

EFRAG
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30 September 2019

Dear Sir/Madam

The Financial Reporting Council's Financial Reporting Lab response to European Reporting Lab consultation on future projects

Thank you for the opportunity to respond to the European Reporting Lab's ("European Lab") consultation on future projects. The Financial Reporting Lab ("UK Lab"), which sits within the Financial Reporting Council ("FRC"), has had a productive relationship with the European Lab so far and we look forward to continuing to work together on common initiatives.

We consider that carrying out projects on the three proposed topics would be highly valuable to the current reporting environment.

Over the last few years the Lab has focussed on business model, risk and viability reporting but our recent implementation study indicated that, whilst there has been some progress in the quality of reporting, there is still a need for improvement to achieve consistency across the market. We therefore consider that a project on the reporting of non-financial risk and opportunities and linkage to the business model would assist in moving reporting forward. It is an area that the UK Lab will also continue to work on following our current projects on climate change and workforce reporting.

The demand for better environmental, social and governance ("ESG") reporting is increasing significantly and a project considering the materiality assessment process and outcomes for ESG matters would be very helpful to encourage greater consistency of reporting. Whilst we consider this to be a very important topic, given the "S" of ESG we would suggest that it may be beneficial to carry out this project before the proposed project on social matters and human rights, as it would be helpful to provide guidance on the materiality assessment first.

Although we appreciate that the European Lab will not be addressing specific financial statement topics given its remit, we would encourage it to consider whether there are implications on the financial statements on the topics selected. This will help to ensure that the annual report provides cohesive reporting.

There is also likely to be some support for these topics within the UK. The UK Lab carries out a stakeholder survey every two years to help us set our agenda for future projects. The most recent survey, carried out earlier this year, identified the following as the most popular possible project areas, and may be of interest as the European Lab considers its future projects:

1. How companies report on their consideration of, or impact upon, wider stakeholders (for example, suppliers, customers, and society).

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2. How companies report on drivers of value (for example, intangibles that are not reported on the balance sheet).
3. Reporting of short and long-term risks and uncertainties, including the impact of long-term risks on the business model.
4. How companies report on their culture and purpose.
5. Disclosure by companies of materiality decisions used in the financial statements, sustainability and other reporting.

Over the last five years the UK Lab has been exploring the potential impact that technology might have on corporate reporting. This is an area where preparers, users and regulators continue to have interest. The introduction of the European Single Electronic Format in 2020 is expected to drive significant change in the way that companies report. Whilst its initial implementation focuses on the primary financial statements, it provides a platform for other digital reporting (such as ESG matters) in the future. We therefore consider that the move to digitisation is an area where the European Lab could help market participants make the most of the opportunities.

We would be very happy to discuss our comments further. The FRC and its UK Lab would be pleased to offer support and collaboration on the European Lab's future work programme.

Yours sincerely



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