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NEW REPORTING REQUIREMENTS FOR LARGE PRIVATE COMPANIES

REPORTING REQUIREMENTS FOR LARGE PRIVATE COMPANIES – WHAT'S NEW FOR 2020?

The landscape is changing for large private companies, in terms of corporate governance and the areas that they need to report on in their annual reports. While this is likely to be familiar territory for very large private companies, this note aims to give an overview of the main new reporting requirements, particularly for those private companies which may need to address these areas for the first time in 2020[1] .

Directors must report on how they have performed their duty to promote the success of the company for the benefit of its members as a whole.

The Companies (Miscellaneous Reporting) Regulations 2018 (**Regulations**) introduce new requirements for content in the annual report. These apply for financial years beginning on or after 1 January 2019, but are not applicable to LLPs. In addition, large private companies and LLPs are required by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to make disclosures on their UK greenhouse gas emission, energy consumption and energy efficiency. These energy disclosures apply to accounting periods commencing on or after 1 April 2019. The private companies within scope of the Regulations and the energy regulations differ according to the content requirements, as summarised below.

New statement required	Companies in scope
Statement in the strategic report of **how directors have performed their duty under section 172 Companies Act 2006**, and how they have had regard to the factors in section 172(1)(a) to (f) Companies Act to promote the success of the company[2]	Large private companies already required to produce a strategic report. Must meet at least 2 out of 3 size criteria: • turnover of more than £36m • balance sheet total more than £18m • more than 250 employees
Statement in the directors' report on **business relationships** summarising how directors have engaged with suppliers, customers and others in a business relationship with the company	Large private companies meeting at least 2 out of 3 of the size criteria: • turnover of more than £36m • balance sheet total more than £18m • more than 250 employees

[1] Note that this briefing focuses on large or very large private companies meeting the thresholds mentioned above. There are additional requirements for quoted companies that are not dealt with in this briefing.
[2] The company must also make this statement accessible on a website.

New statement required	Companies in scope
Statement in the directors' report on **employee engagement** summarising how directors have engaged with employees and taken account of their interests	Companies with more than 250 UK employees (and, if company is a parent company of a group, it is based on the number of employees in the group)
Statement in the directors' report of **corporate governance arrangements** stating which corporate governance code the company applied in the financial year, how it was applied, and any departures from that code with reasons	Very large private companies (more than 2000 employees OR a turnover of more than £200 million globally *and* a balance sheet total of over £2 billion globally.
Statement in the directors' report on **UK energy use and carbon emissions**	Large private companies meeting at least 2 out of 3 of the size criteria: • turnover of more than £36m • balance sheet total more than £18m • more than 250 employees

How do the reporting requirements apply for groups?
All qualifying companies, including subsidiaries, must meet the new reporting requirements under the Regulations. A parent company may not fulfil the reporting obligation for subsidiaries. However, there may be scope for a subsidiary company to provide less information in its own statement in circumstances where the parent company sets group policies that are applied throughout the group. The subsidiary will still need to explain how its directors have applied or reflected the group policies and decisions.

All qualifying companies, including subsidiaries, must meet the new reporting requirements under the Regulations

Section 172(1) statement: guidance has been issued by various bodies, including the FRC, ICSA and the GC100, on section 172 statement reporting. The aim is to provide a meaningful and informative statement for shareholders, focused on matters that are strategically important to the company and showing how the directors engage with key stakeholders groups and have regard to their interests when taking decisions and deciding on strategies. Preparatory work for companies will include identifying key stakeholders and perhaps preparing a stakeholder engagement policy.

Statement on business relationships: there is clearly scope for overlap between the section 172 statement and this requirement. Disclosure may be met by including a "business relationships" heading in the directors' report and cross-referencing to the section in the strategic report dealing with section 172.

Statement on employee engagement: again, there is scope for overlap with the section 172 statement, and disclosure may be met by appropriate cross-referencing. Note that there is no exemption for subsidiaries. If the company is a parent company, it is the number of employees in the group and not just the company itself that is used.

Statement of corporate governance arrangements: voluntary corporate governance principles for large private companies have been published by the FRC. The Wates principles apply for financial years beginning on or after 1 January 2019. They should encourage, for example, greater transparency about remuneration structures.

Statement of UK energy use and carbon emission: there are a number of exemptions applicable to all entities, for example for low energy usage during the period (less than 40,000kWh of energy during the period). In a group context, the statement must be made on the basis of the company and its subsidiaries that are in scope. There is no need to report on subsidiaries who are not in scope. Subsidiaries that are in scope do not need to report if they are included within the group reporting of a parent reporting as part of group accounts. Companies will need to ensure they have processes in place to collect the required data in order to report.

KEY CONTACT

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