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FRC discussion paper on Opportunities for the future of UK digital reporting

Response from ICAS

Financial Reporting Council

Discussion paper on the Opportunities for the future of UK digital reporting

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General comments

ICAS welcomes the opportunity to comment on the Financial Reporting Council's (FRC's) discussion paper on *Opportunities for the future of UK digital reporting* which was published on 13 August 2024.

While we understand that this is a discussion paper, decisions appear to have already been taken about what the future method of filing with Companies House will be without the ideas being fully tested through formal consultation. Page 21 of the discussion paper states:

"The future requirements of accounts filings are described in the White Paper on Corporate Transparency and Register Reform and will be formalised through secondary legislation in the near future. The requirements include:

- the Registrar to require all accounts to be filed digitally and **fully tagged** using iXBRL;
- the removal of a paper filing option for most companies;....."

We believe that more work is needed before determining how to move forward, including:

- How Companies House will use "fully tagged" data to meet its regulatory responsibilities.
- The substantiation of claims about how the tagged data may be used by other regulators and stakeholders who are not regulators. The benefits to key stakeholder groups have not been adequately explored in the discussion paper.
- Understanding and evaluating the risks that tagging agents may be exposed to by the use of tagged data.

We are not convinced that the costs of “full tagging” would outweigh the benefits for those companies not already required to file iXBRL tagged annual reports and financial statements with the Financial Conduct Authority (FCA). It is vital that any additional compliance burdens placed on companies are proportionate and do not run counter to the UK government’s ambition to kickstart economic growth. Also, the accounts preparation applications and tagging applications currently available could mean that the ambition set out in the discussion paper can’t be met.

We would welcome consideration being given to providing companies with the option to file their annual reports and financial statements in a PDF, and reconsideration of the decision to move to “full tagging” as defined in the discussion paper.

Having the option to file via PDF would enable companies to file the annual reports and the financial statements they prepare to meet their obligations under the Companies Act 2006. We believe this is a better way for company directors to be accountable to the public for the limited liability afforded to them by incorporation.

The product of “fully tagged” financial and non-financial information as envisaged in the discussion paper will be readable to the human eye if properly rendered, but the iXBRL tags embedded within it (and the related dimension settings of those tags, which can be just as important) would likely be unreadable without additional analysis tools.

For, example, the product of “fully tagged” information would be considerably lengthier than annual reports and financial statements documents produced by companies who have not used accounts production software.

We believe it would be possible for Companies House to meet its digital filing objective if it provides the option to file a PDF of annual reports and financial statements and developed a minimum tagging list or minimum taxonomy that could be used in the presentation information on the Register of Companies in a readable format. This could be achieved by using selected iXBRL tags from the taxonomies produced by the FRC.

We’d specifically like to highlight that any changes to filing requirements should enable intermediate parent companies to continue to meet their filing obligations under Sections 400 or 401 of the Companies Act 2006. Paper filing is currently the only means by which intermediate parent companies can meet these obligations. A similar situation exists for subsidiary companies applying Section 479A of the Companies Act 2006 to gain audit exemption. We note that on page 21 of the discussion paper there is a reference to “the removal of a paper filing option for most companies”, suggesting that some companies may continue to be able to use paper filing, although no information is given in the discussion paper about the circumstances in which paper filing could continue.

Depending on decisions taken in the future about the changes Companies House makes to its filing requirements, it may be appropriate to implement these in a phased manner for small and micro companies. We would also recommend that the timing of any changes is considered alongside other known and anticipated developments such as changes to UK Financial Reporting Standards (FRSs) following the latest Periodic review by the FRC, planned increases in the financial thresholds for company size and audit, and the anticipated removal of filing exemptions for small and micro companies. A phased approach would assist small and micro companies who have limited resources deal with all pipeline changes relating to annual reports and financial statements.

Unless otherwise stated, where we refer to a ‘company’ or ‘companies’, our comments are also relevant to LLPs.

Our responses to the specific questions on the structure of digital reporting post the enactment of the Economic Crime and Transparency Act 2023 are set out below. We have not responded to the questions in the discussion paper on structured digital reporting post EU Exit.

Discussion paper questions

Question

Do you think the term “full tagging” is sufficient to describe the expectations of preparers of digital reporting?

Response

No, we do not agree that the term “full tagging” is sufficient to describe the expectations of preparers of digital reports based on the stated ambition in the discussion paper for Companies House filings.

By way of context, we are commenting on the basis that a company filing its tax return with HMRC will use the same iXBRL taxonomy for any filing made via software with Companies House. We also recognise that there are key differences between filing with HMRC and with Companies House. For example, HMRC filings are not made public so the quality of presentation of HMRC filings is of lesser significance and, as corporation tax is relevant at individual company level, consolidated group financial statements filed with HMRC usually only have tags applied to the parent entity information. This means that there are additional challenges for companies in filing “fully tagged” financial and non-financial information with Companies House compared to HMRC.

We are assuming that the preparers referred to in the question are companies or the directors of companies who are responsible for the preparation of statutory annual reports and financial statements.

“Full tagging” implies that every possible item within an entity’s annual report and financial statements has been tagged using an iXBRL based approach. We highlight in our answer to this question that tagging doesn’t lend itself to the tagging of every possible item.

The discussion paper states that the “The ambition of full tagging is to create a complete and quality dataset of financial and non-financial information, authentic and as similar as possible to the paper copy” but goes on to set out the shortcomings of the term “full tagging”. This in itself suggests that “full tagging” may not be the term to settle on.

If the ambition is to create a complete and quality dataset, then there needs to be recognition within the terminology that the ambition has two components:

- The completeness of the tagging.
- The quality of the rendering of financial and non-financial information i.e. its faithful representation.

We believe that accuracy, while not referred to in the stated ambition, is an implied characteristic in the tagging of information and the quality of rendering. Rendering being the conversion of tagged financial and non-financial information into readable content. We would therefore recommend as a minimum that the stated ambition is revised to refer explicitly to both the “completeness and accuracy” of the tagging.

Recognition that there are two components to the stated ambition for Companies House filings is important because taggers have direct control over the completeness of the tagging of items but very little control over the rendering of information, which is largely determined by the software.

Company directors not using accounts production software, on the other hand, would be entirely reliant on taggers and tagging software to meet their obligation to file their company’s annual report and financial statements, prepared in accordance with the Companies Act 2006, with Companies House. For directors using accounts production software not all tagging is automatic, and all tagging still needs to be checked for accuracy.

While measures can be put in place to check the completeness and accuracy of the tagging, the risk of error remains. For example, there are around 5,500 iXBRL tags for financial statements prepared in accordance with *FRS 102: The financial reporting standard applicable in the UK and the Republic of Ireland*. Of course there will be further cost and resource implications to companies of introducing completeness and accuracy checks or otherwise seeking assurance on the completeness and accuracy of the tagging.

For a company preparing a glossy annual report and financial statements, including text presented in columns, photographs, tables and other graphics, iXBRL tagging is not capable of presenting all of this information, particularly non-financial information, in the manner or quality envisaged by the company's directors.

How can the directors of a company be certain that their company's final annual report and financial statements are completely, accurately and faithfully represented by the financial and non-financial information filed digitally using iXBRL and accessed by stakeholders, including credit rating agencies, and Companies House via the Register of Companies? For example, incorrect tagging could result in a company showing a negative balance sheet when it doesn't have one, this could damage its credit rating and inadvertently impact on its ability to raise finance.

It is worth noting in relation to the future of UK digital reporting that the FRC's findings from its *Structured digital reporting - 2023 insights* gave rise to recommendations that "amounts are reported with the correct sign – most amounts are intended to be reported with a positive sign in XBRL" and that "amounts are reported with the correct scale – for example earnings per share of 60 pence should not be tagged as 60 pounds".

There is also the question of the risks posed to tagging agents where stakeholders make decisions placed on tagged information. Therefore, it is important that the risks faced by tagging agents are understood and evaluated as this initiative progresses.

We therefore question whether a move to the digital filing of "fully tagged" financial and non-financial information using iXBRL will enable company directors to present information to the public in a form of their choosing. This undermines the ability of the directors to be accountable in full for the rendering of statutory financial and non-financial information.

Where financial statements have been audited, or in the case of some charitable companies independently examined, some thought needs to be given as to how the content of external scrutiny reports are presented viz a viz tagged data. Auditors and independent examiners are responsible for their reports, but the tagging of data is not in scope. Therefore, there is a gap to bridge between the responsibilities of auditors and examiners towards information within the scope of their reports and tagged data. The content of external scrutiny reports is also important to the stakeholders of companies.

We also question whether iXBRL tagged information will provide added value to all stakeholders wishing to access a company's annual report and financial statements via the Register of Companies given that software to read tags and analyse significant amounts of data is not going to be used except to the most sophisticated users of financial and non-financial information.

Question

What alternative terms [to "full tagging"] would you suggest that support the ambitions of measurable quality, consistency, and completeness?

Response

This question is inconsistent with the ambition stated in the paper. If the stated ambition was "measurable quality, consistency and completeness", then "full tagging" would probably work as the term to be used.

However, given the stated ambition, a short term similar to "full tagging" is more difficult to come up with but "complete and quality tagging" may better meet the stated ambition and could be more meaningful.

The question here is whether the ambition itself is proportionate and will benefit companies, better meet the needs and expectations of stakeholders and genuinely improve the effectiveness of Companies House and other regulators.

Question

How can regulators ensure that the full tagging process does not become overly burdensome, especially for smaller businesses and charitable companies, while keeping pace with new reporting requirements?

Response

We are responding to this question in the context that decisions appear to have already been taken about what the future method of filing with Companies House will be without the ideas being fully tested through formal consultation. Page 21 of the discussion paper states:

“The future requirements of accounts filings are described in the White Paper on Corporate Transparency and Register Reform and will be formalised through secondary legislation in the near future. The requirements include:

- the Registrar to require all accounts to be filed digitally and **fully tagged** using iXBRL;
- the removal of a paper filing option for most companies;.....”

There needs to be recognition that all financial tagging is burdensome unless accounts preparation software can “fully tag”.

It may be possible for accounts preparation software to “fully tag” financial statements prepared in accordance with *FRS 105: The financial reporting standard applicable to the micro entities regime* or Section 1A of *FRS 102* on small entities. This is due to the more limited nature of these and related company law requirements.

Changes to filing requirements which are not trivial in nature are likely to be burdensome or overly burdensome for companies. Therefore, any requirement for companies to “fully tag” their annual reports and financial statements would be overly burdensome for companies not currently required to do so for the purpose of filing with the FCA. It is vital that any additional compliance burdens do not run counter to the UK government’s ambition to kickstart economic growth.

There is a tension between requiring the “full tagging” of data and the faithful rendering of information with regulators encouraging preparers to expand disclosures or to make disclosures other than in tables or paragraphs.

It is clear from the discussion paper that using a minimum tagging list or minimum taxonomy is not being considered but nonetheless this is the only way to limit/ meaningfully reduce the risk of error, and to enable less sophisticated users to compare the financial information of a company across several financial years or to compare the financial information of one company with another.

“Full tagging”, involving as it does the correct setting of dimensions as well as the selection of the tag, is already complicated enough to create a document that the average company would not use or want. But would nevertheless have to pay to produce.

A more proportionate approach would be to focus the stated ambition on specific components of the financial statements, for example, the primary financial statements and accounting policies and to make the “full tagging”, i.e. tagging using the full iXBRL taxonomy of other components, optional for companies committed to “full tagging”. However, the benefits to a company of doing so are not adequately set out in the discussion paper and would need to be articulated in any future related consultations.

This more limited information could then be made publicly available in a standard, readable format alongside a PDF of the company’s annual report and financial statements. This means that the Register of Companies would continue to publish reports and financial statements as prepared by a company’s directors to meet their company law obligations.

UK charity regulators, to varying degrees, gather limited financial information via their annual returns and publish this in a readable format on their respective charity registers, so the approach we describe already has precedent in the UK.

However, no UK charity regulator currently requires financial information submitted to them to be iXBRL tagged so any strategy to align filing requirements with UK charity regulators would need to bear this in mind. Also, each UK charity regulator is in a different place in relation to the publication of charity annual reports and financial statements filed with them as part of the annual return process. This is another aspect of any move to filing through a single portal which would need to be considered, including the underlying charity law requirements, and the optics of having a single portal in the context of devolved areas of the law.

If the complete tagging of information is the ambition, then let companies file tagged information in a simpler way while letting them keep the quality of the rendering by permitting them to file their annual reports and accounts in a PDF. This would benefit companies currently outside the scope of the FCA's filing requirements. Many unaudited small and micro companies use WebFiling for their financial statements, so if this option is removed without a simple alternative, they will need an adviser to file, and possibly prepare, their financial statements for them. This could be relatively expensive for companies of this size.

The Companies Registration Office (CRO) Ireland has for some years permitted companies to file scanned PDFs, and since the COVID-19 pandemic, printed PDFs. There is therefore a precedent for this approach. If Companies House was minded to permit PDFs to be filed.

In determining minimum tagging requirements, whether these are applied to the annual report and financial statements document or a separate filing document, Companies House and any other regulators wishing to gather financial and non-financial information from companies for further analysis, should first consider in detail what their objectives are in relation to financial and non-financial information and what information they need to meet these objectives.

We would also recommend that any tagging requirements placed on non-financial information are considered in the context of the Department for Business and Trade's (DBT's) on-going reform agenda. We are expecting some changes to Strategic report and Directors' report requirements next year, and the DBT is expected to consult further on changes to the narrative reporting/ non-financial reporting requirements placed on companies. Therefore, if Companies House is to require non-financial information to be tagged, including Strategic report and Directors' report content, perhaps there is scope to exempt group companies from some of the tagging requirements if their information is included in their parent company's consolidated annual report and financial statements document. There is precedent for this type of approach within the UK's financial reporting and company law regime.

Question

Do you have any suggestions on how tagging quality could be measured? To what extent should these checks be undertaken during report creation, on submission and/or post-submission

Response

Data verification is absolutely key, and any plans for reform should not deviate too far from the current method of validation where checks can be written up in rules that can be built into accounts preparation applications and tagging applications.

We would be in favour of validation checks occurring during the accounts preparation process or tagging process and at the point of filing but not post filing. Companies and their agents need certainty, particularly where penalties are involved or failure to meet a requirement is placed on the public record.

Arithmetical checks would be an excellent contribution to the overall quality of financial information but moving beyond that introduces a degree of subjectivity. For example, how is an untagged item defined where there is no requirement to tag every word or number?

The results of validation checks must be comprehensible. For example, "cvc-complex" type error messages are unhelpful. Artificial Intelligence tools in future may be able to contribute to validation checks but not yet.

Question

Are there ways that the Charity Commission can support Companies House to introduce digital reporting for charitable companies in a way that is equitable and with due regard to the specific costs and burdens charities may face?

Response

There are three UK charity regulators, and we would wish to see all three engaged in discussions with Companies House about this initiative.

The Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland (CCNI) are well placed to share their experiences of developing year end filing arrangements for charities, including charitable companies registered in their respective jurisdictions.

It is also important that charitable companies across the UK are considered in any plans to change the Registrar's Rules on filing.

It would also be helpful to charitable companies if there was an option to file a PDF of their annual reports and accounts and the targeted approach to tagging we refer to in our response to the previous question is implemented.

UK charity regulators already request some financial information to be included in annual returns and this information is used in the preparation of sector overview reports and to provide enhanced information about individual charities on their respective charity registers.

If steps are taken to align more closely the information required by Companies House and UK charity regulators or there was a move to one stop shop filing for all regulators, the limited iXBRL tagging of financial information for use by regulators is an approach worth considering.

However, there could be jurisdictional challenges to achieving this as charity law is a matter devolved to Scotland and to Northern Ireland. This means that there are three charity law jurisdictions in the UK each with their own charity accounting regulations. There are differences between jurisdictions in the way they approach charity accounting regulations and in the way financial statement preparation and external scrutiny requirements are structured. For example, in England and Wales, charity accounting regulations do not apply to the preparation of financial statements by standalone charitable companies, but they do in Scotland and Northern Ireland. Also, in England and Wales a charitable company parent is required to prepare consolidated group financial statements under charity accounting regulations when the aggregate income of the group exceeds £1 million, but in Scotland it is aggregated income of £500,000 or more, and in Northern Ireland it is aggregated income exceeding £500,000. Consolidated group financial statements in each jurisdiction must be audited, except on the rare occasions these are prepared on a voluntary basis.

It is worth noting that any changes to filing arrangements made by UK charity regulators for charitable companies would be highly likely to impact on filings made by other legal forms of charity. It would not make sense for charity regulators to maintain different approaches to filing for charitable companies and non-company charities.

The Companies Act 2006 forces a degree of structure on the disclosure in the financial statements of companies limited by shares which are supplemented by applicable FRSs. However, the Charities SORP allows for flexibility in the way the Statement of Financial Activities (SoFA) is presented which would make tagging much trickier. In addition, the correct selection of dimensions is critical to accurate tagging. This means that any limited taxonomy for charitable companies would need to consider the flexibility allowed for in the Charities SORP, for example, in the presentation of comparative information in the SoFA.

At the moment a charity who together with any wholly owned subsidiaries has a combined income of over £6.5 million is required to include iXBRL tagged accounting information (parent only information) when it is filing a tax return so there is already a taxonomy based on the Charities SORP. However, for most charities having to apply a taxonomy developed for the largest charities would be overly burdensome.

Question

What if anything can the Charity Commission do to make the cost and filing burden on charitable companies more manageable through changes to their filing regime?

Response

With the degree of flexibility available to charities under the Charities SORP to prepare their annual reports and financial statements, and the dearth of accounts preparation applications that can deliver that flexibility, UK charity regulators could, for charities not currently obliged to file with HMRC using iXBRL, extend the financial elements of the annual return to capture and tag the required information. However, the feasibility of requiring charities to iXBRL tag information, in order to align with Companies House requirements, would need to be evaluated from a skills and resource perspective.

While there is a dearth of accounting applications which can be used by standalone charities that deliver the flexibility of presentational formats under the Charities SORP, we are not aware of any accounts preparation applications that can be used by a charitable parent to prepare consolidated group accounts. We would welcome the development of such an application, and this could make the process of accounts preparation and digital filing less burdensome for charitable parents. However, it is unlikely that an accounts preparation application for consolidated group accounts prepared by a charitable parent, could be developed within the timescale for Register reforms. This will add further cost and resource pressures to charitable companies relative to commercial companies. As referred to previously, it is worth noting that the threshold for charities to prepare consolidated group accounts is much lower than for commercial companies.

Questions

Do the current support materials cover the scope of what is required for each type of preparer? If not, what needs to be included that is not already there?

How could the current support materials be improved?

What support materials might be most useful to preparers and software vendors? How should we prioritise potential material, recognising finite resources across regulators to support digital reporting?

Response

The existing support materials are either quite old (HMRC documentation) or quite technical (FRC and XBRL UK documentation). However, software vendors can understand technical documentation already.

What would be needed for companies new to digital tagging is something that is user friendly to the person preparing or tagging annual reports and financial statements. In our experience most tagging queries that do not relate to document conversion to iXBRL are in the form of:

- Do these accounts need tagging?
- What tag is most appropriate for an item in the financial statements?
- What does this error message on test submission mean?

Finding answers to these sorts of questions is very difficult and if the objective is to make the production of “fully tagged” accounts a straightforward process, then the support materials need to point users efficiently to the answers to these types of basic question.

If and when iXBRL tagging requirements are introduced as compulsory for Companies House filings, it would be helpful for small and micro companies to have information set out in straightforward language, explaining what the tagging requirements are and how these relate to HMRC’s tagging requirements. We believe this is necessary so that companies understand the differences between filing with HMRC and Companies House.

If paper filing options are limited, it will be important that an exercise is undertaken to ensure that all companies can continue to meet their Companies House filing requirements. For example, at the moment it’s not possible to file digitally the financial statements of an intermediate parent company due to the requirement to append the consolidated accounts of the larger group they form part of (See sections 400 and 401 of the Companies Act 2006). A similar situation exists for subsidiary companies

applying Section 479A to gain audit exemption Therefore, as things currently stand hardcopy financial statements still need to be posted.

Question

How could tagging examples be developed to ensure that we do not create an unofficial “minimum” standard of tagging or a “pro-forma” approach to tagging?

Response

This is a challenging objective to place on potential changes to filing requirements.

If there are public facing examples available, then taggers are going to follow these even if these are labelled as examples or as guidance.

The only way to mitigate (not eliminate) an unofficial “minimum” standard is to provide comprehensive examples with detail as to why tags and dimensions have been set as they are.

If examples are given without context (and particularly if presented as a set of financial statements) then it is human nature to treat these as a standard approach. Therefore examples need to be presented as reference documents and not a set of financial statements.

Question

Other than tagging examples, what types of resources and feedback would be most useful in terms of helping preparers to understand the full tagging requirement, improve tagging quality year-on-year, and identify reporting which should be further investigated by regulators?

Response

The components of the question have different answers:

- Taggers need straightforward user-friendly language to understand the meaning of the term on a conceptual level with limited chance of different interpretations.
- Improving quality is best managed through the validation check sequence as noted above.
- Regulators should be able to obtain all the financial and non-financial data they need through the validated data they receive through annual filings. One of the biggest concerns of companies and their agents is likely to be that there is no significant use of the data that has taken time and cost to create and submit.

From a digital filing perspective, the Revenue in the Republic of Ireland provides a website to test uploaded filings. Any file can be uploaded and checked for compliance with the IT specifications before it is submitted formally to the Revenue. Although this doesn't check matters such as the completeness and accuracy of tags, it can be a helpful check that information is technically accurate and that there are no bugs prior to filing for real. No record is kept of files uploaded on a test basis, which gives companies the confidence that any mistakes won't impact on their standing. We recommend that this approach is considered for the UK.



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