



Accounting and Reporting Policy

Staff Guidance Note: The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 – Key Facts

Disclaimer

This Guidance Note has been prepared by FRC staff to assist preparers of annual reports. It aims to summarise the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and should not be relied upon as a definitive statement on the requirements of those regulations.

Introduction

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the 'Regulations') will apply to financial years ending on or after 30 September 2013. The FRC is developing guidance on the application of the strategic report requirements set out in the Regulations.

During the course of the development of *Exposure Draft: Guidance on the Strategic Report*, the FRC staff became aware of a commonly held misconception that the strategic report would be an additional higher-level summary of information contained within the annual report; that it would contain only 'strategic' information which may be of a different level of materiality or importance to the information included in the business review. However, the purpose and required content of the strategic report does not differ significantly from that of the business review which it replaces.

This Staff Guidance Note summarises the requirements set out in the Regulations.

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 – Key Facts

The strategic report

The Regulations require all companies that are not small to prepare a strategic report which contains a fair and balanced analysis, consistent with the size and complexity of the business, of:

- a) the development and performance of the company's business during the financial year;
- b) the position of the company at the end of the year; and,
- c) a description of the principal risks and uncertainties facing the company.

The strategic report replaces the business review and will be presented as a separate section of the annual report, outside of the directors' report.

Content of the strategic report

All of the Companies Act 2006 requirements previously relating to the content of the business review will apply to the strategic report.

For Quoted¹ companies, the Regulations also introduce some additional content into the strategic report as follows:

- a) A description of the company's strategy and business model (the requirement to disclose the company's business model and strategies is also included in the UK Corporate Governance Code);
- b) To the extent necessary for an understanding of the development, performance and position of the company's business, information on human rights issues, including the company's policy and the effectiveness of that policy; and
- c) Quantitative information on gender diversity.

The directors' report

The Regulations introduce some mandatory greenhouse gas (GHG) emissions disclosures for Quoted companies and, in addition to the removal of the business review, they remove the requirements to provide information about:

- a) contractual or other arrangements;
- b) principal activities (for Quoted companies, this is absorbed by the requirement to disclose the business model);
- c) director's value of land compared to balance sheet value (disclosures of alternative measurement bases, if relevant, are covered by accounting standards);
- d) charitable donations (disclosure of political donations are still required);
- e) the acquisition of own shares by private companies; and
- f) policy and practice on payment of creditors.

¹ A company 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; 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 (Companies Act 2006, s385).

Summary financial statements

Finally, the option to provide shareholders with summary financial statements instead of the annual report has been replaced with an option to provide a copy of the strategic report and some specified supplementary material.

FRC guidance

The FRC has been asked to prepare some non-mandatory guidance on the preparation of the strategic report. An Exposure Draft of this guidance is expected to be published in time for the Regulations' 30 September 2013 effective date.

Separate guidance on the mandatory GHG emissions disclosures required by the Regulations has been published by the Department for Environment Food & Rural Affairs (DEFRA)².

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf