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Mark Jackson
Department for Business, Innovation and Skills
1 Victoria Street
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Dear Mark,

Initial thoughts on the UK implementation of the Non-Financial Reporting Directive

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m. The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

We welcome the opportunity to provide BIS with our early views on the implementation of Directive 2014/95/EU, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

The level of change that has occurred recently in the narrative and financial reporting realms should be a key consideration. Small and mid-size quoted companies have very limited resources to follow and implement reporting changes. Moreover, it is probably accurate to say that all quoted companies are still adjusting to the new Strategic and Directors Remuneration reporting requirements. In terms of implementing the Non-Financial Reporting Directive, the Government should seek to change aspects of the current reporting regime that improve narrative reporting and give companies more flexibility in how they report.

Similarly, the UK should not seek to goldplate the requirements of this Directive.

1. Separate Report

We believe that it could be useful for companies to have the option of presenting non-financial information in a separate report, possibly as a wholly electronic report.

However, due to the UK's current reporting regime, we would expect the information on all material non-financial issues/risks to be included in the annual report, including the Strategic Report. Additional information may be provided in a separate document or on the website.

We recognise that there could be difficulties that arise by allowing companies to present the information in a separate report. There is a risk that the non-financial statement becomes a more compliance driven, stand-alone document, which does not provide useful information to investors. It could also lead to the concept of materiality being applied differently in the non-financial statement and the management report. Currently, the FRC's Guidance on the Strategic Report tries to encourage companies to apply the Strategic Report requirements, which already feature much of the new material included in the Directive, in such a way that the linkages and interdependencies between the financial and non-financial aspects of the entity's business can be highlighted and explained. This could be more difficult to achieve if the financial and non-financial reports were separate.

Nonetheless, allowing the option of a separate report could help to ensure that the annual report and accounts does not get cluttered with in-depth or immaterial disclosures that may result from the reporting required by the Directive. It could also allow companies that aspire to best practice to direct more resource to the separate reports' preparation, as the production of the Annual Report is already very time-consuming due to the volume of information required to be there.

2. Publication

The Directive allows non-financial information to be published 6 months after the balance sheet date. As mentioned earlier, under the UK's current reporting framework, all material non-financial information on should be provided in the Annual Report under the current UK reporting framework. However, the timeframe extension could be helpful in cases where companies wish to provide additional information. It could help spread directors' workload by giving them more time to focus on the separate report and the information in it, if a company chooses to publish the information required under the Directive in a separate report.

3. Scope

We would recommend that maximum flexibility is given to growth companies, which includes those smaller companies are listed on a regulated market. As a matter of principle, BIS and the UK Government should not goldplate the requirements of this Directive.

We would not support extending the scope of the Directive to all UK listed companies. We argued strongly during the negotiation of this dossier that smaller listed companies should not be brought into scope due to the potential added costs that could arise as a result of these reporting requirements.

4. Other issues

The Accounting Directive states that a parent preparing consolidated accounts prepares a consolidated management report. Article 29a is not clear whether the requirement to prepare a consolidated non-financial statement only applies to a parent preparing consolidated accounts (or would apply to parents not preparing consolidated accounts as well). It is also unclear whether a parent undertaking can present a single consolidated non-financial statement or must present non-financial statements for the group and company separately.

If you would like to discuss any of the responses in more detail, we would be happy to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive