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# Modernising Corporate Reporting: UK government consults

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The Department for Business, Innovation, Science and Trade (BIST) has published the government's long-promised consultation on Modernising Corporate Reporting to support long-term economic growth.

This "once-in-a-generation review" aims to produce a more coherent, proportionate and future-fit set of rules.

The new regime would be principles-based with a focus on providing information that is financially material and decision-useful for investors and creditors.

## The case for reform

The disclosure requirements that apply to UK companies have multiplied over recent decades, with incremental additions leading to duplication and unnecessary complexity. In some cases, the purpose of reporting requirements is unclear, and they are disproportionate to the size and type of company.

The legal framework underlying these requirements is also confusing, given that obligations are spread out over company law, accounting standards, listing rules and other regulations.

In addition, the law has become outdated and prevents companies and investors from using new technologies for communicating and accessing information.

## Timing

The consultation runs for 12 weeks from 7 September to 30 November 2026. The government intends to publish a consultation outcome by the end of May 2027.

Whilst many of these proposals would take considerable time to achieve, legislation to bring about reporting reforms promised in 2025 (to remove directors' reports and expand exemptions from producing strategic reports) is said to be "already underway".

## Who is affected by the proposals?

If adopted, these proposals would affect all sizes (small, medium and large) and types (private and listed) of companies and groups.

**Small and medium-sized companies** (SMEs) would benefit from lighter regulation, including medium-sized companies being exempted from audit and not needing to prepare a strategic report.

**Larger companies and groups** are likely to welcome proposals to reduce and streamline narrative reporting requirements at group level and to focus on investor and creditor needs. Public companies should also benefit from digital communications becoming the default and confirmation that virtual general meetings are permitted.

Whilst the government wants to test the merits of disclosure requirements for **private companies** in general, **very large companies** (to be defined) could be required to have higher disclosure standards which are closer to those of publicly traded companies.

Regimes for LLPs are to be considered "in due course".

As changes would also affect **investors**, **creditors** and **other users of company reports**, the consultation seeks the views of all these stakeholders.

## Overview of key proposals

The consultation covers the following areas. A fuller summary of the proposals is set out in the remainder of this note.

### Definitions, thresholds and exemptions

The proposals seek to simplify and rationalise the existing thresholds, categories and exemptions which determine the disclosures which different types and sizes of company need to make. They include:

- removing the distinction between small and medium-sized companies in corporate reporting, so medium-sized companies can access a wider package of exemptions,
- consolidating certain narrative reporting requirements into a new "very large company" category, and
- considering whether the definition of an employee is unnecessarily restrictive for threshold assessments.

### Financial reporting framework

The government proposes to create a simpler and more proportionate reporting framework by moving detailed requirements out of the Companies Act 2006 and into relevant accounting standards.

The range of accounting standards that are available for use by UK companies would also be streamlined into four main standards.

### Dividends and distributions

The government is proposing a fundamental change to the existing rules on when a company may pay dividends.

Companies would need to confirm that any dividends or other distributions would not impair their solvency, rather than justifying paying out profits under the existing combination of legal and accounting rules.

### Strategic report and narrative reporting

The proposals aim to refocus and simplify the current regime for strategic reports. Existing prescriptive content requirements would be replaced by a more principles-based approach. The range of companies required to produce a strategic report would also be reconsidered.

### Corporate governance and remuneration reporting

Similarly, the consultation considers how to simplify corporate governance and remuneration reporting. For listed companies, this includes the possibility of being able to drop the Annual General Meeting (AGM) vote on the remuneration report and disclosures about CEO-UK employee pay ratios.

### Sustainability-related financial disclosures

The consultation proposes greater flexibility as to where climate-related and carbon and energy disclosures might be located in the annual report, whilst expanding protections for directors. The existing disclosure regimes, and how they interact with each other, remain under further review.

### Digital technologies

The consultation proposes to allow companies to use digital communications as the default option. Individuals would retain the right to be told about information published on a website and to ask to receive hard copies. The government is also seeking views on additional safeguards that might be necessary for fully virtual general meetings.

More broadly, the consultation seeks ideas about whether certain disclosures can be moved to digital platforms and websites, whether increased electronic tagging of information will help with analysis, and the impacts of AI.



*…the proposed reforms in this consultation are wide-ranging and ambitious, touching upon almost every aspect of the UK's corporate reporting framework.*

## Definitions, thresholds and exemptions

To determine the size and type of UK company caught by different accounts and reporting rules under the Companies Act 2006, it is currently necessary to navigate a complex web of definitions, thresholds and exemptions. The government is aiming to make these rules clearer and more consistent.

Reforms in this area would particularly benefit SMEs and micro-entities, as well as potentially extending reporting exemptions to more companies, including subsidiaries within "ineligible" groups, i.e. where the group is headed up by a publicly traded company, or includes a financially regulated entity, such as a bank or insurer.

The proposals include the following.

### Relaxing rules for medium-sized companies

The government is considering removing the distinction between small and medium-sized companies so that medium-sized companies would not need to prepare a cash flow statement or consolidated accounts and could use the small-company exemption from audit.

### Simplifying requirements for subsidiaries in certain groups

The government is seeking views on relaxing the group ineligibility rules so that more subsidiaries that fall below the relevant thresholds would be able to use accounting and audit exemptions, despite being part of a listed and/or financially regulated group.

The government acknowledges the dangers of relaxing ineligibility rules as this could, for example, affect regulatory supervision, interfere with the ability of regulated firms to raise capital, and increase the risk of concealment of financial crime. The government will therefore work with the Financial Conduct Authority (FCA) and other regulators to discuss the potential risks.

### Consolidating requirements for "very large companies"

The government is seeking views on the disclosure obligations of the largest companies, bearing in mind the interests of investors and creditors in transparency, as well as the desirability of not discouraging private companies from accessing capital markets because of the discrepancy between what private and publicly traded companies are required to disclose.

To consolidate a number of existing Companies Act 2006 requirements, the consultation also seeks views on creating a new single "very large company" category for certain narrative reporting disclosures.

This category would replace current rules which cover a wide range of entities, based on differing requirements, including quoted companies, high turnover companies (with more than £500 million turnover and 500 employees), traded companies, banks and insurers with more than 500 employees, and companies with either 2,000 employees or a £200 million turnover and £2 billion balance sheet.

### Counting employees and workers when working out size

One of the criteria used for determining company size is number of "employees". The consultation asks for views on updating the definition of an employee, allowing companies to use full-time equivalent employees as an alternative to the average number of employees.

To reflect the different employment models that now exist, the consultation also seeks views on whether contractors, agency workers and part-time workers should be included in the calculation.



## Financial reporting framework

The government wants to simplify the relationship between company law and accounting standards, giving each element a purpose and clarifying how they interact with each other.

Proposals for restructuring the financial reporting framework include the following elements.

### Rebalancing company law and accounting standards

The consultation proposes removing all the detailed financial reporting requirements from the Companies Act 2006 so that accounting standards become the single source of detailed requirements for UK companies to follow.

The Companies Act would set out high level obligations and identify which reporting standards should be used by which set of companies.

### Four main accounting standards

The following four main standards would be available for use by UK companies:

- UK-adopted International Accounting Standards (UK-IAS),
- UK GAAP for large companies,
- UK GAAP for SMEs, and
- UK GAAP for micro-entities.

### True and fair view to remain

The true and fair concept would remain the overriding principle governing the presentation of financial statements for companies preparing accounts using UK IAS and UK GAAP for large companies.

However, an SME or micro-entity would not need to present a true and fair view and would only need to comply with UK GAAP for SMEs or UK GAAP for micro-entities, as applicable.

### Audit exemptions

In addition to extending the audit exemption for small companies to all SMEs, the existing audit exemption for wholly owned subsidiaries could be simplified, with no requirement to provide a parent company guarantee.

However, the government acknowledges that an audit can support access to finance, therefore the consultation is also seeking views on whether a voluntary assurance standard could provide the comfort that lenders need at a lower cost than a full statutory audit.

### Financial disclosure requirements for subsidiaries

The government is also considering options for reducing the financial disclosure requirements which apply to wholly owned subsidiaries but notes that the scope for this is limited.



## Strategic report

The government announced last year that it would remove the requirement for a separate directors' report as well as exempting UK subsidiaries with a UK parent from needing to produce a strategic report. It expects to lay legislation to this effect before Parliament "in due course".

The current consultation envisages further radical cut-backs to shorten the very long strategic reports that are currently being published and to refocus disclosures on material information of value to investors and creditors.

### Strategic report content requirements to be simplified

The government proposes to replace the prescriptive list of topics in the Companies Act 2006 (covering, for example, information about the environment, employees, human rights, anti-corruption and anti-bribery) with five new "baseline requirements".

The change is intended to give companies and directors more flexibility, while stimulating more insightful reporting.

The five "baseline" areas for companies to cover are:

- The company's business model and how it generates value.
- A performance review providing context to the financial statements and describing matters affecting the performance of the company.
- Resources and relationships that are important to the company and how these impact decision making. This would replace the current section 172 statement on how the directors have promoted the success of the company.
- The company's strategy including its aims, plans and objectives and responses to opportunities and risks.
- A description of risks and uncertainties.

The government believes that the streamlined requirements should still mean that companies disclose key information as required at present, where it is financially material (see "*Purpose*" below).

While Key Performance Indicators (KPIs) would not be specifically required, companies would be expected to continue to reflect KPIs and metrics in the strategic report.

Climate-related disclosures would still be required (see "*Sustainability-related financial disclosures*" on page 8).

### Purpose of the strategic report to be refocussed

The purpose of the strategic report's disclosures would be expanded. Currently the strategic report should enable shareholders to assess how the directors have performed their duty to promote the success of the company. The consultation proposes that companies should focus on providing information that is material to the needs of investors and creditors, including present, potential and future investors and creditors.

This purpose, together with the removal of many prescriptive content requirements, is intended to guide and empower directors to focus their narrative disclosures on information that is financially material.

### Which companies and subsidiaries should have to report?

The consultation asks which types of companies should be required to produce the new baseline reporting: for example, whether the requirement should apply only to publicly listed companies, or also to large or very large private companies.

Views are also sought on allowing subsidiaries in listed and regulated ("ineligible") groups not to produce a strategic report, if already covered by a parent's report.



## Corporate governance and risk reporting

### Scope and format of governance reports

As with the strategic report, the government is looking to make governance reporting simpler and more useful. Proposals to achieve this include focussing requirements at group level and setting a single threshold for companies required to report. The consultation also asks for views on the value of such reporting by private companies and proposes to simplify the statutory definition of corporate governance.

In addition, views are sought on whether corporate governance disclosures could be moved out of the annual report and onto the company's website.

### Enhanced risk reporting

Whilst the overall aim of this consultation is to cut down on the volume of reporting requirements, it also raises the question of whether there are areas that would benefit from more information being provided for investors and creditors, especially on how directors are managing specific risks.

As cyber security and resilience is an increasing priority for all businesses, the government welcomes views on whether existing reporting requirements, under which directors must consider and report on risks material to their business, are sufficient to generate good quality cyber risk reporting that is useful to investors.

Specific new cyber risk management requirements might include asking companies to provide information about:

- governance arrangements for managing cyber risks, from the boardroom down,
- the extent to which, if any, cyber security guidance or support provided by the government is used, and
- whether there is a cyber incident response plan in place.

## Dividends and distributions

In the past decade or more, there have been concerns about companies that have paid out dividends and subsequently become insolvent, as well as around a lack of transparency as to companies' ability to pay dividends.

Rather than looking for more disclosure on this topic, the government is asking for views on replacing the current "complex, gameable" rules on distributions and capital maintenance with a solvency-based regime, as used in a number of other jurisdictions.

This would involve removing the restrictions in company law on making distributions except out of accumulated, realised profits less accumulated, realised losses. Instead, companies would only be able to make a distribution if this would not affect the company's ability to continue as a going concern.

The government acknowledges that this would be a "fundamental shift" in company law and asks for views on the features needed to support a solvency-based regime.

Although the government does not spell out what such features might be, they could include defining the type of assurance needed to be given and received by directors as to the company's going concern position, as well as how far into the future the directors would be expected to look.

Directors used to the existing system may be concerned about a different measure for permitting distributions, although, under their general duties, they should always consider the company's prospects alongside the mathematical calculation of distributable reserves.



## Remuneration reporting

The government considers that, whilst shareholders of UK quoted companies continue to need remuneration reporting requirements to help them to assess whether pay matches performance, reports are still too long and complex. It suggests that some obligations should therefore be trimmed and/or refined further.

### Key information to keep

The following information is considered investor-critical, so the government recommends that these elements are kept:

- the forward-looking directors' remuneration policy and approval of this by shareholders at the AGM every three years, and
- key information relevant to how the pay policy has been implemented, including the Remuneration Committee Chair's summary of key decisions and discretion exercised, the annual disclosure of total single remuneration for each director, disclosures of performance measures attached to pay awards in the previous year, and a performance graph showing CEO pay and Total Shareholder Return (TSR) in the past ten years.

### Advisory vote on the implementation report

Requirements flagged for removal include the need for companies to table an advisory vote on the directors' remuneration report (i.e. the implementation report) at the AGM each year.

The consultation argues that the separate triennial binding vote on the remuneration policy means that shareholders have effectively already agreed to the company's pay arrangements, so this annual vote unnecessarily takes up valuable time.

The proposal is interesting given that, since the annual vote was introduced in 2003 on an advisory basis, it has frequently served as a very public flashpoint for investors who are concerned about pay to express their dissatisfaction.

### CEO-UK employee pay ratios

Another requirement which is suggested for removal but is frequently of wider stakeholder interest and press attention is the need for companies to draw up their CEO-UK employee pay ratios.

While the ratios have always had the potential to be skewed according to the industry concerned and types of workers employed, the consultation notes that they also fluctuate significantly due to LTIP/bonus payouts and market performance. Justifications therefore tend to be boilerplate statements. Nevertheless, the consultation recognises that others, such as employee groups, may be interested in these ratios.

### Other items for removal or refinement

Further requirements are marked for removal as being duplicative or not providing information that is financially material or decision-useful for investors and creditors.

In addition, the government would like suggestions for refining existing methodologies for calculating the total single figure of remuneration (for example by introducing a de minimis threshold) and for simplifying information on directors' shareholdings and other interests in shares which is useful to investors but also available elsewhere.

### More information

For more details, see our separate briefing on Directors' remuneration reporting: proposals for change.



## Sustainability-related financial disclosures

In this area, the consultation confirms progress and timings on a number of related reviews and seeks further views on how sustainability-related information is used in practice and where best to locate it.

### Companies Act climate-related financial disclosures (CFD)

The government is still assessing how existing disclosures required by the Companies Act 2006 are being used by companies, investors and other users. The CFD review is expected to conclude by spring 2027 and feedback from that review, and from this consultation, will inform future statutory changes, including as to how the new UK Sustainability Reporting Standards (UK SRS S1 and S2) should be reflected in the Companies Act framework.

The consultation also seeks views from investors and creditors on the usefulness of CFD disclosures and from private companies on the benefits of making them, for example to attract capital or to develop a climate strategy.

### Updated UK Listing Rules (UKLR) requirements

The consultation confirms that final FCA rules on reporting in line with the UK SRS will be issued this autumn.

### Carbon and energy disclosures

The Department of Energy Security and Net Zero (DESNZ) will consult later in 2026 on both the Streamlined Energy and Carbon Regime (SECR) and Energy Savings Opportunity Scheme (ESOS). The consultation asks about issues stakeholders would like considered as part of this process.

### Transition plans

The government is still considering responses to its separate transition plan consultation but will also have regard to this wider reporting review when making future decisions.

### Overlaps between UK reporting regimes

The government acknowledges that there are "significant interactions and overlaps" between existing Companies Act requirements, the UK SRS and future transition plan requirements. Disclosures made by UK listed companies under the revised UKLR obligations will be considered sufficient to meet the Companies Act requirements.

### Legal protection for directors

The government believes that existing protections for careful directors who did not know that a statement was untrue or misleading should apply to UK SRS disclosures. As the safe harbour in section 463 of the Companies Act 2006 is currently limited to the strategic report, the consultation notes that it may be necessary to extend it if sustainability disclosures are located outside the strategic report in the future. Legal protection for forward-looking and estimated information in transition plans is also being considered as part of the response to the government's separate consultation on transition plans.

### Location of disclosures

The consultation emphasises that all sustainability-related disclosures should be strategic and financially material but suggests that companies should be able to choose whether to integrate this information within the strategic report or, alternatively, present it in a separate sustainability section.

### Assurance

The government is not proposing additional requirements for assuring strategic or sustainability information. The preferred approach is to allow reporting entities to decide on whether to seek assurance, whilst exploring how to support investor and creditor trust and confidence in strategic reporting.



## Digital technologies

Modernising the UK's approach to corporate reporting and communications, so that companies can operate more efficiently, and investors benefit from more flexibility in accessing useful information, is a key driver behind these proposed reforms.

### Digital communications

The consultation proposes that all companies should be able to send documents and other information to shareholders electronically without needing to obtain prior agreement.

Individual shareholders would retain rights to ask to receive hard copy communications, and companies would still need to contact shareholders individually by electronic means (for example by email) to alert them to any new information becoming available on the company website.

The consultation asks whether these changes should apply to all types of company (or only listed companies) and whether rights to ask for hard copies should be constrained (for example by needing to be renewed at set intervals).

### Virtual only general meetings

The consultation confirms that the government intends to clarify that references to a 'place' of meeting in the Companies Act 2006 can include virtual locations, where there is shareholder consent. As is now the case, this leaves the decision as to whether to hold meetings in this way in the hands of companies and shareholders.

The consultation also seeks views on whether it would be appropriate to provide for additional investor safeguards, such as supermajority consent from shareholders, re-approval of permission to hold virtual meetings after a set period, and best practice guidance specific to virtual shareholder meetings.

### Website and portal reporting

The consultation is seeking views on which types of information could usefully be moved to a website or central online portal to reduce "clutter" in the annual report. It suggests that policies or processes that do not change year on year may be suitable for websites, while portals can be useful for data-focused information as they can aid comparability and data extraction. Minimum requirements would still need to be considered, including retention timelines, the frequency of updates, director sign-off requirements, and protections from liability.

### Electronic formatting of the annual report and accounts

The consultation seeks views on how best to help companies to move away from the traditional analogue formats which require manual effort and expertise to create.

Likewise, the government is keen to understand how users of reports and accounts can more easily and cheaply extract, aggregate, compare and analyse information across company reports and accounts.

Proposals include potentially requiring companies to include more digital tagging in parts of the annual report and accounts filed via software.

The consultation also contemplates updating related governance processes for electronic reports to enhance trust, such as by requiring directors to approve electronic formatting at an earlier stage and auditors to report on whether the reports and accounts have been formatted as required.

However, further information is sought, especially in the light of current advances in the use of AI and other data-mining tools.



## Other proposed changes

Other changes contemplated by the consultation include the following:

### Protection from liability for directors

As discussed above, in relation to sustainability-related information (see page 8), if it is decided that some information should, or can, be disclosed outside the strategic report, the consultation proposes to extend protections for directors (in section 463 of the Companies Act 2006).

### Information about auditors

For greater oversight and transparency, the consultation proposes that companies should notify Companies House about auditor appointments and retirements, including the name of the audit firm, individual signing auditor and auditor registration number.

### Narrative disclosures

The consultation queries the value of the following disclosure requirements and whether they should be removed:

- the sex breakdown of senior personnel (under section 414C(8)(c) of the Companies Act 2006), which is required whether or not a company believes it is material to overall company performance or success, and
- disclosures made by companies in extractive industries under the Payments to Governments Regulations 2014 which are designed to prevent bribery and corruption but which a post-implementation review found were not achieving their intended objectives.

## Next steps

The Modernising Corporate Reporting consultation could result in a much simpler legal framework for corporate reporting, making the legislation and rules easier to navigate and simpler to comply with.

Nevertheless, the demands of shareholders, investors and creditors, not to mention other company stakeholders, are likely to mean that large companies and groups will still bear significant reporting burdens.

A less prescriptive framework, as well as the potential change to the rules on distributions, would also affect the judgements that directors must make, and their potential liabilities.

The government is keen for engagement and specific evidence, where available, on all the matters put forward for discussion in the consultation document. Some of these issues are still at a more conceptual stage than others.

If you would like to respond to the consultation, please get in touch to discuss how we can help.

> *…we look forward to discussing these proposals with business leaders across the country, to hear how they might impact you, to understand where we have gone too far and to be challenged on the areas we have not gone far enough…*

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