



Financial Reporting Council

Financial Reporting



# Financial Reporting Lab

# Agenda

- What is the Lab/FRC?
- Climate reporting
- A journey towards ESEF

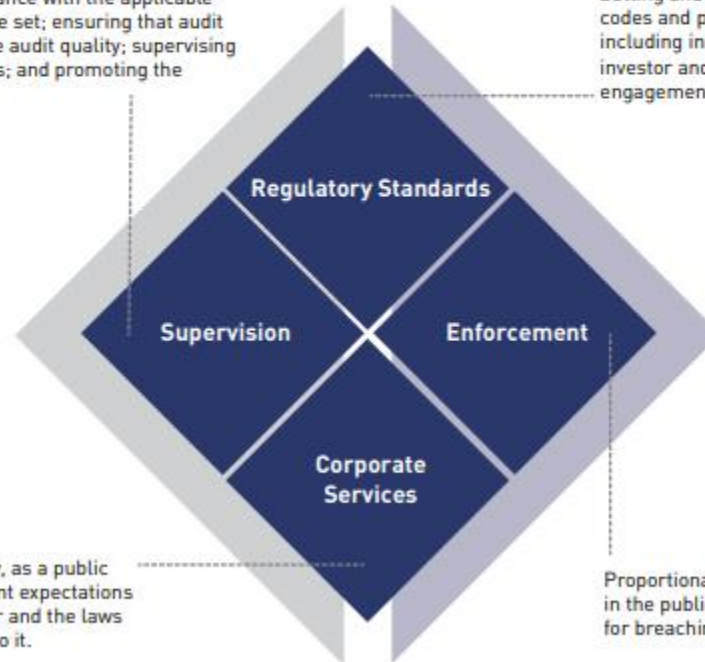
# Financial Reporting Council

The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.

## OUR BUSINESS MODEL

Monitoring and assessing compliance with the applicable laws, codes and standards that we set; ensuring that audit firms prioritise actions to improve audit quality; supervising the work of professional institutes; and promoting the resilience of the audit market.

Setting and influencing standards and codes and promoting good practice, including international liaison and investor and other stakeholder engagement.

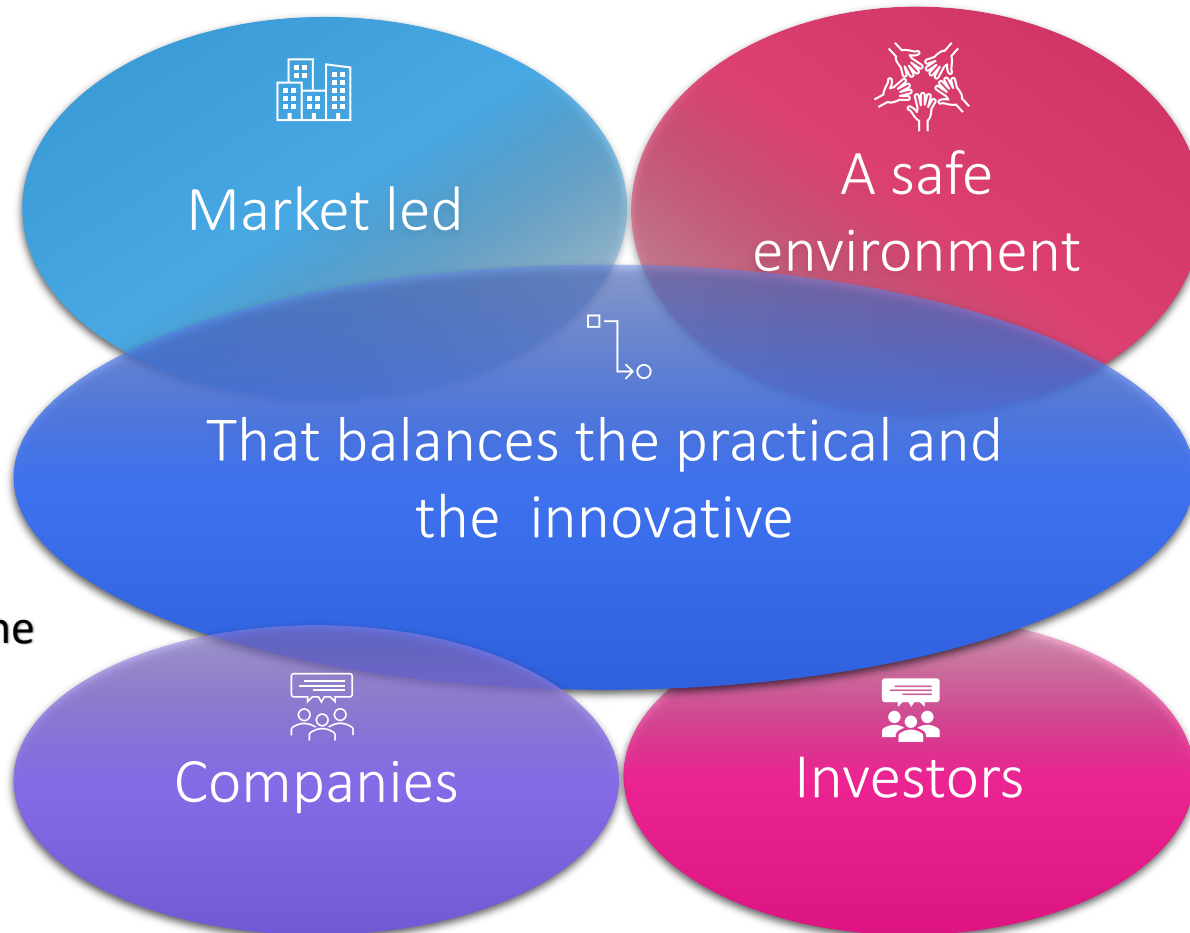


Running the FRC effectively, as a public body in line with Government expectations of an independent regulator and the laws and regulations that apply to it.

Proportionately holding to account, in the public interest, those responsible for breaching required standards.

# Financial Reporting Lab

Reporting topics that need a solution which is:



And involves the views of:



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# Climate reporting



# Climate thematic - Headline findings



## How are boards taking account of climate-related challenges?

It is the board's responsibility to consider climate-related issues, but there is little evidence that business models and company strategy are influenced by integrating climate considerations into governance frameworks.



## How are companies developing their reporting on climate-related challenges?

An increasing number of companies are providing narrative reporting on climate-related issues. While minimum legal requirements are often being met, users are calling for additional disclosure to inform their decision making. Some companies have set strategic goals such as 'net zero', but it is unclear from their reporting how progress towards these goals will be achieved, monitored or assured.

Consideration and disclosure of climate change in the financial statements lags behind narrative reporting. We identified areas of potential non-compliance with the requirements of International Financial Reporting Standards (IFRS).



## How are auditors taking account of climate-related challenges?

The quality of support, training and resources provided to the audit practice varies considerably across firms. Firms also need to do more to ensure that their internal quality monitoring has appropriate regard for climate change considerations.

Audits reviewed indicated that auditors need to improve their consideration of climate-related risks when planning and executing their audits.



## How are professional bodies and audit regulators taking account of climate change in their regulatory responsibilities?

UK professional bodies, and audit regulators in the Crown Dependencies, are responding to climate change, but approaches differ in terms of substance and granularity regarding references to climate-related reporting and the impacts of climate change.



## What do investors want to see?

Investors support the Task Force on Climate-related Financial Disclosures framework, but also expect to see disclosures regarding the financial implications of climate change. Investors are themselves facing a changing regulatory environment.



Find our reports here:

<https://www.frc.org.uk/investors/climate-thematic-review-2020>



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# ESEF





*"Confusion now hath  
made his  
masterpiece"*

William Shakespeare

# Where are we now?



Timing



Requirements



Audit



# Common Questions

We're a UK registered and LSE listed what do we need to do?



Should we do UKSEF or ESEF?



Does Brexit remove the requirement?



What about GDRs/Third-countries?

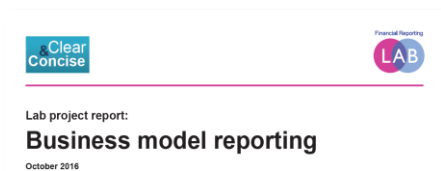


Do we need an audit?



What about non-listed companies?





| Performance metrics – an investor perspective |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | GAAP                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Non-GAAP | Wider metrics |
|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------|
| Principle                                     | Investors seek disclosure on...                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Company management and their boards should ask...                                                                                                                                                                                                                                                                                                                                                                                                                                                      |          |               |
| Aligned to strategy                           | <ul style="list-style-type: none"> <li>Of metrics that provide insight into the company's business model, strategy and competitive advantage and measure its success</li> <li>Of metrics that demonstrate how the company creates long-term value</li> <li>Of the metrics used internally to make business decisions and to manage, monitor and measure the achievement of the business strategy</li> </ul>                                                                                      | <ul style="list-style-type: none"> <li>Do we prepare reports for our investors (including but not limited to) relevant financial and wider metrics?</li> <li>Are we reporting the metrics that are being monitored and managed internally?</li> <li>Is there a clear line between the metrics that drive our business model and strategy, and our performance metrics?</li> </ul>                                                                                                                      |          |               |
| Transparent                                   | <ul style="list-style-type: none"> <li>That provide transparency on how metrics are calculated and defined to help investors make their own assessments, with clear responsibilities from GAAP to Non-GAAP metrics</li> <li>That give a clear explanation of why metrics have been used and, in the case of non-GAAP metrics, why management think these are more reliable representations of the value that has been generated by the company's business model than the GAAP metrics</li> </ul> | <ul style="list-style-type: none"> <li>Is it clear to investors why we use these metrics and what performance they are trying to represent?</li> <li>Are we transparent about the way we calculate our metrics and what we adjust?</li> <li>When we report on GAAP metrics, do we explain why and how they more appropriately represent our business model and strategy? When we report on non-GAAP metrics, do we explain why we have made specific adjustments, at least at a high level?</li> </ul> |          |               |
| In Context                                    | <ul style="list-style-type: none"> <li>That show how a company has performed, with explanations where this is different from what investors are trying to achieve, underpinning that</li> <li>That explain the company context, for example, its sector, size, strength, liquidity and market position</li> <li>That give an indication of the company's prospects within the context of the market and market changes, longer term objectives and other available</li> </ul>                    | <ul style="list-style-type: none"> <li>Do we explain what performance we were expecting to achieve, what we actually achieved, and why?</li> <li>Do we explain what performance our metrics are trying to achieve in the future, and provide an understanding of our overall long-term objectives?</li> </ul>                                                                                                                                                                                          |          |               |
| Reliable                                      | <ul style="list-style-type: none"> <li>That provide evidence to help investors gain confidence in the process of developing, monitoring and reporting metrics, and whether there are appropriate controls in place</li> <li>That provide clear, open disclosure of any metrics that are subject to including boundary of the information</li> </ul>                                                                                                                                              | <ul style="list-style-type: none"> <li>Do we provide an overview of how our metrics have been developed and monitored to allow investors to assess their reliability?</li> <li>Do we explain the way we calculate our metrics and what we adjust?</li> <li>Do we explain why we have made specific adjustments, at least at a high level?</li> </ul>                                                                                                                                                   |          |               |
| Consistent                                    | <ul style="list-style-type: none"> <li>Of metrics that are calculated consistently year-on-year and also presented consistently across reports (e.g. annual report, investor presentation, sustainability reports, press releases etc)</li> <li>That provide a clear, consistent picture over the past</li> <li>That provide enough detail to allow effective comparisons of similar companies, either at business model or sector level</li> </ul>                                              | <ul style="list-style-type: none"> <li>Are our metrics consistently calculated year-on-year and also presented consistently across reports (e.g. annual report, investor presentation, sustainability reports, press releases etc)?</li> <li>Do we explain why we have made specific adjustments, at least at a high level?</li> <li>Do we explain why we have made specific adjustments, at least at a high level?</li> </ul>                                                                         |          |               |



Find our reports here:

<https://www.frc.org.uk/investors/financial-reporting-lab/publications>

New projects – Virtual Reality, Risk, Uncertainty and Scenarios, Stakeholders