Strategic Report
Practical guidance for private companies

Introduction

All UK companies other than those entitled to the small companies exemption* have to prepare a Strategic Report for financial years ended on or after 30 September 2013. This is in addition to preparing a Directors’ Report.

This document provides practical guidance for large and medium-sized private companies to ensure compliance with the new regulations as well as enhance the quality of their Strategic Reports.

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1. There is no statutory requirement to state that the company has not prepared a Strategic Report because it is entitled to the small companies exemption. However, in our view, it would be appropriate to include a statement to this effect in the Directors’ Report.
# Impact of new regulations for private companies

<table>
<thead>
<tr>
<th>Strategic Report</th>
<th>Directors’ Report</th>
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<tr>
<td>▶ A separate board report to the Directors’ Report. Therefore the report and accounts must contain a clear heading ‘Strategic Report’</td>
<td>▶ Content continues to be governed by Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (“the Regulations”).</td>
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<tr>
<td>▶ Content - the business review previously included within the Directors’ Report</td>
<td>▶ Certain disclosures can be removed:</td>
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<td>▶ No new content requirement</td>
<td>▶ The description of principal activities of the company</td>
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<td>▶ Subject to the same safe harbour provisions for directors’ liability as the Directors’ Report.</td>
<td>▶ Asset values</td>
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<td>▶ Both reports must be approved by the board of directors and signed on behalf of the board by a director or the company secretary.</td>
<td>▶ Charitable donations</td>
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<td>▶ The directors’ responsibility statement should refer to the directors’ responsibility for preparing both the Strategic Report and the Directors’ Report.</td>
<td>▶ The disclosure in the company acquiring own shares is now restricted to public companies i.e., PLCs not publicly traded companies</td>
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<td>▶ Policy and practice on the payment of creditors</td>
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## Practical considerations

For a private company, producing the Strategic Report can be as simple as moving the previous Section 417 business review that was required in the Directors’ Report into a separate Strategic Report.

This would include the relocation of the description of the principal risks and uncertainties facing the company.

Additionally, the company can include matters that are otherwise required under the Regulations to be included in a Directors’ Report that the directors consider are of strategic importance to the company. For example, in some companies, it may be appropriate to disclose the treasury policy and use of financial instruments in the Strategic Report, if of strategic importance to the company.

### Opportunities for enhancement

While the content of the business review can be moved to the Strategic Report and renamed as such, and there is no new content for private companies, this is a good time to re-appraise the content and quality of the Strategic Report - primarily to ensure that the Strategic Report communicates to shareholders how directors have performed their duties under s172 Companies Act 2006 (“to promote the success of the company”).

As a first step, directors of private companies should challenge whether the company met the previous requirements i.e., whether the business review (now the Strategic Report) provided:

- ▶ A fair review of the company’s business, and
- ▶ A balanced and comprehensive analysis of the development and performance of the company’s business during the financial year.

### What does fair and balanced mean?

Whilst there is no universal definition, key factors in our view that contribute to fairness and balance include:

- ▶ Openness and honesty – appropriate weighting to reporting of weaknesses, difficulties and challenges as well as successes.
- ▶ Consistency between the narrative and the financial statements.

- ▶ Clear explanations of key performance indicators (KPIs), strong linkage of KPIs to strategy and consistent measures of progress over time.

### Other practical considerations for improving the content of your Strategic Report

- ▶ While it is not mandatory for private companies to describe their business model, a short description (or diagrammatic representation) can be helpful in communicating what the business does with shareholders. If the business model is not described, we recommend retaining the “principal activities” disclosure.
- ▶ Companies should try and link KPIs to strategic aims and objectives i.e., KPIs should provide a measure of progress against the achievement of the company’s objectives and strategy.
- ▶ Principal risks and uncertainties should be current and updated on a regular basis to reflect those of most relevance to the achievement of strategy and business objectives. They should not be boiler plate disclosures that remain unchanged from one year to the next. Risks that are regularly discussed at board level give a good indication of matters that should be included within the Strategic Report.
- ▶ The Strategic Report should include a discussion on future developments and how these might impact the performance and/or strategy of the company.

The Financial Reporting Council (FRC) published an exposure draft ‘Guidance on the Strategic Report’ in September 2013. Whilst this guidance is primarily aimed at quoted companies, its principles are useful to private companies. We recommend that private companies review the guidance and adopt what they can, consistent with the size and complexity of the company. Larger private trading companies and groups who may view their peers/competitors as listed companies may wish to provide a fuller Strategic Report and follow the FRC’s guidance more closely than a wholly owned subsidiary which is likely to provide only the minimum required disclosure.

2. Refer to Appendix S414C(11)
**Appendix**

The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 were approved by Parliament in August 2013. These regulations amend the Companies Act 2006 and apply to all companies incorporated in the UK (including Northern Ireland), with the exception of those companies entitled to the small companies exemption. Certain requirements within the regulations apply only to quoted companies and have therefore not been included below.

<table>
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<tr>
<th>Companies Act reference</th>
<th>Requirement</th>
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<td>CA 2006 s414A (1), (2)</td>
<td>The directors of a company must prepare a Strategic Report for each financial year unless the company is entitled to the small company exemption.</td>
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<tr>
<td>CA 2006 s414C(1)</td>
<td>The purpose of the Strategic Report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).</td>
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</table>
| CA 2006 s414C(2) | The Strategic Report must contain:  
  ▶ A fair review of the company’s business, and  
  ▶ A description of the principal risks and uncertainties facing the company |
| CA 2006 s414C(3) | The review should be a balanced and comprehensive analysis of the development and performance of the company’s business during the financial year and the position of the company’s business at the end of that year, consistent with the size and complexity of the business. |
| CA 2006 s414C(4) & (6) | To the extent necessary for an understanding of the development, performance or position of the company’s business, the review must include analysis using financial and, where appropriate, non-financial key performance indicators, including information relating to environmental and employee matters.  
  NB Medium sized companies do not need to provide non-financial KPIs. |
| CA 2006 s414C(11) | The Strategic Report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the Directors’ Report as the directors consider are of strategic importance to the company.  
  This is further elaborated in Schedule 7.1A of the Regulations which state that “Where a company has chosen in accordance with section 414C(11) to set out in the company's strategic report information required by this Schedule to be contained in the Directors’ Report it shall state in the Directors’ Report that it has done so and in respect of which information it has done so.” |
| CA 2006 s414C(12) | The Strategic Report must, where appropriate, include references to, and additional explanations of, amounts included in the company’s annual accounts. |
| CA 2006 s414C(14) | Disclosure of information about impending developments or matters in the course of negotiation do not need to be disclosed if it would, in the opinion of the directors, be seriously prejudicial to the interests of the company. |
| CA 2006 s414D(1) | The Strategic Report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company. |
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