Department for
Business, Innovation,
Science and Trade

Modernising Corporate Reporting to support long-term economic growth

7 September 2026

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Ministerial foreword

The Department for Business, Innovation, Science and Trade is the department for economic growth. We support businesses to invest, grow and export, creating jobs and opportunities across the country. For the economy to grow, companies need investment. Corporate reporting is central to maintaining trust in business and investor confidence. It plays a critical role in how investors value companies and assess investment opportunities and ensures transparency for everyone with an interest in a company. By providing information on company finances, strategy and risk, reporting supports capital allocation and management decisions to help grow businesses and the economy. Whether that is a bank offering a loan to a small business or a pension fund providing investment to the largest companies, corporate reporting underpins the everyday decisions that drive economic activity.

Although the UK's corporate reporting system is a success story, helping to underpin investment and growth in businesses, it is long overdue for reform. The UK's law has evolved in a messy and piecemeal way, resulting in a complex series of regulations, many of which distract businesses from the main job of creating employment and generating wealth. The government is now conducting a wholesale review of this framework. We hope that stakeholders will be as excited as we are by the potential for a meaningful improvement in how reporting is done. Our ambition for this once-in-a-generation review of corporate reporting is to deliver the most proportionate framework in the world.

Once the reform programme is complete, the UK's reporting framework will be brought into the twenty-first century and better serve the business, creditors, investors and other stakeholders it is designed for. Our corporate reporting reforms are guided by the principles that corporate reporting should focus on what is relevant to its audiences; and that company directors should be trusted to decide what information is significant in the context of their business. These reforms will contribute to the commitment to reduce administrative burdens by 25% - a central commitment of our Modern Industrial Strategy.

Like all aspects of this department's work, the Modernising Corporate Reporting programme is one with partnership at its core. Over the next 12 weeks, we look forward to discussing these proposals with business leaders across the country, to hear how they might impact you, to understand where we have gone too far and to be challenged on the areas we have not gone far enough. This consultation has implications for companies of all sizes and categories, so we would like to hear from a wide range of companies. For example, SMEs have repeatedly told us how significant a more streamlined and proportionate framework could be for them. We have already announced plans to remove many medium companies from some reporting requirements. We now want to hear your perspectives on proposals to further lighten the load of the existing reporting framework.

Part of this debate is also about the largest companies in the UK and how we treat reporting requirements for public companies versus private companies. We are keen to explore how investors and creditors use corporate reporting to allocate capital and make decisions about company management, such as remuneration and strategy. We are interested in whether the same level of information is needed for private companies with a close relationship with their investors as it is for public companies listing on public markets. Together, with your input, we can create a simpler, modern corporate reporting framework that is fit for the future and fit for all.

The Rt Hon Jonathan Reynolds MP, Secretary of State for Business, Innovation, Science and Trade

Baroness Lloyd of Effa CBE, Minister for Space, Cyber and Regulatory Reform

Executive summary

The case for reform

The UK's corporate reporting system plays a key role in the UK economy, creating conditions for well-functioning markets and driving growth. Reliable corporate reporting helps investors, creditors and other stakeholders make informed assessments of company performance, governance, and the likelihood of future success. Whether that be a bank offering a loan to a coffee shop, a local supplier deciding whether to contract with a large company, or institutional investors providing liquidity to the largest FTSE companies, reporting drives everyday decisions in our economy.

The UK's corporate reporting system is an international success story, providing the foundation for the UK's status as a world-leading destination for investment. At the same time, the UK's laws and frameworks have weaknesses that need to be addressed. Most of all, the purpose of the annual report and accounts has become obscured, serving different audiences and policy objectives which have reduced its effectiveness as a tool for communication. Incremental additions to reporting requirements have increased the volume and complexity of annual reports, diluting transparency through lengthy documents.

Alongside these weaknesses, the UK's corporate reporting framework contains several features that reduce its effectiveness and divert company resources away from running a business. For instance, requirements are scattered across company law, accounting standards and regulatory rules, leading to duplication, inconsistency and needless compliance costs. The law is also outdated. Much of the framework was designed for a paper-based world. Although reporting is increasingly digital, the law has not always kept pace with developments in technology. The UK's legal framework can also be disproportionate, and it is not clear whether the costs of many requirements are matched by clear benefits, especially where costs fall on small-to-medium-sized companies.

Objectives and principles

To tackle these issues, the government is publishing an ambitious consultation which aims to support economic growth - and the UK's international competitiveness - by ensuring that the UK's corporate reporting framework is the most proportionate and effective in the world. When developing proposals, the government has been guided by these principles:

1) **Clarity of purpose**: The annual report and accounts should be a focused document designed for a specific audience. The government proposes that the purpose should be to provide financially material and decision-useful information to investors and creditors

2) **Flexibility and trust**: Companies should be trusted to tell their own business story and to tailor disclosures to the needs of investors and creditors

3) **Simplicity and coherence**: Reporting requirements should not be duplicated across company law, accounting standards and regulatory rules. To prevent unnecessary compliance costs, the law should be as easy to interpret as possible

4) **Proportionality**: Reporting requirements should reflect company size, ownership structure and economic impact, ensuring costs are justified by benefits

5) **Fit for the future**: The government wants the UK's legal framework to support business for the next decade and beyond, with the ability to adapt to a changing world economy and to take advantage of the opportunities of emerging technologies.

Summary of proposals

Guided by these principles, the proposed reforms in this consultation are wide-ranging and ambitious, touching upon almost every aspect of the UK's corporate reporting framework. The central proposals for consultation are to:

- **clarify who the annual report and accounts are for** by reaffirming that they are a document primarily intended for investors and creditors (Principle 1)
- **simplify which companies are required to report different types of information**. The Companies Act 2006 contains several different categories of company and a lengthy series of exemptions and exclusions. The government wishes to simplify this, taking a fresh look at the Act to rationalise the scopes, thresholds and exemptions which determine what disclosures a company must make. The government is considering how thresholds and exemptions might be changed to take companies out of requirements (Principles 3, 4)
- **create a lighter regulatory load for small and medium-sized enterprises (SMEs), including allowing certain medium-sized companies to qualify for an audit exemption**. Building on existing reforms that remove non-financial reporting requirements from SMEs, the government is consulting on creating a reporting framework for SMEs which would allow certain medium-sized companies to claim a wider package of exemptions. This would include extending the small company audit exemption to certain medium-sized companies (Principle 4)
- **test the merits of non-financial reporting requirements for private companies**. The government seeks evidence on the usefulness of mandatory reporting requirements that apply to private companies, noting there is often a close relationship between management and ownership in the context of these companies. The government is also considering whether to create a new 'very large' threshold that could be applied to non-financial reporting requirements (Principle 4)
- **make the UK's financial reporting law clearer and more coherent**. The UK's financial reporting framework works well, but is overly complex, with some rules contained in the Companies Act 2006 and others in accounting standards. The government proposes to create a streamlined legislative framework that moves detailed requirements out of the law and into relevant standards. Under this proposal, the government would also: streamline the range of accounting standards that are available for use by UK companies to four main standards; replace the 'true and fair presumption' for micro-entities with an obligation to prepare accounts that comply with the micro-entities standard; and create a new accounting standard for not-for-profit entities. (Principle 3)
- **replace the complex rules on distributable profits and capital maintenance with a solvency-based regime**. This would be used for determining the legality of dividend payments (Principle 3)
- **simplify and streamline the strategic report requirements**. We propose to achieve this by removing prescriptive obligations, and enabling companies to explain performance, strategy and governance in a way that reflects the size and nature of their business. As part of these proposals, the government is also considering which companies should be required to comply with future strategic reporting requirements (Principles 2, 3)
- **simplify Remuneration and Corporate Governance Reporting**. The government has taken action to streamline the reporting framework for remuneration, but this consultation goes further. For instance, we are:
    - considering whether the scope of the existing requirements remains appropriate
    - considering whether to remove the requirement for an annual vote on the directors' remuneration report, given that remuneration policy is already subject to a vote on a triennial basis

- proposing to remove or simplify certain remuneration reporting requirements that are not working effectively or duplicate other requirements. These requirements include the work of the remuneration committee and CEO-employee pay ratio reporting
- proposing to move corporate governance reporting from company to group level (Principle 3, 4)

- **embrace digital communications**. This could be achieved by:
  - testing which disclosures could be moved to digital platforms and websites so that investors have easier access to data outside of annual reporting cycles (Principle 5)
  - seeking views on how to support the electronic tagging of information within annual reports and accounts
  - clarifying the law to make it clear that annual general meetings can take place virtually where there is shareholder consent
  - Supporting previously announced plans to make electronic communication with shareholders as the default option, removing the obligation to send annual reports to shareholders by post
- **strengthen Whitehall oversight**. We have introduced a 'Reporting Gateway' function for central government that will examine the merits of future reporting proposals, ensuring they are coherent, proportionate and cost-effective (Principle 5)

Implications for different types of business

Collectively, these proposals represent a major overhaul of the UK's corporate reporting system. Some reforms have the potential to benefit companies across the entire economy, while others will have implications for different types and size of company, such as:

- **smaller companies** could benefit from proposals to simplify and clarify financial reporting requirements (Chapter 4)
- **medium-sized companies** could benefit from proposals to allow them to claim the wider package of exemptions that currently apply to small companies. This could include allowing certain medium-sized companies to claim an audit exemption, which could result in significant cost savings for these organisations (Chapter 3)
- **most medium-sized private companies** will benefit from the exemption of preparing a strategic report (Annex A)
- **larger companies** would be likely to benefit from:
  - proposals to simplify strategic reporting requirements (Chapter 5)
  - reforms that provide an exemption for subsidiaries where strategic reports are provided at a group level (Chapter 5)
  - proposals to simplify corporate governance and remuneration reporting (Chapters 6 and 7)
- **private companies** will wish to consider aspects of the consultation that test the value of non-financial and governance reporting in the context of private company financing. The government has not finalised these proposals, but this consultation provides an opportunity to offer views on how the UK's corporate reporting requirements should reflect different ownership structures and financing arrangements (Chapters 2, 4, 5, 6)

Conclusion

This consultation represents a once-in-a-generation opportunity to reset the UK's corporate reporting framework. By simplifying, modernising and refocusing reporting requirements, the government aims to support growth, improve capital allocation and ensure that corporate reporting serves the needs of a dynamic and competitive UK economy.

General information

This consultation sets out the government's thinking on how to modernise corporate reporting in the interests of promoting economic growth and seeks input from stakeholders to help realise this vision. The focus of this consultation is to ensure companies' annual reports and accounts deliver decision-useful, financially material information.

While this consultation is focused on companies and the annual reporting requirements for companies, the government will also consider relevant changes to the regimes applicable to other types of entity, such as Limited Liability Partnerships, in due course.

Consultation details

This consultation will last for 12 weeks, launching on 7 September 2026 and closing at 11:59pm on 30 November 2026.

For enquiries about this consultation please contact: mcr.review@businessandtrade.gov.uk.

The consultation is open to everyone with an interest. We are keen to hear from:

- companies and other preparers of annual reports and accounts
- investors
- asset owners
- other users of financial and non-financial reporting by businesses
- business stakeholders
- audit firms and auditors
- professional associations and representative bodies

Territorial extent

The UK government is responsible for the operation and regulation of business entities across Great Britain. Previously, the Northern Ireland administration has agreed that, while the operation and regulation of business entities remains a transferred matter within the legislative competence of the Northern Ireland Assembly, amendments to the Companies Act 2006 and legislation regulating business entities should be made in the same terms for the whole of the United Kingdom. As such, proposals set out in the consultation may apply across the whole of the UK.

How to respond

The government strongly encourages responses via the https://ditresearch.eu.qualtrics.com/jfe/form/SV_eDUsJXog8k5Cu2i. Using the online survey assists analysis of responses, helping more efficient consideration of the issues raised for each question.

If you are unable to respond via the online survey, please send your response to: mcr.review@businessandtrade.gov.uk. We prefer electronic submission of your response in a machine-readable format to help us analyse your response efficiently. Please avoid sending images or Portable Document Format (.pdf) files that are not machine-readable.

Generative AI may be used to assist in the analysis of responses. This technology can help process large amounts of data, identify key themes, and generate insightful summaries. All insights generated by AI will be subject to human oversight.

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed (listed at Annex D), though further comments and evidence are welcome.

Conclusion of the consultation

After the consultation closes, we will summarise all responses and publish this on GOV.UK. The summary will include a list of names of organisations that responded, but not people's names, addresses or other contact details. The consultation analysis, as well as wider engagement during the consultation period, will help inform the government's next steps.

We aim to publish a consultation outcome within six months of the close of the consultation. An explanation will be published if this is not possible.

Confidentiality and data protection

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes, including the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004, and UK data protection legislation.

If you wish for the information you provide to be treated as confidential, please explain why. The Department for Business, Innovation, Science and Trade (BIST) will take your explanation into account if a request for disclosure is received, although confidentiality cannot be guaranteed in all circumstances. Please note that an automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding by the department.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.[1]

BIST was supported by the Financial Reporting Council (FRC), the UK regulator for corporate governance, reporting and audit, throughout the previous Non-Financial Reporting (NFR) review. The FRC was provided access to responses to the NFR review's Call for Evidence, which was held between 24 May and 16 August 2023. This Modernising Corporate Reporting consultation builds on the NFR review and responses to it will also be shared with the FRC. If you do not want some, or all, of your response to be shared with the FRC, please tell us and, if you would prefer to do so, provide a clearly labelled redacted version of your response to be shared with the FRC, although information in the non-redacted version may also be published or disclosed in accordance with the access to information regimes discussed above.

The FRC will process the responses shared with it to offer feedback to the government and to inform further consultations the FRC may wish to undertake in the future. The FRC will treat the responses in line with paragraphs above (with references to BIST or the department read as references to the FRC). The FRC will process all personal data contained in responses in accordance with all applicable data protection laws.

This consultation has been carried out in accordance with the government's consultation principles.[2]

If you have any complaints about the way this consultation has been conducted, please email: BRF@businessandtrade.gov.uk.

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[1] Public consultations privacy notice - GOV.UK
[2] Consultation principles: guidance - GOV.UK

1. Introduction

Corporate reporting – the case for reform

1. The UK is a pioneer in setting standards and establishing processes for how companies communicate key information. The UK enjoys a global reputation for corporate transparency, underpinning our reputation for economic openness, competitiveness and high regulatory standards.

2. The annual report and accounts provide companies with the opportunity to set out yearly performance and the board's strategy and its approach to risk in a clear and trustworthy way. This reporting is often a key source of information for anyone interested in doing business with the company, whether as an investor, a creditor or supplier. In this way, the annual report and accounts can be a valuable tool to support growth, and reporting quality impacts companies' ability to secure investment and to grow. However, the current requirements have lost their way. The purpose of corporate reporting requirements has become obscured over time, with regulations that serve multiple different audiences and policy objectives, increasing the size and complexity of annual reports and diluting rather than enhancing transparency through boilerplate declarations.

3. In addition to these issues, the UK's corporate reporting framework contains several features that reduce its effectiveness and divert resources away from running the business and generating value. For one thing, the UK's regulatory framework is overly complex, with companies spending significant resources to navigate the often-overlapping requirements in company law, accounting standards and regulatory rules. The law is also outdated, failing to take full advantage of digital tools and resources that are available to modern companies, investors and creditors. Finally, the UK's legal framework is disproportionate, and it is not clear whether the costs of some requirements are always matched by clear benefits.

4. Over the past year, the government has engaged with the business community to understand how the UK's regulatory framework is perceived and working in practice. This engagement demonstrates widespread agreement that now is the time to review the UK's regulatory framework for corporate reporting. As Table 1 illustrates, there is an opportunity to significantly improve the UK's corporate reporting framework and to support the UK's standing as a place to do business.

TABLE 1

"*The annual report has evolved into a dumping ground for information. Rather than improving stakeholder engagement with content, the growing volume can make the report harder to navigate and less effective.*" **ICAS** "*When you look at the different legislation (including secondary legislation) which sets out what should be in narrative reporting and how all of those consolidate, I think at one point I counted in excess of ten different size thresholds assessments. From a company perspective, it makes it challenging for a Company to demonstrate how they comply.*" **KPMG LLP** "*GC100 welcomes all measures, however granular, to reduce the regulatory burden on companies and ensure that reporting is proportionate and appropriate to the size of the company. We support moves to reduce unnecessary reporting burdens while ensuring that disclosures are clear and concise, transparent, and sufficient for investor purposes.*" **GC100** "*The problem with the annual report is… there's too much in it… you end up being safer if you throw the kitchen sink at it. Nobody is forced to actually stick their neck out and say these are the things which are material to us. The number of companies, the small number of companies, who do that, are producing excellent reports but they are hamstrung by all the stuff that must be included in a report which waters down the material stuff*." **FTSE 100 Head of Corporate Reporting**

Modernising corporate reporting – a focus on growth

5. The government has taken significant steps to tackle some of the issues described above. For instance, the government has delivered £185 million per year in administrative savings by increasing the monetary size thresholds for micro-entities and small, medium-sized and large companies, a change that helped up to 132,000 companies to benefit from lighter touch requirements.

6. In October 2025, the government also published an update to its Regulation Action Plan which contained additional measures to reduce the burdens on business arising from corporate reporting. In particular, the government will:

    - exempt most medium-sized private companies from producing a strategic report in the annual report
    - exempt wholly-owned subsidiaries from producing a strategic report where they are covered by the reporting of a UK parent
    - remove the requirement to produce a directors' report, with some provisions to be removed entirely, and others relocated elsewhere in the annual report

7. These additional measures will save business an estimated £230 million per year in administrative burdens. Further detail on these changes is set out in Annex A and Statutory Instruments will be laid before Parliament in due course to give them effect.

8. Although these reforms are a positive step, which will support business, the government recognises that there is further opportunity to modernise the UK's corporate reporting framework in the pursuit of growth. As a result, **this document sets out an ambitious package of proposals, which aim to support economic growth – and the UK's international competitiveness – by ensuring the UK's corporate reporting framework is the most proportionate and effective in the world**. Focusing on the requirements in the Companies Act 2006, the proposals in this document are guided by the following five principles:

- **Clarity of purpose**: The annual report and accounts should be a focused document designed for a specific audience and **the government proposes that the purpose should be to provide financially material and decision-useful information to investors and creditors**, including both existing and potential investors and creditors. This focus on investors and creditors is not intended to detract from the position of existing investors (shareholders) as the owners of the company. Rather, it recognises that corporate disclosures support companies to access finance from multiple different sources. This approach also aligns closely with the International Financial Reporting Standards (IFRS) Foundation's definition of the primary users of general-purpose financial reports as "users of the financial statements [that] require information which helps them to make economic decisions with regards to the reporting entity."

- **Flexibility and trust**: Companies should be trusted to tell their own business story and to tailor their disclosures to the needs of their particular investors and creditors. This principle means company directors will apply their judgement and report only the financially material information that they deem to be relevant to economic decision-making by investors and creditors

- **Simplicity and coherence**: Reporting requirements should not be duplicated across law, accounting standards and regulatory rules. To prevent unnecessary compliance costs, the law should also be as easy to interpret as possible, with the UK's legal framework making sense as a whole. For example, the Companies Act 2006 includes a complex array of company definitions and thresholds that determine which companies must comply with certain requirements. This complexity makes it difficult for companies to determine what rules they must follow, and it is not always clear why rules apply to certain categories of companies

- **Proportionality**: Reporting requirements should reflect company size, ownership structure and economic impact, ensuring costs are justified by benefits. The government believes proportionality is a principle of good regulation and will consider how it could be enshrined in the UK's corporate reporting framework

- **Fit for the future**: The government wants the UK's legal framework to support business for the next decade and beyond, with the ability to adapt to a changing world economy and to take advantage of the opportunities of digital reporting and emerging technologies

9. These principles have guided the proposals presented later in this document. The government also wants to provide an opportunity for stakeholders to comment on whether additional - or different - principles should be considered. The government recognises that other stakeholder groups also benefit from the information in the annual report beyond investors and creditors, including HMRC. We encourage those groups to provide views on these principles and on the proposals in this document.

Q1. Do you agree or disagree with the government's objectives and principles for modernising corporate reporting? Please explain your answer.

Q2. Do you agree or disagree that the government should focus requirements in the annual reports and accounts on the needs of creditors and investors, including potential creditors and investors? Please explain your answer.

Structure of this document and chapter summary

10. This document has nine chapters covering the UK's corporate reporting framework. It outlines the government's proposals to simplify annual report and accounts requirements, make them easier to produce, and make disclosures more useful to investors and creditors. This consultation sets out bold positions on how to achieve this, building on existing changes summarised in Annex A.

11. **Chapter 2 considers how investors and creditors use company information** required under the Companies Act 2006. It asks which disclosures are most useful, including for private companies, and how legal reporting compares with other sources of information.

12. **Chapter 3 covers definitions, thresholds and exemptions** that decide which companies must report particular information. It seeks views on creating a simpler regime, including possible wider exemptions for medium-sized companies.

13. **Chapter 4 looks at the UK's financial reporting framework** and how it could be redesigned. It seeks views on a clearer relationship between company law and accounting standards, and on whether dividend rules should move to a solvency-based approach.

14. **Chapter 5 focuses on strategic reporting**. It seeks views on simpler, principles-based requirements for strategic reports, with investors and creditors as the main audience, and provides an update on sustainability-related financial disclosures.

15. **Chapter 6 covers corporate governance reporting**. It asks whether current Companies Act requirements, thresholds and definitions remain appropriate, and how the corporate governance reporting ecosystem fits together.

16. **Chapter 7 covers directors' remuneration reporting** for quoted companies. It proposes retaining useful requirements, removing or amending weaker ones, and removing the annual advisory shareholder vote on the remuneration report.

17. **Chapter 8 considers corporate reporting in the digital age**. It seeks views on moving to a digital-first approach to shareholder communication, greater use of digital tagging, potential for migrating some disclosures online, and clarifying the law on virtual annual general meetings (AGMs).

18. **Chapter 9** seeks views on three proposals:

- the design of a Reporting Gateway to test future reporting requirements and help ensure new or revised reporting requirements are streamlined and proportionate
- revoking the Reports on Payments to Governments Regulations 2014, following a post-implementation review
- requiring companies to tell Companies House when they appoint an auditor, so the auditor's identity is shown on the register

Next steps

19. Taken together, these chapters represent a holistic review of the UK's corporate reporting ecosystem. They are intended to stimulate a wide-ranging discussion on how reform should be taken forward. The government is keen for stakeholders to test and challenge longstanding ideas in this area. This consultation will be open for 12 weeks, giving time for respondents to discuss and test ideas with government. We invite comments and evidence to help improve the impact of the proposed changes and to ensure that the UK's corporate reporting framework supports growth.

20. When considering how to reform the UK's corporate reporting regime, the government is also conscious that Companies Act 2006 reporting requirements are not the only requirements placed on companies. The Financial Conduct Authority (FCA) regulates and places obligations on a range of financial services providers as well as listed and traded companies. Both the Prudential Regulatory Authority (PRA) and the FCA are responsible for rules affecting lenders and other financial institutions. Additionally, the FRC sets accounting standards, writes guidance on corporate governance and other areas of reporting. **The government will work with these partners to modernise corporate reporting as fully as possible, in support of**

a strong and growing UK economy. This will include engaging closely with the FCA as they conduct their review[3] of the Disclosure, Guidance and Transparency Rules, and finalise their policy statement[4] on aligning listed issuer's sustainability disclosures with UK Sustainability Reporting Standards (UK SRS).

21. Finally, this consultation is focused on companies and the annual report requirements for companies. However, the government will also consider relevant changes to the regimes applicable to other types of entity, such as Limited Liability Partnerships, in due course. As a result, we encourage those entities to respond to this consultation and to consider the implications of the proposed reforms in the context of their organisation.

[3] FCA annual work programme 2026/27 | FCA
[4] CP26/5: Aligning listed issuers’ sustainability disclosures with international standards | FCA

2. Understanding how corporate reporting supports investor and creditor decisions

22. As stated in the introduction, the government proposes to modernise the UK's corporate reporting landscape by ensuring that the regulatory requirements are designed for a specific audience - investors and creditors. The government is mindful that investors and creditors are not a homogeneous group and there will be different views on the value of different disclosure obligations and which companies should provide them. The government is also aware that statutory reporting requirements are only one source of information. Investors and creditors also obtain information through direct engagement with companies and other voluntary disclosures, so the value of reporting requirements should be considered in that wider context.

23. In light of this complexity, this chapter seeks evidence from investors and creditors on the types of disclosure obligations that are most valuable and how, in practice, they use the disclosures resulting from existing requirements. We encourage respondents to be candid, to highlight gaps in current information provision, to tell us which forms of information they see as highest priority, and to tell us whether there are forms of disclosures that are of limited use. This chapter seeks to understand the priorities of the investment and creditor community so that the government does not make unfounded assumptions about regulatory interventions that are useful or not useful.

24. This chapter has 3 sections:

- first, the chapter seeks evidence from the investment and creditor community to understand which categories of information – and which of the existing disclosure obligations in the Companies Act 2006 - they see as useful. This section focuses on the usefulness of non-financial regulatory changes that have been put in place over the last two decades

- second, the chapter considers the informational value of disclosures provided by different categories of companies, focusing especially on the difference between private and public companies. This section asks for views on the ways that investors and creditors use the disclosure obligations that apply to private and public companies and the weight they place on each

- third, the chapter asks for views on the role of disclosure obligations in the wider information ecosystem. We seek evidence from the investor community to understand how much weight they place on disclosure obligations compared to information received through industry initiatives or bespoke information requests they might make

The informational priorities of the investment and creditor community

25. Over the past 2 decades, successive governments have introduced new reporting obligations or amended existing obligations, including changes that were required as a member of the European Union. These include the requirement for certain companies to prepare a strategic report, the introduction of a 'non-financial information statement', obligations in relation to carbon dioxide and emissions reporting and relating to corporate governance disclosures as well as requiring certain companies to produce climate-related financial disclosures.

26. The examples above illustrate only a small part of the UK's reporting requirements. They also understate their complexity, as each requirement is often made up of numerous individual disclosure obligations. For example, the strategic report must cover broad issues such as a company's business model and long-term prospects, as well as more granular disclosures such as the sex breakdown of senior leadership.

27. In the chapters that follow, the government seeks views on many of the specific regulations described above: for instance, Chapter 5 describes targeted reforms to the strategic report obligations. At this stage, the government wishes to step back to consider the UK's regulatory

landscape as a whole and to seek views from investors and creditors on how they use the information that is disclosed by companies because of these regulations. We are also keen to receive information on the weight that investors and creditors place on respective obligations and whether certain regulations are perceived as more decision-useful than others. When offering these views, we also encourage respondents to offer specific examples on how those regulations are used when making economic decisions regarding the reporting entity.

28. The government is also keen to understand whether investors and creditors believe there to be weaknesses or gaps in the UK's regulatory landscape which mean that they do not have sufficient information to make well-informed decisions. There are often demands for new reporting obligations from the investment community and the government is keen to consider those demands where appropriate and proportionate. At the same time, the government will not be able to address all information gaps, and we encourage respondents to be specific by providing detailed information about the consequences of those informational gaps when making investment and credit decisions.

29. Finally, the government is aware that reporting companies may have different perceptions on the usefulness of certain disclosure obligations to investors and creditors. For instance, government has heard concerns that companies are often not aware how their disclosures are being used, sometimes stating that they see limited direct value in providing information to investors. We would welcome views from companies to understand their perspective on the non-financial reporting regulations described above, and which they believe to be most valuable to their business. In particular, the government would welcome evidence on how those disclosures have informed a company's interaction with investors and creditors and how, if at all, those disclosures have helped the company to access capital.

Q3. Considering the UK's regulatory landscape as a whole, which type of disclosures are most useful for decision-making from either a company, or investor and creditor, perspective?

Q4. What weaknesses or gaps, if any, have you identified in the UK's corporate reporting landscape? How do those weaknesses or gaps impact economic decision-making, if at all?

Understanding the value of disclosures made by different types and categories of company

30. This section seeks views on the value to investors and creditors of reporting provided by different types and categories of company (i.e. 'who' should report). When exploring this question, the government is particularly interested to understand:

- how changing market dynamics are influencing the informational needs of investors and creditors
- whether investors and creditors have identified disclosure obligations that are superfluous or unnecessary as a consequence of the type of company that is required to report
- whether there are segments of the market where there are information gaps that may need to be addressed
- how the investment and creditor community view the usefulness of disclosure obligations that apply to private limited companies compared to obligations that apply to public limited companies

31. In relation to the last of these bullets, the government would particularly value information on how disclosures by private companies are used in practice, with a particular focus on non-financial information that is disclosed because of corporate governance, strategic reporting and climate-related reporting obligations. We are exploring this issue because the disclosure

regimes for private and publicly listed companies have key differences to account for the distinct nature of the two markets. In particular, the fact that there is a much higher percentage of retail investors that participate in public markets means more reporting and disclosure requirements are needed to protect consumers and ensure market integrity.[5] In addition, private limited companies often have a closer relationship with their investors than companies that list shares on public markets and tend to include more sophisticated investors. In some instances, this close relationship may reduce the value of disclosure obligations, especially where investors are directly involved in the governance of an entity and drive its strategic direction from within.

32. Although there may be some instances where the value of public disclosure is reduced in the context of private companies, the government is not proposing any specific regulatory changes and has an open mind on whether to retain or remove non-financial reporting requirements that apply to this group. We recognise that some private companies may have a dispersed investor community. We are also keen to explore how the growth of the private credit market is influencing informational needs.

33. In addition, the government has heard arguments that private companies should be required to report certain information to ensure there is not a significant discrepancy between the obligations that apply between publicly listed companies and others of a similar size. The government understands the motivation behind these arguments, and we are keen to ensure that any future reforms do not inadvertently undermine our competitiveness and create barriers to capital raising through significant additional burdens when a company accesses capital markets. At the same time, the government also wants to test the assumption that alignment of reporting requirements between these groups should, in itself, justify imposing reporting requirements. This argument does not take account of the differences in ownership models of private and public companies. Our overall initial view is that reporting requirements should be guided by the principle that they genuinely provide decision-useful information for investors and creditors.

34. Finally, the government would like to hear the perspective of private companies to understand how non-financial reporting requirements have helped them to access capital and helped with engagement with investors and creditors. This theme is also explored in more detail in chapters 5 and 6, when considering the value of strategic reporting requirements and corporate governance reporting requirements for private companies.

Q5. Reflecting on your answer to Q4, are there any information gaps particularly noticeable in relation to specific types of company or sector? Do these gaps affect investment decisions and, if so, how?

Q6. What is your view on the benefits or drawbacks of aligning reporting requirements for publicly listed and private companies? Please explain your answer.

Q7. When making financial decisions, how useful are disclosures produced by private companies?

The role of disclosure obligations compared to other sources of information

35. The government is also aware that the information ecosystem is complex and multifaceted. Investors and creditors rely on information from multiple different sources, including bespoke information requests, desktop research, third-party data providers, and pre-investment

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[5] The FCA is responsible for setting the requirements for traded companies and has recently announced that it intends to review its Disclosure Guidance and Transparency Rules Sourcebook.

diligence and questionnaire templates. For instance, in the field of sustainability reporting, the Institutional Limited Partners Association and Principles for Responsible Investment have created due diligence questionnaires that standardise the most frequent and important due diligence questions. Similarly, the ESG Data Convergence Initiative (EDCI) is a private equity industry-led partnership that aims to standardise the data collection and metrics used by Limited Partners and General Partners.

36. Given the complexity of this ecosystem, the government would welcome views on the importance of disclosures that derive from legal obligations in the Companies Act 2006 compared to the disclosures that derive from industry initiatives and bespoke engagement. We are also keen to better understand the extent to which disclosure obligations overlap with – and inform the development of - industry questionnaires and initiatives.

Q8. What value do investors and creditors place on information deriving from the Companies Act 2006 compared to other sources of information?

3. Categories of companies and application of rules on corporate reporting: a simplified framework

37. This chapter asks whether company categories, thresholds and exemptions should be simplified.

38. At present, the Companies Act 2006 contains multiple different definitions, thresholds, ineligibility criteria and exclusions that determine which companies must report particular types of information. Many companies find it difficult to identify which reporting requirements apply to them, and it is difficult for investors and creditors to know what reporting to expect.

39. The government believes this complexity is inconsistent with the theme of 'simplicity and coherence' as outlined in the introduction and we wish to reform this complex body of law. In doing so, this chapter identifies opportunities to lighten the regulatory burden for some companies, consistent with the principle that reporting requirements should be commensurate to the size and complexity and the economic impact of the reporting entity.

40. This chapter is divided into three sections:

- the first summarises the current legal picture, explaining in general terms the different company thresholds and definitions that are specified in the Companies Act 2006
- the second section then brings forward proposals for reforms, focusing on the SME community. It tests with stakeholders whether to create an SME accounting regime; allow non-FCA regulated smaller companies in ineligible groups to benefit from exemptions for micro-entities, and small and medium-sized companies; update the definition of employee and calculation of the number of employees; and considers whether the audit requirement for medium-sized companies remains justified on a cost-benefit basis or whether they should benefit from an audit exemption as part of an SME regime
- the third section considers whether reporting requirements for the largest and most economically significant companies could be better targeted. In particular, it seeks views on introducing a new 'very large' company category for narrative reporting purposes, and how that threshold could be defined

The current framework for corporate reporting

41. The Companies Act 2006 uses a series of company size categories to determine which reporting, audit and disclosure requirements apply. The main populations of companies covered by the Act are:

- **micro-entities**, which prepare and file accounts as micro-entities by meeting the qualifying criteria set out in section 384A and 384B of the Companies Act 2006. They may claim the small companies audit exemption and are exempted from non-financial reporting obligations. Accounts preparation is greatly simplified to the point where the accounts are presumed to meet the overriding 'true and fair' principle if certain requirements set out in the Companies Act 2006 are met[6]
- **small companies**, which may prepare and file accounts under the small companies accounting regime. Currently, small companies must prepare a limited directors' report[7] and may claim the small companies audit exemption. They are exempt from preparing a strategic report. The preparation requirements for small companies' annual reports and

[6] Chapter 4 covers the true and fair principle in detail.
[7] The requirement for a directors' report is to be abolished, as set out in Annex A.

accounts are set out in separate dedicated regulations so that small companies don't have to work through requirements for medium-sized and large companies to find the requirements which they are subject to

- **medium-sized companies**, which must prepare and file audited accounts, subject to limited medium-sized companies reporting exemptions, and must prepare and file a directors' report[8] and strategic report
- **other companies ('large companies')** that do not qualify for any of the above exemptions must prepare and file audited accounts, and a directors' report[9] and strategic report
- **various subcategories of (often very) large companies**, meeting additional criteria on minimum size or function, which fall within scope of certain reporting requirements that are additional to those that apply to large companies. These additional requirements are predominantly related to non-financial reporting (see Table 3, below)

42. The micro-entity, small and medium categories are based on the application of criteria consisting of three maximum thresholds for each size category, with two out of three needing to be met for a company to qualify (see Table 2). Two are financial (balance sheet size and turnover), and one relates to the number of employees. The financial thresholds were updated in 2024 to reflect inflation and to provide further headroom for the future.

TABLE 2

Companies qualify if they meet at least 2 of the 3 criteria:	Micro-entity	Small	Medium	Large
Annual turnover (£)	<1m	<15m	<54m	≥54m
Balance sheet (£) (gross assets)	<500k	<7.5m	<27m	≥27m
Average number of employees	<10	<50	<250	≥250

43. Some companies that meet the size criteria for the micro-entities' regime, the small companies' regime or the medium-sized company exemptions are prohibited from using those provisions because of ineligibility criteria. For instance, companies which operate in certain financial services sectors, or are public limited companies (plcs) or Public Interest Entities, are treated as large companies regardless of size. Ineligibility can also result from being part of a group which contains an ineligible company.

Reforms affecting small and medium-sized companies

44. The government is considering removing the distinctions between small and medium-sized (SME) companies in corporate reporting, giving medium-sized companies the ability to access a wider package of exemptions. It has already committed to removing most medium-sized private companies from preparation of the strategic report. The government wishes to build on this by considering whether some, or all, of the exemptions within the small companies accounting regime can also be made available to medium-sized companies.

45. Another difference between small and medium companies is that small companies have an exemption from the requirement for their financial reports to be audited. Audited accounts can be extremely valuable to companies, as they provide a greater degree of confidence to investors and creditors in the company's financial reporting. This can provide them with greater

[8] To be abolished though with some contents being retained.
[9] To be abolished though with some contents being retained.

access to finance or finance at a reduced cost. However, the government wishes to test whether this value justifies the burden of imposing an audit on all medium-sized companies, or whether all SMEs[10] should have a choice of whether to undergo an audit.

46. A key consideration is that if audit is needed to access finance, or allows it to be obtained more cheaply, companies are likely to find this out too late to be able to do anything. For example, a company finding out that it needs three years' audited accounts at the point of applying for a loan is unlikely to be able to proceed given the likely delay and expense. We are keen to explore this question thoroughly before making any decision on requirements. The financial reporting chapter of this consultation discusses this proposal, as well as discussing audits of those companies that are subsidiaries.

Access to reporting exemptions

47. Some companies cannot use exemptions even if they meet the size thresholds.

48. The exemption frameworks for micro-entities, small companies and medium-sized companies, and the ineligibility criteria that apply to them, were designed mainly for financial reporting (a list of current exclusions is set out at Annex B). Some of these rules also apply to the strategic report and the directors' report, which have made the framework more complex. For example, while small companies in ineligible groups are excluded from the small companies accounting regime, they are not excluded from the accompanying reporting exemptions. The UK's exclusions from its exemptions go further than in the EU, where the Accounting Directive does not prevent companies in ineligible groups from taking advantage of the exemptions.

49. Public Interest Entities (PIEs)[11] are often excluded from exemptions in the Companies Act 2006, because they are judged to require the highest degree of scrutiny. PIEs are a subset of ineligible companies. This phase of work is not considering changes to the PIE audit regime.

50. The government also proposes that the following non-PIE companies should continue to be excluded from accounting and audit exemptions:

- companies that are investment firms under the UK's framework in assimilated law that implemented the Markets in Financial Instruments Directive (MiFID)
- management companies of Undertakings for Collective Investment in Transferable Securities (UCITS)
- companies that are e-money issuers
- other types of non-PIE regulated financial services provider

51. At the moment companies in a group cannot take advantage of the exemptions if the group is an 'ineligible group'[12] because it includes a Public Interest Entity, any type of regulated financial services provider that is medium-sized or larger, or one of the other three specific categories of financial services provider listed above. By contrast, in the EU, the Accounting Directive does not prevent companies from taking advantage of the exemptions by virtue of being in the same group as a PIE. **The government is considering allowing more subsidiaries to use reporting exemptions.** However, the government is aware that intragroup dependencies can have material impacts on the solvency of regulated companies, and therefore this proposal could negatively impact the ability of the regulator to supervise them.

[10] Excluding those to which reporting requirements apply for other reasons, such as PIEs and in certain financial services sectors.
[11] Traded companies, credit institutions and insurance undertakings.
[12] Companies Act 2006, section 480(2)(a)(ii)

52. While this consultation is underway, the government will continue to work with the FCA to discuss potential risks. This includes how to balance the regulatory value of requiring full audited accounts for micro-entities and small and medium-sized companies that are in the same group as a regulated financial services firm, with the regulatory risks that might arise where exemptions apply. We will consider the effect of reduced corporate transparency, the risk of concealment of financial crime, impediments to prudential regulation, the impact on firms' ability to raise capital and risks to the continuing equivalences that the UK has in EU law following its exit from the European Union, if these other group members can access accounting and audit exemptions.

Application of the thresholds for insurers

53. Currently, all insurers are excluded from the reporting exemptions available to micro-entities and small and medium-sized companies, regardless of size. This treatment predates the recent reforms to the Solvency II regime relating to prudential regulation, which now only includes larger insurers. In line with those reforms, the government is proposing that some smaller insurers should be able to benefit from some or all of the exclusions that apply to micro-entities, small and medium-sized companies. This would also mean that, where the accounting and reporting framework imposes different requirements on PIEs, these smaller insurers would no longer be within scope.

54. To allow exemptions to apply to insurers, the government recognises that it would need a suitable way of measuring their size. This would require an equivalent to the turnover definition used for other companies, based on information included in insurers' accounts.

Threshold definition of employees

55. Separately, the government wishes to consider whether the definition of an 'employee' for the purpose of the thresholds is unnecessarily restrictive. Should company size continue to be measured using headcount, or should companies be allowed to use full-time equivalent (FTE) employees instead?

56. Currently, the 'number of employees' criterion for company size is currently averaged over time to allow for seasonal or other patterns of work but counts each individual employee regardless of the amount of work they do for the company.[13] The government is interested in views on whether to allow companies to use either the average number of employees (as now, which may be simpler for smaller businesses) or the average number of full-time equivalent (FTE) employees, which could offer a clearer reflection of the size of some larger businesses. This could bring some companies into smaller size categories. The government also recognises different workforce models that now exist in the UK economy (e.g. contractors, agency workers and part-time workers). We are keen to hear views on how the employee number calculation could be updated to recognise the different employment models that now exist.

Q9. Do you agree or disagree that medium-sized companies should be able to access the same accounting and reporting regime available to small companies, through an expanded SME regime? Please explain your answer.

Q10. An exemption to audit currently exists for companies who qualify for the small companies regime. Do you agree or disagree that the audit exemption should be expanded to include companies eligible for the medium-sized company regime?

Please explain your answer. We are interested in evidence of the costs and benefits of

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[13] See, for example, [section 382(6) of the Companies Act 2006]

audit for medium-sized companies, and the role of audited accounts in companies obtaining loan finance or other credit.

Q11. Do you agree or disagree with the government's approach to allow more group companies that are micro-entities or small or medium-sized companies to use the relevant accounting and audit exemptions, even if they are a member of a group that includes a regulated financial services provider? Please explain your answer. In addition, should the ineligibility criteria be amended? If so, how?

Q12. What are your views on updating the definition of an employee to improve the way the size of a company is determined? What kind of changes would you recommend and why?

Testing a 'very large' company threshold

57. Currently some non-financial reporting requirements apply only to the largest companies. However, these requirements use different thresholds and definitions for companies in scope. This means there is no single definition of a "very large" company in the Companies Act 2006. Table 3 shows the different thresholds that currently apply.

TABLE 3

Additional Reporting Requirement	Companies Act 2006 section	Companies in scope
Main Trends affecting future development, performance and position of the company's business	414C(7)(a)	Quoted
Environmental Matters, Company's Employees, Social, community and human rights	414C(7)(b)	Quoted
Company's strategy and business model	414C(8)(a) and (b)	Quoted
Company's Male-Female Ratios	414C(8)(c), (9) & (10)	Quoted
Environmental Matters, Company's Employees, Social Matters, Respect for Human Rights, Anti-corruption and anti-bribery	414CB(1) & 414CB(2)(b)(c)	Traded, Banks and Insurers (Not AIM) (500+ employees)
Company's business model and KPIs	414CB(2)(a) and (2) and (5)	Traded, Banks and Insurers (Not AIM) (500+ employees)
Additional Explanations of the company's annual accounts and National, EU-based, International Reporting Framework	414CB(5) and (6)	High Turnover Companies*, Traded, Banks and Insurers (with 500+ employees)
Carbon Dioxide/Emissions Reporting	Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 Schedule 7, Part 7	Quoted (for International Emissions)
Statement of Corporate Governance Arrangements	Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 7, part 8	2,000 employees; or £200 million turnover and £2 billion balance sheet (and not caught by FCA rules)
Climate-Related Financial Disclosures	414CB(A1+2A)	High Turnover Companies*, Traded,

Additional Reporting Requirement	Companies Act 2006 section	Companies in scope
		Banks and Insurers (with 500+ employees)

* High turnover companies = companies with over £500 million and 500+ employees

58. In light of the complexity of non-financial reporting thresholds, the government is seeking views on whether it should consolidate relevant reporting requirements in Table 3 into a new category of 'very large' companies for certain non-financial reporting obligations which could make the reporting framework easier to understand and apply. The government has an open mind on how to proceed and is seeking views on how this threshold should be defined and which reporting requirements apply to this new category. There are no plans to introduce this threshold for requirements relating to the financial statements.

Q13. What are your views on introducing a 'very large' company threshold? Please explain your answer, including how the threshold should be defined and what disclosures should apply.

Q14. Do you have any further comments on the government's proposals for a simplified reporting framework, including on thresholds, exemptions and/or ineligibility, or anything else?

4. Re-imagining the UK's financial reporting framework

59. This chapter asks whether the relationship between company law and accounting standards should be simplified.

60. Financial reporting plays a vital role in creating trust in companies and in allowing investment, trade and the extension of credit to occur with confidence. It is a cornerstone of company law and the financial reporting requirements reflect that the company has a legal identity, benefits from limited liability, and is run by directors but is owned by shareholders. However, financial reporting imposes significant costs on companies. The government wants to ensure that these costs are justified and proportionate to the benefits, and that the framework operates in an effective way.

61. The government is keen to reset the relationship between the Companies Act 2006 and the accounting standards, giving each element a purpose in the financial reporting framework, providing clarity on how they interact with each other, and reducing burdens on companies where burdens are not justified. To stimulate discussion, this chapter proposes a new financial reporting framework with the following key features:

    - detailed financial reporting requirements in the Companies Act 2006 would be removed. Instead, the Companies Act 2006 would set out high-level obligations and would identify which reporting standards should be used by which set of companies

    - accounting standards would become the single source of detailed financial reporting obligations for each type of company specified in the Companies Act 2006

    - the range of accounting standards that are available for use by UK companies would be streamlined to 4 main standards: UK-adopted International Accounting Standards (UK-IAS), UK Generally Accepted Accounting Practice (UK GAAP) for large companies, UK GAAP for SMEs, and UK GAAP for micro-entities, tying the reporting required by each type of company closely to the categories of company in the Companies Act 2006. The Companies Act 2006 would set out which type of company could use each type of standard and prescribe the primary financial statements to be required in the accounts

    - reporting exemptions given to small companies and small groups would be extended to medium-sized companies. As a result, SMEs could report in compliance with the SME standard and would not be required to produce a cash flow statement. SME groups would be exempt from producing consolidated accounts. Where the SME standard is used by SMEs, the disclosures made in compliance with the SME standard would be sufficient to meet the requirements of the Companies Act 2006 rather than the additional step of requiring the accounts to show a true and fair view as well as complying with the relevant accounting standard

    - the true and fair presumption for micro-entities would be removed and replaced with a requirement for micro-entities to prepare accounts that comply with the micro-entities standard

    - disclosures required by micro-entities would be set at a minimum level to meet objectives relating to the prevention of financial crime

    - a financial statement audit would be required only where needed and would not be required where the risks to investors and creditors do not justify the cost. The existing audit exemption for small companies would be extended to include all SMEs, and the existing subsidiary audit exemption would be reformed and simplified

    - a new voluntary assurance standard, pitched at a level designed to give lenders confidence in SME accounts, would be created to enable more SMEs to take advantage of the SME audit exemption.

- options for reducing the disclosure obligations of wholly-owned subsidiaries would be considered
- an accounting standard for not-for-profit companies would be created, reducing the reliance on and complexity of Statements of Recommended Practice (SORPs)
- complex, gameable rules on distributable profits and capital maintenance would be replaced by a solvency-based regime for determining the legality of dividends, more directly linked to what a company could afford to pay out

62. The government's success in meeting the ambitions set out in this consultation is dependent on the engagement of stakeholders. This is particularly true for this chapter where a bold vision is described but it is one that would benefit from a range of expert input and views. Broad questions on the proposals are asked at the end of this chapter, but stakeholders are encouraged to provide comment on all aspects of the financial reporting framework.

Proposals and ideas for a new financial reporting framework

'True and Fair'

63. The concept of true and fair[14] is the overriding principle governing the presentation of financial statements, regardless of whether companies produce UK-IAS accounts or Companies Act 2006 accounts.

64. Directors must use their professional judgement to consider whether the financial statements are a true and fair reflection of the company's economic activities throughout the year and of its financial position at the year end. True and fair does not mean the same as 'correct' because financial statements rely on judgements and estimates, meaning that there is likely to be no single correct set of figures. Neither does it mean strict compliance with the accounting standards alone, because the pre-eminence of the 'true and fair' concept in law means that financial statements may deviate from accounting standards, or provide additional disclosure, if it is necessary to present a true and fair view. True and fair engenders trust and enables users of accounts to make investment decisions which rely on the financial statements.

65. The true and fair concept, while applicable to all companies, applies differently according to the type of company and type of accounting, and there is no statutory definition. The way in which IAS Reporting was originally introduced into the Companies Act 2006 was determined by EU directives and regulations, and this has meant that the legislative treatment of true and fair for UK-IAS accounts is slightly different to that for Companies Act 2006 accounts. While it is intended that the overriding effect is the same, the divergence in the legislative treatment of UK-IAS accounts and Companies Act 2006 accounts creates unnecessary complexity.

66. The government wishes to remove this confusion. Our proposal is to **align legislation across both UK-IAS accounts and Companies Act 2006 accounts, so that a single true and fair requirement is applied to all companies that are within scope**.

67. Under the current law, micro-entities are required to present only limited disclosures. Due to the limited nature of micro-entity disclosures under current law, the disclosures do not present a true and fair view. Therefore, the Companies Act 2006 creates a 'true and fair presumption' for these companies to satisfy the existing true and fair requirement. This means that the accounts of micro-entities are presumed to be true and fair, even though it is widely accepted that they do not meet that test. **The government proposes to replace this with a simple requirement for micro-entities to comply with the accounting standard for micro-entities**.

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[14] Companies Act 2006 - Section 393

This would not change the effect of the obligations on micro-entities but would add clarity and reduce the potential for confusion caused by the current presumption.

68. Small companies must prepare accounts that present a true and fair view but are allowed to use a reduced disclosure standard. However, the true and fair obligation means that alongside applying the standard, directors must consider whether additional disclosures are required. This additional step adds a burden for small companies, but we are told that it results in very few adjustments to the accounts.

69. We propose replacing this with a requirement to prepare accounts in accordance with the SME accounting standards only. We recognise that this would be a significant departure from the current situation, so the government would like to understand better:

   - whether and how frequently the true and fair obligation results in additional disclosures
   - whether the proposed change would reduce complexity for business
   - whether this causes issues where there is no specific accounting standard dealing with an element of the company's financial performance or position
   - the extent to which this change could cause unintended consequences and harm the usefulness of financial reporting by SMEs

70. The proposals set out above are not intended to undermine the concept of true and fair in the Companies Act 2006. The concept would remain as an overriding principle, but financial reporting obligations would be streamlined to provide clarity for companies and directors.

71. This change assumes that compliance with accounting standards is sufficient to meet the information needs of investors and creditors.

The relationship between the Companies Act 2006 and accounting standards

72. All UK-registered companies are required by the Companies Act 2006 to prepare and file financial statements. Certain traded companies are required to use UK-IAS; most other companies can choose whether to prepare UK-IAS accounts or to prepare Companies Act 2006 accounts.

73. For companies that prepare UK-IAS accounts, detailed reporting requirements are in standards, with very few additional requirements in the Companies Act 2006. By contrast, those companies that prepare Companies Act 2006 accounts are required to comply with the relevant UK GAAP standard, plus the disclosure obligations set out in Companies Act 2006 and its supporting regulations.[15]

74. Certain reporting disclosure requirements in accounting standards are duplicated in the Companies Act 2006 and its supporting regulations. Other requirements are similar but not the same, adding complexity. This means that companies preparing Companies Act 2006 accounts must consult both sources (standards and regulations) and also go through an exercise to understand how the duplication affects the reporting. This is unnecessarily complex and burdensome for business.

75. To address this, **the government proposes to remove all detailed financial reporting requirements from the Companies Act 2006 and its supporting regulations**. Where necessary, requirements would be transferred to the relevant financial reporting standards, but

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[15] The key sources of law and regulation are: (1) Part 15 of the Companies Act 2006, (2) the Small Companies and Groups Regulations 2008 (SI 2008/409), and (3) the Large and Medium-sized companies and groups Regulations 2008 (SI 2008/410).

many requirements can be deleted. This would mean that accounting standards would become the single source of detail companies need for preparing their accounts.

76. In turn, **the Companies Act 2006 would become the framework which supports the accounting standards**. It would set out the scope of reporting, the legal principles underpinning reporting, administrative disclosure requirements, and which primary financial statements are required.

77. Achieving this would require repealing all, or elements, of the following:

- reporting requirements for notes to the accounts from Sections 410A, 411, and 413 of Companies Act 2006, which cover information about off-balance sheet arrangements, employee numbers and costs, and directors' benefits
- Regulations in, and Schedules to, the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008
- Regulations in, and Schedules to, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

78. The government is keen to understand whether there are any disclosure obligations which must be retained in law, and which elements must be moved into the relevant accounting standards for the framework to be coherent.

79. As the regulator responsible for financial reporting standards, the FRC would be responsible for updating the standards to reflect these changes. It will be publishing a consultation on possible changes in due course.

The UK Accounting Standards Framework

80. Companies that prepare Companies Act 2006 accounts use UK GAAP standards. These contain a range of different standards for different sizes and types of company. Some of these standards have a foundation in the IFRS for SMEs and contain certain differences in recognition and measurement principles when compared to UK-IAS.

81. The government recognises that it is not appropriate to require all companies to use the same accounting standards. However, the current range of standards, together with the range of exemptions available, in certain circumstances, results in a system which is not always consistent with Companies Act 2006 categories and scopes, and is complex. The government wants to simplify this by having a clear read-across between the Companies Act 2006 and the accounting standards. The aim is to make reporting requirements easier to understand.

82. Following simplification, the government envisages the Companies Act 2006 setting out which accounting standards are to be applied by each category of company. The government proposes that the following different types of accounting standard are necessary in the UK Accounting Standards Framework:

- UK-IAS
- UK GAAP standard for large companies
- UK GAAP standard for SMEs
- UK GAAP standard for micro-entities

83. The government wants to ensure that financial reporting supports access to finance and encourages investment and growth. Comparability of information across different types of company is a key element that will support this goal. At the same time, the government recognises that it is neither possible nor desirable for micro-entities to apply the same accounting principles as the largest listed groups.

84. The government would welcome views from stakeholders on the recognition, measurement and disclosure principles that would be appropriate for each of the different types of accounting standard forming the UK Accounting Standards Framework. The government is mindful of the costs and disruption to UK companies which may be caused by changes in accounting standards but is keen to ensure that the framework is fit for purpose for the future, and places UK companies in the best possible position to attract investment and financing to support growth.

85. Accounting standards also underpin the regulatory capital and solvency frameworks that apply to banks and, to a lesser extent, insurers. As a result, moving to the recognition and measurement principles of UK-IAS could affect the amount of capital that banks and insurers are required to hold. In turn, this may impact banks' capacity to continue lending to UK households and businesses and insurers' capacity to continue providing financial protection to policy holders. The government recognises that these effects will need to be considered when assessing whether the cost of applying these proposals are justified. The government will work with the PRA to ensure any prudential implications of the new framework are understood and considered.

Small and medium-sized enterprises (SMEs)

86. Being able to start and grow a business is critical to the UK economy. A proportionate financial reporting regime allows SMEs to attract investment capital for growth, while ensuring that preparation of accounts does not detract from their ability to run their business. The government is committed to reducing reporting burdens for smaller companies. While the use of UK-IAS, or a reduced disclosure version of IAS, would provide comparability and access to investment opportunities for large companies, the government believes that simpler accounting standards may be more appropriate for SMEs, which generally have less in-house accounting resource and simpler business models than large companies.

87. **The government proposes that a simpler reporting standard should be available for companies eligible to use the SME regime**. Accounts drawn up under this simpler reporting framework would not require a cash flow statement, and SME sized groups would not be required to produce consolidated accounts. As with large companies, the government is keen to avoid any barriers to growth which may come from having different recognition and measurement criteria in an SME standard. However, the government is also conscious that there may be recognition and measurement elements of UK-IAS which are not suitable for SMEs more generally.

88. The creation of an SME financial reporting regime builds on the government's existing plan to remove the requirement for most medium-sized private companies to produce a strategic report by extending the reliefs available to small companies, announced on 21 October 2025. Both would help create a more proportionate financial reporting environment for UK SMEs. As currently, we would anticipate that, while companies are able to take advantage of reporting regimes which are less burdensome, companies would not be prevented from using regimes for larger companies. This may be relevant for high growth companies.

89. The proposal to remove the requirement for a true and fair view for SMEs, coupled with the proposal to create an SME accounting standard, creates greater opportunity to reduce disclosure burdens on SMEs. The government is interested in understanding whether this shift may change how SME accounts are viewed. We would also welcome views on whether the lack of a true and fair standard for smaller companies could create unintended consequences, for instance for companies that are still required by other legislation to present true and fair accounts.

90. Consistent with moving from a small company regime to an SME regime, **the government is considering extending the small company audit exemption to all SMEs**. While statutory audit provides important safeguards and can support access to finance, we are not convinced it is always necessary for medium-sized companies, particularly given that subsidiaries of any size may already claim an exemption. The government recognises that the burden of requiring

an audit for all medium-sized companies may not be justified. We are keen to understand whether extending the audit exemption to all SMEs would reduce medium-sized companies' access to lending or other finance or add a significant premium on the cost of lending for medium-sized companies.

91. If lenders can gain confidence through other means, or if medium-sized companies have limited need for external finance, the cost of mandatory audit may no longer be justified. We are therefore interested in views on whether a voluntary assurance standard could provide the level of assurance lenders need at a lower cost than that of a full statutory audit.

92. We are also interested in views concerning what auditors of medium-sized company accounts would be providing an opinion on. It would not be appropriate to require auditors to give an opinion on whether accounts show a true and fair view if we remove this requirement from directors themselves. Under these circumstances, an audit could consider compliance with the accounting standard, but it is important to recognise the interdependency between these two policy proposals.

Micro-entities

93. Micro-entities are required to comply with the fewest reporting obligations. The government has explored the potential to reduce their reporting obligations further but is mindful of the aims of the newly introduced Economic Crime and Corporate Transparency Act 2023 (ECCTA) and the role of accounting transparency in helping to prevent financial crime. The government is open to changes that would reduce the reporting burdens for micro-entities while maintaining appropriate protections against financial crime.

94. While the opportunities for reducing reporting requirements on micro-entities may be limited, the government believes that substantial improvement to the legal framework can be made. The rules applying to micro-entities are often thought of as a regime, however in law they are simply a part of the small companies' regime. The government believes that creating a specific micro-entities regime in legislation could clarify responsibilities and obligations and make it easier for micro-entities, and their directors, to meet their obligations.

95. The government's proposal to remove detailed financial reporting requirements from the Companies Act 2006 and move them, where relevant, into the accounting standards, means that the current minimum micro-entity requirements would disappear from legislation. Given that there is no explicit requirement for micro-entity accounts to comply with the reporting standards, this would leave companies preparing these accounts with no legal requirement to produce anything other than their company registration details, administrative information, and their primary financial statements and notes (with no detail as to how they should be presented). The government proposes to address this anomaly as part of creating the micro-entities regime. Further considerations in respect of ineligibility and the micro-entities regime are set out in chapter 3.

Very large companies and Public Interest Entities (PIEs)

96. At the other end of the scale of accounting requirements, not all PIEs are currently required to use UK-IAS. Only a company with transferable securities admitted to trading on a UK regulated market ('traded company') that produces consolidated accounts is required by the Companies Act 2006 to use UK-IAS, and then only in its consolidated accounts. Certain issuers on growth markets (such as AIM and Aquis) are also currently required to use UK-IAS, although we note that some requirements are changing following a recent consultation. Traded companies that do not produce consolidated accounts are not required to use UK-IAS. Banks and Insurers are not required to use UK-IAS unless they are a listed group.

Charities and not-for-profit companies

97. Some charities and other not-for-profit entities are set up as companies and are required to comply with the Companies Act 2006, including the accounting obligations. This results in the use of accounting standards primarily written for profit-making companies being used by companies with a very different business model and objectives. The gap between accounting

standards and what is needed by the not-for-profit sector has historically been filled by statements of recommended practice (SORPs), written by approved SORP-making bodies. The sector must follow not only Financial Reporting Standard (FRS) 102, but also the relevant SORP.

98. The existing accounting framework presents challenges for the not-for-profit sector. Although SORPs are helpful, they cannot change the underlying accounting requirements currently set out in FRS 102, some of which have been argued to be unsuitable for the sector due to the difference in aims and purpose between for-profit and not-for-profit companies. Furthermore, charitable companies are restricted from using FRS 105, the accounting standard for micro-companies, even if they meet the relevant size thresholds. The joint SORP-making bodies have previously argued that this, coupled with the requirements of FRS 102, creates disproportionate burdens on smaller charities in particular[16]. It also creates greater disparities between charities that are set up as companies and those that are not.

99. The government welcomes views on whether it would be appropriate to introduce a specific standard for not-for-profit companies. This would reduce the reliance on SORPs, alleviate some specific accounting issues faced by not-for-profits, and reduce the complexity faced by this sector. We also welcome views on whether any other requirements in the Companies Act 2006 are challenging or difficult to implement for not-for-profit companies.

100. In its 2024 manifesto, the government made a commitment to double the size of the UK's co-operative and mutuals sector. The introduction of a not-for-profit accounting standard could help the growth of this sector, for example, by dealing with issues presented by current requirements to list co-operative dividends as part of their pre-tax profit.

Subsidiary reporting

101. The government is considering simplifying reporting and audit requirements for subsidiaries. Subsidiaries can benefit from some reliefs in financial reporting. In particular, they are exempt from the requirement to produce a cash flow statement. The government recognises that this does not match the narrative reporting reliefs announced on 21 October 2025 to exempt wholly-owned subsidiaries from the requirement to produce a strategic report.

102. At the same time, the government recognises the important role that accounts play in supporting trust in companies; trust that is necessary for suppliers to be able to extend credit terms to their customers, and for banks to be able to lend to theirs. The government also recognises that in the case of a subsidiary company being unable to pay its debts, it is its financial position that is important, not that of the group.

103. However, the preparation of the accounts of wholly-owned subsidiaries is often viewed purely as a compliance exercise, undertaken many months after the year end and containing little decision-useful information. The government is considering whether further disclosure exemptions could be provided, while recognising the need for subsidiaries to give parent companies the information needed to produce consolidated accounts. The scope for reducing burdens through further disclosure exemptions appears limited, as most of the relevant information must be prepared for group accounts purposes anyway.

104. Subsidiary companies can use an exemption from the requirement to have an audit, provided that the subsidiary is not a traded company, bank, insurer or other type of entity specified in section 479B of the Companies Act 2006. In addition, the parent company must provide a guarantee to all creditors of that subsidiary at the year end, and the subsidiary

[16] For example, in their May 2023 letter to the Financial Reporting Council, in response to the FRED 82 Draft amendments to FRS 102.

company must file a copy of the parent company's audited accounts alongside its individual company accounts.

105. It is questionable how effective the parent company guarantee is in practice. The government is seeking views on whether this guarantee is effective and is relied on by creditors in a meaningful way.

106. **The government is considering streamlining the audit exemption for wholly-owned subsidiaries with UK parent companies**. Under the proposed model, the audit exemption would continue to be available to wholly-owned (non-PIE) subsidiaries, but with no guarantee required from the parent company. The filing requirement would be reduced so that subsidiaries taking advantage of this exemption would be required to include only a copy of the parent group audit report with its accounts. The government is also considering whether to extend the ability to use this exemption to non-wholly-owned subsidiaries subject to agreement by all shareholders.

107. Under this new model, subsidiary companies would still, effectively, be audited to meet the group audit requirements, but that audit would be carried out for group purposes only.

108. However, this is a challenging area. The government wants to balance the needs of creditors to be able to trust the financial reporting of customers with meaningful reductions in business burdens. Trade creditors, unlike banks, are unlikely to have the ability to secure a parent company guarantee to the subsidiary with which they do business as a condition of the provision of credit terms.

Distributable profits and reserves

109. The issue of what monies can be paid out as profit by a company is significant for both investors and creditors. Investors do not want to be hindered in obtaining returns on their investments, while creditors wish to be sure that they will be paid in full. The government is keen that the needs of both are met effectively.

110. The Companies Act 2006 applies requirements to companies wishing to make a dividend payment or other kind of profit distribution (such as a share buy-back). These include the requirement[17] that a profit distribution can only be made from profits available for the purpose, which are defined as a company's accumulated realised profits minus its accumulated realised losses. The Companies Act 2006 does not define 'realised profits' and 'realised losses' and states that these should be calculated in accordance with accounting principles in place at the time that the company's accounts are prepared.[18] Companies wishing to make a profit distribution generally rely on guidance[19] on the calculation of realised profits produced by the accounting professions.

111. The Companies Act 2006 does not require companies to disclose the realised profits available for distribution – also known as the distributable reserve. There has been support previously from members of the UK investment community, parliamentarians and other stakeholders to require very large companies to disclose the distributable reserve as an audited note to the accounts.

112. However, the government is mindful that such a disclosure could be extremely costly for companies to determine and could increase both external and internal audit costs. We also recognise that the existing capital maintenance regime is complex and increasing transparency in how realised profits are calculated will not reduce that complexity.

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[17] Companies Act 2006 - Section 830
[18] Companies Act 2006 - Section 853
[19] ICAEW and ICAS guidance on realised and distributable profits under the Companies Act 2006 – TECH 02/17BL.

113. The government is considering moving from the current dividend regime to a solvency-based regime. Such a shift would be a fundamental change to the Companies Act 2006.

114. A solvency-based regime would remove the requirement for extensive and complex calculations and guidance. The proposal would be to require companies to state that the payment of the dividend will not affect the company's ability to continue as a going concern. This change may also address concerns raised in the past by some investors and other stakeholders that the existing capital maintenance regime may incentivise financial engineering to inflate distributable reserves.

115. In addition to Companies Act 2006, banks and insurers are subject to additional prudential requirements relating to payment of dividends that are designed to protect depositors and insurance policy holders. These requirements may apply more broadly to capital distributions and discretionary payments, including dividends, variable remuneration and payments on Additional Tier 1 instruments. The proposed changes would not affect these prudential requirements. The government recognises the importance of ensuring that any reforms operate coherently alongside existing prudential frameworks and will work with the PRA to ensure that any changes are interoperable with the prudential framework, and that any prudential implications are understood and managed.

Q15. What are your views on the financial reporting proposals as set out in the consultation? Please explain your response, such as which proposals you agree or disagree with and why, and what you think needs reform the most.

Q16. Do you support moving to a solvency model for determining the legality of dividends? Please explain your answer. If you do support the proposal, what key features should be included in that solvency regime?

Q17. Do you have any further comment on the government's proposals on financial reporting? Are there any other proposals that government should consider?

5. Strategic, financially material reporting

116. Building on the previous chapter's proposals for financial reporting, this chapter sets out proposed reforms to narrative reporting. Our proposed reforms would help streamline the UK's reporting framework, ensuring the framework is flexible and less prescriptive in both form and content.

117. This chapter:

- seeks views on how we can ensure non-financial information contained in the annual report is material, and what more can be done to empower companies to only disclose information that meets a financial materiality test
- proposes simplified content requirements for the strategic report to transform the UK's legal framework from a prescriptive set of rules to a principles-based framework
- updates on the government's work to endorse the sustainability standards published by the International Sustainability Standards Board (ISSB), including on how relevant reporting will be integrated into the framework
- seeks views on whether enhanced reporting on principal risks, above the baseline set of requirements, should be required for some companies
- seeks views on whether greater transparency of any assurance of strategic reporting (including sustainability reporting) would be beneficial to improve trust and confidence for users

118. The government is consulting to challenge assumptions and test radical options. As described in chapter 2, this includes seeking views on whether there is any value for investors and creditors in the narrative reporting produced by private companies. We are also keen to seek feedback on how we can improve trust and confidence in the information in the strategic report. Targeting reporting on the right types of company, and ensuring that the information produced is trusted, is part of the government's wider aim to improve regulation.

Proposals to reform strategic report requirements

The purpose of, and audience for, strategic, financially material reporting

119. The Companies Act 2006 sets out that "the purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company)."[20] Although there is no equivalent statutory duty to creditors, they are likely to benefit from the information relevant to shareholders.

120. Company directors have a key role in judging what information is material to investors; it is part of their responsibilities to consider carefully those information needs. The government seeks to empower directors to make decisions on what they consider financially material information but acknowledges that this is not straightforward.

121. To add to the complexity of making a judgement on what is financially material information, stakeholders have indicated that the Companies Act 2006 framework is not effective at empowering directors to make these decisions. Companies are currently required to report information only "to the extent necessary for an understanding of "the company's development,

[20] Companies Act 2006 - Section 414C

performance and position".[21] This filter does not apply consistently across all strategic report disclosures, and its use is complicated by the prescriptive nature of certain disclosures.

122. Companies also raised the impact of pressure created by investors, proxy advisors and other consumers of annual report information to disclose a wide range of information on a "just in case it's useful" basis.

123. To help address these issues, the government proposes to refocus the strategic report. The proposed focus on the needs of investors and creditors includes not only existing investors and creditors but also potential future investors and creditors. It is the government's view that reported information should be useful to potential investors and creditors in deciding whether to invest, provide or extend credit to a company. Alongside the proposed approach to streamlining existing requirements focused on baseline disclosures for the strategic report (discussed below), we think a reframing of who the annual report is for would help directors make decisions on financial materiality.

Establishing a core set of baseline narrative reporting requirements

124. The government proposes a new set of baseline reporting requirements. In 2025, the government held discussions with companies, audit firms, and investors, about how to reset the strategic report so that it better meets the needs of companies, their investors and creditors. We were told that, when the UK introduced the strategic report in 2013, it was regarded as a world-leading innovation that allowed companies to effectively articulate their story and explain the issues that are important to them. However, companies have indicated to us that the strategic report has lost its way and has become too long, complicated and unfocused. Stakeholder discussions highlighted the merits of a principles-based framework.

125. Companies have provided us with a wish list for the strategic report: a less prescriptive list of requirements; a structure that gives them the ability to communicate with clarity and purpose; and, for their financial statements, the narrative that puts the numbers in context to be meaningfully connected.

126. There was, however, some concern raised that companies may stop reporting on the complete list of issues that are of interest to a range of stakeholders. Despite these concerns, the government believes that creating a baseline set of requirements will support reporting on a range of material and important issues through a more flexible reporting structure. It is the government's view that this model would effectively address the issues with the current narrative reporting framework that stakeholders find frustrating and encourage companies to carefully consider and engage with a range of issues that impact their performance and strategy. We think it could aid the ability of companies to tell a truthful, accurate and focused story for existing and potential investors and creditors, helping them make financial decisions about the company.

127. Based on our conversations with companies, we have decided to consult on the proposal to introduce a principles-based legislative framework setting out baseline reporting for the strategic report. We believe this framework would reduce the complications associated with the current requirements that leads to an excessive focus on compliance and a tick-box approach to reporting.

128. We propose to remove most existing strategic reporting requirements and replace them with a core set of baseline narrative disclosures. These would cover a company's business model, performance, resources and relationships, strategy, and principal risk exposures. The detail included under these baseline disclosures would be consistent with the size and

[21] Companies Act 2006 - Section 414C and Companies Act 2006 - Section 414CB.

complexity of the business. A short description of each proposed baseline requirement is included in the table below.

TABLE 4

Baseline requirement	Description
Business Model	Provides a clear overview of the company, including how it generates value, and providing context to other information in the annual report.
Performance Review	Provides supporting context for the financial statements to contextualise the accounts and financial position of the company for that financial year, and a description of wider matters affecting the performance of the company, including non-financial key performance indicators (KPIs)
Resources and Relationships	A description of the resources and relationships that are important for the success of the business in the long-term and how those are being managed, sustained and developed. This should include a description of how these relationships impacted the decision-making of the company. This baseline requirement replaces the reporting currently required in the section 172(1) statement.
Company Strategy	Main aims and plans for sustaining and developing the business model. Other relevant detail could include key objectives that underpin the company's strategy, the principal actions being taken to achieve strategic objectives, and how the company's strategy responds to the opportunities and risks identified in the business environment.
Risks	A description of risks and uncertainties facing the company, with flexibility given to describe how principal risks are managed and mitigated. The need for enhanced risk management reporting for some companies is considered in paragraphs 167 to 171.

129. The proposed baseline model of reporting for the strategic report will not include certain disclosures as explicit requirements because we think that companies will disclose the relevant information as part of their baseline requirements. We are interested in views on this assumption. The requirements that would not be explicit would be:

- **KPIs**. Section 414C(4)(a) states that medium-sized companies must complete an analysis "using financial key performance indicators". Section 414C(4)(b) states large companies must, where appropriate, include analysis "using other key performance indicators, including information relating to environmental matters and employee matters". A similar disclosure is included under section 414CB(2)(e), which states that PIEs with 500+

employees must include “a description of the non-financial key performance indicators relevant to the company’s business”.

- **Main trends and factors**. Section 414C(7)(a) states that quoted companies must include “the main trends and factors likely to affect the future development, performance and position of the company’s business”.

130. As mentioned above, the government does not think that KPIs and trends and factors should be explicit baseline requirements. Instead, companies would be expected to use KPIs and metrics that are material to their company throughout the strategic report to explain their story. In the same way that a company uses data and metrics to measure internal progress against key issues, it would be expected that the company should reflect material KPIs and metrics in their strategic report. Similarly, it would be expected that companies refer to relevant trends and factors that impact them across the baseline requirements: performance, strategy, business model, risks, resources and relationships.

131. We would be keen to understand stakeholder views on whether KPIs and information on the main trends and factors should be explicit requirements.

Specific disclosure matters

132. The proposed baseline model of reporting for the strategic report would replace the list of disclosure matters in sections 414C(7)(b) and 414CB(2)(b) to (d) of the Companies Act 2006 with key content that allows companies to explain their performance, strategy and risks in a way that enables them to focus on the issues that are important to their ability to generate value. It would also replace the requirement to produce a section 172(1) statement with disclosures on resources and relationships.

The proposal would not impact the existing climate-related financial disclosure (CFD) requirements in section 414CB(A1), (2A) and (4B). However, the government is seeking feedback on where sustainability-related financial disclosures (including CFD) should be located with the annual reports and accounts (see section below).

133. The requirements that the government proposes to remove from the framework include three separate provisions in the Companies Act 2006:

- section 414C(7)(b), which requires information on the policies (and their effectiveness) pursued by a company in relation to: environmental matters (including the impact of the company's business on the environment); the company’s employees; and social, community and human rights issues

- section 414CB (with the exception of climate-related financial disclosures in subsections (A1), (2A) and (4B) of section 414CB), which requires disclosures on relevant policies (including the outcome of those policies), and any due diligence processes implemented by the company in pursuance of those policies, a description of principal risks including where relevant and proportionate a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how it manages the principal risks, concerning environmental matters; the company’s employees, social matters; respect for human rights; and anti-corruption and anti-bribery matters; and a description of the non-financial key performance indicators relevant to the company’s business

- the section 172(1) statement, which requires companies to disclose how directors have fulfilled their duty to have regard to a range of matters including: the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others and the impact of the company's operations on the community and the environment. There is some overlap between this and the other two disclosure requirements above.

134. Taking relevant sections together, the explicit disclosure matters that we propose to remove from the legislative framework are:

- **environmental matters**: This includes information about environmental matters and the impact of the company's business on the environment[22]
- **employees**: This includes information about the company's employees, covering employment policies, engagement, diversity, and any actions taken to ensure fair treatment and development
- **social matters**: This provides insights into how the company engages with social matters relevant to the business and could include information relevant to how it addresses its social responsibility
- **community matters**: This provides insights into how the company engages with the communities in which it operates
- **respect for human rights**: This involves outlining the company's approach to upholding human rights across its operations and supply chains
- **anti-corruption and anti-bribery matters**: This includes measures in place to prevent corruption and bribery, such as internal controls, training programmes, whistleblowing mechanisms, and any incidents or investigations related to unethical conduct

135. This would not mean that companies should stop reporting on these specific topics where these are financially material to their performance or operations, even though the explicit topic requirements are proposed to be removed. The proposal is for the information topics covered in the strategic report to reflect the nature of the company. For example, if a company has financial risks due to a high dependency on natural resources in its operations or supply chains, the company would be expected to report this information against each of the proposed baseline requirements (see Table 4). In addition, companies would not be prevented from using recognised reporting standards and frameworks to make these disclosures, such as UK Sustainability Reporting Standards and Taskforce on Nature-related Financial Disclosures, should they wish to do so

136. The government believes that the proposed approach of creating a baseline set of disclosures has the potential to both reduce unnecessary duplication and improve the quality of what is reported by shifting the mindset of company boards from a "box-ticking", compliance approach to a deeper and more strategic interrogation of issues that generate company value. Overall, an approach that encourages boards to engage meaningfully with a range of issues that are relevant to their business, including environmental, employee and social and human rights matters, should help drive more insightful reporting. We are interested in stakeholder views on how the proposed baseline model can drive the quality and strategic relevance of reporting on these matters, or whether stakeholders perceive benefits to retaining and improving a more prescriptive set of requirements.

137. The government also proposes removing the disclosure of the sex breakdown of senior personnel under section 414C(8)(c) of the Companies Act 2006. The disclosure includes male and female ratios, the number of persons of each sex who were directors of the company, the number of persons of each sex who were senior managers of the company and the number of persons of each sex who were employees of the company. Currently, a company must disclose this information regardless of whether they believe it is material to overall company performance or success. We are interested in views on whether this information has wider

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[22] This excludes climate-related financial disclosure requirements in s414CB(A1),(2A) and (4B) – see the sustainability-related financial disclosures section below.

value and, if so, what is the most appropriate location for reporting it. It is relevant to note that FCA's UK Listing Rules have similar (but not identical) requirements to section 414C(8)(c).[23]

Setting the scope of baseline strategic report requirements

138. The government is considering which companies should produce baseline reporting. The UK's current framework for non-financial reporting has several different thresholds which determine a company's reporting obligations in relation to the strategic report. These include the company's size classification (medium-sized or large), its ownership type, listing status (e.g. 'quoted' companies vs private companies) and other specific criteria such as employee counts.

139. This complexity creates confusion for companies. We have consistently heard from companies and investors seeking to simplify thresholds and compliance, reduce duplication in what is reported, and improve consistency across reporting obligations.

140. For simplicity's sake, and in line with feedback gathered through the Non-Financial Reporting Review, the government proposes to set a single threshold for reporting baseline strategic information. This would ensure that companies can focus on producing high quality information rather than on spending disproportionate amounts of time considering whether and how they are caught by specific disclosure obligations. The government wishes to target this single threshold on companies whose investors and creditors most need the information that is produced. Feedback gathered through this consultation, focused on the considerations explained in more detail in chapter 2 will inform what the threshold should be.

141. Generally, it is publicly traded companies that have the broadest base of investors and have the greatest need to explain the company's governance and strategy in most detail. Importantly, the expectation for increased transparency is based on an important difference that tends to exist between publicly traded and private companies. Namely, that publicly traded companies' ownership is often very dispersed. For these companies it is important that the owners of the company have access to relevant information on the strategy and value drivers of the company and that meets the needs of a diverse investor base, ranging from institutional investors, retail investors, index funds, and others.

142. By comparison private company investment is not made through a public market and it is important that investors undertake due diligence before investing, as well as accepting a degree of increased risk. Investment in private companies arguably comes with additional risk, compared to investment in well-regulated public markets where a high level of transparency, helped by a range of disclosure requirements, is necessary to support (the diverse) investors in that market.

143. However, in the modern economy the capital structures of private companies are increasingly sophisticated, and growing private companies often benefit from financing from large institutional investors, including pension funds. We want to consider whether non-financial reporting disclosures from private companies are necessary to help manage private company investment risk. We are keen to receive feedback from asset owners and asset managers on this topic, as well as from private companies themselves.

144. We also recognise the important role that high quality information and transparency play in supporting creditors, including suppliers, who can use reporting to judge whether they want to contract with a company.

145. We are seeking views on the perceived value of baseline reporting produced by large private companies to investors and creditors, and whether stakeholders believe it is more appropriate to capture all large private companies or only very large private companies.

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[23] LR 9.8.6R(10), https://api-handbook.fca.org.uk/files/instrument/2022/FCA_2022_6.pdf

Discussion of an appropriate threshold for very large companies is contained in chapter 3. The alternative would be to apply baseline requirements to publicly traded companies only. However, the government recognises that there may be instances where parity between public and private companies is necessary.

Exemptions to the strategic report

146. In October 2025, the government announced legislation to exempt UK subsidiaries with a UK parent from the requirement to produce a strategic report.[24] The legislation is set to be laid before Parliament in due course. The exemption will be limited to certain wholly-owned subsidiaries that are included within the group strategic report of a UK parent. Companies where transparency may be of greater public interest are ineligible for the exemption. These are: traded companies; banking companies; authorised insurance companies and companies carrying on insurance market activity; and companies issuing securities on the Alternative Investment Market (AIM companies). However, we are keen for views on whether these companies should also be able to benefit from the exemption. This is because a subsidiary's strategic report still largely duplicates the information provided by their parent (in the Group strategic report). We welcome stakeholders' views on whether the exemption that is being introduced should be expanded to all wholly-owned subsidiaries in the future. We are also interested in stakeholder views around whether existing exemptions for the purposes of producing non-financial reporting could be further expanded and if so how.

Q18. Should the purpose of the strategic report be expanded from informing members of the company (existing investors) to also include potential investors, and creditors and potential creditors? Please explain your answer.

Q19. Do you agree or disagree with the proposed approach to baseline reporting set out in the consultation? Please explain your answer.

Q20. Do you agree or disagree that the following areas are appropriate for baseline reporting? (a) company business model (b) performance review (c) resources and relationships (d) company strategy; and, (e) risks. Please explain your answer.

Q21. Are there any other reporting areas that would be useful for investors and creditors to see as part of baseline reporting? Please give reasons for your answer.

Q22. Do you agree or disagree with removing the specific disclosure requirements in 414CB and 414C(7)(b) where they are not financially material to the company? For the following areas: (a) environmental matters (b) employees (c) social matters (d) community matters (e) respect for human rights and (f) anti-corruption and anti-bribery matters, what are the advantages and risks of removal?

Q23. Do you agree or disagree that these companies should produce baseline reporting in their strategic report: (a) Publicly listed companies and large private companies (including companies that are not micro-entities, or small or medium-sized) (b) A "very large" threshold, as set out in chapter 3 (c) Only publicly listed companies. Please explain your answer.

Q24. Should the government (further) extend which companies can take advantage of exemptions from the strategic report, for example, to include all wholly-owned subsidiaries with a UK parent, or any other examples? Please explain your answer.

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[24] Statement on Regulation Action Plan Update, and Modernisation of Corporate Reporting

Q25. Do you have any further comment on the government's proposals in the strategic report section? Are there any other proposals that government should consider?

Sustainability-related financial disclosures

Climate-related financial disclosures (CFD)

147. Currently, section 414CB(A1), (2A) & (4B) of the Companies Act 2006 requires certain companies to make climate-related financial disclosures in their strategic report. **The government is conducting a Post-Implementation Review (PIR) of the regulations that introduced these disclosures[25] to test how companies and LLPs are reporting against the climate-related financial disclosures and how these disclosures are being used by investors and other users**. As such, this consultation does not include proposals regarding the future of the CFD requirements and we will use the findings of the PIR, alongside other evidence, to inform any future changes. This would also be subject to further consultation.

148. The PIR is due to be completed by spring 2027, and we encourage investors and creditors to share how they have used the existing climate-related financial disclosures from companies and LLPs in scope of the existing regulations. We also welcome evidence from private companies in scope of these regulations to understand how they have benefitted from making these disclosures, including how they have helped the company to attract capital and to identify and address climate associated risks when developing company strategy.

Streamlined energy and climate disclosures (SECR)

149. Alongside climate-related disclosure requirements, SECR reporting is a disclosure currently mandated as part of the directors' report. The location of SECR disclosures will be moved because of the removal of the directors' report from the annual report.[26] **We do not intend to prescribe a specific reporting location for SECR reporting in the annual report**. Companies in scope will have the freedom to place the disclosure in any area or section of the first half of the annual report they feel is most appropriate. This reflects the flexibility that we are pursuing through this consultation.

150. The Department of Energy Security and Net Zero (DESNZ) intends to hold a consultation on SECR and the Energy Savings Opportunity Scheme (ESOS) later in 2026. That consultation will analyse the current landscape for energy and carbon reporting and explore longer-term options to reform SECR. It will build on the findings of an evaluation of SECR published on 29 January 2026 as well as an evaluation of ESOS which is currently underway. As part of the process for assessing the future of SECR, DESNZ is keen to hear from stakeholders on what issues they would like the government to consider.

UK Sustainability Reporting Standards

151. Over the past decade, the investment community has called for greater disclosure of sustainability-related financial information from companies. These requests recognise that the future success and viability of a company can be affected by factors such as climate change and therefore is necessary information for exercising their fiduciary duty to clients, as well as investor mandates to invest responsibly and to pursue specific social and policy outcomes in their investment strategies.

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[25] The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and the Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022

[26] The supplier payment performance disclosure will also be retained. This requirement was introduced through The Companies (Directors' Report) (Payment Reporting) Regulations 2025. The disclosure will be treated the same as SECR (i.e. companies in scope will have the freedom to place the disclosure in any area or section of the first half of the annual report they feel is most appropriate).

152. The UK has championed the creation of International Sustainability Disclosure Standards and their use as internationally comparable reporting standards for international finance. The government strongly supports the ‘financial materiality’ approach taken by the ISSB, which is consistent with our proposed focus on decision-useful information for investors and creditors.

153. The government has undertaken an assessment of the ISSB’s first two standards (IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures)), for use in the UK, with the assistance of the UK Sustainability Disclosure Technical Advisory Committee. This has been with a view to publishing UK versions of the ISSB Standards, which address UK specific needs, whilst remaining as close as possible to the ISSB’s baseline to maintain global consistency.

154. **The government published the UK Sustainability Reporting Standards (UK SRS 1 and UK SRS 2) in February 2026**, alongside a summary of the feedback received to a June 2025 consultation on the draft UK SRS. The publication of these standards ensures that any company that wishes to disclose their sustainability performance can use a consistent set of disclosure requirements.

155. Looking ahead, the government will consider how UK SRS should be reflected in the Companies Act 2006, taking into consideration feedback to this consultation, the CFD PIR and related processes.

156. In addition, the FCA recently issued a consultation on requiring listed companies to disclose information about their climate-related risks and opportunities in accordance with UK SRS S2, and to apply specific provisions in UK SRS S1 as relevant to those disclosures.[27] Scope 3 GHG (greenhouse gas) emissions and non-climate reporting on UK SRS S1 would be captured under a ‘comply or explain’ approach. Following the consultation, final listing rules are expected to be published in autumn 2026.

Interactions between CFD, UK SRS and Transition Plans

157. The government recognises there are significant interactions and overlaps between existing CFD requirements with the disclosures set out in UK SRS and the government’s consultation on the manifesto commitment on transition plan requirements. This interaction is an ongoing area of policy formation, and the government is working closely to ensure that any decisions regarding the future of these requirements considers the sustainability reporting landscape coherently and reduces unnecessary duplication where possible. This is an important part of the UK’s aims to make the UK a global hub for green and transition finance activity and deliver the foundations of a world-leading sustainable finance framework.

158. It is likely that there will be some companies captured under the FCA’s proposed new listing rule requirements to report against UK SRS S2, as well as the existing CFD requirements under the Companies Act 2006. In this instance, companies may choose to use their UK SRS S2 disclosures to meet its CFD obligations using section 414CB(6) of the Companies Act 2006, which allows companies to report this information using a national, EU-based or international reporting framework rather than duplicating the information. Subject to the outcome of the FCA’s consultation, the government will make clear that UK SRS is a national reporting framework for these purposes.

159. In addition, in the consultation on the manifesto commitment on transition plans[28], the government sought feedback on options for transition plan reporting. This included feedback on the extent to which UK SRS S2 climate-related disclosures provides useful information on the contents of a transition plan. The government is considering responses to this consultation and

[27] CP26/5: Aligning listed issuers’ sustainability disclosures with international standards
[28] Transition plan requirements consultation

future decisions will have regard to the objectives and context of this wider review of corporate reporting.

Legal protection for sustainability-related financial disclosures

160. The government has also received queries regarding the applicability of the legal protection for directors in section 463 of the Companies Act 2006, if information published in accordance with UK SRS later transpires to be incorrect. On this question, unless section 463 is expanded (see Location of sustainability-related financial disclosures below), only UK SRS disclosures that are included within the strategic report will be covered. Specifically, section 463 includes provisions about the compensation that a director must provide to a company because of an untrue or misleading statement or an omission. It states that directors will only be considered liable to compensate the company for any losses if he/she:

- 'knew the statement to be untrue or misleading'; or
- 'was reckless as to whether it was untrue or misleading'; or if he/she
- 'knew the omission to be dishonest concealment of a material fact.'

161. The government believes that these tests remain appropriate in the context of UK SRS disclosures, just as they apply to forward-looking or estimated data that is disclosed within the strategic report at present.

162. The government has sought feedback on whether any changes to the current legal framework are necessary to support companies disclosing transition plans in its consultation on the manifesto commitment. This matter will be considered as part of the government response to that consultation.

Location of sustainability-related financial disclosures

163. Currently the strategic report requires certain companies to disclose CFD as part of their "Non-Financial and Sustainability Information Statement'. As part of the Non-Financial Reporting Review, the government held discussions with reporting companies, audit firms, and investors on creating a distinct sustainability statement that would sit within the package of the annual report and accounts. It found that:

- some stakeholders supported disclosure of sustainability information in a distinct statement so that sustainability disclosures do not 'outweigh' other material information disclosed within the strategic report: this concern was prompted by the development of international and European sustainability reporting standards which may, in some cases, lead to lengthy disclosures
- other stakeholders were concerned that this approach could create an artificial separation between the contents of a sustainability statement and strategic report, or lead to a misleading impression that sustainability disclosures are not financially material and strategic in nature

164. The government is clear that all sustainability disclosures within the annual report should be strategic and financially material in nature no matter where they are located. At the same time, we acknowledge that directors are best placed to decide how to present this information in the context of their business. Therefore, the government is currently proposing that companies have flexibility to report climate and other sustainability information anywhere in the strategic report, including either integrated in the strategic report (alongside or as part of the proposed baseline strategic report requirements (see table 4) or in a separate section of the strategic report, which refers to this information.[29] As explained in paragraphs 147-148, the climate-

[29] Given the flexibility proposed for where to locate streamlined energy and carbon reporting, these disclosures could also be located within the strategic report if desired.

related financial disclosures are currently being reviewed through a separate PIR and will be considered separately.

165. In light of feedback we have received from stakeholders, we are also keen to hear further views in relation to the location of sustainability information in the front end of the annual report but outside the strategic report. It is important to note that should sustainability-related financial disclosures be located outside the strategic report, the government would seek to expand the legal protections for directors under section 463 to cover these disclosures.

166. Final decisions on the location of transition plan reporting will be subject to separate processes and will take into consideration the outcomes of consultation on the government's manifesto commitment.

Q26. What areas of energy and carbon reporting do you think should be prioritised by DESNZ for review or improvement in future reforms? Please explain your answer.

Q27. Do you have views on the location of sustainability and climate-related information within the strategic or annual report?

Q28. Do you have any further comment on the government's proposals in this sustainability-related disclosures section? Are there any other proposals that the government should consider?

The potential value of enhanced risk reporting

167. Whilst much of this consultation's focus is on changes that can reduce the volume of the annual report and accounts, it is also important that we consider whether there are any areas where the current framework does not provide enough reported information for investors and creditors to effectively understand a company's performance, prospects and risk exposures. One area is whether there is a need for enhanced disclosures about how directors are managing specific risks.

168. Existing reporting on company risks is currently provided primarily under the following:

- Companies Act 2006[30] – all large and medium-sized companies (and all listed companies[31]) must provide an annual description of the principal risks and uncertainties facing the business
- UK Corporate Governance Code – listed companies[32] must establish and maintain an effective risk management and internal control framework, and should report each year (on a comply or explain basis) on how the company is managing its principal risks (and from 1 January 2026, the Code also provides for an annual directors' statement on the effectiveness of the company's risk management and internal control framework). The Code also asks listed companies (again, on a comply or explain basis) to provide an assessment of the company's prospects over the longer term (a time period which the company can choose, and which is generally three years)

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[30] Section 414C(2)(b). Larger companies must currently also disclose how they are managing principal risks on certain matters under section 414CB of the Companies Act 2006. As described in the section above on reforming the strategic report, the government is minded to remove these requirements (except those covering climate-related financial disclosures) on the basis that they are overly prescriptive and that companies can still be expected to report on such matters where they are judged material to investors and creditors).
[31] FCA Disclosure Guidance & Transparency Rule 4.1.8
[32] That is, companies falling within the commercial companies category and issuers listed in the closed-ended investment fund category of the FCA's UK Listing Rules.

- The Wates Corporate Governance Principles for Large Private Companies (the Wates Principles) – very large private companies[33] – are required to report annually on their corporate governance arrangements and many choose to follow the voluntary Wates Principles, which include principles for companies to explain how they are managing their principal risks

169. Cyber security and resilience is an increasing priority for UK businesses given the growing threats from cyber crime in recent years and the potential major economic damage that a cyber attack can cause to a company and its customers, its supply chain and the wider economy. Investors have an interest in understanding how different companies are seeking to manage and build their cyber security and resilience, and to be assured that such risks are being considered and managed in company boardrooms and across the business.

170. Around 85%[34] of UK listed companies already report on cyber risks to varying degrees as part of their reporting under the UK Corporate Governance Code, and many large private companies include cyber risk within their corporate governance disclosures, including in reporting against the voluntary Wates Principles. The government would welcome views on whether existing reporting requirements – in which directors are obliged to consider and report on risks deemed material to their business – are sufficient to generate good quality cyber risk reporting of value to investors, or whether very large companies should additionally be required specifically to report on their cyber risk management. A specific new cyber risk management requirement might include:

- information on a company's governance arrangements for managing cyber security from the boardroom down
- the extent to which, if any, a company makes use of cyber security guidance or support offered by the government and regulators
- whether a company has a cyber incident response plan in place

171. The government would welcome views on whether all very large companies should be required to report specifically on how the directors are managing cyber security risks, to the extent that respondents may believe that the existing risk reporting requirements and provisions summarised above are not generating sufficiently useful information on cyber risk management for investors and creditors.

Q29. What are your views on introducing an additional cyber risk reporting disclosure for very large companies (using the new very large company reporting threshold discussed in chapter 3)? If you think an alternative established Companies Act reporting threshold would be more appropriate, please explain.

Q30. Do you have any further comment on the effectiveness of the existing risk reporting framework?

Ensuring trust and confidence in strategic reporting

172. This chapter has set out the government's vision for the contents of strategic reporting (including sustainability) to be focused on matters that are financially material and provide decision-useful information for investors and creditors. It also noted that such reporting can be equally, if not more, insightful than financial information contained within the annual accounts.

[33] Currently defined in paragraph 23(3) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as UK-incorporated companies with more than 2,000 global employees or a turnover over £200 million globally and a balance sheet total over £2 billion globally.
[34] Annual Review of Corporate Governance Reporting 2025

173. Statutory audit, a form of assurance, provides a well-established framework designed to ensure trust and confidence in companies' financial statements. In addition to providing a statement about whether the accounts have been prepared in accordance with the law and accounting standards, it also requires an auditor to report any material inconsistency between information in the accounts and the rest of the annual report, given what the auditor knows from the audit of the accounts. However, there is no requirement for information outside the accounts to be assured to the same level, which may result in a lack of confidence and trust in this information.

174. Stakeholders have raised concerns about the risk that investors and creditors may inaccurately assume that having audited accounts means that the entirety of the annual report has been audited. In addition, there is a risk that users misunderstand the level of assurance applied to different sections. For example, the term "audit" implies 'reasonable assurance' has been undertaken, which is the level of assurance in the audit of the accounts. However, "limited assurance", a lower level of assurance, is a more common approach with regards to sustainability-related reporting. Suggestions to address this issue have included expanding the statutory audit to include either the whole of the annual report or specific strategic reporting topics (such as climate, sustainability or cyber risk) and requiring greater clarity around the assurance status of information presented in the annual report.

175. The government is considering whether there is a need to improve the confidence and trust in this information, and the role that assurance can play to address this need. This recognises the increased weight that investors have placed on strategic and sustainability reporting over the past decade[35], and that investor confidence is a key contributor to the UK's attractiveness as a stable and reliable place to invest.

176. The government recognises that providing assurance over strategic and sustainability reporting poses different challenges to the audit of the accounts. For instance, the costs of procuring assurance services for the reporting entity can be a lot higher: this is because strategic reporting can involve more subjective judgements, as well as forward-looking statements, estimates and goals, which are not always reported in a standardised way. Consequently, it is not clear whether there is a net overall benefit associated with assurance of strategic reporting information or for all company types.

177. In the DBT (now BIST) consultation, "Developing an oversight regime for assurance of sustainability-related financial disclosures"[36], the government sought feedback on whether assurance over sustainability-related financial reporting (in accordance with UK SRS) was desirable. Overall, stakeholders broadly agreed that assurance over sustainability reporting was a desirable long-term goal, stating a desire for this information to be treated comparably to the annual accounts. Reasonings included that, like the annual accounts, UK SRS also requires disclosure of financially material information and a number of metrics that should share the same basis as the financial accounts (such as the estimated financial impacts of sustainability risks and opportunities).[37] However, concerns were raised around the cost and practicalities of assurance, particularly the provision of reasonable assurance over all information reported using the UK SRS. Feedback included strong calls for any future assurance requirements to be proportionate and phased in with sufficient lead-time for companies and auditors to prepare.

178. In response, the government does not have any plans to introduce new requirements for reporting companies to obtain assurance over future UK SRS reporting at this stage, or for other strategic reporting topics. Given the associated costs and nascency of the market, we believe that such an approach would be disproportionate and inconsistent with the principles

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[35] Valuing ESG: How financial markets respond to corporate sustainability - ScienceDirect
[36] Developing an oversight regime for assurance of sustainability-related financial disclosures - GOV.UK
[37] Exposure drafts: UK Sustainability Reporting Standards - GOV.UK

governing this review and the government's commitment to reduce the administrative burden on businesses.

179. Instead, the government's preferred approach is to allow decisions around whether reporting companies obtain external assurance of their strategic reporting to remain with the reporting entity. Allowing reporting companies to choose the appropriate level and extent of assurance aims to ensure that costs do not exceed the benefit to the company and its investors/creditors. In addition, the government has recently announced plans to establish a voluntary, profession-agnostic oversight regime for sustainability assurance practitioners in order to support the market, build capacity, and improve market understanding and confidence in UK sustainability assurance services.

180. The government is exploring how to support investors and creditors in understanding whether assurance (if any) has been obtained over strategic and sustainability reporting, what assurance opinion was reached, any additional matters disclosed and the nature of the assurance. Information on the nature of the assurance could include whether it has been conducted by an independent third-party, which standards were applied, and whether assurance was reasonable or limited. However, any additional reporting requirements should contribute towards enhancing the credibility of and trust in strategic reporting as a financial decision-making tool.

181. The government welcomes feedback on whether transparency approaches would achieve this goal, and in what form. We ask that feedback take into consideration work to date on this topic. For instance, in early 2026, the FCA commenced consultation on a proposal to require listed companies to disclose information about the scope and level of assurance they have obtained over the information reported in accordance with UK SRS (findings expected to be published in September 2026). This approach was also suggested in feedback to the DBT consultation on sustainability assurance as a proportionate first step before consideration of mandatory assurance requirements.

182. It is important to note we do not intend transparency to drive additional assurance activity unless there is a net benefit.

183. The government is mindful of the need to reduce administrative burdens and will consider cost implications of any new requirement. We expect the additional reporting burden from requiring companies to provide transparency on assurance to be relatively low, based on similar cost estimates developed previously.[38] However, views are sought on the proportionality and usefulness of transparency approaches, including whether benefits outweigh any cost implications. **To inform this assessment, the government would like to receive evidence on whether similar disclosures are already being made in the market at present. Additionally, government would welcome evidence on the value (if any) in greater assurance transparency for certain strategic reporting topics, such as cyber risk and/or sustainability.**

Q31. Do you agree or disagree that reporting companies should be required to be transparent about the assurance of strategic reporting information in the annual report, in order to help investors and creditors make financial decisions concerning the company? Please explain your answer.

Q32. Does your organisation already provide transparency on the assurance that has been undertaken of strategic reporting? What transparency and assurance do you provide? What are the costs and benefits of doing so?

[38] The Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023

Q33. Do you have any other feedback or alternative proposals for how the government can ensure credibility and confidence in strategic reporting? When responding to this question, please outline the relative benefit and costs for reporting companies and/or investors and creditors.

6. Simplifying corporate governance reporting

184. This chapter asks how corporate governance reporting can be made simpler and more useful for investors and creditors. **Corporate governance is the system of rules, practices and processes that are put in place to manage and control a company**.[39] Current corporate governance reporting requirements for companies derive from several sources including legislation and rules from other regulators, e.g. FCA's UK Listing Rules (for listed companies) and Disclosure Guidance and Transparency Rules (for traded companies), and London Stock Exchange Group (LSEG) requirements (for AIM companies).

185. The FCA's UK Listing Rules require the use of the FRC's UK Corporate Governance Code (the Code) on a 'comply or explain' basis. Companies in growth markets, such as AIM and Aquis, are currently required to choose and apply a recognised corporate governance code on a 'comply or explain' basis to meet their listing requirements, with many using the Quoted Companies Alliance (QCA) Corporate Governance Code. However, the LSEG has consulted[40] on removing Code-based reporting for AIM companies, suggesting that the 'comply or explain' regime has resulted in companies being compelled to comply without using the flexibility to tailor Code principles to their circumstances. They propose that companies disclose their approaches to five key matters: board composition; directors' role and responsibilities; remuneration and performance; risk and controls framework; and approach to investor relations. Regulations[41] under the Companies Act 2006 require companies with more than 2,000 employees and/or more than £200 million turnover and more than £2 billion balance sheet total (gross assets) that are not captured by FCA rules to produce a statement of corporate governance arrangements and either i) report against a corporate governance code or ii) explain why they do not and set out their current arrangements instead. This is primarily private companies, and most very large private companies choose to follow the Wates Principles.[42]

186. The government's proposal is to make corporate reporting easier and more efficient by focusing on decision-useful information for investors and creditors.

187. This chapter seeks views on:

- what would help companies make better use of the UK Corporate Governance Code's flexibility
- moving reporting from company level to group level
- updating the definition of 'corporate governance' in the Companies Act 2006
- the location of the statement of corporate governance arrangements
- the scope of reporting, including corporate governance reporting requirements for private companies
- other proposals the government should consider in respect of corporate governance reporting

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39 Corporate Governance
40 London Stock Exchange: AIM notice. 4 June 2026 https://docs.londonstockexchange.com/sites/default/files/documents/AIM%20Notice%2062%20-%20Consultation%20on%20changes%20to%20the%20AIM%20Rules%20for%20Companies.pdf
41 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008
42 The Wates Corporate Governance Principles for Large Private Companies

How corporate governance reporting fits with wider reforms

188. In line with the aims of the modernising corporate reporting programme, the government is considering how corporate governance reporting could be streamlined to focus more on decision-useful information for investors and creditors.

189. A significant proportion of corporate governance reporting follows the FRC-owned UK Corporate Governance Code (the Code), as does remuneration reporting to a lesser extent, for example, on the work of the remuneration committee (covered in chapter 7). We have heard concerns from some stakeholders that the Code does not provide the intended level of reporting flexibility in practice. However, many responses to the FRC's 2023 consultation on the Code[43] highlighted the value of the flexibility which the principles-based 'comply or explain' framework offers by allowing companies to apply the Code's provisions or to explain why certain provisions are not appropriate for their circumstances.[44]

190. Currently, around a quarter of companies depart from the Code and offer explanations against one or more provisions, based on a random sample of 100 companies.[45] Although compliance with the Code could indicate the adoption of good practice, it could also mean that some companies are not adopting the flexibilities allowed through 'comply or explain'.

191. The FRC has been clear that explanations are valued. The government is interested in ideas and suggestions as to what more can be done to make better use of the Code's flexibility, recognising that flexibility can help companies demonstrate and communicate good governance.

The threshold for corporate governance reporting

192. As outlined in chapter 5, the government is exploring a single threshold for producing a baseline strategic report. Similarly, the government is seeking views on the most appropriate threshold for corporate governance reporting, linked to the discussion of thresholds in chapter 3.

193. The government would also like to understand whether there is sufficient value in corporate governance reporting for private companies to justify the costs of reporting, or whether the reporting should only be required for very large private or public companies. While private companies do not have public investors, there is a public interest argument that very large private companies should be required to report on their corporate governance arrangements because of the potential impact on the local and national economy if they fail, as this could affect employees, suppliers and creditors. Views on the threshold for corporate governance reporting should be included in responses to questions on the thresholds for corporate reporting set out in chapter 3.

194. Given that strategy and risk management in groups is usually set at a group level, rather than individual company level, **we believe the most value for investors and creditors lies in understanding the group's approach to these issues**. We propose to move corporate governance reporting to the group level.

Further proposals to modernise corporate governance reporting

195. In addition to the overarching questions above about the framework for corporate governance reporting, through our engagement, the government has identified some specific proposals.

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[43] FRC Corporate Governance Code Consultation 2023
[44] UK Corporate Governance Code 2024
[45] Annual Review of Corporate Governance Reporting 2025

196. The definition of 'corporate governance'[46] in the Companies Act 2006 is overly complicated and could be revised to clarify what should be included in corporate governance reports to make it straightforward for companies to apply. The current definition is:

'corporate governance', in relation to a company, means:

(a) the nature, constitution or functions of the organs of the company,

(b) the manner in which organs of the company conduct themselves,

(c) the requirements imposed on organs of the company,

(d) the relationship between different organs of the company, and

(e) the relationship between the organs of the company and the members of the company, and

'corporate governance code' means a code of practice on corporate governance.

197. We propose moving to a clearer, straightforward definition of corporate governance that can be easily understood by companies, investors and creditors. We are interested in hearing views on how this could be defined.

198. With the planned removal of the requirement for companies to produce a directors' report, the statement of corporate governance arrangements will remain within the annual report pending further reforms under the modernising corporate reporting programme. As companies are also required to make this statement available on their website, there may be scope to reduce duplication in reporting requirements. **We are therefore seeking views on whether some, or all, of the information could be published only on a company website, and no longer included in the annual report**. This proposal links to the wider discussion of online reporting in Chapter 8.

199. The separate corporate governance statement required for companies subject to the FCA's DTR 7.2 is currently linked to the directors' report. We are engaging closely with the FCA as it considers what changes to its rules may be needed as a result of the removal of the directors' report.

200. Finally, as outlined in the introduction, the government is aware that corporate governance reporting requirements in the Companies Act 2006 interact with governance requirements in UK SRS and the strategic report, as well as other regulatory codes and rules. **We are interested in views on the corporate governance landscape**, including the interactions between these requirements, and what other actions the government should consider to streamline corporate governance reporting further.

Q34. What would help companies make better use of the UK Corporate Governance Code's flexibility? Please explain your reasoning. We are interested in how the Code is used in practice rather than the Code's principles and provisions.

Q35. What are your views on the following areas for the reform of corporate governance reporting? Please explain.
- Proposals to move reporting from company level to group level?

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[46] In paragraph 25 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

- To redefine corporate governance in the Companies Act 2006?
- To change the location of the statement of corporate governance arrangements?

Q36. Do you have any other comments on the government's proposals in this corporate governance reporting section or any other suggestions that the government should consider? Please explain. We are interested in views on the corporate governance landscape as a whole.

7. Simplifying remuneration reporting

201. The process of setting and agreeing directors' remuneration is a matter for companies and their shareholders. To support this process, UK company law gives shareholders tools to assess whether pay matches performance through remuneration reporting requirements. The government continues to believe that these requirements are necessary and that specific rules remain appropriate to avoid directors making decisions on what is relevant to disclose in relation to their own pay. Other stakeholders may also have an interest in remuneration information.

202. Although the government continues to support remuneration reporting requirements, companies and shareholders have told us that the existing regulations are not fulfilling their purpose as directors' remuneration reports are too long and too complex. We have already removed or simplified most of the remuneration requirements introduced in 2019 as part of the UK's implementation of the revised EU Shareholder Rights Directive. This consultation provides the opportunity to go further.

203. Currently, under the Companies Act 2006, quoted companies must include in their annual report and accounts both an annual directors' remuneration report and a triennial remuneration policy. The annual directors' remuneration report sets out the total pay of each director in the previous year, broken down by salary, bonus, long-term share awards, pension benefits and any other taxable benefits, and is subject to an advisory shareholder vote. The triennial remuneration policy sets out the remuneration that executive directors could receive over the next three years, typically linked to their delivery of the company's strategy and performance, and is subject to a binding shareholder vote.

204. This chapter seeks views on:

- how remuneration reporting could be streamlined to provide financially material and decision-useful information, including on information that could be simplified or removed
- whether the current scope of remuneration reporting ('quoted companies') remains appropriate
- whether the advisory vote on the directors' remuneration report should be removed

Remuneration reporting that we propose to retain

205. Through our engagement with investors and companies, and in line with the five principles of this consultation, the government has identified the key investor-critical information within current remuneration reporting regulations. The government proposes to retain:

- the annual disclosure of total single remuneration for each director broken down by salary, any bonus, any long-term share award, pension contributions and any other taxable benefits
- the Statement by the Chair of the Remuneration Committee which summarises the key decisions or proposals on directors' pay contained in the report, including any use of discretion
- the requirement for companies to disclose performance measures attached to pay awards in the previous year
- the forward-looking directors' remuneration policy setting out maximum variable pay outcomes for executive directors based on performance criteria and how these link to company strategy

- the performance graph showing CEO pay and Total Shareholder Return (TSR) in the past ten years

206. We have had broad agreement from both investors and companies that this information is important and should be retained.

Remuneration reporting that we propose to refine or simplify

207. The government proposes to retain but refine the existing methodologies for calculating the total single figure of remuneration (which represents the total remuneration a director has received including salary, bonus, share options and any other benefits). This provides information that is essential for investors to scrutinise and vote on directors' remuneration and pay proposals. This is on the basis that investors and businesses are familiar with this information, and it promotes comparability. We welcome views on how the methodologies could be refined, for example through the inclusion of a de minimis threshold, to provide greater clarity on what should be included in calculations.

208. Shareholders currently have a triennial binding vote on the directors' remuneration policy. In addition, there is a requirement for the directors' remuneration report to include information on how the policy will be implemented for the following year. Given that shareholders will have already approved the policy, the government proposes to either i) require an outline of how the policy is being implemented only where there has been a material update (for instance, when an executive director leaves or joins the company); or ii) remove the requirement.

209. The government has heard from investors that there is value in the requirement to report on executive directors' accumulated shareholding interests in the company over time, including any share options. However, this information is available through other sources, for example, London Stock Exchange Regulatory News Announcements (RNS), and may not need to be reported separately in the remuneration report. As such, the government welcomes views on whether to remove or streamline the requirement.

Remuneration reporting that we propose to remove

210. The government proposes that the remaining remuneration reporting requirements can be removed from legislation on the basis that:

- they do not provide financially material or decision-useful information for investors and creditors

- they can provide decision-useful information in some circumstances, but related provisions in the UK Corporate Governance Code's 'comply or explain' framework are sufficient

211. In addition, the government proposes removing the requirement to disclose results of annual shareholder votes on directors' remuneration on the basis it overlaps with section 341(1) of the Companies Act 2006. Its removal would remove duplication within regulation.

212. The government proposes to remove CEO-employee pay ratio reporting. Currently, UK listed companies with more than 250 employees must annually disclose the ratio of their CEO's pay to the median, lower quartile and upper quartile pay of their UK employees. They must also include pay ratios for the previous nine reporting periods. However, these ratios fluctuate significantly year-on-year with CEO pay as a result of bonuses and long-term incentive (LTI) payments that are influenced by market performance and justifications of CEO-employee pay ratios tend to be boilerplate statements as a result. We recognise that there is an interest in this reporting from other groups, such as employee groups, and welcome views on the extent to which this information is useful.

213. To further focus the directors' remuneration report on financially material, decision-useful information for investors and creditors, the government also proposes removing the following disclosure requirements:

- the relative importance of spend on pay
- executive directors' pay prior to the company becoming a listed company
- the illustration of long-term incentive plan outcome in the event of 50% share price appreciation during the performance period results, which results in an artificial maximum executive pay figure that is not useful for investors
- Information on the work of the remuneration committee, including disclosure of any parties providing advice to it
- malus and clawback policies, and any use of malus and clawback in the previous year
- how the remuneration committee has engaged with shareholders on pay proposals
- how the remuneration committee has engaged with employees on pay proposals
- how directors' remuneration aligns with wider employee pay policies
- how a company is addressing any significant shareholder dissent on a vote on directors' remuneration

214. Our engagement to date has told us that this information is either not material for investors and creditors, not investor-critical, or should not be a requirement for all companies subject to the remuneration reporting requirements in regulation. It could therefore be removed to streamline the directors' remuneration report. The UK Corporate Governance Code has provisions relating to the work of the remuneration committee, including how it has engaged with shareholders and employees, how it addresses shareholder dissent, and on the disclosure of malus and clawback policies and pay alignment between directors and employees. While these would remain within the Code, companies have the flexibility provided by the 'comply or explain' framework with respect to any of the Code's principles and provisions that are not relevant to them.

215. The government is also interested in any further proposals on how remuneration reporting can be refined and simplified to cover the financially material and decision-useful information needed by investors and creditors.

The advisory vote on the directors' remuneration report

216. The government has considered the usefulness of the advisory vote on the directors' remuneration report. As a non-binding vote on an area that has already been agreed through the directors' remuneration policy on a triennial basis, putting the report to a vote at each annual general meeting (AGM) takes up valuable shareholder and company time and resource that could be better directed onto other matters at the AGM. On that basis, the government proposes to remove the advisory vote and welcomes views from investors on this.

Q37. Do you agree or disagree with the government's proposals to retain these elements of the remuneration reporting in the directors' remuneration report? Please explain your answer.
- The annual disclosure of total single remuneration for each director, together with the Statement from the Chair of the Remuneration Committee.
- Disclosure of the performance measures applied to the previous year's pay awards
- The forward-looking directors' remuneration policy
- The performance graph showing CEO pay alongside Total Shareholder Return over the past ten years.

Q38. The government proposes to retain the existing methodologies for calculating the total single figure directors receive (including salary, bonus, share options and other benefits) but are interested in ways in which they could be refined – for example, through the inclusion of a de minimis threshold. Do you agree or disagree with this proposal? Please explain your answer.

Q39. Do you agree or disagree with the government's proposals to streamline (to refine or simplify) these elements of the remuneration reporting in the directors' remuneration report? Please explain your answer.
- The requirement to include information on how the policy will be implemented the following year
- The requirement to disclose information on directors' accumulated shareholding interests in the company over time.

Q40. Do you agree or disagree with the government's proposals to remove these elements of the remuneration reporting in the directors' remuneration report? Please explain your answer.
- CEO-employee pay ratio;
- the relative importance of spend on pay;
- executive directors' pay prior to the company becoming a listed company;
- the illustration of long-term incentive plan outcome in the event of 50% share price appreciation during the performance period results, which results in an artificial maximum executive pay figure that is not useful for investors;
- information on the work of the remuneration committee, including disclosure of any parties providing advice to it;
- malus and clawback policies, and any use of malus and clawback in the previous year;
- how the remuneration committee has engaged with shareholders on pay proposals;
- how the remuneration committee has engaged with employees on pay proposals;
- how directors' remuneration aligns with wider employee pay policies;
- how a company is addressing any significant shareholder dissent on a vote on directors' remuneration
- the requirement to disclose results of annual shareholder votes on directors' remuneration.

Q41. Please indicate whether and, if so, how you think the proposals on retaining, reforming or removing the elements could be improved.

Q42. Does the current scope for reporting ('quoted companies') remain appropriate? Please explain your answer.

Q43. Do you agree or disagree with the proposal to remove the shareholders' annual advisory vote on the directors' remuneration report? Please explain your answer.

Q44. Do you have any further comment on the government's proposals in this remuneration reporting section? Are there any other suggestions that the government should consider?

8. Corporate communication for the digital age

217. The Companies Act 2006 has been described by some stakeholders as 'analogue law in a digital age.' Advances in technology since the law was last overhauled present opportunities for efficiencies in preparation, filing and distribution, as well as greater ease of access and analysis for investors and creditors. The current approach to corporate reporting, which has historically prioritised physical distribution and static formats, is increasingly out of step with the modern business world and stakeholder expectations.

218. The government is keen to seize the opportunities posed by new technologies, to help companies communicate in an efficient manner and to help investors access relevant information in a way that is most useful to them. This chapter proposes to move to a digital-first approach to shareholder communications by creating a presumption in favour of electronic distribution of annual reports. The chapter also explains the government's plans to clarify the law on fully virtual AGMs.

219. In addition, this chapter encourages stakeholders to offer views on the ways that government could help companies to take advantage of digital efficiencies in the preparation of corporate reporting and to make their information easier for investors and creditors to access and analyse. In particular, the government would welcome views on the use of digital platforms instead of the annual report for some corporate reporting and views on how to further encourage and improve systems for the electronic tagging of information.

Presumption in favour of digital communications to shareholders

220. The Companies Act 2006 requires that annual reports and other company information be sent to shareholders in hard copy by post, unless a company obtains prior shareholder agreement to send documents electronically or via publication on a website. This presumption of hard copy communications was introduced 2 decades ago, when people and organisations were still adapting to the new communication opportunities provided by the internet, when only around half of the UK population regularly used email and routinely accessed websites. Today, electronic communication is a routine part of daily life for most individuals and businesses, and many companies already communicate with investors and creditors through digital channels.

221. The government has accepted a recommendation - as part of the government's response to the final report published in July 2025 of the HM Treasury-sponsored Digitisation Taskforce[47] - that all companies should be able to send documents and other information to shareholders electronically without the need for prior agreement. At the same time, the government agrees with the Taskforce that individual shareholders should have a right to opt in to receiving hard copy communications and companies will still be required to contact shareholders individually by electronic means (typically via email) to alert them to any new documents being available to view on the company website (for example, the annual report and accounts).

222. This change should significantly cut the costs associated with shareholder communications, costs that are ultimately borne by the shareholders themselves. Companies would no longer need to incur the expense of writing individually to each shareholder to seek their agreement to receive information via publication on the company website. They would also reduce the environmental impact associated with printing and transporting millions of documents each year across the UK and internationally. For example, the distribution of the AGM notice of just one FTSE 100 company (Aberdeen Group) requires 1.6 million individual items and 6.65 million printed pages to be sent to 502,000 shareholders, at a cost of £520,000.[48]

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[47] Digitisation Taskforce - July 2025 - GOV.UK
[48] Digitisation Taskforce - Interim Report

223. The change to make electronic communications to shareholders the default will require changes to the Companies Act 2006. The government welcomes views on how best to implement this change in practice. In particular, we are interested in views on when the changes should come into force, whether it should apply to all companies or only to listed companies and how the right of individual shareholders to opt back in to hard copy communications should be framed. For example, should anyone wishing to opt back in to hard copy be required to renew this request periodically?

Fully virtual annual general meetings (AGMs)

224. The government has heard continued concerns from companies that although fully virtual annual general meetings (AGMs) can reduce administrative burdens and address security concerns, the Companies Act 2006 does not clearly address how the requirement for notices of AGMs to include the 'place' of the meeting relates to virtual locations. Many companies now operate hybrid physical/virtual meetings, and a small number of companies operate fully virtual meetings. The FRC has published good practice guidance on holding company meetings.[49]

225. In October 2024, the government announced its intention to clarify the law in relation to fully virtual AGMs. We will do this by making clear that a 'place' can include virtual locations, where there is shareholder consent. This means companies and shareholders will have the power to decide what is right for their business. We know that many investors recommend fully virtual meetings only in exceptional or emergency circumstances. Clarifying the law will provide companies and investors with the certainty that they need in these situations.

226. We have heard from investors about the positive impact virtual attendance at AGMs can have for engagement and accessibility of meetings as well as concerns about the practicalities of fully virtual meetings and the impact on shareholder rights. **We are interested in understanding if shareholder safeguards would be appropriate when clarifying that 'place' can include a fully virtual location**. Examples of potential safeguards raised by both companies and investors include supermajority consent from shareholders, reapproval after a set period, and best practice guidance specific to virtual AGMs.

Further embracing digitisation

227. Many companies already use digital mechanisms to meet corporate reporting obligations. Since 2011, HMRC has required companies to submit Company Tax returns in a digital format. Since 2014, the FRC and Companies House have helped the voluntary creation and filing of digital accounts and reports through the FRC's XBRL Taxonomies project and Companies House electronic filing services. Additionally, FCA Disclosure Guidance and Transparency Rules require annual financial statements to be published in a structured digital format and filed in the FCA's National Storage Mechanism. More recent reporting requirements have also adopted digital approaches, such as the online portal for the Energy Savings Opportunity Scheme (ESOS) and the use of company websites for modern slavery statements.

228. However, we wish to undertake a wholesale review of how the corporate reporting landscape can be adapted to embrace both current and emerging technologies, particularly as the advent of advanced analytical tools and artificial intelligence (AI) offers new possibilities for companies, investors and creditors. We want to ensure the UK's corporate reporting framework remains forward-looking and adaptable in light of these trends. Part of Modernising Corporate Reporting for long-term economic growth is anticipating how the annual report and accounts might be used in the coming years, not just how they have traditionally been used, and thinking about how the UK's legislative and filing infrastructure can respond to technological innovations as it develops.

[49] FRC Good Practice Guidance for Company Meetings_July 2022

229. Different digital solutions are likely to benefit companies who prepare corporate reports and accounts, and the investor and creditor groups who use them in different ways. We have identified a range of possible digital solutions including the greater use of company websites and central reporting portals, or digital formatting requirements for information beyond financial statements. We are also eager to understand how AI is, or should be, used in the use and preparation of corporate reporting, and any opportunities to embed digitisation into corporate reporting requirements.

Electronic formatting of the annual report and accounts

230. Traditionally, financial and non-financial information contained in a company's annual report and accounts has been prepared in an analogue format: either on paper, or a document-based digital format such as Portable Document Format (.pdf) files; using traditional accounting software, spreadsheets and manual data entry. These have been shared with stakeholders by post, email and on websites. They are principally intended to be read by people, rather than by a machine, and will usually require manual effort and technical expertise if consumers want to extract, aggregate, compare and analyse information within or across different companies' reports and accounts.

231. As last year's Industrial Strategy[50] notes, technology has the potential to make it cheaper and easier to prepare, use and audit company reports and accounts. This will support economic growth by helping businesses control costs and by helping better use of companies' financial information. The government is committed to making sure that preparers and auditors of the annual report and accounts, and the investors and creditors as users, can benefit from the potential of new technologies. This is part of making sure the framework and processes for preparing, auditing and disseminating the annual report and accounts are fit for the future.

232. Changes in the powers of the registrar at Companies House and of the FRC in setting technical standards on electronic formatting have the potential to continue developing the way in which company annual reports and accounts are formatted, to allow for easier access to, and extraction of, information, in a machine-readable format.

233. Inline eXtensible Business Reporting Language (iXBRL) is a digital reporting format that helps company accounts and data to be read by both people and computers. Companies House currently allows voluntary software-based filing in iXBRL format. This includes a required minimum set of 'digital tags' applied to identify sections of the data contained. We are considering the implications of building on this framework over time, by requiring increased levels of digital tagging of additional parts of the contents of the annual report and accounts when filing via software.

234. The Economic Crime and Corporate Transparency Act 2023[51] legislated for reforms as to how companies report information, and what information they report, when filing their annual reports and accounts with Companies House. The government and Companies House have now announced that they will proceed with the accounts reforms coming into effect from April 2028[52]. This includes requiring: (1) all companies to file their annual accounts via commercial software; (2) small companies and micro-entities to file profit and loss accounts, as other companies do (but with the option to opt out of publishing this information on the public register); and (3) smaller technical amendments to accounts filing processes.

235. The FRC plays an important role in helping software-based filing of the reports and accounts through the work it does with Companies House and other regulators on the iXBRL

[50] Industrial Strategy - GOV.UK
[51] Economic Crime and Corporate Transparency Act 2023
[52] Companies House to bring in changes to accounts filing from April 2028 - GOV.UK

Taxonomies project.[53] It also launched the UK iXBRL Viewer[54] in 2025 to support the ease with which users may analyse data within these reports and accounts. The government proposes to embed this by providing the FRC with statutory powers to set the technical standards for electronic formatting, currently in the form of 'taxonomies' on the digital tagging to be applied to reports and accounts. In so far as possible, this framework would also provide Companies House and FRC with flexibility for the future. Initially, the Companies House registrar's rules will combine with the FRC taxonomies to support electronic formatting to be in iXBRL where reports and accounts are filed digitally. However, it is intended that the technical specifications on the electronic formatting will be able to change as needed in the future.

236. Alongside this, the government proposes that when reports and accounts are filed in iXBRL via software, directors should be required to approve the formatting at an earlier stage than just before filing. This would be as part of the approval of the reports and accounts by the directors before they are circulated to shareholders.

237. The government also proposes to require auditors, where no exemption applies, to report on whether the reports and accounts have been formatted as required. Once directors have signed off that the reports and accounts were properly formatted and accurately tagged in accordance with an applicable taxonomy and formatting requirements for each element, the auditor would issue its report before the reports and accounts were circulated to shareholders. Again, this auditors' report would be on whether the reports and accounts had been formatted in accordance with the applicable taxonomy and requirements for each element.

238. This proposal aims to embed the preparation of reporting and accounting information, in electronic format, into the governance process, where reports and accounts are prepared and filed in iXBRL using software. Formatting decisions would then be made as reports and accounts are prepared and audited, and before they are circulated to shareholders, rather than just at the point of filing with Companies House.

239. From a user perspective, these measures would provide enhanced trust in the information drawn from electronically formatted reports and accounts. To inform any future policy development in this area, we are seeking to understand how investors and creditors currently benefit from electronically formatted reports and accounts (where made available by companies) and whether that use varies between data-driven versus more narrative elements.

240. We want to understand how the utility of electronic formatting may change in the future through greater advances in technology, such as AI. Current AI tools for analysing annual reports and accounts typically produce more accurate results where information is digitally tagged. This suggests that developing more extensive mandatory tagging requirements for reports and accounts could be valuable. Stakeholders have provided us with mixed views on this. Some think it will make the identification and extraction of key pieces of information easier for investors and creditors, especially with the proposed move to allow companies more flexibility on how to structure their narrative in the annual report and accounts. However, others suggest that rapid improvements in AI and data-mining tools mean there will soon be the capability to extract insights from traditional formats (like PDF reports), without the need for extensive tagging. We are particularly interested in views on this from investors, creditors and technology experts.

Website and portal reporting

241. We are eager to test if and how the relocation of some information from the annual report to company websites or central online portals may benefit companies, investors and creditors. Company website reporting is already required for some disclosures, particularly those that

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[53] FRC Taxonomies
[54] UK iXBRL Viewer

have been determined necessary for public policy reasons of transparency for an audience wider than investors and creditors. An example of this is modern slavery statements. Portal reporting involves the submission of information to a centralised digital platform, which aggregates data from multiple companies in a standardised format. Companies will be familiar with the use of online portals such as the Gender Pay Gap Service or the Energy Savings Opportunity Scheme (ESOS), although currently such portals are hosted separately and each has its own specific requirements.

242. **Relocating types of disclosures to company websites or online portals could create a shorter and less cluttered annual report** and allow greater innovation for companies who choose to integrate digital tools into their websites. This may lead to efficiencies and simplified reporting processes for companies, reducing the burdens of reporting. Wider user groups, who may not have their own sophisticated analytical tools, may find websites or portals more approachable and straightforward to use, and may struggle to sift through lengthy annual reports.

243. Companies may also benefit from being able to produce certain types of content on websites or portals to a different time frame than the annual report. Some stakeholders have highlighted that reporting information outside the annual report could save time, smooth resource pressures around the reporting period, and allow companies to report more dynamically or closer to when information is relevant, such as alongside preliminary results or AGM communications. This is because information outside the annual report can be subject to a separate internal assurance process which means information doesn't need to be locked down as far in advance as it currently is. This is particularly relevant for public companies, due to the more prescriptive audit and assurance needs for some elements of their annual reports.

244. Website and portal reporting may each be better suited to different types of disclosures, and provide different benefits to companies, investors and creditors, and other possible intended users. Ensuring the platform for specific disclosures supports the useability of reporting is a long-term aim we wish to embed through the establishment of the Reporting Gateway, which is discussed in chapter 9. The stakeholder feedback we have received thus far suggests information may be better suited to a website if it is policy or process (rather than outcome) driven and/or is more 'static', i.e. does not typically change year-on-year. Defining which disclosures fit this may be challenging. We are seeking views not only on which characteristics of disclosures (if any) mean they could appropriately be moved to company websites, but also whether we should prescribe a list of website disclosures based on specified criteria or allow individual companies more flexibility to determine how the criteria apply to them. Portal reporting, by comparison, may be better suited for data-focused disclosures, as it could facilitate easier comparability and data extraction, particularly for standardised, quantitative disclosures, and may be useful for users to aggregate or compare across companies. We are seeking views on which specific disclosures a portal may be desirable.

245. In considering any response, the government is also interested in views on whether any disclosures moved to websites or portals should continue to benefit from equivalent governance, assurance and liability frameworks to those that apply within the annual report, including where the current operation of section 463 may be relevant. Stakeholders have raised concerns about the potential fragmentation of information, the risk that key disclosures might be overlooked if spread across multiple platforms, and the impact on trustworthiness of information if moving disclosures to a website or portal meant they were taken out of scope of audit. Other stakeholders have cautioned that moving content outside the annual report could reduce coherence and comparability, particularly for users who rely on a single, integrated source of information. Preparers have also raised concerns that the move to disclosures on websites or portals could create additional expectations (and therefore the additional burden) that information should be updated more frequently than is currently required. Respondents emphasised the need for clear guidance, robust governance, and consideration of where assurance mechanisms may be needed to maintain trust in website and portal-hosted disclosures.

Use of artificial intelligence (AI) in corporate reporting

246. The government is seeking views on how AI could affect the preparation and use of company reporting. We are very aware of innovations to corporate reporting which may be brought about by the technological advancements in AI. While such developments may offer opportunities to improve aspects of corporate reporting, the government is equally aware that AI may not be the right solution in all circumstances and that its use raises important questions about accuracy, accountability and trust.

247. In early 2025, relatively few companies used AI for preparing annual reports[55], though interest was growing. A 2025 study analysed over 21,000 corporate documents (including all FTSE 350 annual reports from 2021-2024) and found only two instances where generative AI was explicitly mentioned as part of report content creation; in both cases this was about AI-generated graphics.

248. Separately, other research has suggested growing interest in corporate reporting. In one global poll[56] of 2,000 finance leaders, 43% said they were enthusiastic about using AI in corporate reporting processes, while a further 29% were waiting until the risks were better understood.

249. Recent survey evidence also suggests that AI is being used in aspects of annual report and accounts preparation. A survey commissioned by the FRC and conducted by Lancaster University on the use of AI in corporate reporting generated 103 responses from FTSE 350 companies, professional bodies and representative groups, found that 61% of respondents used AI in drafting narrative sections of corporate reports and 57% of respondents used AI for copy-editing narrative.[57] These findings relate to the use of AI in report preparation and should be distinguished from evidence on whether companies choose to disclose that use publicly in their annual reports.

250. A variety of industry publications, including the Falcon Windsor and EY reports from which the above evidence has been derived, set out principles and considerations around the use of AI in the preparation of annual reports. At this stage, the government is not proposing any specific measures. We want to understand stakeholder views on whether, to what extent, and how AI could play a role in the preparation of annual reports and accounts.

251. Additionally, stakeholders have noted that AI is already beginning to play a role in how users consume corporate reporting (e.g. investors using AI-driven analytics to read and compare reports) and will likely do so in the future as AI tools become more widespread and sophisticated. It is not clear how best to future-proof the corporate reporting framework given the rapid pace of change around available AI tools. The government is seeking views on how AI could affect the preparation and use of corporate reporting.

Q45. The government has committed to making electronic communication with shareholders the default option. What factors should the government consider when introducing this change? Please give reasons for your answer and examples.

Q46. The government will make clear that a virtual location is considered a place in relation to AGMs and other meetings. Are there any additional shareholder safeguards that should accompany this change?

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[55] Your Precocious Intern - How to use generative AI responsibly in corporate reporting
[56] How can CFOs be confident in value creation without confidence in reporting?
[57] The use of Artificial Intelligence Technologies in Corporate Reporting

Q47. How does electronic formatting of the annual report and accounts impact how you use corporate reporting in your decision-making?

Q48. Do you agree or disagree that the electronic formatting of the annual report and accounts should be signed off by the directors as part of their sign-off of the report and accounts? Please explain your answer.

Q49. Where a company is audited, do you agree or disagree that the auditor should also report on the electronic formatting? Please explain your answer.

Q50. How do you anticipate new technologies (such as a hypothetical successor to iXBRL or sophisticated AI tools) will change how companies prepare or how investors and creditors will use corporate reporting in their decision-making? Please set out any implications this may have for Companies House rules and FRC technical standards.

Q51. What criteria should determine whether disclosures should be published on a company website or online portal rather than within the annual report? Please give examples, and explain your reasons.

Q52. If some disclosures were to be moved to company websites, what minimum requirements, such as retention timelines, frequency of updates, directors' sign-off, and any other factors, should apply for effective disclosure?

Q53. What additional digital technologies should be considered when reforming the corporate reporting framework? Please explain your answer, with examples of how these technologies impact corporate reporting currently and what potential impacts they might have in the future.

Q54. Do you have any further comment on the government's proposals in this digital reporting section? Are there any other suggestions that the government should consider?

9. Other reforms to streamline corporate reporting

252. This chapter sets out how we plan to future-proof reports. The chapter:

- sets out the scope and design of a 'Reporting Gateway' function within central government that will place greater oversight over the introduction of new reporting requirements in future policy-making processes
- seeks views on the proposal to revoke the Reports on Payments to Governments Regulations 2014 ('the regulations'), following a post-implementation review (PIR)
- seeks views on the proposal to require companies to notify Companies House about the appointment of an auditor and for that information to be available on Companies House register

Managing future changes to reporting requirements

253. This consultation puts forward proposals and ideas to tackle problems that arise from too much reporting, from too many companies, producing too little material information for investors and creditors. We also want to take steps to prevent such a situation from occurring in future. That does not mean a moratorium on new reporting, rather more effective controls than at present.

254. The government has introduced a **'Reporting Gateway' function** within BIST, which ensures any new or revised reporting requirements for UK companies align with the principles for modernising corporate reporting set out in Chapter 1, minimising administrative burdens and providing decision-useful information for investors and creditors. In the first instance, this will maintain the annual report and accounts for the long-term as a tool focused on the information investors and creditors need for decision-making.

255. Beyond the scope of the annual report, reporting requirements are developed by relevant policy teams across Whitehall, using their own legislative vehicles. To support policy teams across central government to develop proportionate and streamlined reporting policy, the Reporting Gateway will also assess and advise on economy-wide reporting requirements beyond the annual report.

256. The Reporting Gateway provides early independent scrutiny of proposed new reporting requirements, supporting a more consistent and streamlined impact on business. Its act as a framework within which the modernisation of corporate reporting will be embedded and maintained across central government policy-making. This will sustain the suite of transformative measures laid out in this consultation into the future.

257. The Reporting Gateway function is underpinned by the following criteria, which informs its oversight and assessment functions:

i) Strategic fit

Reporting requirements must be consistent with – and complement – existing government policies and commitments including the principles of the Better Regulation Framework. They should support broader strategic objectives and not duplicate existing requirements.

ii) Cost benefit

Reporting requirements must be underpinned by a positive cost-benefit analysis, ensuring that the value derived from reporting requirements justifies the expense of the reporting.

iii) International alignment

Reporting requirements must align with comparable established international standards where appropriate.

iv) Understandability

Reporting requirements must be readily understandable by companies, investors and creditors and other relevant stakeholders.

v) Useability

Reporting requirements must be aligned to how investors and creditors, and other relevant stakeholders, will use the reported information. When developing reporting requirements there should be consideration of what other information users are likely to compare with the resulting disclosure; and the most appropriate and accessible location for the disclosure, including on digital platforms.

Q55. How could the Reporting Gateway process and criteria be improved, if at all?

Revoking the Reports on Payments to Governments Regulations 2014

258. The government proposes to revoke the Reports on Payments to Governments Regulations 2014, following a post-implementation review (PIR)[58], which found that these regulations are not achieving their intended objectives. Those objectives were to increase transparency in the extractives sector; and to combat corruption by governments of resource-rich countries, and by UK companies operating in those countries.

259. The regulations require UK-registered large companies and Public Interest Entities (PIEs)[59] to report annually via the Companies House extractives service on all their payments made to governments totalling £86,000 or more, if they are active in the extraction of oil, minerals or gas, or in logging of primary forests. These include payments in money or in kind, whether made as a single payment or a series of related payments.[60] This reporting was intended to help citizens of resource-rich countries to hold governments and companies to account.

260. The measures were expected to provide UK investors with information to assess risk profiles of extractives projects. UK companies operating in resource-rich developing countries would benefit from an improved business environment (e.g. improved accountability and transparency) in those countries.[61] However, the PIR found that:

- while some stakeholders said the reporting improved industry transparency and accountability, no examples of practical or real-world implications were given
- no evidence was found that the regulations reduced corruption. The Bribery Act 2010, which makes it an offence for UK corporates and partnerships to engage in bribery, has

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[58] Payments to Governments Regulations 2014 - Post implementation report

[59] With respect to the regulations, PIEs are companies with securities which are publicly traded on a government regulated stock exchange or are a credit institution or insurance undertaking. PIEs are treated as large companies for the purposes of the EU Accounting Directive (as referred to in Article 2 (1) of Directive 2013/34/EU). Therefore, all UK-registered extractives companies which are traded in the UK fall within scope of the requirement to report payments to governments, regardless of their size.

[60] For more information on the scope of payments required to be reported, please see the definition of 'payment' contained in regulation 2 of the regulations - The Reports on Payments to Governments Regulations 2014.

[61] Please see the Impact Assessment carried out at the time of introduction for more details on expected impacts for investors - The Reports on Payments to Governments Regulations 2014.

directly been used to legally pursue companies and is arguably a more effective deterrent to corruption

- civil society organisations were the main users for the reporting, however there are low levels of awareness amongst NGOs in the countries of operation
- feedback from investors suggested the information generated was not used or was not in an appropriate format to be useful
- the Extractives Industry Transparency Initiative (EITI), while not mandatory for companies to report under, or for countries to be members of, produces higher quality reporting[62]
- full compliance with the regulations is unlikely because identifying companies in scope and enforcing the regulations is not feasible

261. In light of these findings, the PIR recommended that the regulations be revoked, subject to consultation. The government's preferred option, subject to responses to this consultation, is to revoke the regulations, given the strong evidence that this reporting is not demonstrably useful to its intended users and is not meeting its objectives. The government would, however, also welcome suggestions on whether and how the regulations may be made more effective to produce information that is more widely used.

262. The government notes that revocation of these requirements could create an information gap in countries where the EITI is not operative, although the impact of this will be largely limited to NGOs, as investors do not appear to be using the reporting in these countries. It is also unlikely any such information gap would have detrimental effects, because the overall conduct of UK companies in these countries would still be regulated by the Bribery Act 2010.[63]

263. The requirements for company reporting on payments to governments in these regulations are mirrored in the FCA's DTR 4.3A.[64] These FCA disclosure and transparency requirements are not affected by any future revocation of the regulations, and any future decisions on this requirement on listed companies are a matter for the FCA. BIST will share your responses to the consultation question below with the FCA.

Q56. Do you agree with the proposal that the Reports on Payments to Governments Regulations 2014 should be revoked? Please explain your answer. In addition, should the regulations be improved and, if so, how?

Identifying auditors on the Companies House register

264. Currently the Companies House register is unable to provide up-to-date or complete information on the identity of a company's appointed auditor. This creates difficulties for shareholders, or prospective shareholders, to identify whether a company has appointed an auditor, and whether the auditor continues to hold office during the period the company files its accounts, or even afterwards.

265. The government believes that there could be benefits to investors and creditors from having more visible and up-to-date information on auditor appointment, as difficulties in appointing an auditor, or an auditor's resignation, could be a sign of financial or other problems within a company. This would also help confirmation that the appointed firm is eligible for appointment as a UK statutory auditor.

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[62] For comparison between EITI reporting and reporting under the Regulations, see in particular p. 9-10 of the 2024 PIR - Payments to Governments Regulations 2014.
[63] Bribery Act 2010
[64] FCA Handbook - DTR 4.3A Reports on payments to governments

266. Furthermore, when a company decides to change its auditor, this could create a change in the inspection regime, of which shareholders may be unaware. Audits of Public Interest Entities (PIEs), and some other large audits, are currently inspected by the FRC. Smaller audits are overseen by Recognised Supervisory Bodies (RSBs) such as the Institute of Chartered Accountants in England and Wales (ICAEW).

267. The ICAEW has recently introduced a new requirement for its registered audit firms to notify it when they are appointed to certain complex or high-risk audits. The ICAEW has found that the auditors it is responsible for inspecting are increasingly taking on larger audits that would previously have been conducted by firms inspected by the FRC. Better and more timely information about auditor appointments and changes of auditor would make it easier for RSBs to plan their inspection programmes.

268. As part of changes to the annual report and accounts, the government believes it should improve the available information on auditor appointment, and its visibility, to provide investors and creditors with useful information to make further decisions or on areas to engage with the company.

269. The government proposes to:

- introduce a new obligation into Chapter 2 of Part 16 of the Companies Act 2006 to mandate companies to notify Companies House of the appointment of an auditor. This would ensure the record on the Companies House register is kept up to date via the company's annual confirmation statement. The register would include the name of the appointed audit firm and its registration number. Similarly, the current framework on notices of auditors leaving office (Section 519) would be adapted so that Companies House would also be notified when an auditor leaves office to ensure that the continuous appointment of an auditor and any period without an auditor would be visible on the register and checked via the confirmation statement. Responsibility for all relevant notices would rest with the company and not its appointed auditor

- introduce a new obligation for auditors to include their registration number(s) on the audit report and for companies to include it in statements of the auditor's appointment or departure. Auditors are required to sign the audit report under section 503 of the Companies Act 2006, which is filed with Companies House. The proposed obligation would require the auditors to include their registration number(s) as issued to the audit firm and individual auditor under section 1239(1)(a) on their audit report. Companies would also be required to include this on any statement of the auditor taking up and leaving office discussed above, in addition to the audit firm's name, with the name of the individual signing auditor and the name of the company in question

- tie all auditor reporting at Companies House to the auditor's registration, which would uniquely identify both the audit firm and the relevant individual signing auditor. These measures would make sure that filings of audit reports by persons who are ineligible for appointment are minimised

270. For non-PIE companies, the government believes the existing notice of reasons provides insufficient information to regulators or investors and proposes to remove the requirement. The requirement has its origins partly in EU law, which no longer applies in the UK. The government considers that previous attempts to make the notice more informative, and to make sure the burden of providing information is focused on cases of greatest regulatory interest, have not led to the improved effectiveness of the notice. Too often the notice only includes 'boilerplate' explanations of reasons that provide no insight for shareholders, users of the Companies House register, or regulators. The notice when leaving office would therefore no longer include any such statement and no statements would be required to be sent to the Recognised Supervisory Bodies for auditors, reducing the burden on those bodies.

271. Section 523 of the Companies Act 2006 includes several exemptions for PIEs, including from them having to send a copy of the auditor’s statement above to the FRC along with any additional comments they may have. However, those exemptions are complicated and may lead to unnecessary work by PIEs. The government proposes to simplify them, so that PIEs only need to send the auditor’s statement to the FRC if the PIE has additional comments to make beyond or about the statement already provided by the auditor.

Q57. Will the government’s proposed measures to put auditor names on the Companies House register benefit investors and/or creditors as intended? Please explain your answer.

Q58. Do you have any further comment on the government's proposals in this auditor identification section? Are there any other proposals that the government should consider?

272. In addition, we are interested in views on the following questions:

Q59. We are seeking to ensure Companies Act 2006 reporting requirements do not become unnecessarily burdensome in combination with other reporting frameworks (for example those set out by the FCA and the PRA). Are there any current or proposed reporting requirements that are unaligned with other regulatory frameworks? Please explain.

Q60. Are there any additional issues or considerations surrounding corporate reporting that you would want to raise with us, and that have not been covered by the consultation? Please explain what they are and why they are important.

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