



3 February 2021

Business Frameworks Directorate Transparency and Trust Team
Department for Business, Energy and Industrial Strategy
1st Floor 1 Victoria Street
London SW1H 0ET

Via email: transparencyandtrust@beis.gov.uk

Dear Sir/Madam,

Re: Consultation on improving the quality and value of financial information on the UK companies register

The Corporate Reporting Users' Forum (hereinafter referred to as CRUF) are delighted to respond to BEIS's consultation on improving the quality and value of financial information on the UK companies register.

Responses to the questions raised in the consultation that relate to the issues that concern investors are set out below. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views.

Overall comments

The CRUF welcomes this initiative. Single filing makes obvious sense, and makes reconciliation simpler for users of accounts. Anything that improves searchability of company records is also key, as is storing the amount of information in machine readable form, and applying tagging to filter search results. We welcome the modernisation of the role of Companies House and its development into a more effective and accessible repository for information on UK companies.

Underpinning CRUF's response is a need to continually improve transparency in annual accounts in the public interest of investors and other key stakeholders. By transparency we mean clear, concise and useful information, which has been edited appropriately to ensure the quantity of information does not overwhelm the quality or obfuscate matters.

CRUF's responses to the consultation questions of most relevance

Q1: What features of the Companies House and HMRC filing regimes should be kept under a harmonised filing process?

Q2: What information (if any) in annual accounts should not be made public?

Q3: What benefits do you envisage for filing once across government?

Q4: What challenges do you envisage for filing once across government?

Regarding 'file once', the benefits of this are obvious. It removes duplication of paperwork for those filing the accounts, and it makes searching easier for users of accounts.

Note that we have seen cases where a Companies House filing is accurate, but the accounts posted on the website are not. Does 'file once' extend to the reported accounts?

Clearly there is information included in a corporate tax return which is either excessively detailed or sensitive that we see little reason why it should be made public. Examples might include entertainment which is not allowed as a tax deduction or detailed schedules which adjust accounting depreciation back to a tax-based expense allowance. However any other information which forms part of the audited reporting package should be made available to the public to ensure stakeholders can access necessary information when considering engagement with the business as a customer, supplier, creditor or owner.

CRUF cannot envisage other scenarios where information that should be in annual accounts from a shareholder perspective should not be made public. The use of commercial sensitivity and confidentiality as excuses for non-disclosure are in CRUF's view often abused to hide information from users of filed audited financial statements.

Q6: What challenges will mandatory digital filing present?

Mandatory digital filing may be difficult for smaller firms that will have little economy of scale, but we envisage that the software will not be complex, and will soon become an economical 'commodity product' available from software providers. In particular we would anticipate that audit firms will be able to provide a filing package very cheaply for the audited components of the financial reporting package which will be most important to users.

Q9: As a user of financial information on the register, what information in a company's accounts is critical for you and should be checked (validated) to ensure it is tagged correctly?

Public disclosure is in large measure a quid pro quo for limited liability in the UK. As such, quantities relevant to solvency are critical to the register's purpose and should be checked. This most obviously includes borrowings, other financial and trade creditors, and any equity which is not ordinary share capital or premium, such as preference shares. Intangible assets also should be checked as these may not have an alternative use in a stress scenario, and therefore may have no value to creditors. The list could be extended but on pragmatic grounds; we only state here a few items of high importance. In addition, we consider that this critical information may also include any items that would impact reconciliation of the balance sheet. This is particularly important for financial liabilities to ensure that we understand the evolution of the net debt position.

Ultimately, the primary financial statements incorporating P&L, Balance Sheet and Cash Flow statements are all crucial for our analysis.

Q26: Examples of suspicious activity in a company's accounts may be incomplete, inconsistent

or apparently misleading information. Can you provide examples of information in a company's accounts that may be an indicator of suspicious activity?

We monitor trends in many key ratios to look for evidence of suspicious activity including but not limited to Trade Debtor Days, Trade Creditor Days, Inventory Days, Effective Interest Cost (reported interest charges compared to the average of opening and closing debt balances) and the usual trends in profitability margins derived from the P&L. All of these metrics can rapidly highlight suspicious trends of divergence between cash flow generation and reported profitability.

Other examples of suspicious activity include complex systems of ownership where the economic exposure of one company is passed through to a parent company, which is owned by a third parent company, and so on, for no apparent reason. The reason for this structure would appear to be avoidance of scrutiny, and is therefore suspicious.

We also have several examples of where it appears that postings are designed to mislead; often it is difficult to work out who owns what and who the ultimate parent is especially if it is a foreign firm.

These examples and others would be where information in a company's accounts begs questions to which answers or additional clarity are not given.

Q29: Do you have any additional comments about this proposal?

Some of the information on the current database is held as non-searchable PDFs and is therefore not searchable. For example, filing history. Such information clearly should be searchable, and we hope that future filings will be in searchable XBRL format. We would also like to see historic filing information OCR'd (optical character recognised) to make it available also.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting and auditing standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance and ESG professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Signatures

Dean Buckner

UKSA

Charles Henderson

UKSA

Sue Milton

UKSA

Jane Fuller, FSIP

Co-director, Centre for the Study of Financial Innovation

Jed Wrigley

Investment Advisor

Anna Czarniecka

Financial reporting consultant