



# Technical Briefing

May 2019 (Updated)

<b>Subject</b>	Narrative reporting developments for portfolio companies
<b>Effective date</b>	The latest developments come into force for accounting periods beginning on or after 1 January 2019
<b>Impact</b>	Large UK private companies will need to assess which narrative reporting requirements they must comply with and start preparing for them

## Summary

This year has seen the introduction of the UK government's package of corporate governance reforms seeking to increase transparency and trust in private companies. This adds to a number of new reporting requirements in recent years for private companies. This includes reporting required in company strategic and directors' reports, in particular setting out how directors have performed their duty under s.172 Companies Act 2006 ("CA 06"): the duty to promote the success of the company for its members, whilst having regard to certain matters, including employees, suppliers and customers.

## Strategic and directors' reports

All companies (except micro entities) are required to prepare a directors' report containing certain basic information. Additionally, all companies, except Small companies are required to prepare a strategic report. A company will be considered Small, Medium or Large under CA 06, if it meets two of the three thresholds below. Further analysis is required where a company moves between categories in two consecutive financial years.

	<i>Small Company</i>	<i>Medium Company</i>	<i>Large Company</i>
<i>Turnover</i>	Not more than £10.2m	Not more than £36m	More than £36m
<i>Balance sheet total</i>	Not more than £5.1m	Not more than £18m	More than £18m
<i>Number of employees</i>	Not more than 50	Not more than 250	More than 250

Some companies will be treated as Large regardless of the above thresholds, including public companies; companies that carry out insurance market activities; authorised insurance or banking companies; e-money issuers; MiFID or UCITS management companies; or companies with transferable securities trading on a regulated market in the EEA.

## Narrative reporting requirements

The narrative reporting requirements for private equity and venture capital-backed companies vary in terms of what needs to be reported, when they come into force, which companies they apply to, and where they must be reported. The table overleaf seeks to identify the different requirements to help our members. **It is non-exhaustive, covers narrative reporting by private companies only (although aspects may be relevant for public companies) and focuses on the reporting to be found in companies' strategic and directors' reports, as well as any similar reporting requirements.**

Date Introduced	Requirement	Effective date	Which companies does this apply to?	What needs to be reported? This is an overview only. Please refer to the relevant legislation or regulation for full requirements.	Where does it need to be reported?
November 2006 (updated in August 2013)	Strategic Report disclosures (CA 06)	In effect	All UK companies except Small companies per CA 06.	<p>The strategic report must include:</p> <ul style="list-style-type: none"> <li>A balanced and comprehensive analysis of development and performance during the year and position at the year-end</li> <li>Principal risks and uncertainties facing the company</li> <li>Financial key performance indicators (KPIs)</li> <li>Non-financial KPIs (Medium-sized companies per CA 06 are exempt from providing this information)</li> </ul>	In the strategic report.
November 2007 (updated in July 2014)	Walker Guidelines	In effect	<p>Buyout of a portfolio company with an enterprise value at acquisition of £350m (or £210m if public to private) AND a significant presence in the UK - either:</p> <ul style="list-style-type: none"> <li>more than 50% of revenues derived in the UK; OR</li> <li>more than 1,000 full time equivalent employees).</li> </ul>	<p>Besides the strategic report requirements above, companies must also report on the following (typically applicable to quoted companies):</p> <ul style="list-style-type: none"> <li>Strategy</li> <li>Business model</li> <li>Trends and factors affecting future development, performance or position</li> <li>Environmental matters</li> <li>Employees</li> <li>Social, community and human rights issues</li> <li>Gender diversity</li> </ul> <p>Companies must also report on certain Walker Guidelines-specific disclosures:</p> <ul style="list-style-type: none"> <li>Identity of private equity firm</li> <li>Details on board composition</li> <li>Financial review - financial points and financial risks</li> <li>Statement of conformity with the Guidelines</li> </ul>	In the strategic report (or directors' report for a non-UK company).
March 2015	Modern Slavery Act 2015	In effect	Organisations with UK operations and turnover in excess of £36m.	A statement detailing all steps taken during the financial year to ensure that slavery and human trafficking are not taking place in any of the company's supply chains or any part of the business. This must be approved by the board of directors and signed by a director (or equivalent).	On the company's website with a prominent link on the homepage.
December 2016	Non-financial reporting (CA 06 amendment)	In effect	With respect to private companies, any group of companies that has more than 500 employees on average in the financial year, AND either has transferable securities trading on a regulated market in the EEA or is a banking or insurance company.	<p>A non-financial statement must be produced, disclosing, as a minimum, information on:</p> <ul style="list-style-type: none"> <li>the company's business model;</li> <li>non-financial KPIs; and</li> <li>policies on the matters listed below, including due diligence processes implemented, the outcome of those policies, the principal risks relating to those matters, and how the company manages the principal risks. The matters to be covered are: <ul style="list-style-type: none"> <li>environmental matters (including company's impact on the environment);</li> <li>the company's employees, and social matters, and respect for human rights; and</li> <li>anti-corruption, and anti-bribery matters.</li> </ul> </li> </ul> <p>If the company does not pursue policies in relation to any of these matters, a clear and reasoned explanation for not doing so must be disclosed. The statement should also refer to amounts included in the company's annual accounts, where appropriate.</p>	In the strategic report.
February 2017	Gender Pay Gap Information Regulations 2017	In effect	Employers with 250 or more relevant employees. A relevant employee is someone who ordinarily works in the UK and whose contract is governed by UK legislation.	<p>Each year on 5 April, employers must publish:</p> <ul style="list-style-type: none"> <li>the percentage difference in mean pay between male and female employees;</li> <li>the percentage difference in median pay between male and female employees;</li> <li>the percentage difference in the average bonuses received by male and female employees;</li> <li>the proportion of men and women who receive bonuses; and</li> <li>the number of men and women in each quartile of pay within the workforce.</li> </ul>	On the company's website. Employers must also upload evidence of compliance on a government-sponsored website.
July 2018	Reporting on section 172 and engagement with employees, suppliers, customers and others (CA 06 amendment)	Financial years beginning on or after 1 January 2019	Large companies per CA 06.	Companies must include a statement describing how directors have complied with their duty to have regard to the matters set out in s.172 CA 06.	In the strategic report and on the company's website.
			All companies employing on average more than 250 employees in the UK.	Companies must also report on directors' engagement with suppliers, customers and others in a business relationship with the company. This will comprise of a statement summarising how directors have had regard to foster such relationships and the effect of that regard on the principal decisions taken by the company during the financial year.	In the directors' report. Companies can report this in their strategic report as part of their s.172 statement (see above) and should signpost this in the directors' report.
	Corporate governance arrangements reporting (CA 06 amendment)		<p>UK companies that are not already required to report on their corporate governance arrangements with either:</p> <ul style="list-style-type: none"> <li>2,000 or more global employees; or</li> <li>A turnover over £200m globally and a balance sheet over £2bn globally.</li> </ul>	<p>Companies will have to include a statement stating which corporate governance code (defined as a code of practice on corporate governance), if any, has been applied and how. If the company has departed from any aspect of the code, it must set out where it did so, and the reasons. If the company has not applied any corporate governance code, the statement must explain why that is the case and what arrangements for corporate governance were applied.</p> <p>To aid large private companies in disclosing how corporate governance processes operate within the businesses, a coalition (including the BVCA) has been developing a voluntary set of corporate governance principles for companies to report against (see the Wates Principles overleaf).</p>	In the directors' report and on the company's website.
November 2018	Streamlined energy and carbon reporting (CA 06 amendment)	1 April 2019	All quoted UK companies and all Large (per CA 06) UK incorporated unquoted companies. Very low energy users are exempt from reporting.	Unquoted companies will be required to report their UK energy use and associated intensity scope 1 and 2 emissions. As a minimum, this should include electricity, gas and transport. An intensity metric will be required, but metrics used will be left to individual sectors and existing best practice and guidance. An exemption not to report where it is not practical to do so has also been provided. Narrative commentary on energy efficiency action taken will be required, but will not require disclosure of ESOS recommendations and how they have been taken forward.	In the directors' report.



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Further guidance on all the requirements to be disclosed in the strategic report can be found in the FRC's revised Guidance on the Strategic Report, available on its website ([www.frc.org.uk](http://www.frc.org.uk)).

### The Wates Corporate Governance Principles for Large Private Companies

A coalition group, chaired by James Wates CBE, and including the BVCA, FRC, CBI and IoD, published a set of corporate governance principles, known as the Wates Principles, in December 2018 and may be utilised by large private companies to aid in the reporting of their corporate governance arrangements. The principles cover:

- Purpose and Leadership
- Board Composition
- Director Responsibilities
- Opportunity and Risk
- Remuneration
- Stakeholder Relationships and Engagement

### Other Considerations

Private equity firms and portfolio companies that fall within the scope of AIFMD are required to provide additional transparency disclosures. Please refer to the 2014 edition of the Walker Guidelines for a gap analysis between the AIFMD requirements and the Walker Guidelines.

Additionally, portfolio companies should also be aware of two other relevant reporting requirements:

#### Tax strategy reporting

Companies in scope are required to disclose on an annual basis on their website the board approved tax strategy, including the level of UK tax risk the company is prepared to accept, how the tax risk is managed, its attitude to tax planning, and the company's relationship with HMRC. This requirement is in effect.

This requirement applies to UK companies with more than £200m turnover OR a balance sheet exceeding £2bn. Multinationals with UK activity and UK subsidiaries may also be in scope.

#### Payment practices and performance

Companies in scope are required to report on their payment practices and performance. This includes the company's payment terms, process for dispute resolution related to payment, average time taken to pay invoices, percentage of invoices paid and not paid within the agreed terms in the reporting period, whether services like e-invoicing and supply chain finance are offered, and whether the company is a member of a payment code. This information must be reported twice per year, in line with the company's financial reporting timetable, on a government-sponsored website. This requirement is also in effect.

This requirement applies to individual UK companies that are considered Large under CA 06. Each individual company will need to report (i.e. not in a consolidated group report).

**If you have any questions on the topics raised in this note, please contact Sundip Jadeja, [sjadeja@bvca.co.uk](mailto:sjadeja@bvca.co.uk).**