Response to FRC Discussion Paper: Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies

31 July 2015
INTRODUCTION

ICAS welcomes the opportunity to comment on the FRC’s Discussion Paper – Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world’s great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy.

RESPONSE TO THE CONSULTATION QUESTIONS

1. To what extent do you recognise and agree with the issues raised in the report regarding the quality of reporting by smaller quoted companies?

2. Do you consider that the actions proposed are (i) a proportionate response to the issues identified; and (ii) an adequate response to the issues identified?

We support the FRC’s work in the area of corporate reporting by smaller quoted companies – the focus is often on the largest listed companies who may be subject to greater public scrutiny, and have the resources and motivation to take innovative approaches to reporting. But smaller listed companies are an important sector of the economy, as highlighted in the recent EC green paper ‘Building a Capital Markets Union’, therefore this is a timely and relevant initiative by the FRC.

ICAS believes that high quality corporate reporting is a key element of the efficient functioning of the capital markets and that for individual companies, good reporting can assist in their access to finance. Whilst we agree with many of the issues raised in the report, and with the approach taken, generally, we believe that reporting by smaller quoted companies is of a good standard. Moreover, it is important to recognise that there are factors limiting smaller companies’ ability to improve the quality of their reporting, such as the availability of resources. These constraints need to be taken into account in ensuring that follow-up actions and recommendations arising from this project are proportionate and achievable.

Communications with investors and reporting requirements

The message that good quality reporting by smaller quoted companies is valued by investors and therefore beneficial to the companies themselves is the key point arising from this project, and the investor engagement undertaken is a useful resource which should be highlighted to the preparer community. Preparers’ perceptions of the extent to which annual reports are used by investors appear to be at odds with the reality of the value that investors place on reporting, and closing this gap could be a key factor in improving reporting.

Therefore we agree with the FRC’s proposal to provide focused annual reminders to boards of smaller quoted companies setting out key areas of focus etc., and to facilitate more engagement between companies and investors, as this will remind such companies of the importance of reporting, and assist them in keeping up-to-date with all relevant reporting requirements.

Overall, the report highlights that the major concerns of investors and preparers are the length and complexity of financial reports, which are not specific to smaller listed companies. These problems should continue to be addressed on the basis of a single disclosure framework under IFRS, which should ultimately be principles-based and sufficiently flexible to be applied to different sizes of
entities. Key in this is the IASB’s ‘principles of disclosure’ project – we note that the IASB is planning to issue a discussion paper on this topic by the end of 2015. ICAS has been active in the debate on financial statement disclosure since the publication of our 2011 report with NZICA – ‘Losing the Excess Baggage’. Along with the IASB’s project, we also believe there is a need for a change in the mindset of those in the financial reporting and wider business communities, from one of viewing annual reports as compliance documents to one which sees them as a key mode of communication with investors.

We welcome the proposal to include specific consideration of smaller quoted companies in its Clear & Concise reporting initiative – opportunities to report more concisely may be particularly welcomed by this sector.

We support the work of the FRC’s Financial Reporting Lab although we think that it may be more difficult to engage smaller listed companies – the benefits of participation might be less apparent to them than they are to the largest companies which are subject to greater public scrutiny. Additionally, they may have less staff resource available to allow participation.

Audit practices

We believe that in general auditors provide appropriate advice to companies in this sector, but there is merit in considering whether greater clarity is needed for auditors on the extent to which it is appropriate for them to advise on reporting matters. The forthcoming revised ethical standards for auditors may provide an opportunity to explore how this could be achieved.

Governance and resources

We agree that a lack of resources can be a challenge for smaller quoted companies, and we welcome the FRC’s proposals to address this issue. It is worth noting that achieving more clear and concise reporting may in fact require more time and resource than simply rolling forward prior year reporting formats – this could require more forward planning and more pro-active consideration of which matters should be included in the annual report.

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1 https://www.icas.com/technical-resources/losing-the-excess-baggage