Drawing together the challenges

We have seen how the extent of change in the quality of reporting is limited, other than the increasing content relating to ESG and climate change, and the new challenges that these areas bring. So, to take things a step further this year, we wanted to get behind the statistics to understand some of the reporting challenges that our findings reflect, by holding a series of interviews with senior representatives from a range of FTSE 350 companies.

> **Our annual report is the single source of truth and drives a lot of other content. It is heavily reviewed internally and there is rigour over every word**
>
> FTSE 350 company

The pages that follow summarise the key points from what we heard. The discussions identified real commitment to doing as good a job as possible, but also a lot of frustration at how difficult that is in practice. Many of these frustrations are not new and reflect reporting themes that have often been debated before, but we hope it's useful to draw them together here, as a candid set of reflections on the context for reporting today.

Many of the points raised are challenging of the current reporting status quo, hence our conclusion that it is time to draw a line in the sand to improve the quality of reporting. But many of our interviews also included very positive discussions about how the reporting challenges could be tackled, and a genuine appetite to do so. The final section of our report has more information on the four game-changers that we hope will help companies to find a way forward through the challenges they face and provide positive steps to improve reporting for stakeholders.

There has been too much regulation too quickly (and with more to come)

The sheer volume and complexity of reporting was noted by almost every company we spoke to. In particular, with the rapid speed of change we are seeing in ESG reporting, and the layering on of more reporting requirements from different regulators and standard setters, many companies are struggling to keep pace.

> **There are too many regulators involved in the annual report that are not working to the same agenda, and as a result the annual report has become a hybrid beast**
>
> FTSE 350 company

> **You have to run to stay still just to achieve reporting compliance**
>
> FTSE 350 company

The structure of the report is seen as too rigid

Companies have a strong sense that they need to stick to the standard form of an annual report, and to position content where it is expected to be, even if that means duplication. As the demand for information from companies grows, the annual report has become an important source of information for proxy and ESG rating agencies, which can distract from its original purpose. Interaction with these bodies has also led some companies to believe that the report needs to be relatively formulaic and structured in order for the relevant information to be easily located.

> **It would take one A4 page to explain our story – what we do, why we do it, how we are structured and our governance – it is very simple. But by the time this information has been applied across the structure of the whole annual report, it becomes complex and confusing**
>
> FTSE 350 company

Limited stakeholder feedback to act on

Feedback from stakeholders can impact the approach to reporting, but it is often hard to come by. Without it, companies might find it difficult to know if the content is really hitting the mark or whether there are gaps. Positive feedback has a role to play in recognising company efforts and encouraging companies to continuously improve their reporting.

> **There is no incentive to 'cut the clutter'. Regulators need to encourage companies to try and do this without worrying about getting it wrong**
>
> FTSE 350 company

> **The level of perceived value of the annual report internally is reducing as there is a growing feeling that it is not used**
>
> FTSE 350 company

Significant resource requirements

In our conversations with companies, we heard that it was not unusual for senior stakeholders (including the head of investor relations, company secretary, head of finance and so on) to spend more than a quarter of their year working on the annual report. This represents a significant investment, especially in a smaller team, and with the sheer volume of change afoot, resourcing is likely to become even tighter in the future.

Appetite of the board

If there is a desire not to stand out from the crowd, reporting will often focus on compliance and set a lower bar for transparency. In this situation, companies might be more comfortable with describing processes and procedures – which are often a statement of fact and indisputable – over judgements, assumptions and outcomes.

> **Board members don't always care about achieving the best quality of reporting, as long as it is not deficient**
>
> FTSE 350 company

Responding to the pressure around ESG

ESG presents a conundrum for some companies. They want to recognise matters that are important to stakeholders, such as climate change and carbon emissions, but do not always determine these issues to be material to the business from a strategic perspective. This can lead to a disproportionate focus on some matters compared to others which are more relevant to the business.

> **Climate is a principal risk for us, and we have a number of pages dedicated to it, but we don't have this for any other risk. Is this sustainable?**
>
> FTSE 350 company

> **There is an intense focus on the 'E' – from investors, rating agencies, customers – so we have to tell that story but it is probably overweight compared to the 'S' and 'G', which are arguably more mission critical for our business and where we would like to focus our efforts. Having said that, where would we be on climate without this?**
>
> FTSE 350 company

Concerns about providing forward-looking information

Companies might be hesitant to provide forward-looking information for fear of getting it wrong, or giving away competitive advantage. There is still concern about being judged on the accuracy of what is said, despite the potential benefits for investors.

> **There are safe harbour provisions but there is a fear of providing forward-looking information and being judged, but this information would help investors to understand the business better**
>
> FTSE 350 company