Title: Post-Implementation Review of the Secondary Legislation Implementing the EU Directive on Non-Financial Reporting (Directive 2014/95/EU) (2016) and Companies Act Reforms (2013)	Post Implementation Review
PIR No: BEIS060(PIR)-22-BF	**Date:** 19/07/2022
Original IA/RPC No: IAs BIS 0284 and BISCFA001	**Type of regulation: Domestic**
Lead department or agency: Department for Business, Energy and Industrial Strategy	**Type of review: Statutory**
Other departments or agencies: N/a	**Date measure came into force:** **01/10/2013**
	Recommendation: Amend
Contact for enquiries: Orkid Russell, 0300 068 8037, Neil Golborne, 0207 215 1558	**RPC Opinion:** Green

1. What were the policy objectives of the measure? (Maximum 5 lines)

The non-financial reporting regime is intended to reduce the asymmetry of information between directors, investors and wider stakeholders, around firms' operations. The main objectives were to: a) increase transparency and accountability around non-financial risks and policies, by simplifying and thereby address the asymmetry of information and b) to enable more informed investment decisions through greater comparability of reporting.

2. What evidence has informed the PIR? (Maximum 5 lines)

The PIR draws on research commissioned by BEIS undertaken in 2018, 2019 and 2020 which involved mixed methods including a rapid evidence assessment, focus groups and face-to-face or telephone interviews with stakeholders from civil society, investment and professional organisations, and employee representatives. It also involved telephone and online surveys of businesses, across a range of businesses in scope of the regulations. It also draws on a recent report published by the EU on non-financial reporting.

3. To what extent have the policy objectives been achieved? (Maximum 5 lines)

The overall assessment is that the objectives of the non-financial reporting regulations have been largely met. But that several improvements are necessary before NFR becomes fully part of business practices and most useful to companies and users.
A future PIR should consider whether there: a) is further evidence of impacts of NFR, b) have been improvements to NFR in terms of materiality, comparability and trust and rigour and, related to this c) has been progress towards greater harmonisation of standards, including at the international level.

Sign-off for Post Implementation Review: Chief economist/Head of Analysis and Minister

I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed:
Lord Callanan, Minister for Business, Energy and Corporate Responsibility Date: 14/09/2022

Further information sheet

Please provide additional evidence in subsequent sheets, as required.

4. What were the original assumptions? (Maximum 5 lines)

It proved difficult to obtain reliable measurements of the burden of the regulations to compare with Impact Assessment estimates, given small samples which are not representative of the population at large. The wide variation in costs reported is however consistent with other findings of the PIR that there is a wide degree of variation between non-financial reports in terms of comprehensiveness and quality. Comparison with the IA estimates and the lowest estimate of regulatory burden suggests that both the 2013 and 2016 regulations proved to be more burdensome than anticipated when the regulations were introduced. We set out a range of plausible reasons why this might be the case. Break even analysis has been provided which shows that NFR only needs to lead to a small (at most 2/10ths of a percent) increase in dividend payments – and hence profits –to compensate shareholders for the additional compliance costs.

5. Were there any unintended consequences? (Maximum 5 lines)

The research has identified one unintended consequence. It appears that all companies have used the early guidance on non-financial reporting, which applied to quoted companies and incorporated best practice, as a compliance benchmark to judge whether it applied to them or not. As a result, the 2013 regulations were more radical than considered at the time. The government recommends that in cases such as these, guidance is produced alongside legislation so that the estimates of compliance costs can be based on a fuller picture of what companies are required to do.

6. Has the evidence identified any opportunities for reducing the burden on business? (Maximum 5 lines)

The government has announced that it will review wider reporting burdens on large and small businesses including those from retained EU law. This will help the UK's companies grow whilst bolstering investment, as the government takes advantage of Brexit freedoms to regulate in a more proportionate and agile way that works for British businesses. The evidence contained in this PIR will contribute to that review.

7. For EU measures, how does the UK's implementation compare with that in other EU member states in terms of costs to business? (Maximum 5 lines)

The UK's strategic reporting requirements were in place before the introduction of EU legislation. Indeed, this was an agenda in which the UK took a leading role at EU level, as the collection of non-financial information was at a more advanced stage in the UK than in other member states. The EU legislation was introduced to avoid increasing divergences in the internal market. The EU Commission has carried out a review of the implementation of the Non-Financial Reporting Directive ("NFRD") and its conclusions, although at a more general level, are consistent with our own.

Post-Implementation Review of the Secondary Legislation Implementing the EU Directive on Non-Financial Reporting (Directive 2014/95/EU) (2016) and Companies Act Reforms (2013)

Introduction

1. In the Explanatory Memorandum to *The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016* ("the 2016 regulations) implementing Directive 2014/95/EU, Parliament was given an undertaking to review the non-financial reporting regime. Further, the Government is committed to regulate in a more proportionate and agile way that works for British businesses.

2. Consistent with clause 12.4 of this Explanatory Memorandum, this post-implementation review (PIR) considers the costs and benefits associated with the UK's framework around non-financial reporting (NFR). This concerns, in particular, the additional requirements, set out in section 414(c) of the Companies Act 2006 and implemented by *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013* ("the 2013 regulations), and the secondary legislation implementing the EU Directive on Non-Financial Reporting (Directive 2014/95/EU) in 2016.

3. An assessment of the impact, of the increased transparency resulting from non-financial reporting measures and related changes to company behaviour, is also relevant to, for example, proposals in the Brydon Review[1] related to NFR.

4. The purpose of this post-implementation to review is to establish whether, and to what extent:

    - the objectives of the non-financial reporting regulations remain appropriate;
    - the non-financial regulations have achieved their original objectives;
    - the objectives could be achieved through a less onerous regulatory provision to reduce the burden on businesses and/or increase societal value;
    - the non-financial reporting regulations are still required and remain the best option for achieving those objectives.

5. At the time these regulations were implemented, there was considerable public debate around the wider impacts of business activity, including high profile incidents in which businesses allegedly failed to manage environmental and social risks. This debate continues today. In addition, non-financial performance is seen as increasingly important to investors' long-term strategies, increasing demand for non-financial information.

6. However, before the implementation of the regulations, there was also considerable inconsistency in the way national legislation of EU Member States required non-financial reporting, making it difficult for investors and other stakeholders to clearly compare company policies and approaches to non-financial matters.

[1] https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

Policy Background

7. Annual Reports enable investors and creditors to make informed investment and lending decisions. One of the core strengths of the UK corporate governance system is the transparency that it affords to potential investors and creditors, and the powers it gives shareholders to challenge company directors. However, this challenge will only be effective if companies provide shareholders and creditors with high quality information on which to act.

8. The term "non-financial" information refers to narrative information that adds depth, colour and context to the financial information contained in the company accounts and is published in the Annual Report. It is important for companies to communicate a coherent story, to both internal and external stakeholders, and to provide a strong medium by which to gain internal consensus and to align company behaviour with a wider range of factors, than those covered by the numbers alone. In addition, it describes how the directors of the company have considered the non-financial factors that affect the performance of the company.

9. The 2013 Regulations replaced the requirements of the Companies Act (2006) which required all companies, apart from those subject to the small companies' exemption, to produce a business review. The business review required companies to report on the principal risks facing the company and to provide a fair review of the company's business. Quoted companies were also required to report on environmental, social and community matters.

10. The 2013 regulations required all companies, except those subject to the small companies' exemption, to annually produce:
    a) a concise strategic report, that should include the high-level information that shareholders need to gain an immediate understanding of the business; and
    b) a simplified directors' report.

11. According to the Impact Assessment, the change implied by the 2013 regulations was relatively minor for most companies. The Impact Assessment[2] stated that for medium and large unquoted companies the changes amounted to a name change from business review to strategic report. There was more to this though as companies were required to remove the business review from the Directors' report and include it in a standalone strategic report. There were more substantial changes for quoted companies, including requirements to report on:

    - human rights issues.
    - the number of women on the Board and in the organisation as a whole.
    - Company strategy and business model, and
    - The length of time an auditor has been in place.

    However, the Impact Assessment assumed that improvements to guidance would mean that burdens would be no higher, especially as some companies were already reporting on these aspects.

[2] Reforming UK Narrative Reporting. BIS 0284 (2012), available here

12. Following the 2013 regulations the European Commission introduced the EU Directive on Non-Financial Reporting (Directive 2014/95/EU). The aim of the NFR Directive was to raise the quality of non-financial reporting in the EU. It envisaged that the comparability of company disclosure across member states would meet the needs of investors and provide a wide range of interested parties with easy access to information on the impact of business on society.

13. The main changes introduced by the Directive were:

    - The introduction of a new type of entity – the Public Interest Entity (PIE) – which includes entities who trade debt securities on EU exchanges as well as unquoted credit institutions and insurers or those deemed to be of significant public relevance due to their size or activities.

    - All large (those with greater than 500 employees) PIEs were required to disclose information on environmental, social, employee, human rights and anti-corruption matters, to the extent necessary for an understanding of the company's development, performance and position, and the impact of their activities. This represented change for both quoted companies, unquoted companies and other companies newly covered by the PIE definition.

    - The Directive also brought in requirements which went beyond then existing requirements for UK quoted companies. These included: reporting on diversity policy and anti-bribery and corruption matters.

14. The Directive's requirements applied to financial years beginning on, or after, 1 January 2017. Many of the requirements were already in UK legislation for UK quoted companies when the Directive was adopted, however, where information was not provided on a specified non-financial matter, UK legislation had previously only required companies to state that it had not been provided. The Directive introduced a requirement to provide a reasoned explanation.

15. Annex A sets out how reporting requirements evolved between the 2006 and 2017 regulations for different classes of company.

16. In addition, the Government has imposed other NFR requirements through regulations (Table 1). These are not covered by this PIR as they are covered by separate legislation, and have either been, or will be, subject to separate review.

Table 1: Other Regulations Prompting Non-Financial Reporting but not covered by this PIR

The Reports on Payments to Governments Regulations 2014	Requires large or listed UK companies active in the extractive industry to report the payments they make to governments world-wide.
Modern Slavery Act 2015	Requires defined category of firms to publish a slavery and human trafficking statement each year outlining what measures, if any, they have taken to ensure there is no slavery or trafficking in their supply chains or businesses.
The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017	Requires defined category of firms to publish measures of pay information to understand gender pay gap.
The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018	Builds on the existing requirements for quoted companies to disclose their emissions and intensity by requiring annual disclosure of energy consumption and energy efficiency action (if any) in directors' reports. Also requires large unquoted companies and large LLPs to annually disclose emissions, energy consumption and energy efficiency action (if any) and an intensity metric in directors' reports or energy and carbon reports as applicable.
The Companies (Miscellaneous Reporting) Regulations 2018	Adds reporting requirements for firms meeting defined criteria around a) corporate governance, including how directors seek to promote the success of their company with due regard for section 172(1) of the Companies Act 2006, including the interests of employees and the need to foster business relationships with suppliers and customers, and b) executive pay, including pay ratios.

Policy Objectives

17. Two Impact Assessments (IAs) informed the regulations under review.[3] The IAs considered that the key underlying problem was an asymmetry of information between directors of the company and those stakeholders who might use non-financial information. Whereas directors have access to a considerable amount of non-financial information, investors, creditors and other interested stakeholders, who may contribute to holding the company to account, may not have similar access. This restricts the ability of wider stakeholders to understand the direction the company is taking and may inhibit effective engagement.

18. The IAs however differed in how they framed the problem:

- In the case of the 2013 regulations the principal justification for the regulations was that reports had been becoming longer and more complex and less useful for users. The 2013 regulations thus sought to simplify reporting, but with additional reporting requirements for quoted companies.

- The motivation for the 2016 Directive was that generally companies (across the EU) were not providing sufficient information on non-financial risks and that often the information provided was not sufficiently material, balanced, accurate, timely and

[3] Reforming UK Narrative Reporting. BIS 0284 (2012), available here; and BISCFA0001 (2016), available here

comparable. The IA underpinning the UK's transposition of the 2016 Directive stressed that greater comparability of information across markets would lead to better investment and other decisions by users of non-financial information.[4]

19. Therefore, the key objectives of both the 2013 amendments to domestic legislation and the 2016 regulations (which implemented the NFRD) were, in broad terms, twofold:

    a) to increase transparency and accountability of PIEs around non-financial risks and policies, by simplifying and thereby address the asymmetry of information between directors and stakeholders, and

    b) to enable more informed investment decisions through greater comparability around companies' reporting.

20. Ultimately the policy ambition is that more and better information would lead to better decisions by companies, investors or other stakeholders. For example, the measures would incentivise effective risk assessment around important non-financial topics and reduce the likelihood of adverse societal and economic costs from, for example, environmental impacts of company activity, or bribery and corruption incidents. Rigorous reporting requirements are intended to prompt firms to take action to address non-financial matters, including revisiting policies and processes, and paying greater attention to issues including board diversity and employee and human rights.

Logic Model

21. The logic behind the regulatory regime can be explained in the logic model set out below which also provides the framework for presenting the evidence in this review.

    - **Context:** prior to the regulation, businesses, wider stakeholders and investors were not finding non-financial reporting information as useful as it could have been in their business and investment decisions. And that only limited or incomparable non-financial material was presented in reports. This potentially led to worse decisions from the point of view of society, due to opacity on firms' operations and problems with asymmetric information.

    - **Inputs:** the regulations require companies to gather more useful, simplified or comparable information on their wider impacts.

    - **Outputs:** users report on whether the non-financial information is relevant and useful.

    - **Outcomes**: better understanding of non-financial risks, use of the reporting by companies, and more frequent consideration, by companies and investors, of the wider implications of their decisions; some decisions changing in scope, timing or scale, as a result of this consideration.

    - **Impacts**: more informed investment, business and other decisions lead to better social outcomes.

[4] BISCFA0001 (2016), available here

Review Approach

22. The evidence marshalled in this review is collated from several sources: ongoing evidence gathering from stakeholder engagement, surveys and other studies. This includes findings from the European Commission's fitness check on the EU framework for public reporting by companies[5] and the CEPs study for the European Commission on the non-Financial Reporting Directive.[6] It also includes two pieces of primary research, commissioned by BEIS, and undertaken by PricewaterhouseCoopers (PwC)[7] and Eunomia Research and Consulting.

23. PwC's research looked at the short and medium-term impacts of the regulations on companies in scope, and at how stakeholders from civil society, investment and professional organisations, and employee representatives view the regulatory regime. The full methodology of their research is outlined in Annex B. In summary, it comprised 30 qualitative stakeholder interviews and a survey of 129 companies eligible for either solely the 2013 regulations, or both the 2013 and 2016 regulations. This survey sought quantitative data on costs incurred to comply with the regulations.

24. The research carried out by Eunomia Research and Consulting considered the preferences of UK stakeholders around non-financial reporting standards including the views of users of NFR. Although it addresses a broader set of issues than those set out in the PwC report there is an overlap and provides additional insight. For example, it included quantitative surveys of 504 retail investors, 504 employees (and potential employees)[8] and 45 preparers of non-financial reports.

25. There were a range of challenges involved in developing the evidence base for this PIR:

    - Firstly, the regulations were evolutionary. The 2013 regulations built upon 2006 regulations requiring a business review and additional voluntary reporting carried out by some companies. The 2016 regulations were also perceived by several stakeholders as being an evolution from the 2013 regulations. This led to difficulties in isolating the impacts of the different regulations.

    - Secondly, there is a wide range of views around NFR across different stakeholder groups. The PwC qualitative research was informed by a wide base of stakeholders, but with 30 qualitative interviews subgroup analysis was limited. The Eunomia research which included a Rapid Evidence Assessment (REA), focus groups and surveys was though able to explore differences between sub-groups in more detail.

    - Finally, in the PwC and Eunomia studies, the quantitative research also involved challenges in getting sufficient responses and quantitative evidence on compliance costs. Low business response rates to surveys are a well-known problem in social research and is not confined to this study[9]. This affected our ability to reproduce

[5] https://ec.europa.eu/info/consultations/finance-2018-companies-public-reporting_en
[6] https://www.ceps.eu/ceps-projects/study-on-the-non-financial-reporting-directive/
[7] PWC Research: https://www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions
[8] A person who does not currently work for a business subject to the EU Directive on Non-Financial Reporting, but who, owing to their personal beliefs and values, would possibly do so in the future.
[9] One of the largest problems in the field of social research is the decline in response rates to surveys. This downwards trend affects all types of surveys like mail surveys, telephone surveys, web surveys and can even impact the recruitment for face to face interviews. It is still even still a problem when 'best practices' of survey

representative estimates of compliance costs for UK companies. However, we use the ranges of costs generated by the research to make some reasonably robust judgements about the accuracy of IA cost estimates per company. And we also draw on analysis of costs for 16 UK entities from the CEPs report which considered the implementation of NFR Directive at EU level.

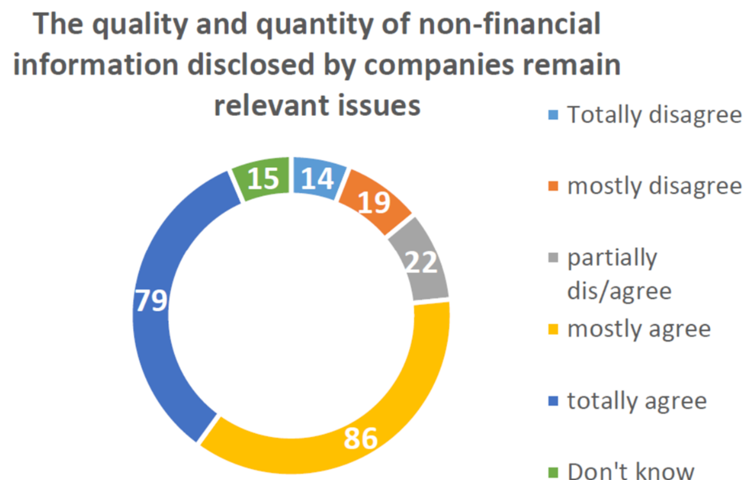
Evidence Around Core Policy Questions

Are the Objectives of the Non-Financial Reporting Regulations Still Relevant?

26. There is a significant societal demand for non-financial reporting by companies. For example,

- A clear majority of respondents to the European Commission's Consultation on the 2016 NFR Directive reported that quantity and quality of non-financial information disclosed by companies remain relevant issues (Figure 1).[10]

Figure 1: Relevance of issues addressed by the NFR Directive (European Commission Health Check)



- The qualitative research in the PwC study identified several consistent themes from the broad range of stakeholder interviews[11]:

    i. There was general agreement that corporate reporting had improved since the 2013 regulations, becoming more widespread beyond a minority of committed companies.
    ii. There was also a consensus that non-financial reporting is becoming, and will be increasingly, important in the future as investors become more engaged with financial risks.

---

design are used. For example, see: Stedman, R., Connelly, N., Heberlein, T., Decker, D. and Allred, S. (2019). The End of the (Research) World As We Know It? Understanding and Coping With Declining Response Rates to Mail Surveys. Society & Natural Resources, 32(10), pp.1139-1154.

[10] EU Commission Health Check summary report, op cit., p13.

[11] PwC report, op cit., p5.

iii. Although the UK framework was considered strong, some respondents suggested that companies might struggle to keep up with the pace of regulatory change.

- In addition to institutional investors, who are seen as an important group of NFR users, the Eunomia research showed that around a half of all retail investors have read non-financial reports for companies that they have considered investing in.[12]

27. The Eunomia research also identified four key drivers for non-financial reporting.[13] These include:

    - changing attitudes to the role of businesses in society, for example this change has been described as a shift from a pure focus on profit to one that includes purpose,
    - increasing risk to business from environmental factors,
    - increasing culture of litigation and reputational damage, and
    - a growing interest in ethical investment.

28. Given the evidence that there is a wider societal demand for NFR, the **Government believes that greater availability of non-financial reporting continues to be a worthwhile objective**. Especially as the trends that drive the demand for NFR are likely to continue. The question is however whether the current regulations have met the objectives intended for them.

Have the Non-Financial Reporting Regulations Achieved Their Original Objectives?

29. To assess whether the objectives have been achieved we assess the evidence we have gathered against the logic model set out in paragraph 21.

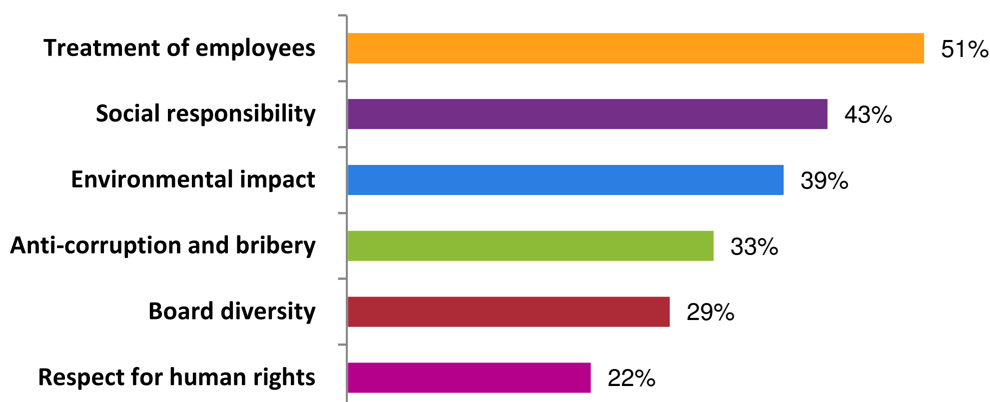
Context – what was happening before the regulations and what changed?

30. The qualitative interviews carried out by PwC indicated a consensus among stakeholders that, before the 2013 regulations, non-financial reporting was restricted to the reports by a limited number of firms, drawn mainly from the FTSE 100.

31. Companies surveyed by PwC were asked if they reported on non-financial matters prior to the introduction of the 2013 regulations. Half of the 129 firms (66, 51%) reported on the treatment of employees, 55 of 129 (43%) reported on social responsibility, and 50 of 129 (39%) reported on environmental impact (Figure 2). The survey results highlighted that lower numbers of companies reported on human rights and board diversity. The policy context was, therefore, one in which there was considerable room for companies to do more.

[12] Eunomia Research, p10
[13] Eunomia Research, p27.

Figure 2. Non-Financial Information Reported on Prior to 2013 Regulations (PwC Survey, N=129)



32. The 2013 regulations in the IA were presented as a "tidying up exercise" with a small benefit to business. Indeed, out of both IAs the implementation of the EU's NFR Directive in the UK appeared to impose more significant burdens than the 2013 regulations. Some stakeholder feedback suggests that, in retrospect, that the 2013 reforms turned out to be more radical than thought at the time:

    "The bigger change came with the move to strategic reporting rather than the Non-Financial Reporting Directive. The Directive complements that and takes it a tiny bit further but probably wasn't as revolutionary as the move from the old regime to the strategic report." ***Investment Association.***[14]

    "I think we have seen a lot of improvement since 2013, that's a long way to think back really. Since the introduction of the strategic report in the UK, I think we've seen a significant increase in the quality and quantity of non-financial reporting. It's variable but…in the UK we've been quite a leader in the gradual evolution of good quality non-financial information through the annual report and that was much enhanced by the strategic report regime being introduced." ***Financial Services representative body.***[15]

33. So, it appears that the regulations have increased the number of companies who produce NFR, increasing the availability of it. We now turn to whether the regulations encouraged companies to gather more useful, simplified or comparable NFR information.

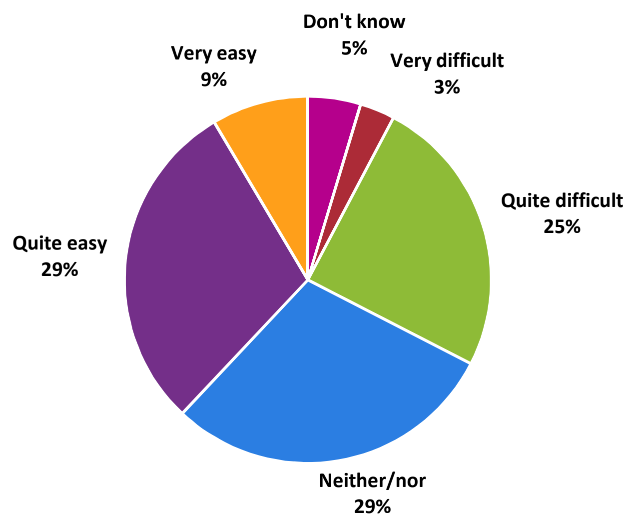
[14] PwC report, op cit., p 14.
[15] PwC report, op cit., p 21.

Inputs – did companies provide more useful, simplified, or comparable information on their wider impacts?

Ease of implementation

34. The PwC research suggests that companies were split quite evenly on the ease of implementing non-financial reporting: 38 of 129 firms (29%) said it was quite easy, 38 of 129 (29%) were neutral, and 32 of 129 (25%) said it was quite difficult. Smaller numbers of firms reported that implementation was very easy or very difficult (Figure 3). Quoted firms reported finding it very or quite easy to implement non-financial reporting more than non-quoted firms did (49% firms compared to 25%).[16] There was no link between whether the firm was already reporting on non-financial matters before the 2013 regulations and the ease with which they reported implementing non-financial reporting.

Figure 3. Ease of Implementing Non-Financial Reporting (PwC Survey, N=129)



35. Businesses were asked about the main challenges around the implementation of non-financial reporting. The collation of information was flagged as a main challenge by 78 of the 129 survey respondents (60%), and 70 of 129 (54%) reported challenges understanding the requirements of the legislation (Figure 4). Some of the stakeholder views also suggest that compliance was not straight forward:

"We are aware of the regulations and understand the requirements, but they still seem relatively new. Some of our clients have only just fallen into scope this year, but also the regulations' nuances and their interaction with the previous requirements have not been easy to follow." ***Company Matters, part of Link Group***.

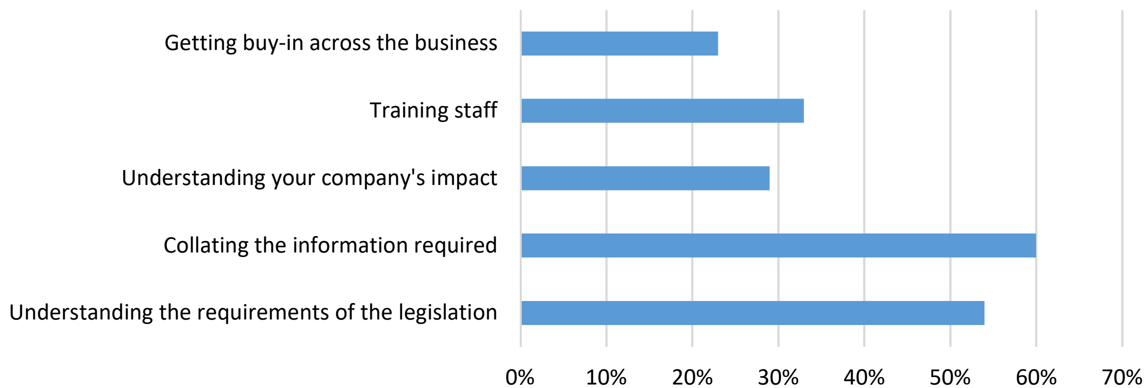
36. Stakeholders gave specific examples of how regulations can be difficult to interpret and follow, including a variety of definitions:

[16] N = 69 quoted firms; 56 non-quoted firms.

"…using different definitions, like the PIE definition which doesn't exactly tie up with the quoted company definition, it's been a bit confusing in terms of who has to follow exactly what requirements." ***Institute of Chartered Accountants of Scotland.***

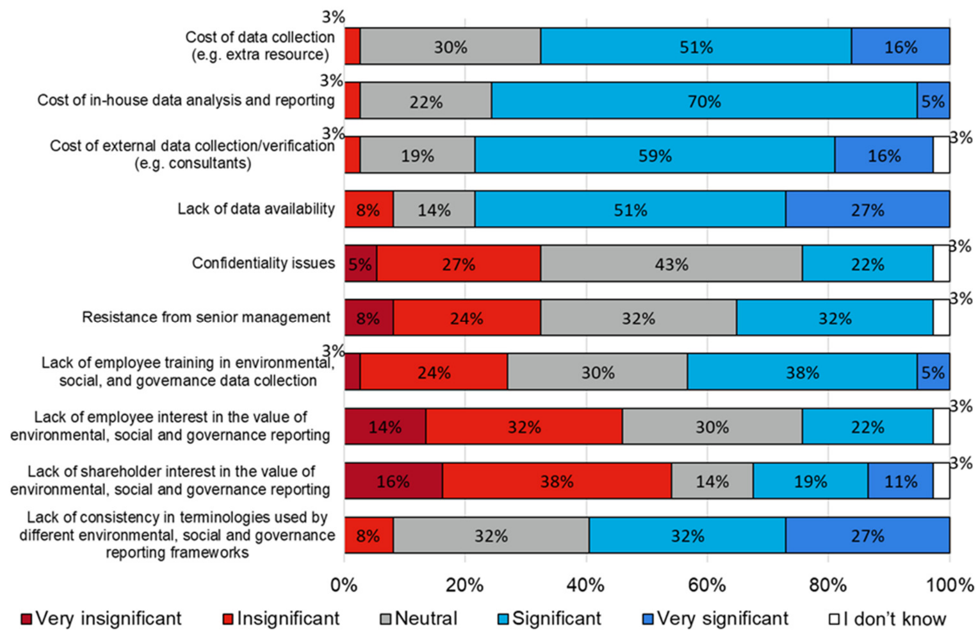
"We often find ourselves having to bridge the gap between disclosure requirements or guidance for people within the company that have the relevant information but aren't necessarily familiar with the detail of what should be included in the annual report." ***Company Matters, part of the Link Group.***

Figure 4. Main Challenges in Implementing Non-Financial Reporting (PwC Survey, N=129)



37. The Eunomia Study included a survey of 45 report preparers. Of these 37 answered a question which asked about the significance of barriers to reporting. The most significant or very significant barriers from the study appear to be those relating to cost and lack of data availability but also lack of consistency in terminologies and resistance from senior managers rated highly.

Figure 5: Barriers to Better Reporting of ESG Data (Eunomia report, Figure 49)[17]



38. Recognising that compliance with non-financial reporting regulations can be complex, the FRC published non-statutory guidance, entitled 'Guidance on the Strategic Report', in August 2014. This followed the publication of a consultation draft of the guidance in August 2013. The guidance was issued to assist companies in complying with the requirements introduced by the 2013 regulations. It was updated, in July 2018, to reflect the new requirements of the 2016 regulations and *The Companies (Miscellaneous Reporting) Regulations 2018*.

39. On the back of the finding that understanding the requirements of the legislation was a key challenge to some companies, it is interesting to note that only 66 of 129 (51%) of the survey respondents reported that they were aware of the FRC's Guidance on the Strategic Report. Of these 66 respondents, 31 found the guidance quite useful and 14 found it very useful. So, a clear majority of those who were aware of the guidance found it helpful for understanding the requirements. Comments from businesses that did find it helpful included:

"It's informative and easy to understand". ***Global PIE, UK employment between 250 and 500, UK revenue less than £100m.***

40. The results of PwC's qualitative interviews suggest that stakeholders who were aware of the guidance were broadly positive about it, finding it comprehensive. Several stakeholders held the view, however, that as the guidance was recently introduced, it would take time to embed and promote consistency in reporting.

41. However, not all found the guidance clear. For example, one respondent to PwC's qualitative research noted that[18]:

"I would say that what's going on in these regulations is actually probably slightly contradicting what we're hearing from the investment community in that they want to see things that are shorter, sharper, more concise, and this is another layer of complexity and

[17] In the Eunomia study the contractors used the term ESG (Environmental, Social, Governance) reporting in place of NFR reporting as ESG reporting is a more commonly understood term.
[18] PwC Research, p15.

similar, but slightly different, information. Also, we're struggling a little bit with what we do with things like this, because we are trying very much to streamline our reporting as much as you can but I think the subject matter isn't contradictory, the level of information and the breadth of it certainly is. None of it is very clear, neither is the guidance." ***Institute for Corporate Responsibility and Sustainability.***

42. About a quarter of qualitative interviewees said that the guidance could be improved. Recommendations spanned:

    - including examples of good practice focussed on how to conceptualise risk more broadly and, potentially, by sector;
    - consolidating guidance into a single place;
    - widening the guidance to include reporting on the Sustainable Development Goals (SDGs) and recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD);
    - making the guidance more consistent and simpler (the latter an issue potentially due to the complexity of the regulations themselves); and
    - ensuring future developments are considered through horizon scanning.

43. The European Commission's consultation on non-financial reporting asked respondents to comment on the non-binding Guidelines on Non-Financial Reporting issued by the Commission. A minority of respondents agreed that the guidelines helped improve the quality of disclosures. Many respondents considered that the guidelines were most useful for companies that had never produced a non-financial information report.[19]

<u>Compliance</u>

44. Section 414A of the Companies Act 2006, 'Duty to prepare strategic report' specifies the penalties for failing to prepare a strategic report in clauses (5) and (6):

    5) In the case of failure to comply with the requirement to prepare a strategic report, an offence is committed by every person who—

    (a) was a director of the company immediately before the end of the period for filing accounts and reports for the financial year in question, and
    (b) failed to take all reasonable steps for securing compliance with that requirement.

    6) A person guilty of an offence under this section is liable—

    (a) on conviction on indictment, to a fine;
    (b) on summary conviction, to a fine not exceeding the statutory maximum.

[19] EU Commission Health Check summary report, op cit., p15.

45. A copy of all non-financial reporting must be deposited with Companies House every year. If not, then the company is subject to penalties for late filing or non-filing. Companies House are responsible for administrating late filing penalties, which are outlined in Table 2.

Table 2. Late Filing Penalties for Filing Accounts (Source: Gov.uk)[20]

Length of period (measured from the date the accounts are due)	Private company penalty	Public company penalty
Not more than 1 month	£150	£750
More than 1 month but not more than 3 months	£375	£1,500
More than 3 months but not more than 6 months	£750	£3,000
More than 6 months	£1,500	£7,500

46. In the event of late delivery, Companies House automatically issue a penalty notice to the company's registered office address. Late filing penalties are imposed to prompt directors to file accounts on time as this information is required for the public record, and thus enhances transparency and accountability. Companies House also administrate the failure to file procedures, detailed below:

> *Failure to file confirmation statements, annual returns or accounts is a criminal offence which can result in directors being fined personally in the criminal courts. Failure to pay the late filing penalty can result in enforcement proceedings. Any criminal proceedings taken as a result of non-filing of confirmation statements, annual returns or accounts is separate from, and in addition to, any late filing penalty imposed against the company for filing accounts late. There is no late filing penalty imposed on confirmation statements or annual returns that have been filed late. The registrar may also take steps to strike the company off the public record if these documents are delivered late.*[21]

47. Non-compliance with filing requirements is rare – around 99% of all companies are up to date in filing accounts (and any relevant non-financial reporting obligations).[22] Companies House pursued around 545 public companies (typically the larger companies with more significant reporting obligations) for late filing of accounts in 2018/19.[23]

48. PwC's survey of companies suggested that 95 of the 129 companies (74%) were aware of the existence of penalties for non-compliance with the regulations, and 49 (38%) were aware of the level of the penalties. Of these 49 respondents, 33 felt the penalties for non-compliance with the regulations were about right, eight felt they were too high, and only one felt they were too low (seven respondents did not know).

49. Whilst the regulations appeared to be complied with in terms of information being provided, the qualitative interviews carried out by PwC suggested that there was little monitoring by

---

[20] Guidance: Late Filing Penalties (2019), https://www.gov.uk/government/publications/late-filing-penalties/late-filing-penalties

[21] https://www.gov.uk/government/publications/late-filing-penalties/late-filing-penalties

[22] https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021

[23] https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2018-19

companies of the quality or content of non-financial reporting. And that as a result the quality of information was not as high as it should be. This was attributed to a “compliance culture” amongst companies:

“We’re in a world in corporate reporting which is very much a compliance world. You know companies don’t exist to do reporting, they exist to make products and sell services and do all of that, and, you know, when you speak to companies, quite often, the first thing they’ll ask is ‘What is required by the law and by regulations, and why should we do anything more than that?’” ***International Integrated Reporting Council.***

50. Some respondents considered that “poor quality” information indicated a lack of compliance and that it indicated a lack of effort by the FRC to ensure compliance. For example:

    “The biggest barrier to these requirements being implemented properly and consistently is the accountability gap between what it says on the face of the law and the lack of consequences for non-compliance for companies, directors and auditors. Currently there’s very limited capacity for companies to hold companies accountable for failing to provide useful and balanced information and the FRC has been completely missing in action when it comes to enforcing requirements around company reporting, particularly in relation to the strategic report.” ***Client Earth.***

51. Other stakeholders said that monitoring compliance was not the FRC’s responsibility and that this sat with the investor community or civil society organisations. Others noted that given the qualitative nature of the reporting it is hard to state whether companies are compliant or not:

    “These things aren’t, sort of, reducible to a, sort of, one sentence which is compliant or not compliant. I think this is the sort of thing where we need to learn by doing by peer pressure, by setting examples, and by critique coming from readers of the report. The critique has to be very carefully weighted not to give too much attention to single issue people who, actually, have nothing to do with the business and have a policy objective.” ***Institute of Business Ethics.***

52. Others suggested that as long as there is a minimum standard, the variation in reporting quality provides useful information about companies:

    “I think there is some trade-off there between actually requiring companies to meet the letter of every bit of law because I think we need companies to meet a minimum standard but actually, some variation in reporting tells you quite a lot about that company and how they see their investors and how well they’re able to tell their story. I think the difficulty is how do you implement it, but you do need to maintain that minimum standard.” ***Investment Association.***

53. Overall, there was a spectrum of views in the PwC research on the enforcement of reporting quality. Some stakeholders felt that limited capacity meant the FRC had a light-touch approach to enforcement, while others perceived limited compliance activity because of the FRC needing to strike a balance between supporting comparable reporting while enabling companies to focus on what is relevant to them. There were also fears that more prescriptive requirements would make companies adopt a boiler-plate approach. The

Independent Review of the FRC recommended that the FRC expand the resources dedicated to reviewing corporate reporting, which it considered provides a deterrent to poor reporting and promote high standards (see Box 1).

Box 1: Recommendations of the Independent Review of the Financial Reporting Council

The Independent Review of the Financial Reporting Council (2018) found that corporate reporting review (CRR) involved cumbersome reporting mechanisms. The Review suggested that although the FRC's corporate reporting review work provides a deterrent to poor reporting and promotes high standards, it could be improved:

> "The regulator should be required to promote brevity and comprehensibility in accounts and annual reports, engage meaningfully with users and asset owners about their information needs, and ensure the proportionality and value of reports. At least once in every Parliament, the FRC should report to BEIS a public assessment of the extent to which the statutory reporting framework is serving the interests of the users of company reports together with any recommendations for how it can be improved."

Furthermore, to increase the scale of monitoring:

> "The Review recommends that the regulator should consider expanding the volume of CRR activity on a risk-based basis."

54. The evidence presented in this section is that companies have provided information to stakeholders to meet their non-financial reporting obligations but that it has not always been straightforward to do so, especially given the existence of cost and other barriers. There is also evidence that it is hard to judge the quality of information provided by companies and there are concerns about whether the information is of suitably high quality. We explore this issue more thoroughly in the next section where we consider whether users find NFR relevant and useful.

Outputs: Do users report that non-financial information is relevant and useful?

Company views

55. When asked in the PwC survey between 15% and 20% of companies thought that current investors, prospective investors, trading partners, civil society, competitors, regulators, and the general public used the reports to a large extent; a further 40-50% thought that stakeholders had used the reports to some extent (Table 3). But a significant number of respondents either felt that stakeholders did not use the information or did not know.

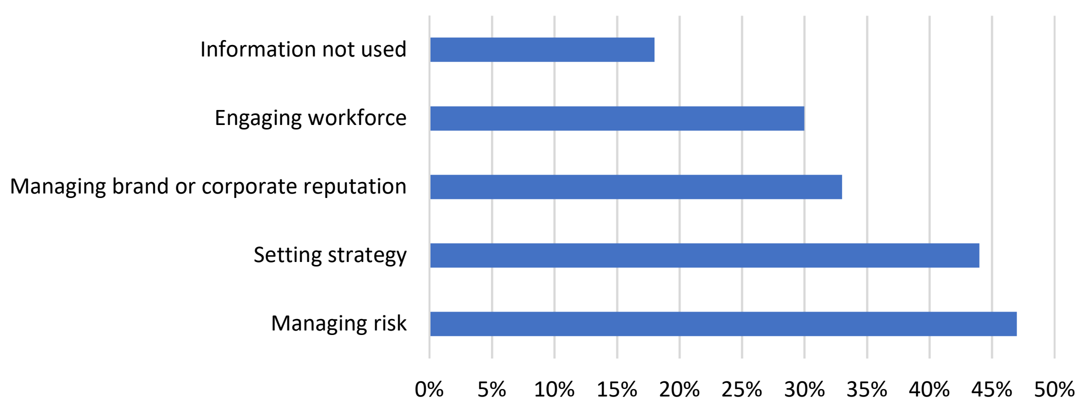
Table 3. Responses to: *To what extent do you think the following stakeholders use the information contained in these reports?* (PwC Survey, N=129)

Stakeholder	Not at all	To some extent	To a large extent	Don't know
Current investors	23%	43%	19%	16%
Prospective investors	19%	43%	18%	20%
Trading partners	19%	50%	16%	16%
Civil society	24%	40%	17%	19%
Competitors	26%	42%	17%	16%
Regulators	19%	47%	19%	16%
General public	29%	38%	14%	19%

56. Responses to this question varied according to whether the company was listed or not. For listed companies, three quarters believed that both current and prospective investors use the non-financial information to at least some extent.[24] Listed companies were also more likely to state that they thought that their non-financial reporting was used to a large extent by trading partners, civil society organisations, competitors, regulators and the general public compared to companies that are not listed.

57. NFR is also intended to be useful for companies. Of the 129 companies surveyed by PwC, 106 (82%) reported that they use the information they report. Eighteen percent of companies reported not using the information. The most cited uses of the information were to manage risk and to set strategy (Figure 6). This suggests that one of the key objectives of the regulations, to enable better assessment of non-financial risks, is being met. However, private companies and smaller companies were less likely to report using the information (27% and 26% respectively).[25]

Figure 6. Organisations' Use of Non-Financial Reporting (PwC Survey, N=129)



Other users of NFR

58. Outside of companies, there are a wide range of users of NFR. These include:

- institutional investors who use NFR to inform investment decisions,
- retail investors, who may use NFR to inform their investment decisions,
- employees or potential employees who may use NFR to inform decisions about who they work for, and
- a wider group of civil society users, e.g., NGOs and think tanks, who have in interest in reviewing or influencing reports, and ultimately influencing corporate policy.

59. Respondents to PwC's qualitative interviews recognised the increasing importance and relevance of non-financial reporting.[26] For example, there was a general view[27] that NFR enables investors to determine which companies are leaders and which are laggards in each

[24] PwC research, p 43.
[25] PwC research, p 40.
[26] PwC research, p 15.
[27] PwC Research p 23.

sector. They can then decide whether to invest specifically in those companies that perform well in each of these areas, whilst also allowing them to engage with those laggards and encourage them to improve their performance. Although respondents noted that there was little evidence that this challenge was happening in practice. The Rapid Evidence Assessment (REA) carried out as part of the Eunomia research showed that institutional investors were an important stakeholder group in driving NFR. As many investors see activity on NFR as a sign that report preparers are actively managing risks. Out of the 20 studies identified in the REA on stakeholder preferences on NFR, investors are the most studied group.[28]

60. However, the PwC qualitative interviews showed that there were different views about the level of engagement and perceptions of value amongst some users of the information, including within the investment community. Most believed that while NFR has the potential to drive and influence, for example, investor or board level decision making, there is a question over the extent to which this currently happens in practice. Indeed, views were divided on this point:

"There's the social impact side and how you treat employees and colleagues generally…that emphasis has grown enormously recently. Two, three years ago I probably would have said to you it doesn't have a huge impact on valuation and that would be different now." ***Investor Relations Society.***

"Let's be honest because most organisations are more worried about money they'll focus more on financial performance in their strategic decision making rather than social or environmental performance and that's because markets aren't yet demanding environmental or social impact, management doesn't have the necessary skill sets and it's not forced to do so either." ***Social Value Portal***.

61. The PwC research did show that investors were becoming increasingly engaged with specific issues around diversity and climate change, though this varied by type of investor. Pension funds, for example, were cited as organisations that were beginning to become more engaged with NFR whereas entities such as hedge funds were felt to be paying little, if any, attention to NFR matters.

"I think investors are beginning to take an interest in diversity and inclusion within their boards and companies. I think the other piece where I can genuinely see that investors will begin to take more of an interest in the climate-related piece and environmental liability. I think that will come from pension funds in the first instance." ***Financial Services representative body.***

62. Survey work carried out by Eunomia suggests that half of all retail investors and a quarter of all employees/potential employees have read an ESG reports.[29] Among both these user groups a slightly higher proportion of the younger respondents have read reports compared with older respondents. This difference is more marked among the retail investors than among the employees/potential employees.

63. The current perceived lack of engagement amongst some investors was attributed to several factors including:

[28] Eunomia Research p 43.
[29] Eunomia, op cit, technical appendices.

- (A lack of) materiality
- The inconsistency and/or incomparability of non-financial content between companies and between years.
- A lack of trust in the rigour and/or accuracy of non-financial content driven by a lack of assurance
- A lack of familiarity, knowledge, or expertise in effectively analysing and using non-financial information

Taking each in turn.

Materiality

64. Information is material if its omission or misstatement could influence the decision making of users of that information. The PwC qualitative interviews showed[30] that materiality was a key concern for respondents particularly in terms of how significant and specific the risks identified are, and in relation to their potential impact. Some respondents (who commented from an investor perspective) suggested that any investor frustrations with the reports and the value they can derive from them tend to centre on the length of the reports produced as well as the sometimes vague and wordy nature of the information contained within them. Some documents can be 500 pages long. Indeed, one respondent expressed themselves forcibly:

    "It's just verbiage, really…. it's not telling me anything. It's just words on the page which are there… for compliance. It's all, frankly, useless." ***UK Shareholders Association***.

65. Companies make a judgement about what is material and in doing so may look beyond shareholders and take a wider view about the target audience for reporting. In workshops carried out for the Eunomia research[31], report preparers stated that they required flexibility in reporting and stated that different sectors have very different concerns. They stated that even different parts of the business may operate in different ways and businesses in different parts of the world may face different issues. Preparers of reports argued that having the power to determine what issues to report upon generates more specific and valuable information.

66. However, the PwC research shows that there are different ways in which companies determine what is material and what is not:

    "Because there isn't a formal materiality test or risk identification process, I think things can easily get lost or misrepresented or the real issues are not the ones that are focused on." ***Institute of Corporate Responsibility and Sustainability.***

    "When materiality of non-financial reporting is determined in the context of an annual report, it is not usually done so using the same principles as for financial information. There are various approaches to this. For example, many companies report they use stakeholder groups, both internal and external, to set up a materiality matrix or various surveys that they've then used to prioritise issues." ***Climate Disclosure Standards Board.***

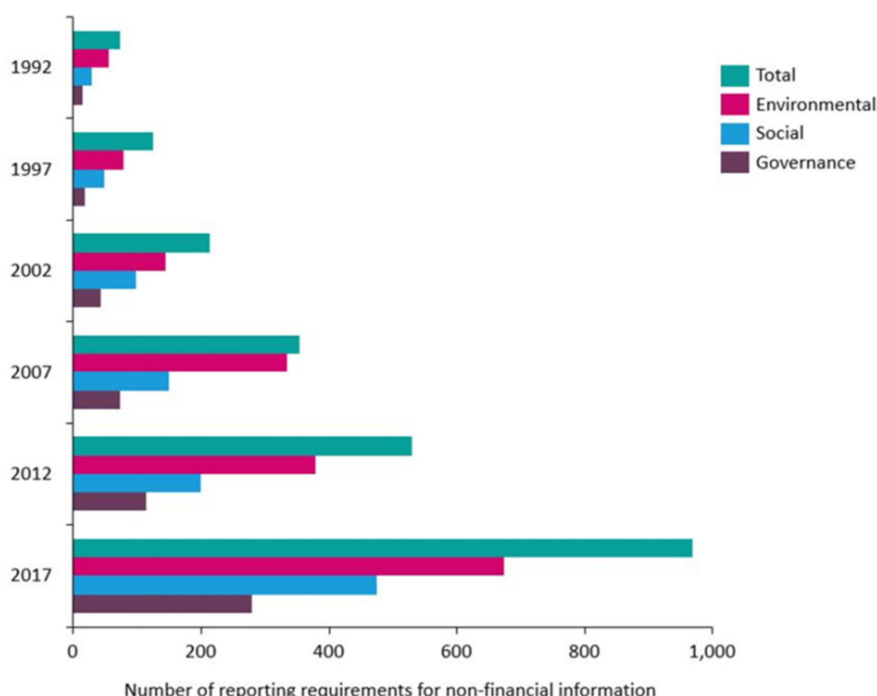
[30] PwC research, p 6.
[31] Eunomia research, p 55.

Inconsistency/incomparability of information

67. The issue of materiality is related to another criticism of NFR, which is that users want to compare companies NFR information. If it is left to companies to decide what is material, then users state that comparability becomes harder. For example, in focus groups for the Eunomia research[32], institutional investors acknowledged that the preparers' decisions on what issues are material to their NFR affects the ability of institutional investors to analyse the performance of those businesses. Therefore, institutional investors are faced with the task of reconciling a preparer's materiality assessments with their investment concerns. NFR users therefore showed strong interest in greater universality in reporting, which they expect would increase the comparability of reports.

68. The wide range of frameworks for non-financial reporting compound comparability issues. There is a proliferation of NFR frameworks used by preparers and industry. Many new bodies have been created and each sets out its own approach to reporting. For example, Figure 7 shows that the global growth in reporting requirements has been exponential in recent years and now exceeds 1000 requirements. This has been accompanied by a growth in the number of frameworks. Between 2013 and 2016, the number of reporting frameworks doubled to nearly 400[33], of which around 13 are the most influential.

Figure 7: Growth of global reporting requirements for non-financial information (Source: Eunomia, p 35)[34]



[32] Eunomia research, p 55.
[33] Social Impact Investment Taskforce (2018), Better Reporting Landscape Report.
[34] See original source here: https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange/Resources/Insights-from-the-Reporting-Exchange-ESG-reporting-trends

69. Several users suggested engaging stakeholders in the process of defining what is material for preparers. Responses were mixed on the idea that preparers should be required to follow a particular methodology for determining materiality, and to what extent the information this provided would be of use to users of reports. It is not clear how qualitative information detailing materiality methodologies could be turned into quantitative data that could be integrated into investment models. Both preparers and users agreed that there are currently no generally accepted best-practice guidelines, or enforcement thereof, on processes for choosing what to report.

A lack of trust/rigour

70. According to institutional investors in the Eunomia workshops, in the absence of requirements to report on specific topics or metrics, preparers can 'cherry-pick' topics which are either easiest to report on or improve their reputation. Preparers can opt-out of reporting on topics which present difficulties in collecting data or highlight negative aspects of its business – making NFR less useful in discerning the true impacts of businesses. Reports, in other words, can become *unbalanced* undermining users trust in them. As preparers ultimately have the freedom to withhold data on potentially controversial aspects of their operations, which is referred to as 'greenwashing'.

71. Institutional investors explained that they saw a 'Core and More' approach as the solution to these 'balance' issues. Building a set of objective metrics into core reporting requirements could ensure that preparers are not able to ignore important but difficult topics and that they report a core set of useful, detailed non-financial data. However, participants in Eunomia workshops noted that a problem with using a limited number of requirements for the purpose of standardisation is that, where what is most material to preparers falls outside the scope of the core requirements, there is a risk that key information will not be captured.

72. This illustrates a challenge in defining the core: does it cover those areas that are material to business operations, or does it cover areas which some users decide is material to wider society? In some cases, these two definitions of materiality may align, but in others they may not. It also raises questions of legitimacy: who gets to define the core, and how much support across preparers and users does there need to be for issues to be included in the core, especially if reporting is mandatory?

73. When preparers of ESG reports were given a choice in the Eunomia survey between different types of reporting requirements they were most positive about, the option that looked closest to the core and more (Figure 8) model was most popular. The top 5 themes where preparers thought that it was most useful to collect a common set of ESG data were: emissions, resource use, diversity, waste and health and safety (Figure 9).

Figure 8. Requirements for ESG reporting data (Eunomia preparer survey, N=45)

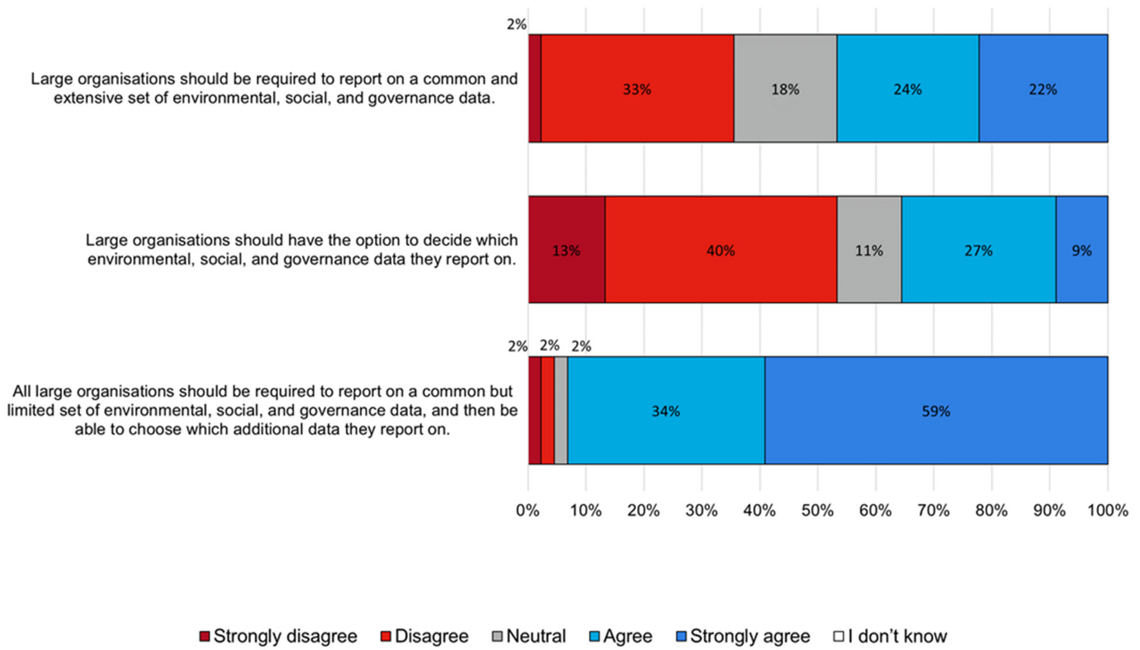
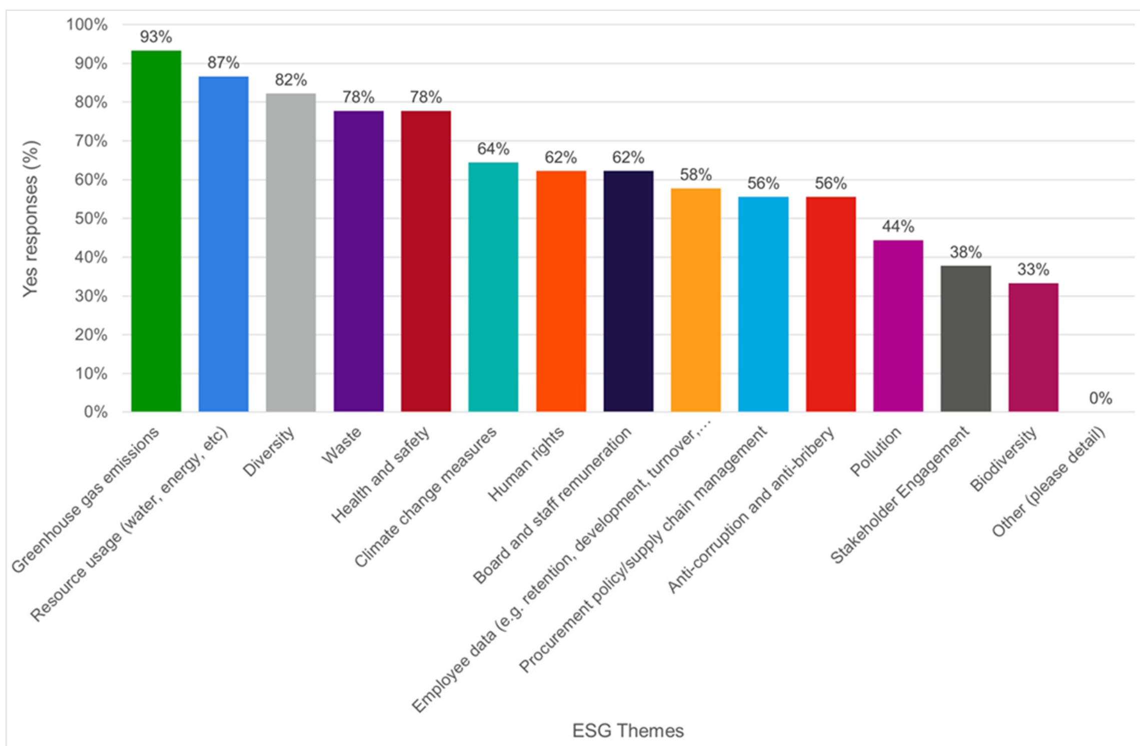


Figure 9. ESG themes for reporting (Eunomia survey of preparers, N=45)



74. When other groups were asked what companies should report on, the answers are different, illustrating that users and preparers have different views about what is important and that reconciling those views to define the core and more might not be straightforward (Table 4).

Table 4. Comparison of Top 5 themes that preparers should be required to report on (Eunomia Report)

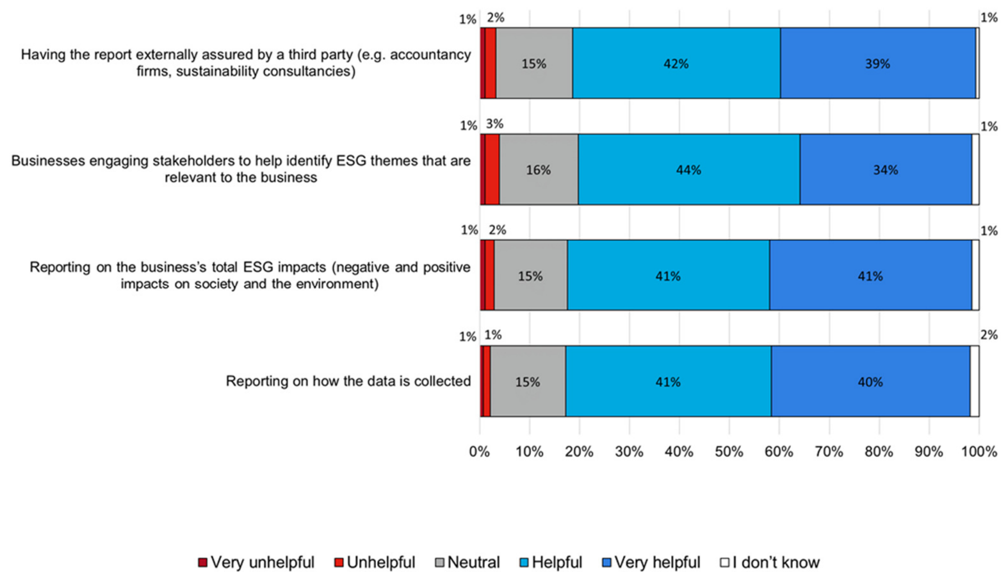
Preparers	Retail Investors	Employees/ Potential Employees
Greenhouse gas emissions (93%)	Waste (63%)	Waste (60%)
Resource usage (water, energy, etc.) (87%)	Pollution (63%)	Pollution (55%)
Diversity (82%)	Climate change measures (58%)	Health and safety (54%)
Waste (78%)	Greenhouse Gas emissions (55%)	Climate change measures (51%)
Health and safety (78%)	Health and Safety (50%)	Greenhouse Gas emissions (50%)
N value = 45	N value = 504	N value = 504

75. Others suggested that the way to increase trust in disclosures is through external verification of NFR. Nearly 90% respondents emphasized the benefits and the importance of an external audit of NFR to enhance credibility, which unlike financial information, is not subject to audit or other measures such as greater transparency. All were popular with engaged retail investors (Figure 10). The PwC qualitative interviews provided mixed responses on 3rd party assurance of NFR. Some thought that investors and wider stakeholders could only be confident in it if it had been audited; a broadly similar number thought that mandatory third-party assurance would make the reporting overly complex and uniform. Some highlighted that, without clear key indicators and metrics, assurance is very difficult as many of the risks and opportunities are qualitative in nature.[35]

"The issue is that, in the absence of any independent assurance, the analyst or the user will not be able to form a view as to whether the information is materially complete. They might be able to form a view as to whether what's there is reasonably accurate, but they won't know if the information they need has been included. Unless there is an assurance process designed with that in mind, this significantly undermines the usefulness of that information." ***Social Value, UK.***

[35] PwC research, p 28.

Figure 10. Improvement in Trust in ESG reports (Eunomia Investor Survey, N=279)



A lack of familiarity, knowledge, or expertise amongst users

76. There is clear evidence that users struggle to use NFR information effectively. The PwC research suggested that whilst there is increased engagement, and demand for NFR, there are mixed views as to the value users can derive from companies NFR reports.[36] The Eunomia research also indicated that there is a discrepancy between the kinds of information that users need and the information that preparers think is important or what they can provide. These differences extend to the types of metrics reported, whether trends are reported, the need for context and the importance of impact level data. Ultimately, users have a wish list of data requests that they want preparers to meet and expect preparers to invest in sufficient people and data collection.[37]

77. The evidence presented in this section is that NFR appears to be used by many, but not all companies and stakeholders but the usefulness of the information is variable. And it seems that broader objective of the 2013 regulations to simplify reporting requirements has not been achieved. The variability in usefulness appears to stem from challenges involved in a company crafting a narrative which meets all user needs and is at the same time comparable to the narrative by other similar companies. We now turn to the evidence about whether NFR has impacted users or company decision making.

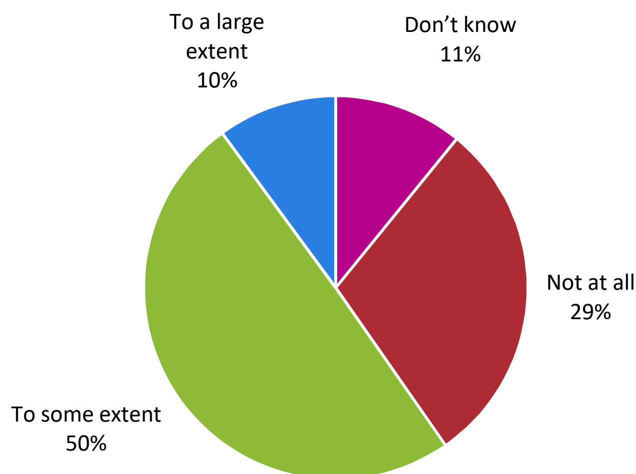
Outcomes – non-financial reporting changes decisions by companies and others

<u>Companies</u>

78. Sixty-four of the 129 survey respondents (50%) in the PwC research suggested that their companies had benefitted from the publication of non-financial information to some extent, and 38 (29%) said they had not benefitted. Thirteen respondents (10%) said they had benefited to a large extent, and 14 (11%) were unsure (Figure 11).

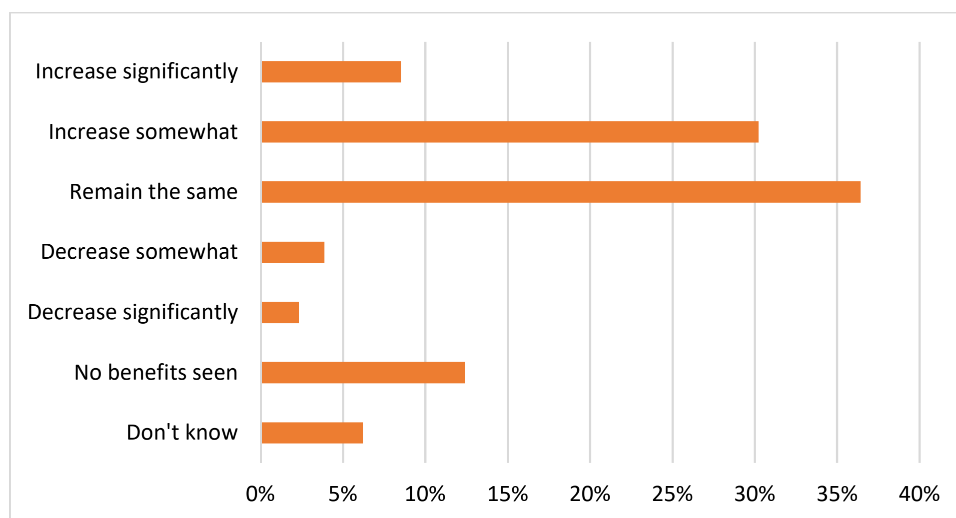
[36] PwC research, p 23.
[37] Eunomia research, p 61.

Figure 11. Company Views on Whether Publication of Non-Financial Information Has Benefitted Them Overall (PwC Survey, N=129)



79. When queried on whether these benefits would change in the next three to five years, 50 of 129 respondents (39%) thought they would increase, 47 (36%) thought they would remain the same, and eight (6%) felt they would decrease (Figure 12).

Figure 12. Company Views on Whether Benefits will Increase over Next Three to Five Years (PwC Survey, N=129)



80. Companies were asked about how the publication of non-financial information would impact their competitive position over the next three to five years. Fifty of the 129 respondents (39%) felt it would not have an impact, 34 (26%) felt it would have a positive impact, 26 (20%) felt it would have a negative impact. Nineteen respondents did not know.

81. Sixty-seven respondents of 129 (52%) reported that the requirement to collect non-financial information had not resulted in changes to the way their company operates, while 44 (34%) said it had. Public companies were more likely than private companies to agree that the

requirement had changed company operations. A variety of changes and impacts were mentioned, including better reporting processes, increased diversity and more empowered staff. Others mentioned negative impacts, such as the increased burden.

82. Respondents to the fitness check on the EU framework expressed significantly different opinions about whether there was a link between company performance and non-financial disclosure. Some respondents commented that the Directive had a noticeable effect in terms of raising awareness of ESG issues in companies at Board level. This was supported by PwC's qualitative research where many stakeholders agreed that one of the main benefits of the regulations was that they require companies to focus on, and articulate, their purpose. For example:

    "*…being able to articulate a strategy in one page has clarified the board's mind about actually, 'What is our strategy? How do we make money? How do we hold management to account for that strategy?' So, I think that having to articulate your strategy on one page, or a couple of pages, has made the board think differently which probably linked to that would be helping some of their decision making or certainly help the board holding the management to account*" ***Investment Association***

83. Thirty of the 129 companies (24%) said that their companies acted based on feedback from stakeholders on their non-financial reporting, which was generally around improving the reporting itself.

84. Finally, respondents were asked whether they thought the regulations had a positive impact on their company. The 129 respondents were almost precisely evenly split, with 49 (38%) agreeing, and 50 (39%) disagreeing, while 30 (23%) reported that they did not know.

Users

85. Our evidence on the impact on users is less well-developed, in part because of the short time since the regulations were passed and the challenges that companies have faced in producing information that meets users' needs. This was a theme of the PwC research where for most stakeholders the prevailing opinion was that it will take time for impacts to be seen, with NFR being viewed as being a journey on which business has only just embarked[38].

86. The PwC research identified that NFR reporting requirements can facilitate investors to determine the ability of a company to create value over time. And some stakeholders highlighted an increasing focus on long term investment within some sections of the investment community. This meant, in their view, that investors are increasingly demanding greater articulation from companies as to how capital decisions are linked to strategy, around ESG risks and opportunities and around human capital and culture[39].

87. The Eunomia report suggests that it is also having an impact on retail investors' decision making. Of those that read ESG reports, 51% say that ESG performance is important and 38% very important in their decision to invest in a company[40]. The influence on employee and potential employees of company reports is less clear cut. When presented with a scenario question that sought to explore how they value the ESG focus of a business, it showed that

[38] PwC research, p 24.
[39] PwC research, p 24.
[40] Eunomia report, p 187.

financial gain continues to be the primary motivator in selecting a job, and the appetite for "purpose" over "profit" remains small. However, a 'win, win' scenario with purpose and profit combined is, unsurprisingly, the most preferred option.[41]

Overall assessment of whether objectives have been met

88. At one level it can be argued that the regulations require companies to do NFR and that, evidently from the analysis above, these regulations are being complied with. But it is right to ask whether the, apparently, variable quality of the information provided - at least from a user's perspective – justifies a verdict of non-compliance – and therefore that the regulations are not achieving their objectives.

89. Non-compliance with the regulations on these grounds would imply that the regulations set out requirements in all the areas where companies and users have found the implementation of NFR challenging e.g., materiality, comparability. The regulations do not set out such requirements because the Government felt at the time, and continues to feel, that it is impossible for the Government to prescribe one set of requirements that addresses all concerns for all companies that are required to report. Indeed, the fact that there are over 400 NFR frameworks, of which at least 13 are significant, suggests that government prescription early on would have discouraged innovation and would most probably not met the needs of companies and users.

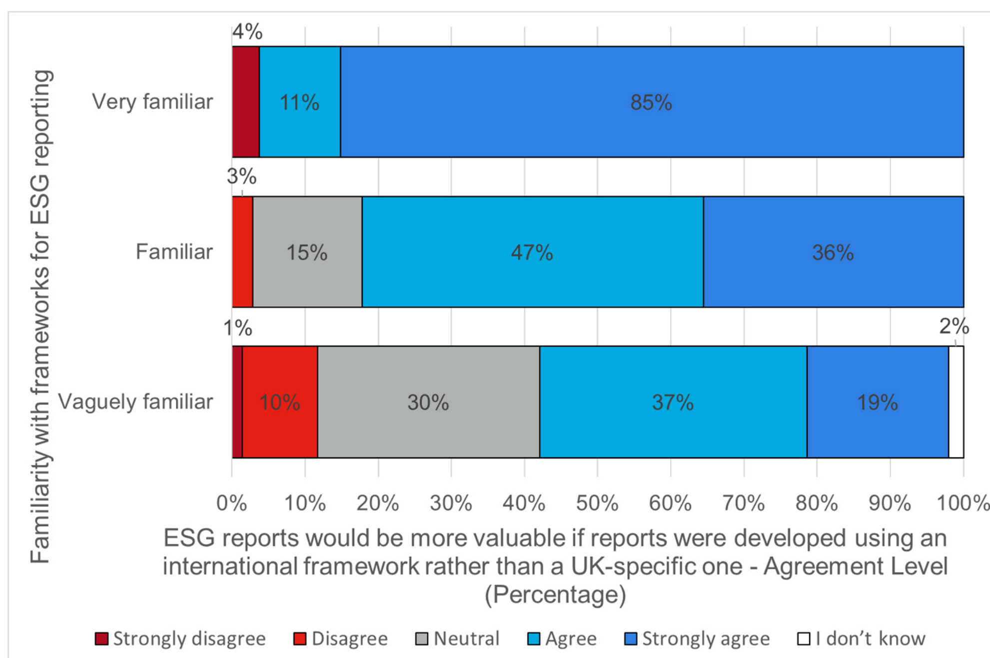
90. Further, all the evidence from users is that they would prefer international frameworks as opposed to national frameworks for NFR. The Eunomia research shows that:

    - In workshops, all institutional investors preferred an international NFR framework, as opposed to a UK specific one, as this would allow a coherent view of multinational's performances across different markets. Furthermore, institutional investors believed that introducing UK standards would only add to the complexity already surrounding NFR.[42]

    - The survey results suggest there is a strong preference across report preparers and those users familiar with ESG frameworks for an internationally standardised framework. Amongst users, support for an international framework increases with the degree of familiarity with ESG frameworks (Figure 13); and for retail investors, the importance of ESG reporting in making investment decisions.[43]

[41] Eunomia report, p 76.
[42] Eunomia research, p 64.
[43] Eunomia research, p 101.

Figure 13: Opinions on an internationally standardised framework versus level of familiarity with NFR frameworks, retail investors (Eunomia retail investor survey, N=279)



N values	Very familiar = 27	Familiar = 107	Vaguely familiar = 145
Of the 504 retail investors that completed the survey, 279 answered both questions: those who reported that ESG reports would be more valuable with an international framework (i.e., those familiar with ESG reporting frameworks) and those who reported familiarity with ESG frameworks.			

91. Finally, the Government believes that frameworks are best set by users and providers of non-financial information. As ultimately, under the Companies Act, companies are accountable to their shareholders and must have due regard to the interests of others.[44] Given the technical challenges of ensuring that reporting is meaningful, and ensuring that the framework receives international support, the Government believes that the best place to mediate between both company and user interests is the IFRS, which is also responsible for setting standards of financial reporting. The Government therefore welcomes the work of the IFRS Foundation to establish a board to develop International Sustainability Standards – this will be a set of global reporting standards, built from TCFD and other voluntary frameworks. These have the potential to be a global baseline standard that provides markets with comparable and accurate information.

92. Our overall assessment is that the objectives of the non-financial reporting regulations have been largely met. But that several improvements are necessary before NFR becomes fully part of business practices and most useful to companies and users. These improvements though do not require legislative changes rather they relate to further improvements to guidance and a greater reliance on international standards. A summary of this assessment is given in Table 5 below.

[44] S172 Companies Act: https://www.legislation.gov.uk/ukpga/2006/46/section/172/2019-01-31

Table 5. Assessment of Performance Against Objectives

Policy Objective	Summary
Increase transparency and accountability around non-financial risks and policies to mitigate those risks, by simplifying and thereby address the asymmetry of information problem.	The evidence shows that companies are providing NFR and the information is being used by companies and users for the purposes that the legislation intended. For example, shareholders use the information to better understand risks. However, it is clear from some responses to the qualitative interviews that the goal of simplification has not been achieved.
To enable more informed investment decisions through greater comparability around companies' reporting.	There is evidence that companies use NFR to set strategy and manage risk, amongst other things, and many of them report that they benefit from doing so. This suggests that some companies may make better investment decisions because of NFR requirements. However, a sizeable minority of companies are clearly sceptical of the value of non-financial reporting. There is evidence that investors do consider non-financial reports before making investment decisions. However, the evidence also suggests that the information provided is not as useful as it could be with specific concerns around materiality, comparability, trust and rigour. Many stakeholders attributed this to NFR requirements being relatively new.

93. Given this assessment, it is likely that the next PIR, due in 5 years' time, will consider whether:

- There is further evidence of impacts of NFR following more time for them to be embedded,
- There have been improvements to NFR in terms of materiality, comparability and trust and rigour and, related to this,
- There has been progress towards greater harmonisation of standards, including at the international level, in light of the Government's ambition to adopt and endorse standards issued by the International Sustainability Standards Board (ISSB).

94. Moving forward we will need to further strengthen our analysis of the extent to which sustainability disclosures are having a measurable impact on where investors invest, and whether access to more sustainability (ESG) information is making a difference to other stakeholders.

95. The future PIR will therefore include further analysis on the benefits of the regulations and the extent to which they address the asymmetry of information. However, a fundamental challenge with assessing the benefits is that there is no “market price” for non-financial reporting information. The Government, based on stakeholder feedback, determines requirements, companies report and make the reports freely available to users. No market price means that we cannot readily produce quantified estimates of benefits to users. To overcome this, non-market valuation methods need to be considered.

96. The approach in this PIR tried to estimate benefits through surveys or case studies which provides a qualitative sense of whether problems have been addressed or benefits achieved. These methods, largely relied on in this PIR, can provide rich and detailed insights but these cannot be aggregated across entire populations. We will therefore investigate the use of non-market valuation methods to see whether these could be used, and whether methodological problems could be overcome[45], to produce a quantified estimate of benefits to users.

Can the Objectives be Achieved with a Lower Burden on Business and Society?

97. To understand the degree of burden associated with the regulations we compare the costs estimated in the original IAs with estimates derived from evidence gathered, including responses to our company survey. The IA estimates represent a ‘baseline’ measurement of burden, the predicted costs associated with the regulations judged acceptable by Government and Parliament given the predicted benefits. For consistency, we have separated costs into one-off costs and ongoing costs for the 2013 and 2016 regulations.

98. For the PwC survey, response numbers were considerably below the target of 400 (200 large firms, and 200 subsidiaries), limiting the degree to which data around costs is statistically robust. The contractor also anticipated that at the outset of the study that respondents to the survey would struggle to isolate costs associated with the regulations, due to factors such as the time passed since the start of the regulations, staff turnover, and the absorption of costs into day-to-day expenses. For these reasons, costs are not aggregated to represent the population of companies, as this has the potential to be inaccurate and misleading. As a result, the conclusions on compliance costs are indicative rather than representative.

Ex Ante Costs: 2013 Regulations

99. The Impact Assessment written in 2012 for the 2013 regulations estimated that for non-quoted companies, the introduction of the ‘strategic report’ would involve negligible costs as the information contained therein would already be contained in their ‘business review’ document. Therefore, the costs estimated below refer to quoted companies.

100. The IA estimated that the measures would yield net present social value benefits of £2.75m and an EANDCB of minus £0.3m.

- The IA estimated transitional costs to business of £421k and occurring in the first year only. It was assumed that it would take 1000 UK quoted companies 15 hours of

[45] For example, defining the population of users.

managerial time to become familiarised with the new strategic report. The IA assumed there would be no ongoing annual costs.

- Benefits arose because the regulations simultaneously removed some statements from the Directors' report such as the statement of principal activity and statements related to charitable companies. The IA estimated that this would save 1,000 companies just under £400 a year, giving an annual saving of £0.4m. The annual benefit per company was based on asking 5 companies to quantify the time saving. The range was extremely wide – between £0 and £11,000. Excluding the £11,000 estimate gave a truncated mean of £367.50.

One-off Costs

101. The estimated one-off costs for quoted companies were 15 hours of managerial time for familiarising with the policy. The IA stated it did not expect there would be any system costs to companies because of the 'relatively minor changes.'

102. The Annual Survey of Household Earnings indicated that the mean gross labour cost per hour for corporate managers was £24.22. Updating these values to 2018 estimates gives a total hourly cost of £28.41.[46] Adjusted for a 16% uplift to reflect non-wage costs, this value increases to £32.96.[47] When multiplied by 15 hours per firm, this provided a total cost of £494 per company. Estimating there to be 1,000 eligible quoted companies, the total familiarisation cost was just under £500,000 in 2018 prices as outlined in Table 6 below or around £494 per company.

Table 6. Total Familiarisation Cost for Quoted Companies: 2013 regulations (Impact Assessment)

Eligible Quoted Companies	1,000
Number of Hours allocated per Quoted Company	15
Allocated FTE costs per hour per Quoted Company	£32.96
Total familiarisation cost for all Quoted Companies (2018 prices)	£494,000

103. A sensitivity analysis performed on this estimate using an upper and lower bound of 10 and 20 hours and a 10% range on cost per hour gives a range of £297k to £725k, and therefore one-off costs of around **£297 - £725 per quoted company.**

Ongoing costs

104. The IA did not consider that there would be any ongoing costs to business, stating that the 'main costs' would be 'one off familiarisation costs for those preparing annual reports.'

[46] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14

[47] The 16% uplift has been applied to be consistent with the IA for the 2013 regulations. Higher uplift figures tend to be used now.

Survey findings 2013 regulations

105. Companies were asked to estimate the one-off costs of the 2013 regulations, as well as annual recurring costs. Forty companies provided cost estimates for one off costs, and forty-three for annual recurring costs.

One-off Costs

106. Table 7 shows the average one-off costs to business of the 2013 regulations estimated by the survey sample. We have separated quoted and unquoted companies for consistency with the Impact Assessment.

Table 7. One-off per Business Cost: 2013 Regulations (PwC Survey)

	All Companies	Quoted Companies	Unquoted Companies
Median	£35,000	£40,000	£15,000
Mean	£156,378	£169,332	£122,227
Lowest Value	£980	£980	£1,000
Highest Value	£1,000,000	£1,000,000	£900,000
Number of Responses	*40*	*29*	*11*
Base Size	*129*	*69*	*56*

107. This extremely large range in values suggests a large variation in the costs companies faced in complying with the 2013 reforms to non-financial reporting. The main point to note though is that the lowest estimate of familiarisation costs per company exceeds the highest cost per company in the IA. On this basis alone we judge that the IA underestimated familiarisation costs, by a factor of at least two and possibly as high as 100 if the median estimate of one-off costs in the PwC survey is correct.

Ongoing Costs

108. The average ongoing costs to business each year from the 2013 regulations estimated by respondents to the survey are presented in Table 8.

Table 8. Ongoing per Business Cost: 2013 Regulations (PwC Survey)

	All Companies	Quoted Companies	Unquoted Companies
Median	£30,000	£55,000	£15,250
Mean	£110,433	£143,452	£42,036
Lowest Value	£750	£750	£1,500
Highest Value	£560,000	£560,000	£150,000
Number of Responses	*43*	*29*	*14*
Base Size	*129*	*69*	*56*

109. As before, there is a wide variation in on-going costs. From the sample interviewed, the wide variation in cost estimates per company cannot be directly explained by difference

in company size.[48]

110. Survey respondents were also asked to estimate the time that was associated with the annual reporting process. Cost estimates were obtained in this way by asking respondents to record the number of FTEs at different grades associated with the reporting processes relating to the 2013 regulations, the number of hours allocated to the reporting at that grade, and the allocated FTE costs per hour per year. This is more consistent with the methodology used in the 2013 Impact Assessment, and therefore potentially more comparable.

111. For those companies that provided reliable estimates of FTEs, hours, and costs per hour by grade, the total costs involved with reporting can be calculated. Reasonable estimates were available for 28 companies, shown in Table 9. The median values are potentially more reliable than the mean averages as they are less influenced by very high or low, potentially unrepresentative, values.

Table 9. Ongoing Costs FTE Hours of Reporting: 2013 Regulations (PwC Survey)

	All Companies	Quoted Companies	Unquoted Companies
Median	£3,550	£3,700	£3,700
Mean	£16,229	£19,511	£12,784
Number of Responses	*28*	*16*	*11*
Base Size	*129*	*69*	*56*

112. Looking at the different grades involved in reporting, and excluding outliers[49], 56 of 125 companies (45%) stated that they had individuals at executive level (or equivalent) involved in reporting, 49 of 127 (39%) had those at senior manager level involved in reporting, 48 of 125 (38%) had those at manager level involved in reporting and 31 of 126 (25%) had those at below manager level involved in reporting.

113. The IA's assumption that there would not be ongoing costs was therefore clearly incorrect. It is also worth noting that the median on-going cost for quoted companies is substantially above the benefits that were expected to accrue to quoted companies from the removal of statements from the Directors' report.

Reconciling ex ante and ex post cost estimates for the 2013 regulations

114. PwC's research gives some suggestions why the costs proved substantially higher than the IA originally assumed. Possible reasons include:

a. Firstly, that the 2013 regulations were more revolutionary than the IA originally assumed. We had a hint of this in the PwC research where one respondent noted that:

"*The bigger change came with the move to strategic reporting rather than the NFR Directive. The Directive complements that and takes it a tiny bit further but probably*

[48] Exploratory analysis failed to reveal a clear link between costs and company size, it was difficult as there were though few cost estimates available. Interestingly higher costs were apparent among firms who said they were already reporting on non-financial matters prior to 2013.

[49] Please see Annex A, paragraph xi, for details of the approach to removing outliers.

wasn't as revolutionary as the move from the old regime to the strategic report"
Investment Association.

b. And another noted that:

*"…Since the introduction of the strategic report in the UK, I think we have seen a significant increase in the quality and **quantity** of non-financial information…."*
Financial services representative body, emphasis added.

c. The PwC survey of companies noted that a significant number of companies had to introduce a range of new processes to ensure compliance. Sixty-three percent of companies developed systems relating to local data extraction, 59% developed a process to consolidate information into the final report, and 54% developed internal reporting of information to the centre. Within the survey the companies were asked to 'rank' the elements of the regulation which were most costly to them. In the first year of the regulation, the element with the highest number of first rank selections (signifying highest cost), was understanding the regulations. Data extraction by local teams was the second most costly element for companies (Table 10).

Table 10: What had been the costliest elements to your company of the reporting requirements under the 2013 regulations (PwC Survey, Base = 129)

Element	Year one	Year 2+
Understanding the regulatory requirements	33%	18%
Preparing instructions and guidance for local teams	19%	17%
Data extraction by local teams	29%	33%
Internal reporting to the centre	17%	21%
Preparation of the consolidated report	22%	22%

d. The need to incur external costs was under-estimated in the original IA. Thirty-eight companies (29%) that responded to the survey reported values of legal fees, advisory fees, and/or assurance fees, per Table 11 below. The median values for the three types of fee are similar, at £11,000 - £12,000. The means are considerably higher, driven by a few firms spending very high amounts on external costs.

Table 11. External Costs: 2013 Regulations (PwC Survey)

	Legal Fees	Advisory Fees	Assurance Fees
Median Value	£12,000	£11,000	£11,000
Mean Value	£40,683	£47,362	£34,690
Number of Responses	*29*	*34*	*21*
Base Size	*129*	*129*	*129*

e. It is possible that the variation in costs is associated with differing interpretations of what constitutes compliance, or companies may have experimented with different approaches. For example, one participant in a focus group for the Eunomia research noted that they had tried to carry out a scenario-based assessment of risk as recommended by the Taskforce for climate related disclosures (TCFD) and this had only been done for one resource. This was described as: "*incredibly complex, and we only considered 10 factors when there are a host of others*."

115. Finally, another reason for the higher than anticipated costs was the guidance that the FRC produced. Although the exposure draft of the guidance, published in August 2013 made clear that it was non-mandatory and written with quoted companies in mind – which faced the most requirements – it noted that "it may also serve as best practice guidance for other entities preparing strategic reports".[50] Given the tendency for companies, as we have seen, to adopt a compliance first approach it is likely that many companies viewed following the FRC guidance, whether it applied to them or not, as the easiest way to demonstrate compliance. Furthermore, the guidance itself was developed "mindful of recent developments in narrative reporting best practice" and it is likely therefore that the guidance required changes to their reporting practices beyond what was initially required in the legislation.

116. The Business Impact Target (BIT) Guidance states that any regulator guidance which has a regulatory effect, imposing or amending legislative requirements which relate to business activity and subordinates' legislation, that guidance would qualify as a "regulatory provision," (defined under the SBEE Act 2015) which would contribute to the BIT. Although the FRC guidance was not legislative, it has become a de-facto standard which has led to a modification in business behaviour and approach to compliance, therefore, it should be considered in the cost to business (i.e., EANDCB).

117. We conclude therefore that there are a range of plausible reasons why the IA for the 2013 regulations under-estimated compliance costs.

Ex Ante Costs: 2016 Regulations

118. The Impact Assessment covering the 2016 regulations estimated the Net Present Social Value of the measures to be £108.3m with an EANDCB of £11.6m (2014 prices). The main categories of costs were:

- Costs to large, quoted PIEs (with more than 500 employees) and their subsidiaries of meeting the additional reporting requirements of the NFR Directive: £10.65m in the first year (which included familiarisation costs) and £6.47m per year thereafter.

[50] Financial Reporting Council (2013), Exposure Draft: Guidance on the Strategic Report, August 2013, para 2.1. Later versions of the guidance have adopted a different approach by sign posting companies to the relevant sections of the guidance that applies in their case. See: Financial Reporting Council (2018), Guidance on the Strategic Report, July 2018. https://www.frc.org.uk/accountants/accounting-and-reporting-policy/clear-and-concise-and-wider-corporate-reporting/narrative-reporting/guidance-on-the-strategic-report

- Costs to large, unquoted PIEs (with more than 500 employees) and their subsidiaries of meeting the additional requirements of the NFR Directive: £8.49m in the first year (which included familiarisation costs) and £5.22m per year thereafter.

- Familiarisation costs of £0.20m to quoted and unquoted companies in scope but already reporting on additional matters required by the NFR Directive.

119. Fifty-eight of the 129 companies (45%) surveyed reported being subject to the 2016 requirements, 52 of 129 (40%) reported not being subject to the requirements, and 19 of 129 (15%) did not know. The considerable number of company respondents saying that they were unsure if they were subject to the regulations potentially supports the perception that the regulations were evolutionary rather than (noticeably) revolutionary and underscores that it might be difficult for respondents to isolate costs and impacts for the 2016 regulations.

120. When these 58 companies were asked about the impact of the 2016 regulations on reporting costs, 33 (57%) said they had a moderate impact, and 14 (24%) said the regulations had a significant impact, so over 80% of companies identified at least some impact on reporting costs of the 2016 regulations. Seven companies (12%) suggested the regulations had no impact on reporting costs and four companies (7%) did not know.

One off Costs

121. The IA for the 2016 regulations estimated low, best, and high estimates for total first year costs associated with complying with the Non-Financial Reporting Directive for eligible firms. These include familiarisation costs and relate to firms not already reporting on the additional requirements. For quoted firms and their subsidiaries these costs are split between companies needing to report on anti-bribery and corruption, and those needing to report on diversity. For unquoted firms these are split between reporting on anti-bribery and corruption, and for meeting the requirements of the Enhanced Strategic Report if they did not do so already. Costs have been adjusted to reflect 2018 prices.[51]

122. The 'best' per company cost estimates for those companies which are eligible for the regulation are outlined in Table 12.

[51] Uplifted from 2016 prices to 2018 prices using the GDP deflator - https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2021-budget - to be comparable with survey cost estimates (fieldwork in late 2018).

Table 12. One-off Costs: 2016 Impact Assessment

One off costs: 2016 Impact assessment		
	Price year	
	2016	2018
Quoted companies		
Anti bribery and corruption	632	659
Diversity	763	795
Subsidiaries of quoted companies		
Anti bribery and corruption	474	494
Diversity	572	596
Large unquoted PIEs		
Anti bribery and corruption	951	991
Diversity	3713	3870
Subsidiaries of unquoted PIEs		
Anti bribery and corruption	713	743
Diversity	2785	2903

Ongoing Costs

123. The IA also estimated the following low, best, and high estimates of total ongoing annual costs associated with complying with the Non-Financial Reporting Directive for eligible firms. The estimates are of additional costs beyond what they report on already. As with the estimates of total first year costs, for quoted firms and their subsidiaries these costs are split between companies needing to report on anti-bribery and corruption, and those needing to report on diversity. For unquoted firms these are split between reporting on anti-bribery and corruption, and for meeting the requirements of the Enhanced Strategic Report if they did not do so already. Costs have been adjusted to reflect 2018 prices.

124. The 'best' per company cost estimates for those companies which are eligible for the regulation are outlined in Table 13.

Table 13. Ongoing Costs: 2016 Impact Assessment

Ongoing costs: 2016 Impact assessment		
	Price year	
	2016	2018
Quoted companies		
Anti bribery and corruption	429	447
Diversity	440	459
Subsidiaries of quoted companies		
Anti bribery and corruption	322	336
Diversity	330	344
Large unquoted PIEs		
Anti bribery and corruption	455	474
Diversity	2363	2463
Subsidiaries of unquoted PIEs		
Anti bribery and corruption	341	355
Diversity	1772	1847

125. As with the 2013 regulations, attempts to capture costs through the survey of firms were hindered by small sample sizes and difficulties such as the challenge of isolating costs associated with the specific regulations, given time passed, staff turnover, and the absorption of costs into wider expenses. There were only a few estimates for annual recurring costs and one-off costs (16 for one-off costs and 17 for annual recurring costs), after removing outliers. The range for each variable is very considerable ranging from values in the £low hundreds to £single figure millions.

One-off Costs

126. The one-off costs of the 2016 regulations are presented in Table 14 below. As discussed above, these values should be considered with caution. The costs have been broken down by all companies, and quoted companies only.[52]

Table 14. One-off per Business Cost: 2016 Regulations (PwC Survey)

	All Companies	**Quoted Companies**
Median	£25,000	£20,000
Mean	£113,633	£120,066
Lowest Value	£357	£357
Highest Value	£400,000	£400,000
Number of Responses	*14*	*13*
Base Size	*58*	*43*

127. The IA predicted costs in the region of £1,000 to £5,000 per business (assuming a business report on both aspects identified in the tables) depending on type of business. The survey estimates costs far higher than this: £20,000 to £25,000 from median values, and mean estimates five or six times higher than the medians, along with very wide ranges.

128. The CEPs report estimates average administrative costs for completing the Non-Financial Reporting Directive (which were the basis of the UK's 2016 regulations), including for companies headquartered in the UK. They estimated, based on data for 16 entities, the average administrative costs to be 145,000 Euros in the first year and 127,000 Euros in subsequent years.[53] These costs included Business as Usual expenditures which companies would have occurred anyway. When adjusted for the BAU expenditure incremental costs were 24,000 Euros in the first year and 22,000 Euros in subsequent years, i.e. reasonably close to our median estimates.

Ongoing Costs

[52] It was not possible to look at cost estimates for other company types eligible for the regulation, as there was only one company which was not a quoted company.

[53] https://www.ceps.eu/ceps-publications/study-on-the-non-financial-reporting-directive/, p66. Note that the study distinguishes between administrative costs and incremental costs. The former includes business as usual expenditure which would have been incurred anyway.

129. The ongoing annual costs reported by survey respondents regarding the 2016 regulations are presented in Table 15 below.[54]

Table 15. Ongoing per Business Cost: 2016 Regulations (PwC Survey)

	All Companies	**Quoted Companies**
Median	£30,000	£32,500
Mean	£126, 086	£134,094
Lowest Value	£500	£500
Highest Value	£500,000	£500,000
Number of Responses	*13*	*12*
Base Size	*58*	*43*

130. The IA predicted average ongoing costs of between £700 – £3,000 per business, depending on type of business. The survey revealed a median estimate from the survey tenfold or higher than this, the mean values are a factor of about four times greater than this still. Very significant ranges are also observed in the data.

Costs: Conclusions

131. It proved difficult to obtain reliable measurements of the burden of the regulations to compare with Impact Assessment estimates, given small samples which are not representative of the population at large. Comparison with the IA estimates and the lowest estimate of regulatory burden suggests that both the 2013 and 2016 regulations proved to be more burdensome than anticipated by at least several multiples when the regulations were introduced. We have set out a range of plausible reasons why this might be the case.

132. Given that the regulations appear to be achieving their objectives and generating benefits for companies and NFR users we do not believe that the regulatory requirements should be removed. Especially as the higher compliance costs than anticipated are likely to be largely “sunk”. For example, procedures have been established and become business as usual. And investment in data gathering systems cannot be recovered.

Benefits

133. As noted earlier the policy ambition is that more and better information would lead to better decisions by companies, investors or other stakeholders. Our primary research did not produce quantitative estimates of benefits from the regulations, though the PwC research, cited earlier, reported that 60% of companies surveyed thought that the regulations had provided some benefit to them (Figure 11).

134. In the absence of quantified benefit estimates we use a break-even approach to estimate by how much returns to shareholders must increase for them to be compensated for the regulatory costs. This approach supposes that increased information helps shareholders exert pressure on management to make better decisions and these decisions

[54] Again, it was only possible to look at quoted companies separately within the sample due to low or no responses from other company types.

impact on the company's profitability. However, this will be a partial estimate of benefits as the benefits accrue to all users, including wider society, and the benefit metric for other users might not be profits.

135. Our approach is as follows:

a. We use the Blue Book estimate[55] of distributed income of non-financial corporations and convert the estimates to a 2019 price base year. In 2019, these amounted to over £223.4 billion.

b. We then take the EANDCB for both sets of regulations – except for the 2013 regulations we strip out the benefits from removing some statements from the 2013 Directors' report. This then gave the equivalent annual costs for the non-financial regulations which we then converted to 2019 prices. The combined EANDCB amounted to £12.6m.

c. We then divide the annual costs by the annual dividend payments to show by how much dividends – and hence corporate profits - would need to rise by to justify the additional cost to shareholders. Our results suggest that corporate profits would need to rise by less than 1/100th of a percent to offset the NFR costs as set out in the IAs.

d. However, we know the costs are likely to be understated in both IAs. We therefore increase the costs by a factor implied by the median values in our surveys. This means that the costs of the 2013 regulations are uplifted by a factor of 100 and the costs of the 2016 regulations are uplifted by a factor of 10. In this case, profits would need to rise by less than 1/10th of a percent to offset the NFR costs.

136. This approach comes with some caveats, it does include profits for corporations that were not covered by the regulations. Although as noted in Table 3 most companies thought that other entities that they do business with would receive some benefit from their non-financial reporting. We can get a sense though of how our benefit estimate might change if we focused on listed companies, which were predominantly covered by the regulations. Whilst the Blue Book does not break down distributed income between listed and unlisted non-financial corporations it does distinguish between listed and non-listed shares when it provides estimates of the liabilities.[56] Listed shares account for 53% of all share liabilities of non-financial corporations. Therefore, if we restricted the break-even analysis to the distributed income of listed non-financial corporations then distributed income would need to increase by roughly double the percentages set out in the previous paragraph.

Is Regulation Still the Best Option for Achieving the Policy Objectives?

137. The Government does not believe that revoking the regulations would be in the UK's best interests:

a. There is a demand from users for better non-financial reporting information from significant corporate entities;

---

[55] Distributed income of corporations, sheet 3.1.3, https://www.ons.gov.uk/file?uri=/economy/grossdomesticproductgdp/compendium/unitedkingdomnationalaccountsthebluebook/2021/supplementarytables/bb2103nonfinancialcorps.xlsx

[56] See Table 3.1.11, op cit

b. In the absence of standards there are issues around materiality and comparability of the information provided;

c. Some corporate entities have clearly not willingly embraced the opportunity to communicate a wider sense of purpose to stakeholders;

d. In the absence of legislative requirements some corporate entities will cease to report or will report selectively or will continue to engage in “green-washing”. Thus, the Government’s objective of reducing the asymmetry of information between corporate entities and stakeholders would not be achieved.

138. In contrast the Government believes that regulation remains the best option for achieving the policy objective given the evidence presented in this PIR that:

a. Shareholders and other stakeholders should have access to information on companies in which they have invested in or have dealings with.

b. Regulation ensures that all economically significant companies provide non-financial information, allowing comparison of all companies by investors and wider stakeholders. Though improvements in comparability are required before the information becomes fully useful.

c. The IAs appear to have underestimated compliance costs significantly but our analysis shows that NFR only needs to lead to relatively small changes in dividend payments – and hence profits –to compensate shareholders for the additional compliance costs.

d. That the regulation appears to be partially achieving its objectives in that NFR is provided by companies. That said, users report the need for significant improvements to reporting. The government accepts this and believes this is due to a lack of international standards for reporting.

e. In *Greening Finance: A Roadmap to Sustainable Investment* Government announced its intention to set up an endorsement and adoption function in the UK for standards issued by the International Sustainability Standards Board (ISSB). Standards issued by the ISSB will not have any legal force in the UK until they have been endorsed and adopted and it is important that this framework ensures that the Standards applied in the UK best reflect UK circumstances. The Government will consult on proposals for a framework introduce reporting against IFRS Sustainability Disclosure Standards in the UK in due course. Over time it is therefore possible that many of the non-financial reporting requirements that are the focus of this PIR (UK requirements for a Strategic Report and Non-Financial Information Statement for certain companies[57]) will be superseded by a requirement to prepare non-financial information in line with UK adopted ISSB standards.

[57] Strategic Report (section 414(c) of the Companies Act 2006 and implemented by The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 (“the 2013 regulations)) and secondary legislation implementing the EU Directive on Non-Financial Reporting (Directive 2014/95/EU) in 2016.

f. However, establishing a UK framework for ISSB issued standards will take some time, not least because the endorsement and adoption function, requires primary legislation. In addition, there is no firm timetable for when the ISSB will issue the full range of standards that will cover ESG (environmental, social and governance) matters. To date the IFRS Foundation published two prototype standards in November 2021: one on climate and the other on general disclosure requirements. These prototype standards were developed by the Technical Readiness Working Group (TRWG) prior to the formation of the ISSB. In early 2022, the ISSB published the Exposure Draft IFRS S2 Climate-related Disclosures (Climate Exposure Draft) for consultation until 29 July 2022[58] for consultation.

g. Separately, the Government has announced that it will review wider reporting burdens on large and small businesses including those from retained EU law, with an independent review of non-financial reporting requirements to be commenced in due course. This will help the UK's companies grow whilst bolstering investment, as the Government takes advantage of Brexit freedoms to regulate in a more proportionate and agile way that works for British businesses. The evidence in this PIR will contribute to the review.

h. In light of the evidence in this PIR, we recommend **amending the regulations** as and when the review concludes and the ISSB develop the final standards, subject to parliamentary approval of any necessary secondary legislation.

139. Further, this review has identified the challenges of producing IAs covering NFR regulations when the main requirements are set out in non-mandatory guidance, which companies may well use as their baseline to judge compliance.[59] Although the FRC guidance was not legislative, it became a de-facto standard which has led to a modification in business behaviour and approach to compliance. Therefore, it should be considered in the cost to business (i.e., EANDCB), and helps explain the differential between costs in the PIR and previous estimates in the IA. This is an unintended consequence of the regulations.

140. We recommend that in cases such as these, guidance is produced alongside legislation so that the estimates of compliance costs can be based on a fuller picture of what companies are required to do.

[58] https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/

[59] The IA covering the 2013 regulations was published on 18th June 2012. The FRC guidance was published over a year later in August 2013.

Plan for future monitoring and evaluation

141. The original IAs for these regulations did not set out monitoring and evaluation plans for these regulations. Therefore, we set out a plan here for the next PIR. The monitoring and evaluation plan will focus on gathering and reporting data to inform whether the reporting provided by companies provides the information that users need to overcome the information asymmetry problem identified in the rationale for these regulations. Specifically, the next PIR will consider:

a. What progress has been made towards greater harmonisation of standards, including at the international level? Do new regulations introduce overlap (in terms of their objective) with NFR regulations and if so, what has been the impact of these on the NFR system? For instance, the introduction of a Green Taxonomy which aims to bring a "common framework" across companies to assess the sustainability of their activities. And it is the Government's ambition to adopt the Standards generated by the ISSB to deliver more material and more comparable corporate disclosures.

b. Whether there have been improvements to NFR for users in terms of materiality, comparability and trust and rigour especially with reference to any international standards that have been adopted by UK regulators?

c. How different groups (investors, wider stakeholders) use NFR and what benefits they believe it brings to them e.g., less time required to access information? In addition, what costs would groups incur in the absence of NFR by companies?

d. What are the opportunity costs for corporates of corporate reporting? What are the benefits of more informed stakeholders? Have information asymmetries been addressed?

e. In any research conducted to support future reviews, we would look to expand on the sample sizes of previous research to ensure broader representation, particularly investors and shareholders.

142. We will use a mixed methods approach to gather evidence for the next PIR. This will include:

a. Surveys of users, including shareholders, incorporating a willingness to pay element if feasible. We recognize the challenges with engaging with investors which often results in small samples sizes, so we will consider how to better access this group, for example, working with organizations like the Investment Association or Investment Managers.

b. Focus groups of corporates to identify the steps required to comply with the regulation. This will enable us to build a more refined understanding of what compliance with the regulations entails for corporates.

c. A rapid evidence review covering the main themes of interest.

Annex A: Evolution of reporting requirements between 2006 and 2017, blue indicates change

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016)

The s414C requirements apply on a group (consolidated basis) and single company basis. The s414CB has a consolidation exemption. The information required to be included in a strategic report varies according to the size of the company, and the detailed requirements are set out below:

Company Type	**Description of Reporting Requirement regarding Strategic Report**
Small - For accounting periods beginning on or after 1 January 2016, *companies must meet at least 2 out of the 3 criteria to be classified as small: 1) annual turnover must be not more than £10.2 million, 2) the balance sheet total must be not more than £5.1 million, 3) the average number of employees must be not more than 50.* ***This includes companies which would be small, but are ineligible to take advantage of the small company regime by virtue of being part of an ineligible group***	Exempt from the requirement to prepare a Strategic Report
Medium sized company – companies are able to take advantage of the medium size exemptions if they meet *at least 2 of the following conditions: 1) the annual turnover must be no more than £36 million, 2) the balance sheet total must be no more than £18 million, 3) the average number of employees must be no more than 250.*	**[Sections 1-4 S.414C]** The strategic report must contain: (a)a fair review of the company's business, and (b)a description of the principal risks and uncertainties facing the company The review required is a balanced and comprehensive analysis of: (a)the development and performance of the company's business during the financial year, and (b)the position of the company's business at the end of that year, consistent with the size and complexity of the business.

Large companies – *Companies which do not qualify as small or medium sized*	**[Sections 1-5 S.414C]** The strategic report must contain: (a)a fair review of the company's business, and (b)a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis of: (a)the development and performance of the company's business during the financial year, and (b)the position of the company's business at the end of that year, consistent with the size and complexity of the business. The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include: (a)analysis using financial **key performance indicators**, and (b)where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. **"key performance indicators"** means factors by reference to which the development, performance or position of the company's business can be measured effectively.
Public Interest Entities but not quoted with >500 employees) *Public Interest Entities are entities that have securities admitted to trading on a UK regulated market including entities who trade debt securities on a UK regulated market or undertake Banking or Insurance activity. A Quoted company is one whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (c. 8), or is officially listed in an EEA State, or is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.*	**[Section 414CA S.1, 414C S.1-5, 414CB]** The strategic report must contain: (a)a fair review of the company's business, and (b)a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis of: (a)the development and performance of the company's business during the financial year, and (b)the position of the company's business at the end of that year, consistent with the size and complexity of the business.

Note that a company is not required to produce a NFIS if a UK parent produces a NFIS which includes the activities of the company	The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include: (a)analysis using financial **key performance indicators**, and (b)where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. **"key performance indicators"** means factors by reference to which the development, performance or position of the company's business can be measured effectively. **[S414CB]** (1) The non-financial information statement must contain information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to, as a minimum— (a)environmental matters (including the impact of the company's business on the environment), (b)the company's employees, (c)social matters, (d)respect for human rights, and (e)anti-corruption and anti-bribery matters. (2) The information must include— (a)a brief description of the company's business model, (b)a description of the policies pursued by the company in relation to the matters mentioned in subsection (1)(a) to (e) and any due diligence processes implemented by the company in pursuance of those policies, (c)a description of the outcome of those policies, (d)a description of the principal risks relating to the matters mentioned in subsection (1)(a) to (e) arising in connection with the company's operations and, where relevant and proportionate— (i)a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and (ii)a description of how it manages the principal risks, and

	(e)a description of the non-financial key performance indicators relevant to the company's business. **"key performance indicators"** means factors by reference to which the development, performance or position of the company's business, or the impact of the company's activity, can be measured effectively. If the company does not pursue policies in relation to one or more of the matters mentioned above, the statement must provide a clear and reasoned explanation for the company's not doing so. The statement must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts. If information required by subsections (1) to (5) to be included in the statement is published by the company by means of a national, EU-based or international reporting framework, the statement must specify the framework or frameworks used, instead of including that information.
Public Interest Entities that are quoted and have>500 employees *Are entities that have securities admitted to trading on a UK regulated market including entities who trade debt securities on a UK regulated market or undertake Banking or Insurance activity with more than 500 employees.* *A Quoted company is one whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (c. 8), or is officially listed in an EEA State, or is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.*	**[Section 414C S.1-5, 7-8, S 414CB]** The strategic report must contain: (a)a fair review of the company's business, and (b)a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis of: (a)the development and performance of the company's business during the financial year, and (b)the position of the company's business at the end of that year, consistent with the size and complexity of the business. The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include: (a)analysis using financial **key performance indicators**, and

Note that a company is not required to produce a NFIS if a UK parent produces a NFIS which includes the activities of the company	(b)where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. **“key performance indicators”** means factors by reference to which the development, performance or position of the company’s business can be measured effectively. **S414CB** (1) The non-financial information statement must contain information, to the extent necessary for an understanding of the company’s development, performance and position and the impact of its activity, relating to, as a minimum— (a)environmental matters (including the impact of the company’s business on the environment), (b)the company’s employees, (c)social matters, (d)respect for human rights, and (e)anti-corruption and anti-bribery matters. including information about any policies of the company in relation to those matters and the effectiveness of those policies. • A description and outcome of those policies • A description of the principal risks relating to the matters mentioned in above arising in connection with the company’s operations and, where relevant and proportionate ○ a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and ○ a description of how it manages the principal risks, and • a description of the non-financial key performance indicators relevant to the company’s business **“key performance indicators”** means factors by reference to which the development, performance or position of the company’s business, or the impact of the company’s activity, can be measured effectively.

If the company does not pursue policies in relation to one or more of the matters mentioned above, the statement must provide a clear and reasoned explanation for the company's not doing so.

The statement must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.

If information required by subsections (1) to (5) to be included in the statement is published by the company by means of a national, EU-based or international reporting framework, the statement must specify the framework or frameworks used, instead of including that information.

If a non-financial information statement complies with subsections (1) to (6), the strategic report of which it is part is to be treated as complying with the requirements in—

- (a)section 414C(4)(b),
- (b)section 414C(7), except as it relates to community issues,
- (c)section 414C(8)(b), and
- (d)section 414C(12), so far as relating to the provisions mentioned in paragraphs (a) to (c).

S414C[1] - (7) In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—

(a)the main trends and factors likely to affect the future development, performance and position of the company's business, and

(b)information about—

(iii)community issues,

including information about any policies of the company in relation to those matters and the effectiveness of those policies.

	If the report does not contain information above, it must state which of those kinds of information it does not contain. (8) In the case of a quoted company the strategic report must include— (a)a description of the company's strategy, (b)a description of the company's business model, (c)a breakdown showing at the end of the financial year— (i)the number of persons of each sex who were directors of the company; (ii)the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)); and (iii)the number of persons of each sex who were employees of the company. (9) "**senior manager**" means a person who— (a)has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and (b)is an employee of the company.
Quoted. But NOT a Public Interest Entity with 500 employees *A Quoted company is one whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (c. 8), or is officially listed in an EEA State, or is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq,.*	**[S414C**] [S 1-5] The strategic report must contain: (a)a fair review of the company's business, and (b)a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis of: (a)the development and performance of the company's business during the financial year, and (b)the position of the company's business at the end of that year, consistent with the size and complexity of the business.

	The review must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include: (a)analysis using financial **key performance indicators**, and (b)where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. **“key performance indicators”** means factors by reference to which the development, performance or position of the company’s business can be measured effectively. (7) In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include— (a)the main trends and factors likely to affect the future development, performance and position of the company’s business, and (b)information about— (i)environmental matters (including the impact of the company’s business on the environment), (ii)the company’s employees, and (iii)social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies. If the report does not contain information of each kind mentioned in paragraphs (b)(i), (ii) and (iii), it must state which of those kinds of information it does not contain. (8) In the case of a quoted company the strategic report must include— (a)a description of the company’s strategy, (c)a breakdown showing at the end of the financial year— (i)the number of persons of each sex who were directors of the company;

	(ii)the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)); and (iii)the number of persons of each sex who were employees of the company. "senior manager" means a person who— (a)has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and (b)is an employee of the company.

S.172 Statement (The Companies (Miscellaneous Reporting) Regulations 2018) – *an addition to the strategic report for some companies.*

- A s172 statement is required for each individual company (not consolidated). There is no consolidation exemption even if a parent produces a s172 statement.
- **The strategic report** must include a statement known as a **section 172 statement** which describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 (1).
- These duties in section 172 (1) of CA 2006 are: A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
    - (a)the likely consequences of any decision in the long term,
    - (b)the interests of the company's employees,
    - (c)the need to foster the company's business relationships with suppliers, customers and others,
    - (d)the impact of the company's operations on the community and the environment,
    - (e)the desirability of the company maintaining a reputation for high standards of business conduct, and
    - (f)the need to act fairly as between members of the company.

Company Type	Description of Reporting Requirement regarding S.172 Statement
Small	Exempt as subject to the small companies regime (exempt from the strategic report, so also exempt from the s.172 statement)
Medium sized company	Need to complete the strategic report but do not need to complete the s.172 statement
Medium sized company but ineligible to use the medium sized regime	Need to complete a strategic report which includes s.172 statement.
Large companies, including those that are also Quoted or Public Interest Entity	Need to complete a strategic report which includes s.172 statement.

Annex B: Methodology of Primary Research

To inform the post-implementation review, BEIS commissioned two separate research projects to examine whether the regulations were meeting their objectives, whether those objectives were still relevant, whether regulations were the best way to achieve those objectives, and how far the regulation could be improved.

PWC Survey: stakeholder perceptions toward non-financial reporting

i. PricewaterhouseCoopers (PwC) were commissioned to consider the costs and benefits involved in meeting the requirements of the UK's non-financial reporting regime and was undertaken in late 2018 and early 2019.

ii. Questions around the regulations were outlined by BEIS and developed by PwC as part of their research design. The key methodologies deployed were: in-depth telephone and face-to-face interviews with key stakeholders, and a telephone and online administrated survey of companies.

iii. The research involved 30 face-to-face or telephone interviews with stakeholders from civil society, investment and professional organisations, and employee representatives. The topic guide used looked to understand how far stakeholders felt the regulations had changed requirements on companies, stakeholder views on the content of non-financial reporting, their views on the value of that reporting, and the impact of the reporting on decision-making by both companies and the stakeholder.

iv. Interviews were conducted with the following organisations:

- Association of Accounting Technicians
- Association of Chartered Certified Accountants
- Big Innovation Centre
- Carbon Disclosure Project
- Chartered Institute of Management Accountants
- Client Earth
- Climate Disclosures Standards Board
- Company Matters, part of the Link Group
- CORE Coalition
- Cynnal Cymru
- Financial services representative body
- Global Reporting Initiative
- Institute of Business Ethics
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants of Scotland
- Institute of Corporate Responsibility and Sustainability
- International Corporate Governance Network
- International Integrated Reporting Council
- Investment Association
- Investor Relations Society
- Maturity Institute
- Network UK
- Principles for Responsible Investment
- Quoted Companies Alliance

- Share Action
- Social Value Portal
- Social Value UK
- Trades Union Congress
- UK Shareholders' Association
- UK Sustainable Investment and Finance Association

v. The research also involved a survey of 129 companies. This was structured around a questionnaire designed by PwC in consultation with BEIS. The questionnaire covered the costs of compliance with the regulations, the ease of compliance and challenges to implementation, perspectives on the Financial Reporting Council (GRC) Guidance on the Strategic Report, and awareness and perspectives on penalties around non-compliance. The questionnaire also spanned outcomes and impacts of the regulations, including use of non-financial reporting by companies and wider stakeholders including investors, and potential impacts on the company's reputation.

vi. Samples of companies were provided by BEIS using the FAME database. The contractor was initially tasked to try and sample 200 large quoted and non-quoted firms, and 200 subsidiaries of quoted and non-quoted companies to enable comparative analysis. However, difficulties in recruitment meant that meeting these quotas was not possible, and it was agreed that the contractor would seek to obtain a sample of companies spanning a range of characteristics and sizes, to avoid a distinctly *unrepresentative* sample, even if a representative sample could not be obtained. In the achieved sample, 40 of the 129 companies (31%) surveyed were Public Interest Entities (PIEs), 77 (60%) were not, and on twelve occasions the respondent did not know. There were 69 quoted companies and 56 unquoted companies (and four unknown) in the sample. Sixty-six percent of the companies were based solely in the UK (85 companies, in contrast to 44 multinational). Forty-nine of the 129 firms that participated in the survey (38%) reported having UK revenue over £1 billion; while 69 (53%) had over 1,000 employees in the UK and 21 (16%) had over 10,000 employees in the UK.

Figure A1. Approximate Revenue (UK) of Company Covered by Most Recently Published Annual Report (PwC Survey, N=129)

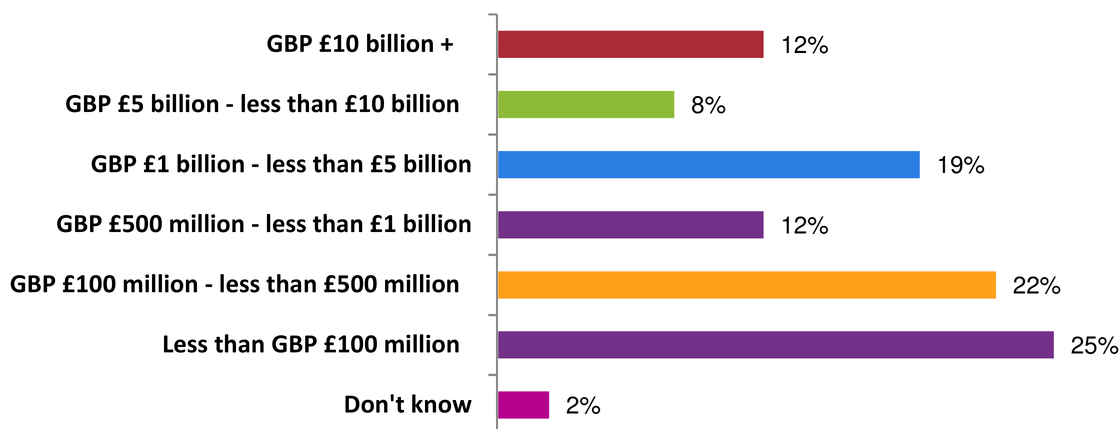
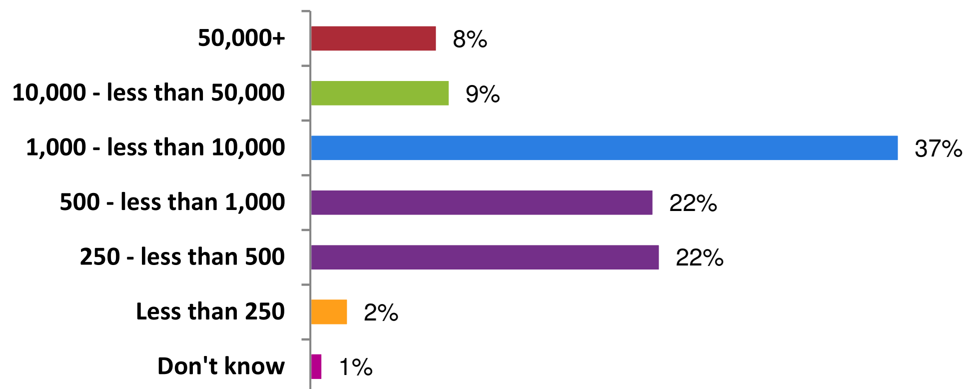


Figure A2. Approximate Number of Employees (UK) in Company Covered by Most Recently Published Annual Report (PwC Survey, N=129)



vii. The sample of 129 firms was split between 82 standalone companies, 32 parent companies, and 15 subsidiaries. Finally, the sample was split fairly evenly between companies eligible for the 2016 regulations (58 companies) and those not eligible (52 companies), with the remaining 19 respondents unsure of their company's eligibility.

viii. In contrast to the actual UK business population, which is dominated by small companies with few employees, the sample overrepresents PIEs, quoted companies, and larger firms. However, in understanding views on non-financial reporting it is appropriate to oversample firms subject to the fuller requirements (such as PIEs), and larger firms more likely to use non-financial reporting and have opinions on the broader range of stakeholders affected. The sample is not, therefore, representative of the UK business population, yet this was considered justifiable given the regulatory requirements imposed on business.

ix. Consideration was given to weighting the sample to make the results more representative of the UK company population in scope of the regulations. However, the small number of responses achieved meant that weights would be very significant.

x. Prior to full launch of the survey, the questionnaire was subject to cognitive testing with a small number of companies, which showed no significant issues with the content of the survey nor around understanding of the questions. The survey was live from late 2018 to early 2019. The survey was initially administered by telephone, but due to challenges with recruitment of respondents, it was moved online, and finally to an online panel survey to identify respondents with specific job titles.

Eunomia Consulting Research: frameworks for standards on non-financial reporting

i. BEIS commissioned Eunomia Research & Consulting (Eunomia) to provide an initial evidence base on the preferences of UK stakeholders around non-financial standards and views towards non-financial reporting.

ii. This research involved 3 phases: a rapid evidence assessment, a stakeholder workshop and stakeholder surveys. Each phase of research is described below in the order they were conducted.

Rapid Evidence Assessment

iii. An evidence review was conducted which focussed on 20 studies covering stakeholder views on NFR over the past 5 years. They reviewed the existing reporting frameworks and current developments in the both academic literature and literature produced non-commercial publishers on NFR - 12 of which focused on existing NFR frameworks and were specifically concerned with stakeholder views on the efficacy of those frameworks. The remainder focused on sustainability reporting more generally or on the performance of specific preparers.

iv. A combination of systematic and searching and a snowballing technique was employment. Documents were analysed with reference to the key research questions. The analysis also helped to design the stakeholder workshops.

Stakeholder Workshops

v. Three separate workshops were held between September-October 2019 with users/consumers of NFR (mainly NGOs), preparers of NFR information e.g., businesses, and institutional investment stakeholders to gain an in-depth perspective from stakeholders. Each group lasted approximately 3 hours, and the discussion guides and group activities were designed to appropriately fit the needs of each group. However, the themes did correspond across groups to enable cross sectional analysis. Details of the stakeholder workshop topics can be found in Figure A3 below. The stakeholder groups are defined below:

   a. <u>User stakeholders</u>: those who have an interest in influencing or reviewing non-financial reports. Those invited to the workshops were mainly representatives of NGOs.
   b. <u>Preparer stakeholders</u>: those who are required to report or gather information (i.e., suppliers/preparers of NFR – this being preparers themselves and specialist consultancies providing NFR services).
   c. <u>Institutional investor stakeholders</u>: an important subset of users who use non-financial information to inform investment decisions

Figure A3: Table showing the topics covered in the stakeholder workshops, p.151

Issues with NFR • Value of non-financial data to stakeholders • Issues with current frameworks	**Barriers for NFR** • Existing NFR frameworks • Barriers faced by businesses in the NFR process	**NFR** • Existing NFR frameworks
Principles of NFR • Universality vs materiality • Metrics or information • Reporting on strategy	**Principles of NFR** • Embedding Sustainability • Reporting vs marketing • Balancing confidentiality with disclosure • Governance of reporting	**Existing Frameworks** • The investment management process • Different approaches to using non-financial information
The SDGs as a Reporting Tool • Use of SDGs in NFR	**The SDGs as a Reporting Tool** • Use of SDGs in NFR	**The SDGs as a Reporting Tool** • Use of SDGs in NFR
Quality of NFR • Reliability and verifiability • Clarity of reporting • Reporting boundaries	**Process/Mechanics of NFR** • Tools for reporting • Consolidation of data (high-level versus granular data) • Reporting on future risks and opportunities	**Content and Quality of NFR** • Improving the Content of Non-Financial Reports • Improving the Quality of Non-Financial Reports

Stakeholder Survey

vi. This included preparers of NFR, retail investors[60], current employees[61] and potential employees[62] or large businesses. There were 504 responses each from retail investors and the employee & potential employee group, and 45 responses from the preparer group.

vii. The surveys were designed based on information gathered from the previous stages of research, and covered general topics related to the content and processed of NFR, reflecting the core research questions. Each survey had appropriate screening and demographic questions to understand the spread of respondents. Survey logic and alternative question types were used to get the most reliable information. Each survey underwent two rounds of cognitive testing – this was because significant structural changes were made following the first round of comments, so a decision was taken that a second round was important, especially because of the complexity of the language around NFR.

viii. Recruitment for the respondents of each survey is described below:

a. **Preparer survey** - This sample was sourced from the BEIS Financial Analysis Made Easy (FAME) database. Contact details were gathered by scanning company websites.

b. **Retail investor survey and employee/potential employer survey** – a third party research panel was contracted to recruit to ensure a robust sample for each group.

---

[60] Those who invest in businesses o investment indices using their own capital and have a strong influence over where that capital gets invested.

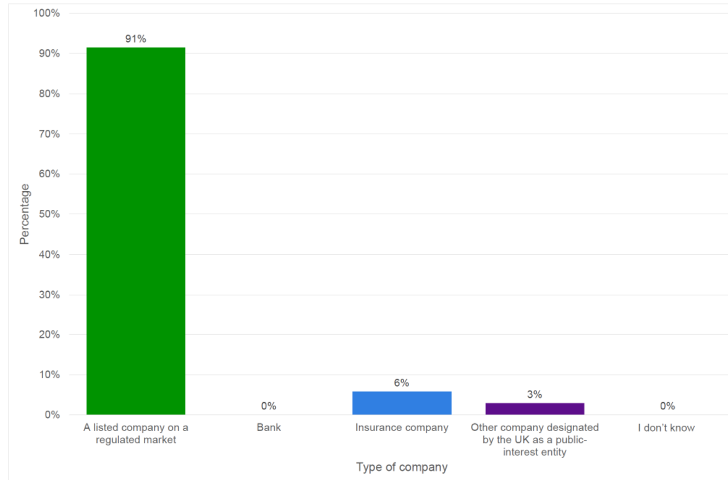
[61] Employees who work for a business in scope of NFR.

[62] A person who does not currently work for a business subject to the EU Directive on Non-Financial Reporting, but who, owing to their personal beliefs and values, would possibly do so in the future.

ix. All three surveys were analysed to explore whether the data needed to be weighted, and the decision was taken not to apply weighting with an explanation below. However, exploratory and comparative analysis (between respondents) was undertaken to identify patterns in responses.

   a. For the **preparer survey**, the data was not weighted because the population was in-scope business rather than a random sample of UK businesses which meant there was a logical reason for the skew. Also due to the small number of respondents, weighting may have over/under-represented some of the results in terms of size and sector.

Figure A4: Preparer Survey, Type of Organisation (Eunomia Research, N=35)



   b. For the **retail investor and employee/potential employee survey**, although there was a higher proportion of male respondents in the surveys compared with the general population, it was not deemed high enough to justify weighting. Also, the gender split of retail investors in the UK is unknown. In terms of age, there was a low number of respondents from the youngest category but since not all individuals from this category would be of employment age, nor likely to be retail investors, the sample was considered representative. Those in the highest age category were also not presented, but weighting was not applied here either.

Figure A5: Retail Investor Survey, Gender (Eunomia Research, N=504)

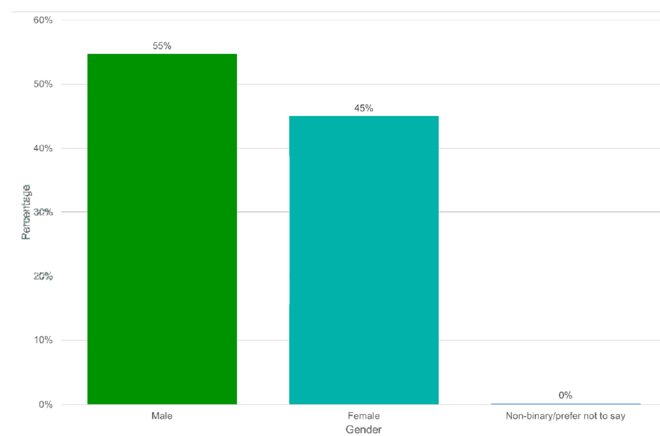


Figure A6: Retail Investor Survey, Age (Eunomia Research, N=504)

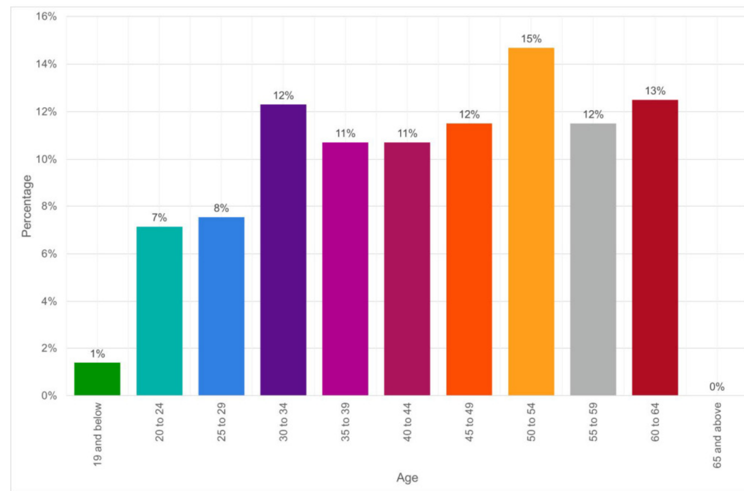


Figure A7: Employee/Potential Employee Survey, Gender (Eunomia Research, N=503)

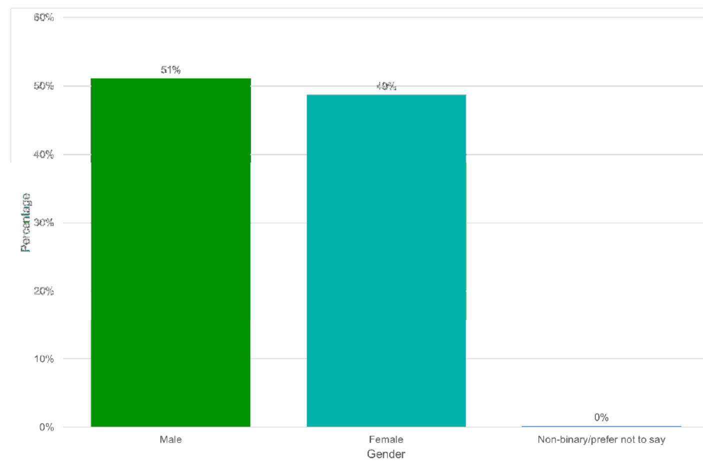
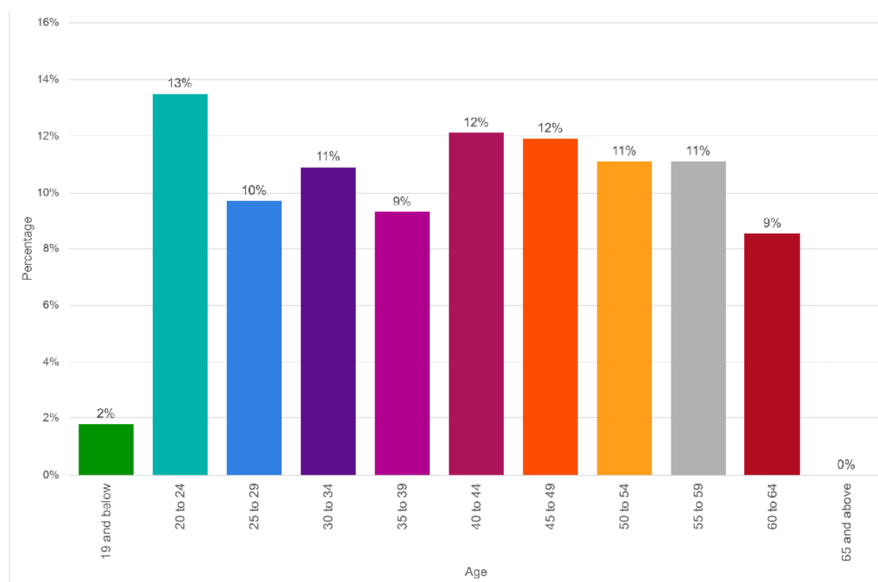


Figure A7: Employee/Potential Employee Survey, Age (Eunomia Research, N=504)



x. There are a few considerations that should be noted:

  a. **Survey response rates** – this is always a challenge but emerged particularly with the preparer surveys. The deadline for completion was extended, but there were still incomplete submissions. The lower response rate was considered in the statistical analysis.
  b. **Populations of interest** – in terms of age, those in the highest age category (65 and above) were not represented in the retail investor survey. The employee/potential employee survey was used to capture preferences of those employees towards an in-scope business as well as potential interest in working for a in scope business. However, the definition of an in-scope business (i.e., large PIEs) was likely to be too complex to explain in a brief survey so instead respondents were asked what size of business worked for and these answers relied upon to classify them.
  c. **Statistical analysis** - Proportional z-tests were considered the most straightforward approach to revealing differences in perceptions amongst stakeholder surveys. The limitation of this method is that it summarises the data and some variation in responses is lost (i.e., it does not take account of how the responses are split between 'disagree', 'strongly disagree' or 'neither agree nor disagree'.

Annex C: Public Sector Equality Duty Assessment

Scope

This document records the analysis undertaken by the Department for Business, Energy and Industrial Strategy (BEIS) to fulfil the requirements of the Public Sector Equality Duty ("the equality duty") as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

i. eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.

ii. advance equality of opportunity between people who share a protected characteristic and those who do not.

iii. foster good relations between people who share a protected characteristic and those who do not.

The protected characteristics which should be considered are:

- age
- disability
- gender reassignment
- marriage or civil partnership[63]
- pregnancy and maternity
- race
- religion or belief
- sex
- sexual orientation.

Outline

This report is a Post Implementation Review (PIR) of *The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016* ("the 2016 regulations) implementing Directive 2014/95/EU. These regulations were introduced to implement the EU Directive and Regulation ("Regulations") as part of a package to raise the quality of non-financial reporting in the EU. It envisaged that comparability of company disclosure across member states would meet the needs of investors and provide a wide range of interested parties with easy access to information on the impact of business on society.

At the time these regulations were implemented, there was considerable public debate around the wider impacts of business activity, including high profile incidents in which businesses allegedly failed to manage environmental and social risks. This debate continues today. In addition, non-financial performance is seen as increasingly important to investors' long-term strategies, increasing

[63] In relation to the protected characteristic of marriage and civil partnerships the Department is required to have due regard only to point (i).

demand for non-financial information. However, before the implementation of the regulations, there was also considerable inconsistency in the way national legislation of EU Member States required non-financial reporting, creating difficulty for investors and other stakeholders to clearly compare company policies and approaches to non-financial matters.

The PIR found that companies are providing NFR and the information is being used by companies and users for the purposes that the legislation intended. However, it is clear from some responses to the qualitative interviews that the goal of simplification has not been achieved. There is evidence that companies use NFR to set strategy and manage risk, amongst other things, and many of them report that they benefit from doing so. This suggests that some companies may make better investment decisions because of NFR requirements. However, a sizeable minority of companies are clearly sceptical of the value of non-financial reporting. There is evidence that investors do consider non-financial reports before making investment decisions. However, the evidence also suggests that the information provided is not as useful as it could be with specific concerns around materiality, comparability, trust and rigour. Many stakeholders attributed this to NFR requirements being relatively new.

The findings assessed in this Equalities Impact Assessment seek to address the findings of the review. The regulations assessed as part of the PIR and this review apply to companies, investors, civils society groups, and shareholders (who are expected to passively accrue any associated benefits).

Following discussions with the relevant colleagues, we do not consider that the regulations to have any relevance to PSED. Therefore, we do not consider it necessary or proportionate to gather equality data for this assessment.

PSED Considerations

We have considered the potential and likely impacts of the regulations on the three aims of the PSED.

Our findings are provided below.

Aim 1 – Eliminate unlawful discrimination, harassment, victimisation, and any other conduct prohibited by the 2010 Act.

Does your policy or service disadvantage some people or groups more than others?

The regulations assessed here are not expected to treat any individuals or groups more favourably (or unfavourably) than others, nor is it expected to result in any differential impact on groups or individuals with protected characteristics. We also do not expect them to have impacted people with protected characteristics as a result of them possessing those characteristics, or any unintended impact on any of those groups.

Whilst affected entities (companies in scope of NFR) will employ individuals who have protected characteristics, the measures would have impacted on the entire firm or company and not on any specific individual or groups therein. We therefore expect the actual impact on employees to be the same regardless of their individual characteristics.

Where specific actions, arising as a result of the regulations assessed here, might have affected individuals, such as in the case of measures related to company directors, it will be on the basis of their conduct and not their individual characteristics. Where shareholders were affected, we expect the impact to be positive, and to apply to shareholders equally, without regard to their individual characteristics.

Aim 1 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None
Sex	None
***Marriage & Civil Partnership**	None

Aim 2 – Advance equality of opportunity between people who share a particular protected characteristic and people who do not share it.

Will our actions deliver a less good outcome for any groups compared to others?

Given that measures mainly affect company directors on the basis of the quality of the non-financial information in their company reports, we do not expect any disproportionate adverse impact on any individuals or groups who hold one or more protected characteristics.

Is there evidence that particular groups are less involved in this policy area and is this linked to a protected characteristic?

We have not undertaken any formal consultation specifically to investigate whether particular groups are less involved in the policy areas covered by these Regulations, since there are no practical limitations, based on protected characteristics, to involvement in any of the activities therein. Whilst there may be some existing inequalities in this area, the measures introduced under these regulations were not expected to change any aspect of how individuals or groups with protected characteristics engage, and the individuals and groups that are already active in these policy areas are not expected to change as a result of how measures may interact with their protected characteristics. Measures to effect the changes that would address existing inequalities in this policy area are beyond the scope of the regulations assessed here.

Aim 2 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None
Sex	None

Aim 3 – Foster good relations between people who share a particular protected characteristic and people who do not share it.

How is the policy going to be received by people who do not benefit from it?

The entire UK population is expected to benefit in some way or another from measures introduced under these regulations. The purpose of these regulations was to improve the quality of non-financial information in the market and enable greater comparability of company performance (in relation to non-financial metrics) across markets. This would enable better decision making amongst investors, which would have wider benefits to society, improving the UK's reputation and position as a world-leading place to do business is strengthened. These wider benefits will apply to everyone in the UK, regardless of whether they have one or more protected characteristics.

Will our actions help to tackle prejudice and promote understanding between different groups – can we take positive action in respect of the three aims of PSED?

The regulations were not intended to directly encourage actions to tackle prejudice or promote understanding between different groups.

Additionally, we do not expect any of the measures in the PIR to have hindered any action to tackle prejudice or promote understanding between different groups or give rise to, or create an increased risk of, discrimination, harassment, victimisation or any other conduct prohibited by or under the Equality Act 2010.

Aim 3 Assessment

Protected Characteristic	Expected Impact
Disability	None or small
Race	None or small
Age	None or small
Gender reassignment	None or small
Religion or belief	None or small
Pregnancy & Maternity	None or small
Sexual orientation	None or small
Sex	None or small

Conclusion

We conclude that these regulations would have had no adverse or disproportionate negative impact on persons or groups with a protected characteristic, and no steps need to be taken to advance equality of opportunity and foster good relations because of, or in relation to, them.

The measures under these regulations are not expected to give rise to discrimination, harassment, victimisation, or any other conduct prohibited by or under the Equality Act 2010. Further, they did not make specific or direct provision in respect of any of the protected characteristics, and they were not expected to result in outcomes where people who share particular protected characteristics are treated differently from people who do not. They were not expected to give rise to a direct or indirect impact on individuals as a result of any protected characteristic they may have.

On this basis, we do not consider it is necessary or proportionate to seek further evidence to support this assessment, or to recommend any changes to our existing plans.

Approach to monitoring

The Department does not intend to monitor the outcomes of these proposals in relation to the PSED specifically.

Sign-off: Approved

Name: Andrew Death

Job Title: Deputy Director

Date: July 2022