

Surveying the corporate reporting landscape

Paying attention to what FTSE 100 companies are talking about can be the best way to keep your finger on the pulse. Here, Vicki Wright presents key trends and insights from Friend Studio's latest research.

Every year, the Friend Studio team undertakes a thorough review of the FTSE 100's annual reports, along with a significant quantitative research exercise. This means we're able to identify key trends in reporting as they emerge.

While a lack of significant regulatory upheaval has meant little dramatic change this year, the impending arrival of UK Sustainability Reporting Standards and the EU's CSRD means this is likely to change soon. ESG/sustainability reporting is already undergoing the biggest shifts, with disclosure becoming notably more sophisticated year-on-year.

And we are delighted, as always, to see that some companies are pushing beyond ordinary practice to offer some truly exceptional reporting. Here are our key observations.

Readiness for CSRD

While the EU Corporate Sustainability Reporting Directive (CSRD) is clearly high on some reporters' agendas, only a few have outlined their compliance plans in a meaningful way. Our research found that 48 companies reference CSRD in their reports, yet only two discuss their plans in detail. Five of the FTSE 100 said they would be reporting against CSRD for the 2024 financial year, so we will be keeping a close eye on how their reports develop, and how they compare with EU-based reporters.

TCFD

Task Force on Climate-related Financial Disclosures (TCFD) sections continue to become more detailed and meaningful, with connections often made to net zero planning. This aligns with the FRC's 2023/24 *Annual Review of Corporate Reporting*, published in September, which judged that climate reporting is now significantly more established. For



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example, the financial impact of climate change is discussed to a comprehensive degree in nearly half of reports. In our research, 48 clearly show the impact of climate change on financial performance, compared with only 26 last year.

Transition plans

Greater commitments are being made to climate transition plans. In 2023/24, 75 reporters explained how the transition to net zero will work, up from 71 the previous year. Adoption of science-based targets is also on the rise: 64 have SBTi-validated targets, up from 54 last year. We expect these numbers, and the level of insight, to continue

improving, given that the International Sustainability Standards Board (ISSB) has said it will use the Transition Plan Taskforce's materials as the basis for its own work on climate transition plans. And serious improvement is still required; a large number of reporters offer very little detail on their medium and longer-term plans to reduce emissions.

The rise of nature reporting

Nature reporting is becoming a more prominent feature in some reports, largely thanks to the Taskforce on Nature-related Financial Disclosures (TNFD) framework, which has been adopted by a handful of leading reporters. TNFD reporting remains voluntary, but the ISSB is planning to accelerate development of disclosure standards on biodiversity, and has said that it will build upon the TNFD. Companies already using the TNFD recommendations are therefore well-placed to report against ISSB standards relating to nature and biodiversity. In our recent research, 31 companies mention the TNFD, and five reporters provide meaningful disclosure.

New equality requirements

In the July King's Speech, the UK government pledged to make ethnicity pay gap reporting mandatory. The draft Equality (Race and Disability) bill will mandate that companies with more than 250 people report on their disability and ethnicity pay gaps. Many reporters are already on their way to complying – our research found that 30 of the FTSE 100 already disclose their ethnicity pay gap (a slight increase from 28 last year).

Acknowledgement of ISSB

ISSB compliance is a waiting game for UK reporters. Our research found that

40 of the FTSE 100 make a reference to the ISSB standards in their reports, but these references typically consist of brief acknowledgements that developments in this area are being monitored. ISSB standards constitute a major shift for sustainability reporting, with many companies already planning or starting to implement changes. While FTSE 100 reporters haven't changed their approach dramatically up to now, we expect to see meaningful moves from next year.

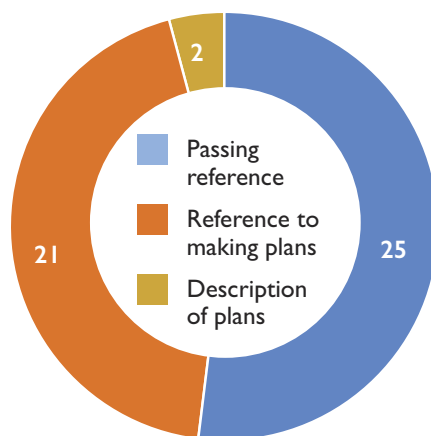
Distribution of resources

Capital allocation continues to become a more prominent topic in strategic reports, with high-quality information often to be found in business model descriptions, statements from CFOs and strategy sections.

Business model descriptions

High-quality business model descriptions are still rarer than they should be. Descriptions are often highly formulaic and offer little or no insight into what a given company does to create value, and how it makes money. Notably, the most insightful descriptions often prioritise text over graphics and circular diagrams.

Extent of coverage of CSRD, if mentioned in the report



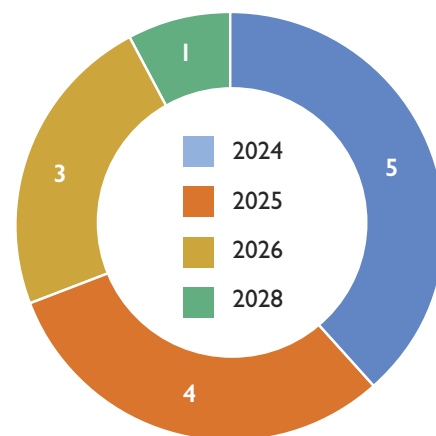
AI is more prominent

Artificial intelligence is discussed more often in this year's reports than ever before. 80 of the FTSE 100 mentioned AI, with 36 including it in their risk sections. 20 reporters framed it as an opportunity, with several listing it as part of the board's skillset.

Untapped potential of ESEF

Despite its position as the UK's mandatory reporting format, we found that 23 of the FTSE 100 do not make

Stated year for reporting on CSRD, if mentioned in the report



their European Single Electronic Format (ESEF) reports available on their corporate website. Of those that did, most reporters only provide the most basic option, which does not feature easy-to-view iXBRL tagging. As the Financial Reporting Council (FRC) has pointed out, the ESEF format offers significant untapped potential and continued focus on printed or PDF annual reports is holding back real change, as a PDF cannot possibly comply with digital accessibility rules. ■

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