Issued 15 August 2023

Department for Business and Trade
Call for Evidence
Survey on Non-Financial Information

About the consultation

ICAS has submitted a response to the Department for Business and Trade's (DBT's) call for evidence, which is being undertaken as part of its *Smarter regulation non-financial reporting review.*

Our responses to the individual questions raised by DBT are set out below. We submitted our responses to DBT via an online survey.

Preparers questions

The following questions are primarily aimed at the preparers of non-financial information.

Question 1a). How valuable, if at all, is the preparation and/or disclosure of non-financial information for the effective running of your company?

- highly valuable
- moderately valuable
- somewhat valuable
- not valuable
- don't know

Question 1b): And why do you say that?

Response

ICAS has answered the questions for preparers set out in the call for evidence. However, in considering this and other questions we also consider the perspective of users.

We have concluded that non-financial information is highly valuable.

In our view, the preparation and disclosure of non-financial information is a good discipline and contributes to the effective running of the company, but the most valuable information is not necessarily the non-financial information mandated by current laws and regulations. We also see the preparation of non-financial information as a sense check on preparers, especially when a company is seeking further investment, including debt finance.

Requiring the disclosure of information impacts on the systems, processes and controls a company has in place to ensure that it is compliant. For each company, the costs and benefits of new disclosure requirements will be specific to that company. We believe that the current requirements have a positive impact on how an entity is managed and that these requirements help to make sure that appropriate focus is given by the company on those matters which have to be reported.

In addition, reporting by an entity on its material social and environmental impacts and associated risks and opportunities is critical to the effective running of a company and its long-term success.

We would of course highlight that non-financial reporting requirements need to be proportionate to the reporting entity, while providing useful information to users.

Although non-financial information currently prepared by companies is highly valuable, that doesn't mean there isn't scope for improvement. For example, non-expert users are likely to find aspects of non-financial information difficult to understand. Also, in our experience, there has been around a 60 per cent increase in the length of Strategic Reports in the last five years, driven in part by sustainability reporting (which is of interest to a broad range of users) and public policy. Therefore, we welcome the call for evidence as the first stage in DBT's review of non-financial information.

Since the Strategic Report was first introduced by company law, it has unfortunately evolved into a report which is no longer strategic. We therefore support 'business model reporting', linked to the stakeholder assessment directors must undertake under the Companies Act 2006, (section 172 on the duty to report the success of the company). This should result in reports which are genuinely strategic. more succinct and of greater value to users.

We also recognise the vital importance of sustainability reporting and that this is a rapidly evolving area of non-financial reporting.

Looking ahead to when companies are required to (or choose to) comply with UK Sustainability Disclosure Standards (SDSs), we believe that companies and other entities should have the flexibility to publish Sustainability Reports either within the annual report and financial statements documents, or separately. Whichever approach is taken, we envisage that some cross-referencing will be appropriate between the company's Strategic Report, Directors' Report, and the company's Sustainability Report.

Our thought leadership work has championed corporate reporting reform and business model reporting, and we published the following documents between 2010 and 2018:

- *Making corporate reports readable* (2010)

  In *Making corporate reports readable* we demonstrate that it is possible to produce a corporate report in less than 30 pages which tells management's story of what is important – eliminating the boilerplate narrative and providing decision-useful information.

- *Making corporate reports relevant* (2012)

  Making corporate reports relevant reports on the feedback we received on *Making corporate reports readable* and sets out our related policy positions. One of the strongest messages from our respondents and the guests at the launch event for *Making corporate reports readable* was that there is general dissatisfaction with the financial reporting framework of International Financial Reporting Standards (IFRS accounting standards). The consensus was that corporate reporting could not be fundamentally reformed without considering the issues associated with IFRS and, in particular, the volumes of disclosures.

- *Restoring trust and relevance for the future of corporate reporting* (2018)

  In *Restoring trust and relevance for the future of corporate reporting*, we highlighted the importance of considering the corporate governance and corporate reporting environment in the context of the UK's audit quality debate.

These reports highlight that concerns about the quality of the corporate reporting framework are long-standing. We believe that the DBT's call for evidence and desire to reform non-financial reporting is an opportunity to improve the quality of non-financial reporting by UK companies over the short, medium, and longer term. While radical change to IFRS accounting standards is outside the remit of the call for evidence, we welcome the possibility that there could be changes to the current UK reporting thresholds for financial and non-financial reporting which could benefit companies.

The current reporting framework places different non-financial and financial reporting requirements on different types and sizes of entity and we comment later in our response on current reporting thresholds which can also determine a company's audit requirements. In addition, we comment specifically on developments in sustainability reporting and recognise that the evolution of this will continue to have a significant impact on non-financial reporting by companies and other entities.

Question 2. What challenges, or costs, if any, does the preparation, disclosure and distribution of non-financial information create for your company?

Response

In considering this question, we placed emphasis on circumstances where new requirements are being placed on a company.

One way to assist companies manage the on-going costs of non-financial reporting, would be for policy makers to keep the merits of existing non-financial disclosure requirements under review. For example, a review of existing requirements could be undertaken when new significant proposals are being developed. This would potentially make sure that individual disclosure requirements remain relevant and that the requirements placed on companies are proportionate.

There are both cost and practical challenges in developing systems and internal controls to gather data and prepare non-financial information of sufficient quality to meet requirements.

Setting up and running new functions (or evolving existing functions) could mean that companies have to develop or buy-in the necessary skills. Implementing non-financial reporting therefore could lead to considerable costs depending on the complexity and the extent of the changes.

In our experience, the fast pace of change in non-financial reporting has resulted in a high demand for skills and related training. There is insufficient capacity within the marketplace for both skills and expert trainers to meet this demand and this is pushing up employee and consultancy costs. We are aware of UK companies within the scope of the EU's Corporate Sustainability Reporting Directive which are struggling to find the resource to meet these requirements. In summary, both regulation and stakeholder expectations are moving faster than the knowledge base. However, companies that are already following Global Reporting Initiative (GRI) standards will not incur significant additional costs.

Where information is not readily available, for example, obtaining carbon emissions data from suppliers, the challenges and costs are even greater. Companies also need adequate lead time to properly prepare for the implementation of any new reporting requirements. Those who can, should be allowed to adopt changes earlier.

Question 3. What, if any, are the key drivers of cost when having to comply with non-financial reporting requirements?

Response

We have noted the key drivers of cost in our response to the previous question and summarise these as follows:

- the reconfiguration of existing systems, processes, and controls
- the introduction of new systems, processes, and controls
- consultancy, including training
- employing new personnel
- in-house training

Question 4a). Please select the most applicable statement:

- the benefits of preparing and disclosing non-financial reporting information outweigh the costs.
- the costs of preparing and disclosing non-financial reporting information outweigh the benefits.
- the benefits of preparing and disclosing non-financial reporting information are proportionate to the costs.
- don't know.

Question 4b) Please explain your answer.

While we have selected 'The benefits of preparing and disclosing non-financial reporting information outweigh the costs', we believe this is truer for larger companies than for some medium-sized companies and for smaller companies. It's our experience that Small and Medium-sized Entities (SMEs) consider the preparation and disclosure of non-financial information more onerous and less beneficial than the largest companies.

As we say elsewhere in this response, the introduction of non-financial reporting needs to be proportionate.

Question 5. To what extent do the Companies Act non-financial reporting requirements align with other regulatory requirements your company might be in scope of?

Response

In the UK, there are non-financial reporting requirements placed on companies and other entities, for example, in relation to climate change, which do not come from company law. In future we think that company law will better need to incorporate sustainability reporting requirements than is currently the case.

We favour an approach where company law provides a framework for sustainability reporting but where the detail is left to a standard setter to determine. We recognise however that there are already some company law sustainability-related disclosure requirements.

We welcomed the recent publication setting out more detail on the UK government's framework to create UK SDSs. ICAS supports the plans to assess and endorse the global corporate reporting baseline of IFRS Sustainability Disclosure Standards. We hope that in time, endorsed standards will become mandated for UK entities.

Non-financial reporting requirements are accompanied by thresholds and other criteria. The UK needs a cohesive, explainable, and comprehensible non-financial reporting framework. This is in the wider public interest as well as in the interests of preparers and users. Some simplification of requirements would make sure that companies can easily identify the non-financial reporting requirements which apply to them.

Returning to the example of climate change reporting, some of the existing reporting requirements arise from the implementation of the UK Government's paper *A Roadmap towards mandatory climate related disclosures* (November 2020), published jointly by HM Treasury, the then Department for Business, Energy & Industrial Strategy, the Financial Conduct Authority (FCA), the Department for Work & Pensions (DWP) and The Pensions Regulator (TPR).

The following entities are now subject to mandatory, climate-related reporting requirements based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD):

- premium listed companies
- issuers of standard listed shares and global depositary receipts
- very large private companies (i.e., those with over 500 employees and £500 million in turnover)
- asset managers
- life insurers
- FCA-regulated pension providers
- large occupational pension schemes
- master trust pension schemes
- collective defined contribution pension schemes

Not all entities falling within the above categories have published TCFD reports to date either due to their classification or size.

As sustainability reporting evolves, it will be important for both preparers and users to understand where a company's sustainability information is located. We favour a flexible approach whereby the Sustainability Report, can be published within a company's annual report and financial statements document, or separately, as a standalone report which is signposted to from the annual report and financial statements document. This reflects current practice for a company required to publish a TCFD report under the FCA's rules and a pension scheme required to publish a TCFD Report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Developments in sustainability reporting are moving at pace and achieving a consistent approach across investment and supply chains is a considerable challenge. It's essential that UK government departments and UK regulators recognise the need for a consistent approach to support transparency, competition, trust, and confidence.

We support greater consistency of non-financial reporting requirements across the board for companies, based on both size and type, with Public Interest Entities (PIEs) being subject to the most comprehensive requirements.

We say more about our views on sustainability reporting, including climate change reporting further on in our response.

We believe there is scope to reform the Companies Act size thresholds, which have a bearing on both financial and non-financial reporting requirements, as well as audit requirements. We comment on this further, later in our response.

All respondents

The following questions are aimed at all respondents.

Question 6. What changes, if any, would you like the UK government to make to the current legal requirements for companies to prepare non-financial information, and why?

Response

We believe that the UK government needs to make sustainability reporting mandatory under an appropriate standard setter and endorsement mechanism. This would be an extension of current practice in the UK, where for example, certain entities must follow requirements based on TCFD recommendations. This would mirror other jurisdictions like the EU, where reporting in accordance with European Sustainability Reporting Standards (ESRS) is mandated for certain entities. We consider the information on the UK government's framework to create UK Sustainability Disclosure Standards (released on 2 August 2023) to be a welcome step in the right direction and we will continue to encourage the UK government to mandate sustainability reporting.

Investors are better served, as well as other report users, by sustainability reports that capture both the impact of an enterprise on society and the environment, as well as the impact by society and environment on an enterprise, so-called double materiality.

However, we also recognise that an approach proportionate to a company's size is needed so that companies are not unduly burdened in meeting legal obligations to make sustainability related disclosures. In our response to a later question on company reporting thresholds, we raise the idea of undertaking a more radical review of thresholds, for example, by considering the introduction of metrics based on a company's carbon emissions which could bring it within the scope of UK SDSs even where it doesn't meet any future size criteria which is established.

The UK government should recognise the developments in sustainability reporting in other key global markets. For many years, the UK has been a leader in the reporting of non-financial information. However, other jurisdictions have moved at pace to enhance their requirements in this area. For example, the European Commission has adopted the European Sustainability Reporting Standards (ESRSs) i.e., mandatory reporting along with mandated assurance. The US Securities and Exchange Commission is also currently deliberating what changes it will introduce with respect to the reporting of sustainability-related disclosures. The UK needs to send out the right message to the world and that we are creating a framework for promoting the development of business within planetary limits.

Question 7. Thinking about the future of your organisation and the UK's transition to a net zero economy, what changes, if any, do you think may be required to the type of non-financial information produced to guide decision making, and why?

Response

Given the increasing interest in the future risks and opportunities to be faced by an organisation, particularly around climate change, nature loss and transitioning to a just society, non-financial information should include forward-looking, decision-useful qualitative and quantitative information.

Any new non-financial reporting frameworks that are endorsed, mandated, or become law must be developed to be interoperable with other standards and for various entities, otherwise an unnecessary burden will be placed on report preparers and users. Any requirements that become law should align with and lever other new requirements such as the *Disclosure framework and implementation guidance* due imminently from the UK's Transition Plan Taskforce. The UK government has to consider what needs to be established by law versus other measures, given the ongoing pace of the evolution of standards and the lead time and process involved in changing and passing new or amending existing legislation.

We believe the new global baseline for sustainability reporting issued by the International Sustainability Standards Board (ISSB) is a good start and look forward to supporting the ISSB to improve and refine these and future standards.

Also, we believe that companies required by law to prepare net zero transition plans should be required to publish them. By 2023, asset managers, regulated asset owners and listed companies are required to publish plans that set out how they will decarbonise to meet the UK's national 2050 net zero target. We understand it is the UK government's intention to mandate publication and we welcome this move.

Question 8. How should the standards being prepared by the International Sustainability Standards Board (ISSB) be incorporated into the UK's non-financial reporting framework?

Response

ICAS supports the establishment of the UK mechanism for endorsing IFRS sustainability disclosure standards published by the ISSB. We welcomed the UK government's announcement on 3 August 2023 of the framework to create UK Sustainability Disclosure Standards (UK SDS) by assessing and endorsing the global corporate reporting baseline of IFRS Sustainability Disclosure Standards. We recommend mandatory compliance with these standards for Public Interest Entities (PIEs) at least, and we are mindful that an updated definition of a PIE is currently being considered.

In our response to earlier questions, we highlight that there are already UK entities which are required to prepare climate change reports each year and it would make sense for such entities which are not PIEs to continue to do so.

We believe there should be movement towards a consistent approach to sustainability reporting across the global investment chain. Providing broadly comparable information would aid investors and other stakeholders to assess an entity's sustainability aspirations, results, impacts, risks, and opportunities. This approach would provide more consistent information which would improve data quality and make the preparation of sustainability reports more efficient and less costly.

Sustainability is a comparatively new area of reporting and having a globally consistent approach would help both preparers and users to improve the knowledge and skills to apply UK SDSs. Also, as professionals with the appropriate skills to prepare sustainability disclosures will be in increasingly high demand having a consistent approach could increase capacity within the market for those skills.

Where climate change reporting has already been mandated for UK entities, the framework applied, as we refer to earlier, is the TCFD framework. IFRS S2 builds on the recommendations of the TCFD which means, that when the time comes, the transition from existing UK climate change reporting requirements to IFRS S2 should be eased.

It will be essential for UK government departments and UK regulators to work together to make sure that consistent data is available across the investment chain in relation to climate-related disclosures and other aspects of sustainability reporting which are developed over time.

Ideally there should be a consistent approach to sustainability reporting covering all companies in the listed and largest space as this will provide consistency for investors and avoid regulatory arbitrage. The G7, or even the G20, countries should take the lead in establishing a global roadmap on sustainability reporting by entities. We welcome the release of the IFRS S1 and S2 and recognise that it is a sound starting point and global baseline that can be built upon. We will continue to support the ISSB, and other standard setting bodies, to shape disclosure requirements that are appropriate for report preparers, useful for all report users and allow global comparability.

At the moment, there is a risk that different jurisdictions will continue to adopt their own reporting requirements, and this will make it challenging for global investors to best assess where they should be allocating their capital. Sustainable development is a global issue, but the UK needs to be a leader on this front to maximise opportunities for the economy as well as to play an appropriate role in addressing the planetary crises.

In our view, however, the use of the ISSB's standards alone will not be sufficient to meet the information needs of stakeholders, including investors. Therefore, in addition to the ISSB standards, we advocate the application of other complementary standards to ensure that corporates are reporting both the impact of sustainability related matters on the company and the impacts of the company on the environment and people. This approach will ensure the provision of more comprehensive disclosures to investors, lead to better informed decisions and be more attractive to a wider group of stakeholders. The standards produced by the GRI is one example of complementary standards that afford these qualities. (Indeed, the GRI as well as ESRS and other standards that concern impact reporting can also support reporters of financial impacts through providing a methodology and process for determining and assessing the impacts to planet and people from which the financial materiality can be measured.) ICAS, like many other commentators, advocates the need for interoperability of the ISSB standards with others, like the GRI.

In the UK, legislation should provide the framework for applying the UK-endorsed sustainability disclosure standards in the listed and largest space, but the detailed requirements should come from the standards themselves. This will enable practice to evolve over time to reflect technical developments and economic circumstances. We also highlight that mandating disclosures per a standard should not preclude additional reporting per other standards or frameworks as other stakeholders may require and/or as reporters may choose.

We favour a requirement for PIES and the largest non-PIE companies to prepare a separate sustainability report either within the annual report or a separate report, cross-referenced from the annual report. It's useful for users of sustainability information prepared under ISSB standards that it is available in one place. The government needs to consider where companies report on other sustainability related information included in the annual report, which is prepared either on a voluntary basis or due to existing UK legislation. We recognise that at least for a period, some sustainability disclosures will fall outside the scope of UK SDSs.

Question 9a). To what extent do you agree or disagree that current size and company type thresholds for non-financial reporting information could benefit from simplification?

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree
- Don't know

Question 9b). Please explain your answer.

Response

We support a comprehensive review of the various applicable thresholds to determine whether these can be simplified. We support simplification of the thresholds, but simplification shouldn't undermine proportionality. We think the traditional Companies Act thresholds and the additional non-financial reporting thresholds applied to the largest companies should fall within the scope of this review. The review should also cover the qualitative as well as the quantitative aspects of thresholds. We say more about introducing new qualitative metrics into reporting thresholds in our response to the next question.

A logical starting point would be the requirements that should apply to PIEs and work from there. This would obviously need to take account of the UK government's plans to extend the current scope of the PIE definition.

Once the requirements which apply to PIEs are established, along with a clear vision for the resulting non-financial reporting framework, proper consideration can then be given to which of these requirements should be applicable to non-PIE entities and the various sub-reporting groups that may be required.

If it's decided that there isn't scope for simplification of the non-financial reporting thresholds or simplification takes several years to implement, we recommend developing a tool which helps companies identify which current non-financial reporting requirements applies to them. From our experience, companies find non-financial reporting requirements complex and time consuming to identify.

Question 10a). The Companies Act 2006 sets out size categories for UK companies that determine the type of accounts that need to be prepared and filed with Companies House. Do these size thresholds remain appropriate?

- Yes
- No
- Don't know

Question 10b). Please explain your answer and what, if any, changes you would like to see.

Response

We support uplifting the size thresholds in the Companies Act to reflect inflation, given there has been no increase since 2016.

Assessing what concessions (including filing concessions) might be made available to smaller companies is complex.

The Economic Crime and Corporate Transparency Act will bring about changes to the micro entity regime and will increase transparency and simplify some requirements by reducing the availability of concessions available to micro entities.

We believe there is scope to go further than this in terms of the simplification of thresholds. This could be achieved, for example, by replacing Section 1A of FRS 102 with an enhanced FRS 105, which would apply to entities below the company law audit threshold. This would align with the small company definition. There may be other approaches to simplifying the financial reporting requirements for companies and other entities not required to apply full UK GAAP, and we would welcome discussion on and involvement in the development of a consultation on proposals.

With reform as suggested above, FRS 102 could become a standard primarily designed to fit the needs of the financial statements' users of entities above the Companies Act 2006 audit threshold. This would help to remove some of the tension that exists between trying to create a proportionate financial reporting standard intended to serve the needs of exceptionally large entities, as well as smaller entities. We appreciate that this is something that would only be achievable in the medium term given the work that the Financial Reporting Council, or its successor, would need to undertake to achieve this change.

As a general point, we believe that the employee numbers' condition, which forms part of the Companies Act thresholds, should be revised to define employee numbers as relating to full-time equivalents rather than headcount.

This would better reflect current working practices, such as the increase in part-time working and people working flexibly on zero hours contracts. Currently, someone working one day a month for a company would have the same impact on how the size of a company is assessed as someone working full-time. This means that applying the employee numbers' condition doesn't provide a consistent assessment of whether a company is small.

If it's decided that it would be too complex to calculate full-time equivalents, an alternative could be to consider increasing the employee numbers' condition to reflect the flexibility which now exists within the labour market.

We are also supportive of further streamlining the non-financial reporting requirements for subsidiary companies, where the parent company prepares a group annual report and financial statements either on a required or voluntary basis. This could include cross-referencing to relevant information published by the parent in the annual report for the group.

However, we support a more radical review of the metrics used to determine the reporting requirements placed on companies. We're not suggesting specific recommendations on this point, but rather reflecting on how risk could play a part in assessing a company's financial and non-financial reporting requirements. A current example is the exclusion of some companies from the small companies' regime if they were a public company or involved in certain financial services activities during the reporting period.

Future examples could be to require a company below the normal size threshold for complying with UK SDSs to apply a particular UK SDS, due to its involvement in a high-risk activity, such as a carbon intensive activity, or having overseas operations in a jurisdiction severely impacted by climate change. Any metrics related to a company's carbon emissions would need to encompass its scope 1, scope 2 and scope 3 emissions. The metrics used within thresholds would need to be consistent with existing legal requirements on how a particular metric is calculated to avoid unnecessary regulatory burdens. We would also welcome consideration of other aspects of sustainability for inclusion as part of a more radical review of metrics for determining a company's reporting requirements.

Question 11. Do you have any other comments that might aid the consultation process as a whole?

Response

Assurance on sustainability related information
ICAS welcomes the development of an international standard specifically covering the assurance of sustainability reporting, particularly given that assurance on sustainability-related information is being mandated in some jurisdictions. We note that, on 2 August, the International Auditing and Assurance Standards Board published a consultation on a proposed global sustainability assurance standard.

Relevant findings from ICAS funded academic research
We have additional evidence relating to the topic of non-financial reporting arising from academic research funded by ICAS. Some of the findings highlight the important relationship between non-financial and financial information.

Black box accounting: Discounting and disclosure practices of decommissioning liabilities (Michelon, Paananen, Schneider) (2020)

This research calls for higher transparency in the presentation of decommissioning costs and the cost of clean-up operations in pollution-prone industries with long-term assets, such as oil rigs or nuclear plants. In these circumstances, the asset owner has an inherent obligation to remove the asset and clean-up and restore the site once the asset has reached the end of its useful life.

To increase cost transparency and to emphasise corporate responsibility for managing these clean-ups, the report recommends that:

- Standard setters require the disclosure of the discount rates applied to liabilities to facilitate comparability between entities, and to allow for users of financial statements and other key stakeholders to see inside the “black box” of accounting for decommissioning liabilities.
- Preparers include, and auditors demand, enhanced disclosures to include not only the discount rate but also undiscounted future estimated cashflows and timing of decommissioning activities, augmented by a comprehensive narrative on the major uncertainties surrounding these three items.

Non-Financial performance: Are your non-financial KPIs useful? (Bayne, Tarca, Wee) (2019)

Non-financial information generally refers to “information which is included in the corporate report other than information in the financial statements” (ICAS, 2016, p.5).

This project focused on a sub-section of non-financial information, namely non-financial key performance indicators (KPIs), disclosed in the narrative section of annual reports. The objective was to evaluate the comparability and breadth of key non-financial KPIs disclosed by listed companies across several countries where IFRS accounting standards are used.

The project is important considering the apparent confusion and discontent expressed by some report users, report preparers and standard setters relating to the comparability and usefulness of non-financial performance reporting.

The main analysis was based on data drawn from the annual reports of 200 large, listed companies from five countries (Australia, Canada, Germany, Japan, and the UK) and five industry sectors (consumer discretionary, financial services, materials, telecommunication services and utilities) in 2016. The key findings are as follows:

- 84% of companies disclosed non-financial KPIs in their annual reports, mainly relating to ‘employee’ and ‘environment’ type of information, with companies from the UK shown as disclosing the highest number of KPIs in annual reports.
- Overall, in terms of comparability, 39% of KPIs were presented together with prior year results, while only 18% were presented with targets.
- Trends over time show an overall decrease (40%) in the number of non-financial KPIs disclosed between 2013 and 2016 in the annual report. This marked change in reporting practice highlights a lack of comparability in the non-financial KPIs disclosed in the annual reports. However, it is encouraging that the provision of prior period comparative information at the individual KPI level appears to have increased slightly over the period (5%). Thus, while the number of KPIs has decreased, provision of prior period comparatives - an indicator of quality of reporting - shows an increase at the KPI level.

The research recommends:

- the provision of a non-financial information policy statement, disclosing the company's approach to non-financial disclosures, including the reporting media used; the target audience; the materiality considerations which determined the group companies included in the reported information; and the measurement bases used;
- improved presentation, including the use of headings such as non-financial performance indicators and tabular formats;
- the provision of comparative information (prior year and targets); and
- explaining the reasons why the non-financial KPIs are presented, such as the business implications and/or reference to guidelines, legislation, or regulations.

The evidence highlights the need for measures to increase the comparability of non-financial KPI reporting in the narrative section of annual reports. The great variety of formats, KPIs and the inconsistent disclosure of definitions, measurement bases and comparative information suggest that further guidance concerning KPIs in annual report narratives is required for improvements in reporting to be achieved. However, the specialised and evolving nature of various aspects of non-financial information means that it is not possible to prescribe the full content of non-financial KPIs in an annual report so principles-based guidance, that can be enhanced by local jurisdictions as required, is recommended.

Are non-financial KPIs in annual reports really 'key'? (Bini, Dainelli, Giunta, Simoni), 2019

It is likely that external users are unable to fully understand the "effectiveness" of company-specific, non-financial KPIs, especially if the users are not provided with information that explains why a certain indicator is important for managers - how it is related to the company's strategy and how it contributes to value creation processes (ICAS, 2010).

"Key" is defined as whether the information features a disclosure approach that illustrates, in quantitative terms, the value drivers that characterise the business model (BM) of a company.

This study investigated disclosure practices of UK companies, with special emphasis on non-financial information in annual reports. The analysis focused on the information reported in the 2016 annual reports of 67 listed UK companies, which operate in five different industries. Annual reports for the 2014 financial year were also examined to account for any experience effect.

The results of the empirical analysis challenge the quality of non-financial KPI disclosure in annual reports, in particular:

- Approximately 40% of the companies did not report any non-financial indicators in their 2016 strategic reports (49% in 2014).
- In both 2014 and 2016, approximately half of the disclosed non-financial indicators can be defined as "key", as they are linked to the value drivers cited by the companies in their BM description.
- Among the non-financial indicators that cannot be identified as "key" according to the researchers' approach, environmental and social measures are the most frequent. This result is likely to be influenced by the specific legal requirement which obliges businesses to disclose quantitative measures relating to relevant environmental and employee issues.
- Disclosure practices vary considerably among industries. We observed that many non-financial indicators disclosed by chemical and pharmaceutical companies are more often related to companies' value drivers. The importance of intangible resources in these sectors could explain, at least in part, this result.
- Overall, the findings suggest that non-financial KPI disclosure provided by the companies examined is not entirely driven by the "through the eyes of management" principle. Companies seem to use much different criteria to identify their "key" indicators. A non-financial indicator can be marked as KPI if it is anchored to the company's value drivers, but also if it is required by law, or if it is the result of an established disclosure practice.
- The results confirm previous surveys showing that, despite a gradual improvement over time, non-financial KPIs are still scarcely communicated by UK companies (Deloitte, 2017) and are rarely linked to other sections of the reports (PwC, 2016).

The report recommends that companies:

- clearly explain what makes a non-financial indicator a “key” indicator;
- emphasise the importance of linking non-financial KPIs to a company’s value drivers; and
- encourage companies to provide a description of the components of their BM that enable the identification of value drivers.

Communicating intangibles: the role of business model reporting and risk reporting (Crovini, Giunta, Nielsen and Simoni), 2022

This research funded examines the role of intellectual capital (IC) in the value creation process and provides a baseline in intangibles reporting for a sample of IC intensive high-tech companies. The research examined 2018 annual reports issued by listed companies operating in the pharmaceuticals, computer and electronics, and air and spacecraft industries based in the UK, France, Germany, the Netherlands, Norway, and Denmark. Those countries have all implemented regulations that require large entities to disclose information about business models and risks. Moreover, the UK, France, the Netherlands, and Denmark have the highest contribution of intangibles to GDP.

The analysis focusses on non-financial reporting of IC within business model reporting and risk reporting for companies in countries where regulations mandate such disclosures (the UK and other European countries).

Results reported that 29% of companies did not report either the business model or principal risks in the annual report, resulting in non-compliance with existing regulations.

Where disclosures were made (in 71% of cases), scarce alignment exists between BM reporting and risk reporting for IC disclosures.

Greater integration between information on IC value drivers and the related risks, respectively in the business model and risk reporting sections, could provide more meaningful information on the value creation process.

Policy implications arising from the research suggested the need for more detailed guidance on how to report BM value drivers and risks in the narrative sections of the annual report.

The production and consumption of information on intangibles: an empirical investigation of preparers and users (Zambon, Marzo, Bonnini, Girella), 2023

This project looks at what are the measures and disclosures on unreported intangibles that are considered useful for decision-making and assessments by users of this information. And by preparers, and to what extent do the views expressed by preparers and users depend on the personal and professional profile of the respondents.

- Cost-value benefit of providing information on intangibles. It is more of a concern to preparers than users, although both agree that commercial sensitivities are not necessarily a major issue.
- Type of information. All agreed that information should best be reported through a combination of KPIs, narrative disclosures and financial numbers, although the preferred basis for measurements varies between preparers and users. Both sets of respondents however agree that the measurement basis should be driven by the types of intangibles considered.
- Reporting tools and positioning of intangibles-related disclosures matter. Users and preparers agree that positioning is best in supplementary notes, integrated reports, or non-financial statements, and that some level of standardisation would be welcome. They also generally agree with regards to the need for auditing, while no firm result emerged in relation to the positioning of intangibles-related information vs. ESGs.
- Principle of decision usefulness and stewardship in relation to intangibles information. Preparers and users display divergent behaviour on this, with users having predominantly a more optimistic vision on intangibles information as decision-useful and a stewardship indicator. The only exception is in relation to ‘stakeholder management’ information, viewed more positively by preparers than users.

- Metrics. A general divergence of opinion emerges between users and preparers on the decision-usefulness of specific metrics, with exceptions for the following categories of KPIs: brands, R&D, software and information systems, strategy and planning, business model, training, and human capital.
- Appetite for more measures and KPIs on intangibles. Preparers and users however also expressed appetite for more measures and KPIs in addition to those proposed in the research survey, especially those relating to business model, relationships with suppliers, training, organisational culture, and climate.
- A recognised need for information. The wide acceptance and recognition by preparers and users of the need for information on intangibles may pave the way for policymakers towards gradually mandating intangibles-related metrics and disclosures in relation to the different categories of intangibles.
- A rising need. Information and reporting on intangibles is an area of increasing concern to preparers and users. Accordingly, policy makers and standard setters are very likely to be confronted with this information need, considering, also, the differentiated sensitivities on this topic between preparers and users that have clearly emerged from this study. There also appears to be a need for guidance and incentives for companies/preparers, who may need more support than users, considering the greater reluctance and the more acute inconsistencies shown in their responses.

We have two research projects with potentially relevant findings on the content of sustainability reports and financial reports and their interconnections, where publication is pending:

- Impact and Financial Materiality Assessments in Corporate Sustainability and Financial Reporting: Interconnections, Practices, Processes and Challenges (Michelon, Cooper, Garcia Torea, Chen, and Guo)

  This project focuses on the different conceptualisations of materiality that have emerged in sustainability reporting and their implications for the content of both sustainability and financial reports and their interconnections.

- Climate change reporting: what do we know about its determinants and capital market consequences? (Baboukardos, Seretis, Tsalavoutas)

  The aim of the project is to synthesise the related literature and bring into light recent evidence as to what we know about: companies' climate change reporting practices; determinants of climate change reporting practice; and capital market consequences of climate change reporting practice.

  This research covers literature between January 2016 and September 2022 – the results therefore refer to a period where firms engage primarily voluntarily with climate change reporting and where the business world was not as alarmed in climate change issues as it is today.

We would be happy to share the research findings with you on publication if these would be of interest to you in developing detailed proposals on non-financial reporting.

As our response is on behalf of an organisation, the call for evidence directs us to respond to the questions from a preparer's perspective. However, the ICAS funded research cited below sets out findings on the views of key users of financial and non-financial information (investors and financial analysts) on Real-Time Higher-Frequency (RT/HR) information.

The usefulness of Real-Time Higher-Frequency (RT/HR) information: what do users think (Abhayawansa, Aleksanyan, Lee, Tsalavoutas), 2022

- No 'one size fits all' for users. When it comes to data usage, users should not be considered a uniform group. Very different perspectives on data usage and demand emerged, depending on users' functional role (professional investors vs. sell-side analysts), analytical approach (fundamental vs. quantitative), and analytical time horizon (short-term vs. long-term focused).

- Calls for more consistency of accounting information. While in the eyes of most users there is no pressing need for companies to transition to a RT/HF corporate reporting model, many interviewees expressed a desire for enhanced digitisation of accounting data and improvements to inter-company consistency of corporate-reported accounting information.

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