not a helpful comparator to the UK.¹⁸
- 33. When looking to EU jurisdictions, some have similar frameworks to the UK; some examples include Germany¹⁹ 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 1980²⁰ 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 1985²¹ and later included in the Companies Act 2006 (CA06).²² 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 meaningful²³.
- 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 characteristics²⁴ 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 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 guidance²⁵ and the advice provided by other organisations such as charities,²⁶ 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 Act²⁷ lay out requirements for the Strategic Report.²⁸ The purpose of the Strategic Report is to inform members of the company and help them

¹⁸ https://www.state.gov/what-is-a-small-business/

¹⁹ https://www.lawyersgermany.com/company-management-in-germany

²⁰ https://www.legislation.gov.uk/uksi/1980/1160/made

²¹ https://www.legislation.gov.uk/ukpga/1985/6/schedule/7/enacted

²² The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008

²³ https://eprints.bournemouth.ac.uk/792/2/Revised Business Ethics submission May 05 Woodward and Day.pdf; https://eprints.bournemouth.ac.uk/791/2/Disclosure of Information. Submitted final paper.pdf

²⁴ https://www.legislation.gov.uk/ukpga/2010/15/section/149

 $^{^{25}\} https://www.gov.uk/government/publications/voluntary-reporting-on-disability-mental-health-and-wellbeing/voluntary-reporting-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-to-voluntarily-report-on-disability-mental-health-and-wellbeing-a-framework-to-support-employers-emp$

²⁶ https://www.scope.org.uk/campaigns/research-policy/employers-guide/

²⁷ https://www.legislation.gov.uk/ukpga/2006/46/section/414C

²⁸ Required to be prepared and included in the Annual Report for all companies other than those qualifying as small.

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 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)²⁹ 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.³⁰

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 instruments³¹ by a company. This legislation implemented two pieces of European legislation³² 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 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)³³ 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).³⁴ 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, on an annual basis, a 'fair review of the business including principal risks and uncertainties' (Section 414C of the Companies Act³⁵). 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

²⁹ https://www.gov.uk/government/collections/disability-confident-campaign

³⁰ 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/media-library/home/about-us/careers/skills-strategy.pdf

³¹ 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.

 $^{^{32}}$ Directive 2001/65/EC and Directive 2003/51/EC

³³ 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.

³⁴ https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/

³⁵ https://www.legislation.gov.uk/ukpga/2006/46/section/414C

- 48. The Companies Act 1985 (Disclosure of Branches and Bank Accounts) Regulations 1992³⁶ introduced a disclosure requirement on the existence of branches³⁷ outside the UK. The disclosure requirement originated from an EU Directive³⁸ which intended to achieve transparency of branches outside of the UK. The legislation noted that, while there are differences in laws between subsidiaries and branches³⁹, 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.⁴⁰
- 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 Standards⁴¹ and FRS 102⁴² or within the non-financial and sustainability information statement, which requires a brief description of the company's business model (Companies Act, Section 414CB⁴³).
- 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

³⁶ <u>https://www.legislation.gov.uk/uksi/1992/3178/made</u>

³⁷A 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.

³⁸ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A01989L0666-20120706

³⁹ 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.

⁴⁰ https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2022/AR/Barclays-PLC-Annual-Report-2022.pdf

⁴¹ https://www.ifrs.org/issued-standards/list-of-standards/ifrs-8-operating-segments/

⁴² https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/

⁴³ https://www.legislation.gov.uk/ukpga/2006/46/section/414CB

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 requirement 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 4*) 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).⁴⁴

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

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 ⁴⁵ 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 material 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 guidance⁴⁶ 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

⁴⁴ 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

⁴⁵ Å 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.

⁴⁶ https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/annual-corporate-reporting/guidance-on-the-strategic-report/

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 172.⁴⁷
- 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 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." 48
- 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

⁴⁷ https://www.legislation.gov.uk/ukpga/2006/46/section/172

⁴⁸ https://www.frc.org.uk/documents/1665/Guidance on the Strategic Report aontvWr.pdf

- 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 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 extensive⁴⁹ 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

23

⁴⁹ 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)

- 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 Assets⁵⁰ and Section 18 *Intangible Assets other than Goodwill* of FRS 102⁵¹). FRC Guidance on the Strategic Report (7A.16)⁵² 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 10⁵³ issued in 2003 and UK GAAP standards, including Section 32 *Events after the End of the Reporting Period* of FRS 102⁵⁴) 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)⁵⁵ 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

- 71. The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019⁵⁶ 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.⁵⁷ 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

⁵⁰ https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/

 $[\]frac{51}{\text{https://www.accountingweb.co.uk/community/industry-insights/frs-102-section-18-summary-intangible-assets-other-thangoodwill#:~:text=Section%2018.2%20defines%20an%20intangible,contractual%20or%20other%20legal%20rights.}$

⁵² https://www.frc.org.uk/documents/1665/Guidance on the Strategic Report aontvWr.pdf

 $^{^{53}}$ https://www.ifrs.org/issued-standards/list-of-standards/ias-10-events-after-the-reporting-period/#:~:text=IAS%2010%20prescribes%3A,events%20after%20the%20reporting%20period.

 $[\]frac{54}{\text{https://www.icaew.com/technical/corporate-reporting/uk-gaap/frs-102-topics/events-after-the-reporting-period\#:} \\ \text{-:text=FRS} & 20102\%3A\%20 \\ \text{Events} & 2020102\%3A\%20 \\ \text{-:text=FRS} & 2020102\%34\%20 \\ \text{-:text=FRS} & 2020102\%34\%20 \\ \text{-:text=FRS} & 2020102\%34\%20 \\ \text{-:text$

 $^{^{55}\ \}underline{\text{https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/}$

⁵⁶ 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.

⁵⁷ 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.

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):

- o 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).
- o new requirements relating to the shareholder vote on the Remuneration Policy and the public availability of the Remuneration Report.⁵⁸
- 73. The 2019 regulations apply to all UK quoted companies⁵⁹ and unquoted traded⁶⁰ 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.
 - 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.

⁵⁹ 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.

⁵⁸ 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.

⁶⁰ 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).

- 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 2023⁶¹.
- 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 available. They also add that there is 'little evidence' to show that investors use or consider this information in their decision making (pp.16).⁶²

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.

⁶¹ LSE Instrument List, as at December 2023

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⁶² https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/

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) 63
	Information relating to employment of disabled people	Small companies with >250 employees' weekly calculation and medium companies and above with >250 employees' monthly calculation ⁶⁴	c 105 small; c 2,200 medium; and c 16,400 large
	Information on financial instruments Medium companies and above, and small companies that are ineligible for the small companies reporting regime	c 12,700 small; c 51,400 medium and c 26,000 large	
Directors'	Information on branches	Medium companies and above and small companies that are ineligible for the small companies reporting regime	c 12,700 small; c 51,400 medium and c 26,000 large
Report	Information on employee engagement Medium and above if annual average of >250 UK-based employees (at the group level) ⁶⁵ , and small companies that are ineligible for the small companies reporting regime and meet the >250 employee threshold Information on supplier / customers/ others engagement Large companies, and medium and small companies that are ineligible for sizebased reporting exemptions	c 2 small; c 2,200 medium and c 16,400 large	
		medium and small companies that are ineligible for size-	c 12,700 small; c 2,600 medium and c 26,000 large
	Information on events affecting the company, future	Medium companies and above (group considerations apply ⁶⁶) and small companies	c 12,700 small;

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⁶³ Based on the company data captured in Fame, which captures global company activity. 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 therefore excluded listed companies from these counts using Fame information on company listing.

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.

⁶⁵ 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.

⁶⁶ 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.

Location of reporting	Measure (Removal of)	Entity types in scope	Number of companies (current number of companies affected) ⁶³
	developments and research and development activities	that are ineligible for the small companies reporting regime	c 51,400 medium and c 26,000 large
Remuneration Report	Information on EU-origin directors' remuneration reporting requirements	Quoted and unquoted traded companies	c 910 quoted UK companies ⁶⁷ and 8 companies on the LSE SFS

Assessment of monetised and non-monetised costs

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/director⁶⁸ in the company and review by a senior official/chief executive.⁶⁹ We assume a slow writing speed of 5 words per minute⁷⁰ and a slow reading speed of 150 words per minute⁷¹ 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.

⁶⁸ assuming a total cost per hour of £55.86 (in £, 2019 based on ASHE 2022, with non-wage uplift costs).

⁶⁷ Based on Fame data.

⁶⁹ assuming a total cost per hour of £86.29 (in £, 2019 based on ASHE 2022, with non-wage uplift costs).

⁷⁰ Based on https://capitalizemytitle.com/writing-time/2-pages/

⁷¹ 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. https://swiftread.com/reading-time/100-pages"

- 87. Across all measures, we expect current cost of complying with the reporting requirements under consideration to range from £520,300 to £1.6m, with a best estimate of £1.0m (in undiscounted terms). We assume that once these reporting requirements are disapplied, companies currently in scope of reporting will save the entire cost of their current reporting. 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 £3.9 and £11.7m over a 10-year period (best estimate of £7.8m) with an Equivalent Annual Net Direct Benefit to Business (EANDBB) of £0.9m.
- 89. *Table 6* 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 with >250 employees' weekly calculation and medium companies and above with >250 employees' monthly calculation	£4	c 105 small; c 2,200 medium; and c 16,400 large	c £67,100
Information on financial instruments	Medium companies and above, and small companies that are ineligible for the small companies reporting regime	£0	c 12,700 small; c 51,400 medium and c 26,000 large	Cost assessed as non- material
Information on branches	Medium companies and above and small companies that are ineligible for the small companies reporting regime	£0	c 12,700 small; c 51,400 medium and c 26,000 large	Cost assessed as non- material
Information on employee engagement	Medium and above if annual average of >250 UK-based employees (at the group level), and small companies that are ineligible for the small companies reporting regime and meet the >250 employee threshold	£13	c 2 small; c 2,200 medium and c 16,400 large	c £243,000

Measure	Entity types in scope	Unit cost (£)	Number of entities	Total benefits (£, undiscounted)
Information on supplier / customers/ others engagement	Large companies, and medium and small companies that are ineligible for size-based reporting exemptions	£4	c 12,700 small; c 2,600 medium and c 26,000 large	c £144,400
Information on events affecting the company, future developments and research and development activities	Medium companies and above (group considerations apply) and small companies that are ineligible for the small companies reporting regime	£7	c 12,700 small; c 51,400 medium and c 26,000 large	c £586,100
Information on EU- origin directors' remuneration reporting requirements	Quoted and unquoted traded companies	We have not quantified the impact of removing the additional remuneration reporting requirements introduced by the EU, as the original IA assumed the costs to in-scope companies from these 'addons' would not be material, therefore removing these 'add-ons' are not expected to generate a material saving for companies. ⁷²		

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

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⁷² Although unquantified, this removal will likely result in the shortening of the renumeration report, which is discussed below in para 93.

- 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. 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:

"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).⁷⁴

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 estimation of Directors' Report-related savings here. 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.
- 98. It was impracticable 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

 $[\]frac{73}{\text{https://www.economicsobservatory.com/mandatory-corporate-reporting-on-sustainability-what-is-the-likely-impact}}$

⁷⁴ https://www.theqca.com/product/annual-report-and-accounts-a-never-ending-story-downloadable-pdf/

company population. However, 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. We expect that this range will cover the extent of companies' current experience of cost.

- 99. 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.
- 100.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.
- 101.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 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.⁷⁵ 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.

b) Audit Technical Measures

- 102. 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.

⁷⁵ NFR PIR, page 28

- 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 is discussed in turn below.

Background and policy proposal: Audit Committees: Technical improvements

- 103. 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 2016⁷⁶ both refer to audit committees of PIEs while failing to define the term "audit committee".
- 104. 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

<u>Monetised – costs/benefits to companies</u>

- 105.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.
- 106.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.
 - b. We assume there will be a total of ten large firms⁷⁷ 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.

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⁷⁶ https://www.legislation.gov.uk/uksi/2016/649/contents/made

⁷⁷ 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.

- 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 lawyer⁷⁸. 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

107. 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 assessments⁷⁹, we assume that reading speed per page is six minutes, consistent with a slow reading speed⁸⁰ given that the guidance is technical.

Table 7 - Cost of producing a legal summary note for Audit Committees technical changes

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

108. 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.

⁷⁸ ASHE Table14 2022, uplifted to consider non-wage costs applicable to businesses and calculated in 2019 prices.

⁷⁹ DBT Corporate reporting related obligations, p. 24, https://www.legislation.gov.uk/ukdsi/2023/9780348250220/impacts; BEIS Climate-related financial disclosures IA, p. 29 https://www.legislation.gov.uk/ukia/2022/13/pdfs/ukia/2022/013_en.pdf

⁸⁰ https://swiftread.com/reading-time/100-pages

Table 8 - 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	

109. In estimating the cost of familiarisation in PIEs with Audit Committees we estimate that there are 1,765 PIEs with Audit Committees⁸¹. We then assume that the person familiarising themselves with the changes would be at chief executive and senior official level⁸². 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 respectively⁸³. This results in estimated costs of £423k.

Table 9 - Total familiarisation costs for Audit Committees technical changes

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

110. 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

111. 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.

⁸¹ The technical corrections in the Audit Regulation and SATCAR 2016 only affect PIEs, thus the costings have been completed for PIEs Audit Committees only.

⁸² ASHE Table14 2022, uplifted to consider non-wage costs applicable to businesses and calculated in 2019 prices. Further detail in Annex A.

⁸³ These costs are used in Corporate Reporting Impact Assessment 2023 https://www.legislation.gov.uk/ukdsi/2023/9780348250220/contents, 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."

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

- 112.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.
- 113. The policy proposal is to continue with the exemption regime, noting its interaction with the FRC ethical standard framework⁸⁴, 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.

114. 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.
- 115. 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.

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⁸⁴ https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/ethical-standard-for-auditors/

Assessment of monetised and non-monetised costs

Monetised – costs to companies

116.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

117. 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" in scope for this procedure. The current failure rate is 2 tenders a year⁸⁶.
- Around 7 exemptions a year are given for the 70% cap on fees for non-statutory audit versus statutory audit fees⁸⁷.
- 118.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.
- 119. Due to this being a commercial decision that is heavily impacted by the type and amount of non-audit 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.

120. 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

⁸⁵ 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".

 $^{^{86}}$ Based on discussions with Companies House officials.

⁸⁷ 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 https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/processes-in-relation-to-pie-audits/. 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 exercise⁸⁸.

Background and policy proposal: Third Country Auditors

- 121. The Government proposes amendments to SATCAR 2013 to clarify existing powers to de-register third country⁸⁹ 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.
- 122. 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.
- 123. 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.
- 124. 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

Non-monetised costs and benefits

⁸⁸ 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.

⁸⁹ 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.

- 125. We do not expect there to be any familiarisation or implementation costs to companies of any of these proposals.
- 126. 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.
- 127. 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 2010⁹⁰ 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.
- 128.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.
- 129.We estimate⁹¹ 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.

c) CA2006 company size thresholds

Policy Background

- 130. 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.
- 131. 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 (CA2006). 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.
- 132.Under CA2006 definitions, companies may be micro, small, medium, and large⁹², based on the threshold criteria outlined in *Table 10* below⁹³. The criteria and the ways in which they could be

⁹⁰ 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.

⁹¹ Based on discussions with FRC officials.

⁹² Large companies are not explicitly defined in CA2006 but are those entities which surpass the criteria to be classed as a medium-sized company

⁹³ 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.

applied in determining the size of groups⁹⁴ 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.

Table 10 - Current company and group size thresholds

2 out of 3 of:	Micro	Small	Medium	Large		
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		≤50	≤250	>250		

- 133. 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 annual turnover and balance sheet total are concerned, as it means they have not been adjusted to reflect inflation over the intervening period. 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.
- 134. 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 as inflation was reflected in their monetary criteria in effect, a 'reporting drag'.
- 27. Companies that are dragged into larger size bands by inflation a mix of micro, small and medium-sized 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.

40

⁹⁴ 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.

Policy proposal

- 28. This option aims to address the issue by bringing the monetary threshold criteria in line with inflation⁹⁵. 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% ⁹⁶ 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 2020⁹⁷. These recent and unprecedented high levels of inflation which are not expected to return to the Bank of England's 2% target for some time⁹⁸ would likely mean that relatively soon after monetary thresholds are increased by 25%⁹⁹, 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.
- 29. A 50% uplift on the current thresholds would result in the following (with rounding to simplify the thresholds 100):

Table 11 - Company and group size thresholds with a 50% uplift on current levels 101

2 out of 3 of:	Micro	Small	Medium	Large			
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			

⁹⁵The employee threshold is not subject to inflationary effects, and so would not be changed by this option.

⁹⁶ 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%.

⁹⁷The 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%)

⁹⁸December 2023 Bank of England Monetary Policy Report Summary.

⁹⁹ November 2023 Autumn Statement

¹⁰⁰ The previous figures were a relic of converting Euros to GBP.

¹⁰¹ 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%.

- 30. We also 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.
- 31. 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

- 32. 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.
- 33. We summarise our approach to estimating the numbers of these companies, and provide more detail in *Annex A*.
- 34. **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, and for each size band, the number of companies that move into a smaller category. This data was used to understand how size bands would change following the threshold criteria uplifts, and to determine the flow of companies between size bands¹⁰² (which we use as the scope input to the calculations).
 - 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

42

¹⁰² I,e., the number of large companies that are redefined as medium, medium companies that are redefined as small, and small companies that are re-defined as micro companies.

companies' published accounts. It is therefore impractical, for the purposes of this IA, for this level of analysis to be conducted.

35. For individual companies, and **on the basis of the applied sizing criteria only**, Fame data showed the following:

Table 12 - Number of companies within each CA2006 size band before and after changes to monetary size criteria (to nearest 1,000)

Companies ¹⁰³	Current size criteria	With 50% uplift	Overall change in population ¹⁰⁴
Micro	3,271,000	3,388,000	+117,000
Small	397,000	295,000	-103,000
Medium	52,000	43,000	- 8,000
Large	27,000	21,000	- 6,000

- 36. 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.
- 37. For example, CA2006 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 exemptions ¹⁰⁵. However, CA2006 requires all public or financial services companies (broadly, Public Interest Entities or PIEs), irrespective of size, to file full accounts ¹⁰⁶. This means that those non-large companies that fall within this requirement by virtue of the nature of their business or their listing 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.
- 38. Our analysis therefore considered these ineligibility criteria in our scoping estimates. The adjusted scope counts are presented in *Table 13* below (as 'effective size').

Table 13 - Estimated number of companies within each CA2006 size band before and after changes to monetary size criteria, adjusted for reporting regime eligibility criteria (to the nearest 1,000)

Effective size	Current size criteria	With 50% uplift	Overall change in population 107
Micro	3,211,000	3,324,000	+113,000
Small	385,000	285,000	-100,000
Medium	49,000	41,000	- 8,000
Large ¹⁰⁸	102,000	96,000	- 6,000

¹⁰³ Companies covered are private, public, limited by guarantee and unlimited. Limited Liability Partnerships (LLPs) are also included.

¹⁰⁴ Totals may not reconcile perfectly due to rounding.

 $^{^{105}}$ Where companies are not ineligible for these exemptions on the basis of s384 of CA2006.

 $[\]frac{106}{\text{https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts}$

¹⁰⁷ Totals may not reconcile perfectly due to rounding.

¹⁰⁸ 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.

- 39. The figures in *Table 12* and *Table 13* show the overall change in the company populations within each size band, which is made up of a mix of inflows and outflows to and from the various size bands. Taking *Table 13* as an example, these therefore capture:
 - 6,000 large companies reclassified as medium;
 - the net change in the medium size band (8,000) is made up of c.6,000 currently large companies less 14,000 currently medium companies becoming small);
 - the net change in the small size band (c.100,000), is made up of 14,000 currently medium companies less 113,000 currently small companies becoming micro companies; and
 - for the micro company size band, 113,000 small companies are re-classified as micro companies.
- 40. However, the benefit of the uplift in monetary size threshold criteria, in the form of regulatory savings, would accrue to the companies that are re-classified from a given size band into a smaller size band (i.e. to the gross outflow of companies from each size band). Therefore, we estimate the benefits of size re-classification on the basis of the counts in *Table 14* below:

Table 14 - Estimated gross outflows of companies from respective size bands after changes to monetary size criteria adjusted for reporting regime eligibility criteria (to the nearest 1,000)

Re-classification	No. of companies
small to micro company	113,000
medium to small company	14,000
large to medium company	6,000

41. The main caveat to using these estimates 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 2022-2023¹⁰⁹, 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

Monetised costs/benefits to companies

One off costs/benefits

42. 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.

¹⁰⁹ Companies House Management Information Tables – Table 11

Recurrent costs/benefits

- 43. 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.
- 44. 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
- 45. 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 bands¹¹⁰. 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 2008¹¹¹, which assessed the impact of raising size thresholds on the accounting costs of the companies involved.
- 46. That IA calculated the potential saving to companies on the basis that they would each save 6 hours of internal accountancy time¹¹². 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.
- 47. Therefore, we assume that companies moving from medium to small and from small to micro 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 15*).

Table 15 - Estimated Accountancy time and cost saving 113 (best estimates)

Estimated time-saving: companies moving from medium to small (15 hrs)						
Position Assumed time saving (£ 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			

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¹¹⁰ 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.

¹¹¹ https://www.legislation.gov.uk/uksi/2008/410/memorandum/contents

¹¹² Not including audit fees or other professional advisory fees.

¹¹³ 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)						
Position	Assumed time saving	Cost 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			

48. 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 £20.9m and £48.9m per year, with a best estimate of £34.9m (in undiscounted terms) from moving to less onerous accounting regimes. This represents a total PVB between £157.1m and £366.7m over a 10-year period, with a best estimate of £261.9m and EANDBB of around £30.4m per year. Further detail is provided in *Table 16*.

Table 16 - Estimated savings from moving to less onerous accounting regimes (best estimates)

Re-classified companies	Number in scope	Annual saving per company (£ 2019)	Aggregate Annual saving (£ 2019)
Small to micro company	113,000	260.7	29.5m
Medium to small company	14,000	391.0	5.4m
	Total undiscounted annual saving by all companies in scope (£ 2019)		34.9m
	PVB, 10-year period (£ 2019)		261.9m
	EANDBB (£ 2019)		30.4m

- ii. Savings related to the CA2006 s477 Small Companies Audit Exemption
- 49. Medium-sized companies that are re-classified as small would become eligible to take up an exemption available to small companies under s477 of CA2006 from the requirement to have their annual accounts audited. 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 £13k¹¹⁴. 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.
- 50. If all of the estimated 14,000 re-classified medium companies were to take up the audit exemption, they would generate an aggregate saving of around £179m per year (undiscounted). On this basis, we estimate that this change could generate a PVB of around £1,339.6m over a 10-year period, and an EANDBB of around £155.6m per year.
- iii. Savings related to exemptions from company Strategic Reporting under CA2006 s172

¹¹⁴ Median audit fee converted to 2019. In current prices, which is the basis provided by Fame, the median audit fee is £14.5k.

- 51. All large companies and companies ineligible for the medium, small, and micro company CA2006 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 6,000 of these large companies.
- 52. In estimating the potential benefit, we replicate the methodology applied in the IA that accompanied the introduction of The Companies (Miscellaneous Reporting) Regulations 2018¹¹⁵. 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)¹¹⁶. We assume that actual reporting time spent by each of these staff levels could be +/- 25% of the IA's estimates.
- 53. 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.

Table 17 - Estimated s172 reporting time and cost saving 117

				Cost Per hour	Rela	ted cost-s (£ 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	

- 54. Assuming all eligible companies make use of the option to take up the exemption, we estimate this could generate an aggregate saving of between £1.7m and £2.8m per year, with a best estimate of £2.3m (undiscounted). The associated PVB of this change is therefore estimated to be between £12.7m and 21.1m over a 10-year period, with a best estimate of £16.9m and an EANDBB of around £2.0m per year.
- iv. Savings related to exemptions from general Strategic Reporting under The Companies Act 2006 (Strategic Reports and Directors' Reports) Regulations 2013
- 55. 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 would be able to take up an exemption from preparing these Strategic Reports. We estimate there are around 14,000 of these companies.

¹¹⁵ https://www.legislation.gov.uk/uksi/2018/860/impacts

¹¹⁶ Based on 2016 research to inform the UK's implementation of the EU Non-Financial Directive.

¹¹⁷ 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.

- 56. 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 Review¹¹⁸. 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 year 119. 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.
- 57. On this basis, if all 14,000 redefined medium companies took up the Strategic Reporting exemption, they could save between £38.1m and £63.5m per year, with a best estimate of around £50.8m (undiscounted). We estimate a PVB of between £285.9m and £476.6m over a 10-year period, with a best estimate of £381.3m an EANDBB of around £44.3m per year¹²⁰.
- Savings related to exemptions from Directors' Reporting Requirements
- 58. We assess the potential saving to companies related to the following Directors' Reporting requirements:
 - a. Reporting on names of directors under s416 of CA2006
- 59. 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 re-classified as micro would have the option to stop producing a Directors' Report and could therefore benefit from any associated cost-saving. We estimate there are around 113,000 of these companies.
 - b. Reporting on recommended dividends under s416 of CA2006
- 60. 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 re-classified as small by threshold changes could benefit from no longer needing to include this information in their reports. We estimate there are around 14,000 of these companies.
 - c. Reporting on qualifying indemnity provisions under s236 of CA2006
- 61. 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 reclassified 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 there are around 14,000 of these companies.

^{118 &}lt;a href="https://www.legislation.gov.uk/uksi/2016/1245/pdfs/uksiod_20161245_en.pdf">https://www.legislation.gov.uk/uksi/2016/1245/pdfs/uksiod_20161245_en.pdf

¹¹⁹ 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.

¹²⁰ If all medium companies were exempted from the strategic report then this a further = 41,000 companies would benefit. This could save medium companies in the region of £150m if all medium companies made use of the exemption.

62. 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 18 - 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

63. 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 19 – 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	113,000	980k	1,960k	2,941k
Directors' Report: recommended dividends	14,000	19.2k	39.8k	5938k
Directors' Report: qualifying indemnity provisions	14,000	14.4k	28.8k	43.3k

- 64. Overall, we estimate that a PVB of between £7.6m and 22.8m over a 10-year period, with a best estimate of £15.2m and EANDBB of around £1.8m per year from this change.
- vi. Savings related to Prompt Payment Reporting Requirements
- 65. 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 6,000 of these companies.
- 66. 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).
- 67. 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.
- 68. 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 £5.4m and £6.6m per year, with a best estimate of £6.0m. We estimate a PVB of between £40.3m and

£49.2m over a 10- year period, with a best estimate of £44.8m and an EANDBB of around £5.2m per year.

vii. Overall Impact

69. We estimate that overall, changes to the current company size thresholds could generate a net benefit with a PVB of £2,059.7m over a 10-year period, with an EANDBB of £239.3m per year. The breakdown of this is provided in the table below.

Table 20 - 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.	261.9	30.4
Savings related to the CA2006 s477 Small Companies Audit Exemption	1,339.6	155.6
Savings related to exemptions from company Strategic Reporting under CA2006 s172.	16.9	2.0
Savings related to exemptions from general Strategic Reporting	381.3	44.3
Savings related to exemptions from Directors' Reporting Requirements	15.2	1.8
Savings related to Prompt Payment Reporting Requirements	44.8	5.2
Total	2,059.7	239.3

Non-monetised costs

70. 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

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

Risks and Uncertainties

72. 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 re-classified 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.
- 73. 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.
- 74. As with our estimates of the benefits of removing Directors' Report requirements in a) above, there is some uncertainty around our estimates of unit costs for the Directors' Report exemptions that would become available to companies moving to smaller size-bands. We adopt the same approach to addressing this uncertainty here: 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.
- 75. 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.
- 76. 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.

Summary of direct costs and benefits to business calculations

- 77. 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).
- 78. We estimate the measures included in option 2 would collectively deliver a NPV of £2,067.3m over a 10-year period, with an EANDBB of £240.2m per annum.

Table 21 - Overall estimated (monetised) impact of measures included in option 2– best estimates

	Measure	Entities in Scope	PVB /(PVC) (£m)	EANDBB / (EANDCB) (£m)
	removing requirement for information on employment of disabled people	around 105 small; 2,200 medium; and 16,400 large companies	0.5	0.1
÷.	removing requirement for information on employee engagement	around 2 small; 2,200 medium and 16,400 large companies	1.8	0.2
Directors 'Report	removing requirement for information on engagement with suppliers/customers/others	around 12,700 small; 2,600 medium and 26,000 large companies	1.1	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 12,700 small; 51,400 medium and 26,000 large companies	4.4	0.5
	Total		7.8	0.9
Audit	Audit technical measures	1,765 PIEs (with Audit Committees)	(0.23)	(0.03)
Technical Measures	Total		(0.23)	(0.03)
	Moving to size bands/accounting regimes requiring less detailed accounts.	around 113,000 currently small and 14,000 currently medium	261.9	30.4
0	Savings related to the CA2006 s477 Small Companies Audit Exemption	around 14,000 currently medium companies	1,339.6	155.6
hresholds	Savings related to exemptions from company Strategic Reporting under CA2006 s172.	around 6,000 currently large companies	16.9	2.0
CA2006 Company Size Thresh	Savings related to exemptions from general Strategic Reporting	around 14,000 currently medium companies	381.3	44.3
CA2006 C	Savings related to exemptions from Directors' Reporting Requirements	around 113,000 currently small companies reporting on names of directors; and around 14,000 currently medium reporting on dividends and qualifying indemnity provisions	15.2	1.8
	Savings related to Prompt Payment Reporting Requirements	around 6,000 currently large companies	44.8	5.2
	Total		2,059.7	239.3
Overall Tota			2067.3	240.2

Impact on small and micro businesses

- 79. 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. ¹²¹ 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. ¹²² 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 microcompanies and choose to take up the available accounting exemptions. Our analysis indicates that around 113,000 small companies would be redefined as micro companies and benefit significantly from the change.

Medium-sized business regulatory exemptions assessment

- 80. Likewise, we would expect medium sized companies defined here by the Better Regulation Framework¹²³ 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).
- 81. 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

- 82 Faualitie
- 82. 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).
- 83. Environmental impacts: By uplifting thresholds, we will be removing the obligation for some businesses to disclose information on their environmental impact e.g., 6,000 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

¹²¹ 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.

¹²² Unit cost of compliance with measure £4 * number of small companies with an average of 250 employees = £480

¹²³ https://www.gov.uk/government/publications/better-regulation-framework/medium-sized-business-regulatory-exemption-assessment-supplementary-guidance--2

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:

- 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.
- 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.
- 84. As part of the review process, we will assess the impact of removing these obligations.
- 85. *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.
- 86. 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.
- 87. 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

88. 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. We do not expect changes to companies' size classification to affect the basis on which they conduct their business, and their trade decisions. By reducing unnecessary burdens, we would expect the UK to become a slightly more attractive place to do business.

Monitoring and Evaluation

- 89. 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. We propose that this review take a proportionate approach, covering the measures which are deemed in this IA to have the most significant impact.
- 90. 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).

¹²⁴ https://www.gov.uk/government/publications/business-regulation-producing-post-implementation-reviews

91. 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 ongoing review of non-financial reporting, which may lead to future changes in reporting obligations or thresholds.

Logic model

- 92. 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 their cost of compliance will be reduced.
 - 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. It may also affect corporate behaviour as companies will be able to redirect funds that would have been spent on certain reporting requirements to other parts of the business.
 - d. <u>Outcomes</u>: users better understand the information presented by companies and use this information in decision-making. Companies may innovate in other aspects of their business, including investing in their sustainability agenda.
 - 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.
- 93. 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, primarily 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.
- 94. 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.

Success indicators

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 information contained within annual report
Outputs	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

- 95. As a high-impact measure, we will take the following approach to evaluation via a post-implementation 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 22 - 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 23 - New company size thresholds under a 50% uplift in monetary criteria

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 House¹²⁵, 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, which is used in our calculations. 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.

¹²⁵ 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.

Rool	ean s	earch: 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:	397,49
×	√	9. Number of employees, using estimates: max=10, Last available year	>	8,770,64
×	V	8. Total Assets (m GBP): max=0.316, Last available year	>	7,410,79
X	V	7. Turnover, using estimates (m GBP): max=0.632, Last available year	>	8,059,75
×	V	6. Number of employees, using estimates: max=50, Last available year	>	9,170,91
×	V	5. Total Assets (m GBP): max=5.1, Last available year	>	8,373,1
×	V	4. Turnover, using estimates (m GBP): max=10.2, Last available year	>	9,190,61
×	V	3. Legal form: Private limited, Public, Limited Liability Partnership (LLP), Guarantee, Unlimited	>	14,908,56
×	V	2. Country: Prim. trading address, R/O address: England, Northern Ireland, Scotland, Wales	>	15,475,61
×	✓	1. Active/Inactive: Active companies	>	7,311,27

Figure 2 - Fame query to identify small companies (by size criteria only) under current thresholds

Воо	lean s	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:	117,164
×	V	9. Number of employees, using estimates: max=10, Last available year	>	8,770,646
×	V	8. Total Assets (m GBP): max=0.316, Last available year	>	7,410,796
×	V	7. Turnover, using estimates (m GBP): max=0.632, Last available year	>	8,059,758
×	✓	6. Number of employees, using estimates: max=10, Last available year	>	8,770,646
×	✓	5. Total Assets (m GBP): max=0.5, Last available year	>	7,669,476
×	V	4. Turnover, using estimates (m GBP): max=1, Last available year	>	8,449,362
×	V	3. Legal form: Private limited, Limited Liability Partnership (LLP), Guarantee, Unlimited, Public	>	14,908,565
×	✓	2. Country: Prim. trading address, R/O address: England, Northern Ireland, Scotland, Wales	>	15,475,616
×	✓	1. Active/Inactive: Active companies	>	7,311,273

Figure 3 - Fame query to identify the number of companies that would move from the small threshold to the micro company threshold under a 50% uplift, prior to reporting eligibility adjustments

b. The current population of corporate groups, and their outflows from each size band following threshold changes, should also be considered for this analysis. However, this 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 CA2006. 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.

Table 24 - 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 126
Micro	3,271,000	60,000	3,211,000
Small	397,000	13,000	385,000
Medium	52,000	3,000	49,000
Large ¹²⁷	27,000	N/A	102,000
Total	3,747,000		3,747,000

Table 25 – 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
Micro	3,388,000	64,000	3,324,000
Small	295,000	9,000	285,000
Medium	43,000	2,000	41,000
Large	21,000	N/A	96,000
Total ¹²⁸	3,747,000		3,747,000

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¹²⁶ Totals may vary slightly due to rounding.

¹²⁷ 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).

¹²⁸ 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
- Information on important events
- o Information on likely future developments
- Information on research and development
- Information on branches
- Information on the employment of disabled people
- o 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 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. 129

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

¹²⁹ Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) Sch 5, para 5; Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) Sch 7, Part 3, para 10

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 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 research¹³⁰ 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

63

¹³⁰ 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.

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.

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. 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%).¹³¹

64

¹³¹ Sample size of 595 corporate directors - https://www.PwC.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html

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 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.

Sign-off by the decision-maker (SCS1 or above)

Name: Andrew Death

Job Title: Deputy Director

Date: 23 January 2024

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
	may not have many employees.
[Schedule 8 to 2008	[Schedule 8, para 19A-G]
regulations, para 19]	[Ochedule 0, para 13A-0]
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]	
<u> </u>	
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.
[Section 430(4ZA), Companies	In practice, most companies keep reports and accounts from
Act]	previous years on their websites, and they are also available
Acti	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
[Schedule 8, para 2A]	problem the provision is seeking to address given directors are
[Ocheune o, para ZA]	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.

Requirement	Rationale for removal
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
[Ochedule 0, para 20(b)]	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 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	comply or explain disclosures on the need for remuneration
policy.	committees to exercise independent judgement when receiving
[Schodulo 9 noro 24/1A)	management or other views on directors' remuneration, as well as
[Schedule 8, para 24(1A)	to set out the work of the committee.
The company must put the date	Not needed. Section 341(1A) +(1B) of the Act already requires
and results of the shareholder	this information in respect of all shareholder votes on company
vote on its policy on its website	resolutions. (Schedule 8, para 23 also requires remuneration
	, , , , , , , , , , , , , , , , , , , ,
as soon as reasonably	voting results from the previous AGM to be in the following year's
practicable.	remuneration report).
[Section 430(2C), Companies	
Act]	
A company cannot make a	Not needed. The pre-existing framework [Sections 226A-E]
payment to a director that is	previously required that any payment to directors that was not
inconsistent with the policy	consistent with the remuneration policy needed shareholder
unless it first amends the	approval. The Directive replaced this with a need for the policy to
policy and has the amended	be amended and then approved by shareholders in order to make
policy approved by	a payment that would otherwise have been inconsistent. This has
shareholders.	arguably made for a more cumbersome and less agile process for
[Sections 2004 F. Comments	companies making one-off payments outside the policy (e.g. to
[Sections 226A-E, Companies	recruit a new CEO urgently).
Act]	
Unquoted traded companies to	In the UK, there are very few companies which are traded (i.e.
be in scope of remuneration	trade equity securities on a regulated market) but not quoted (i.e.
reporting.	not quoted on the FCA's Official List). Our analysis suggests that
[various amends to the Act and	such companies consist solely of funds on the London Stock
-	· · · · · · · · · · · · · · · · · · ·
to Schedule 8 which provide	Exchange's Specialist Fund Segment, whose boards of directors
for "unquoted traded	are exclusively non-executive directors. Such directors do not
companies" as well as "quoted	receive the performance-related and variable pay which the
companies" to be in scope	directors' remuneration reporting framework is primarily
both of the Directive additions,	concerned with, and it is arguably disproportionate and

Requirement	Rationale for removal
and all other Companies Act	unnecessary to include them in that framework. Directors of those
remuneration reporting	companies would still be subject to Schedule 5 of the 2008
requirements.	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
<u>Anglo</u>	FTSE100,	It is the Group's policy that everybody should have full and fair
American plc	mining	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.
National Grid	FTSE100,	Our policy is that people who identify as having a disability should be
<u>plc</u>	energy	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
Developed	ETCE400	colleagues, including those with disabilities.
Barclays plc	FTSE100, banking	Additionally, as part of the UK Government Disability Confident
	Danking	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.
Domino's	FTSE250,	The Group is committed to ensuring that its employees feel respected
Pizza Group	retail	and valued and are able to fulfil their potential and recognises that the
•	. Otali	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.
<u>Intermediate</u>	FTSE250,	Approach to discrimination and consideration of disabled employees
<u>Capital</u>	private	
Group	equity	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.
Spire Healthcare Group	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. 132 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.
Е	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.
	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.
J	Banking, Insurance and Finance	No reference to impact on the enviornment in the Strategic Report.

73

¹³² This has not been included in the excerpt as it is disclosive.