

Thematic Review – Smaller listed and AIM quoted company reporting

In 2015, the FRC published ‘Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies’, which identified a range of factors which might contribute to findings from its monitoring activity that the quality of reporting by such companies was generally not as good as their larger peers. The FRC’s project was aimed at achieving a step-change in the quality of reporting by smaller companies over a three-year period.

The 2018/19 thematic review, to assess the extent of any improvement in the general quality of compliance, will focus on five specific aspects of corporate reporting, some of which were identified in 2015 as areas where there was particular shareholder interest and scope for improvement. Other areas have been in the scope of other recent FRC thematic reviews, where FRC has published its findings and set out its expectations of good quality disclosures.

The FRC’s expectations in relation to the five aspects are:

<p>Strategic Report and Alternative Performance Measures (APMs)</p>	<p>We expect Business Reviews to discuss all material aspects of the business’s performance and financial position, including an explanation of relevant trends in balance sheet amounts, such as pensions, and cash flows.</p> <p>We expect the disclosure of Principal Risks and Uncertainties (PRU) to be a tailored selection of the PRUs that are relevant to the company, regularly reviewed and updated as its circumstances change.</p> <p>Where companies choose to present APMs we expect these to be clearly defined, reconciled to the relevant IFRS numbers, accurately labelled and explained, and not given greater prominence than the IFRS performance measures.</p> <p>Disclosure of business models should explain how the company makes its money, and be consistent with other information in the annual report and accounts.</p>
<p>Accounting policies, including critical judgements and estimates</p>	<p>We do not expect to see boiler-plate accounting policies, copied directly from IFRS or other literature, particularly where they do not appear to relate to material balances or transactions.</p> <p>We expect companies to tailor accounting policies appropriately and to consider whether new policy disclosures are required for large or unusual transactions in the current year. Policies should be removed if no longer relevant, so that they do not obscure other current information.</p>

	<p>Companies should disclose revenue policies in sufficient detail to enable users of the accounts to link them to, and articulate, the business model, particularly where this is complex.</p> <p>Complex accounting judgements and sources of estimation uncertainty giving rise to a significant risk of a material adjustment in the following year should be clearly disclosed – with appropriate and helpful sensitivity analysis.</p>
Cash Flow Statements	Stakeholders tell us about the importance of quality information about cash flows in smaller companies. We expect companies to pay particular attention to the classification of unusual or one-off items in the cash flow statement.
Tax Disclosures	<p>We expect sufficient information to be given to help stakeholders understand the company's effective tax rate and the factors likely to affect it in the future.</p> <p>We expect to see disclosures around the particular tax issues that could have a material effect on the accounts, and for material uncertain tax provisions to be quantified and appropriate sensitivities provided.</p>
Pension Disclosures	<p>We expect to see sufficient information to understand the risks around pensions and their effect on future company cash flows.</p> <p>We expect meaningful disaggregated information to be provided on the assets held by the plan, including their bases of valuation. In addition, information should be provided on any asset-liability matching strategies.</p> <p>Where net pension assets have to be considered, we expect explanation of the basis on which the company expects to benefit, including judgements made when assessing trustees' rights.</p>

Notes:

1. The Discussion paper 'Improving the Quality of Reporting by Smaller Listed and Aim Quoted Companies' may be found at <http://www.frc.org.uk/getattachment/a072a946-15e2-486e-956b-24fd444f2407/./:aspx>
2. Reports from other recent FRC thematic reviews may be found at: <http://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews>