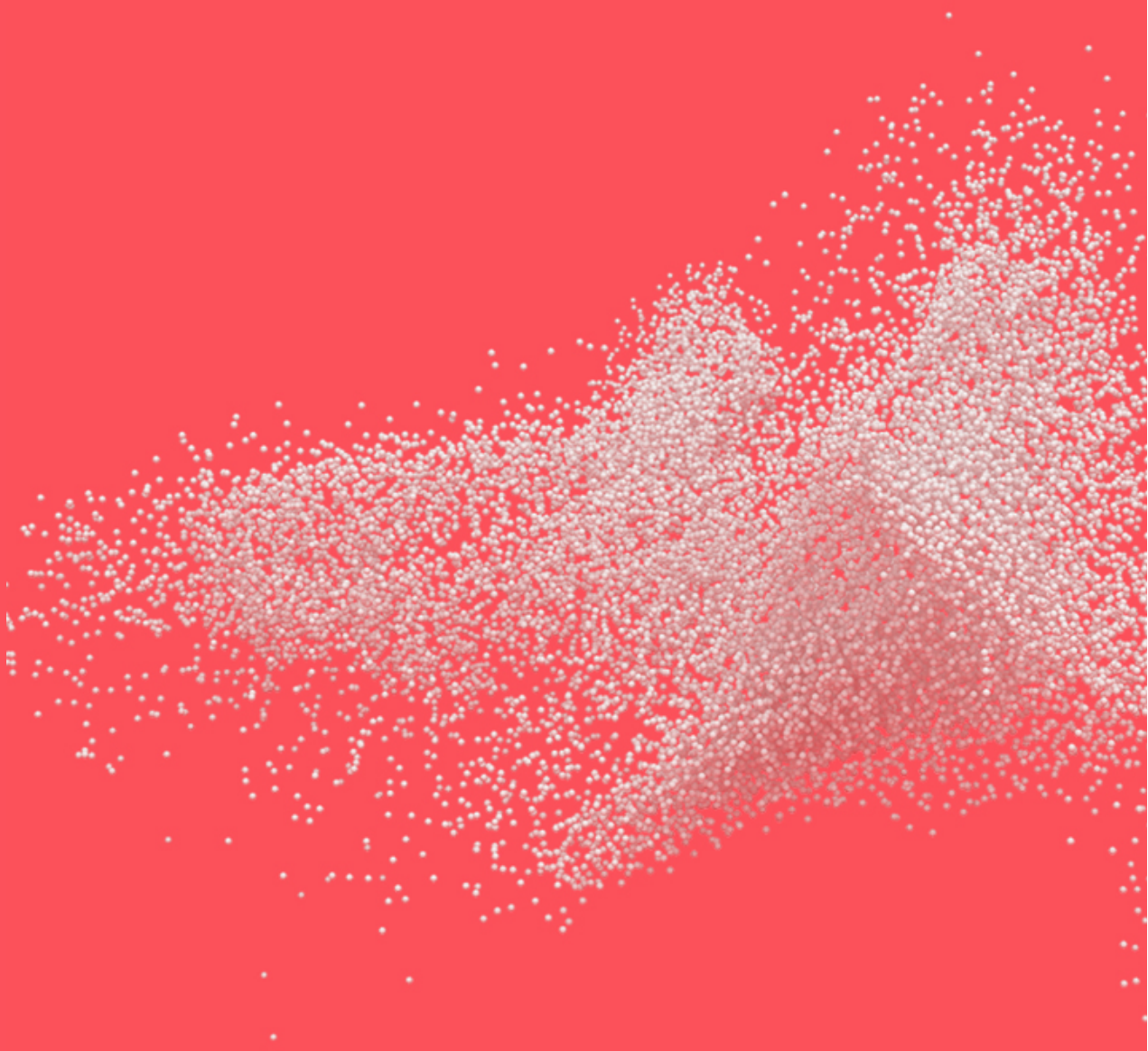
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Modernising Corporate Reporting - bold reforms

October 2026



Introduction and background

On 7 September 2026, the Department for Business, Innovation, Science and Trade (DBIST) launched a long-awaited and wide-ranging consultation on changes to English companies' corporate reporting requirements.

The consultation comes after previous moves by the Government to reform audit and corporate governance reporting, a broader push to improve the UK's attractiveness to business including its Modern Industrial Strategy, and calls from industry to address the reporting burden on companies, for example the QCA's 2025 report on corporate reporting. In particular, the consultation builds on the Government's written statement in October 2025 which committed to relaxations around the strategic report and the directors' report.

The consultation is running until 30 November 2026, and DBIST is seeking views from companies, investors, creditors, and wider stakeholders. In this briefing we highlight some key proposals from the consultation which we think will be of most interest and have the most impact. The changes proposed in the consultation are dubbed "once-in-a-generation" by the Government and we anticipate a broad range of responses. Many of the proposals are not set out in detail in the consultation, presumably pending feedback, and accordingly we would not expect them to come into force for some time, particularly given the need for the legislative process to take place. It should also be noted that, depending on feedback, some proposals set out below may not be taken forward. The Government aims to publish a consultation outcome within six months of the close of the consultation.

While the consultation is focused on companies and their annual reporting requirements, the Government will also consider relevant changes to reporting requirements for other types of entities such as LLPs in due course.

Simplifying corporate reporting

The stated aim of the consultation is to reduce the regulatory burden on companies using the principle that "reporting requirements should be commensurate with the size, complexity and economic impact of the reporting entity".

Thresholds

The Government is considering changes to reporting thresholds (and exemptions to these) and requirements as follows:

- Having already committed to removing medium sized companies from the requirement to prepare a strategic report, the Government is now considering whether some or all of the exemptions within the small companies reporting regime should be available to medium-sized companies.

- The Government is also asking for views on the trade-off of removing the audit requirement for medium-sized company accounts. The consultation acknowledges that audited accounts can be very valuable, giving companies, their investors and creditors, greater confidence in their accounts and as a result improving access to financing.

- The company size thresholds include one test of the number of employees a company employs, and this is calculated based on the company's headcount. Recognising the change in working patterns and workforce models in the UK, the consultation seeks views on whether to allow companies to use the average number of employees or average number of full time equivalent employees to assess their size.

- Some non-financial reporting requirements apply only to the largest companies, but these requirements are applied using a variety of different thresholds. The Government is seeking views on unifying these requirements under a "very large" company threshold. At this stage no thresholds for this category have been proposed and this threshold would not be for financial reporting purposes.

Exemptions

- Small companies and micro entities which are part of ineligible groups are excluded from access to certain reporting exemptions. The Government is considering allowing more subsidiaries to use reporting exemptions, but is also conscious of the effect this might have on the regulator's ability to scrutinise a group (and the importance of subsidiary affairs in a regulated group).

- While wholly-owned subsidiaries can benefit from some reliefs in financial reporting, the Government is considering what further disclosure exemptions could be provided. One particular example is the exemption that exempts a group company from being required to have its accounts audited, so long as the parent company provides a parent company guarantee. The Government is considering removing the requirement for a parent company guarantee, and subsidiaries using this exemption would be audited to meet the group audit requirements only (its published accounts would not be audited, but the group's accounts would be audited).

Simplifying the financial reporting framework

Accounting standards

The Government is proposing that all detailed financial reporting requirements are removed from the Companies Act 2006 (2006 Act) and its supporting regulations and that where necessary any requirements are transferred to financial reporting standards (or deleted). The 2006 Act would become the framework which supports the accounting standards. The Government is seeking feedback on which disclosure obligations should be retained in legislation and which requirements should be moved into accounting standards. The Financial Reporting Council will be consulting on possible changes to accounting standards in due course.

Replacing the distributable reserves test with solvency statements

Under the current 2006 Act requirements, companies returning profits to shareholders can only do so out of profits available for distribution, and there has been criticism that calculating profits available for distribution requires extensive and complex calculations, and can be subject to financial engineering to inflate distributable reserves.

The consultation proposes that companies move from the profits available for distribution approach to a requirement for the company's directors to give a solvency statement confirming that the that the distribution (for example the payment of a dividend or a share buyback) will not affect the company's ability to continue as a going concern.

This change has been discussed by academics and practitioners for some time, and an iteration of the solvency statement requirement had been suggested as part of the previous Government's Restoring Trust in Audit and Corporate Governance consultation (as an ***addition*** to the profits available for distribution test), but this received mixed views in consultation and was ultimately not taken forward.

At this stage, there is little in the way of detail on these latest proposals, but we expect the solvency statement requirements to be similar to those for the same statement for a reduction in capital. If this is the case, then the directors making the statement would need to assess the company's balance sheet (the relative position of the company's assets and liabilities) and cash flow (the company's ability to pay its debts as they fall due) in the year immediately following the date of the statement. This means directors will have to look ahead and events like the possibility of a future winding up or disposal of the company would have to be factored in by the directors making the assessment.

We note that other jurisdictions (e.g. Jersey and Australia) use the solvency statement approach in this context, and have done for some time.

Simplifying the non-financial reporting framework

Introducing a slimmer baseline model for strategic reports

The Government is proposing a new, more streamlined set of baseline non-financial reporting (NFR) requirements to be included in companies' strategic reports. This means removing most existing strategic reporting requirements and replacing them with a core set of baseline narrative disclosures, and the detail of this reporting would be tailored to be consistent with the size and complexity of the business in question. There is an open question (which the consultation seeks views on) as to whether the removal of the existing reporting requirements would mean companies would stop reporting on these issues, or do so in less detail. The October 2025 written statement committed to exempting UK subsidiaries with a UK parent from the requirement to produce a strategic report. The consultation clarifies that the Government's intention is that the exemption will be limited to certain wholly-owned subsidiaries that are included within the group strategic report of a UK parent and will not be available to certain public interest companies such as traded companies and AIM companies, but seeks views on whether the exemption should be extended to all wholly-owned subsidiaries in future.

Removing statutory NFR reporting obligations

The Government is also proposing to remove explicit statutory disclosure requirements on environmental matters, employees, social/community matters, human rights and anti-corruption/anti-bribery (sections 414C(7)(b) and 414CB of the 2006 Act, and the section 172(1) statement). The argument is that companies should not stop reporting on these in their strategic report if they are financially material to the company (or to investors / creditors).

The consultation also seeks views on the proposal to remove the sex breakdown of senior personnel disclosure (section 414C(8)(c)) and whether the information in its current format has wider value.

It is worth noting that climate-related financial disclosures are excluded from this consultation pending a post-implementation review "due to be completed by spring 2027".

Which companies should produce non-financial reporting?

There are currently a number of different thresholds which determine the non-financial reporting content to be included in a company's strategic report. The Government is proposing a single threshold for reporting baseline strategic information and wants to target this single threshold on companies whose investors and creditors most need the information that is produced. The exact threshold will depend on consultation feedback (on this point and the corporate reporting thresholds more generally).

Simplifying remuneration and corporate governance reporting

Corporate Governance

The consultation also seeks views on changes to corporate governance reporting. Questions include the following:

- What is the appropriate threshold for corporate governance reporting?
- Is there value in private companies reporting on corporate governance, or should this be restricted to very large companies and public companies?
- Whether governance and risk reporting should be set at a group level, with the Government setting out its view that corporate governance reporting should be moved to a group level.
- Whether (i) there should be a clearer, simpler definition of "Corporate Governance" in the 2006 Act; and (ii) some or all corporate governance reporting materials should be published only on the company's website.

Remuneration

The Government is seeking feedback on remuneration reporting by quoted companies given feedback that directors' remuneration reports are too long and complex. Views are being sought on how reporting can be streamlined and which current specific disclosures are investor-critical. The area most likely to generate feedback is the proposal to remove the current advisory vote on the directors' remuneration report. The Government's view is that, given the vote is non-binding and that the policy must be agreed every three years, putting the vote to an AGM takes up valuable time and resource that could be directed elsewhere. Investors may not agree with this view.

Corporate Communications

The Government is keen to use new technology in the following areas:

Digital communications with shareholders

The proposal is that all communications with shareholders should be sent to shareholders electronically without the need for prior agreement as is currently the case. Individual shareholders would have the right to opt into receiving hard copy communications and companies would still be required to notify shareholders individually by electronic means to the fact that new documents were available on the company's website. The Government is seeking views on questions such as when the changes should come into force and whether they should only apply to listed companies.

Fully virtual AGMs

The Government confirms that it will clarify the law in relation to fully virtual annual general meetings (AGMs) and will make clear that a "place" can include virtual locations if there is shareholder consent. This is because the 2006 Act requires that the notice of AGM should state the place of the meeting, meaning that very few companies have held fully virtual meetings due to the legal uncertainty. Questions raised relate to safeguards for shareholders and include the nature of the shareholder consent and best practice guidance. Since publication of the consultation, the Investment Association has published updated guidance in relation to virtual meetings which states that if companies choose to include a virtual element in their AGM, its members prefer hybrid meetings that combine a physical meeting with the option to participate virtually. Companies using virtual elements are expected to meet clear shareholder safeguards and shareholder reapproval of virtual AGM arrangements should be sought every three years. It will be interesting to see investor feedback on the Government's proposal given the Investment Association guidance which is, as expected, not in favour of fully virtual meetings (although it does note that their members hold a range of views).

Website reporting

The Government is keen to explore the possibility of relocating some of the disclosures which currently need to be included in a company's annual report to company websites or online portals, for example as already takes place with modern slavery statements. This could lead to shorter annual reports which are more straightforward and reduce time pressure on companies around the publication of annual reports. It is seeking views as to which types of disclosures should be published on a company's website or online portal as well as how the process would work in terms of retention timelines, frequency of updates and other factors.

Our views

The overall aim of the consultation is to bring the UK's corporate reporting regime up to date and focus the regime so it "helps investors, creditors and other stakeholders make informed assessments of company performance, governance, and the likelihood of future success". The consultation proposals go a long way to making annual reporting more focused and more relevant to its specific audience, whilst also reducing the reporting burden on companies, particularly medium-sized companies, and those in larger groups (though it will be interesting to see where the Government lands on reporting exemptions for members of ineligible groups).

In conclusion, we welcome the Government's ambition to conduct a wholesale review of the UK's corporate reporting framework and its aim to create a framework that is fit for the future, noting in particular the guiding principles that corporate reporting should focus on what is relevant for its audiences and that directors should be trusted to decide what is significant in the context of their business. We expect there to be strong engagement from stakeholders, including both professional investors and retail shareholders as well as companies themselves and look forward to a clearer timeline once the Government consultation outcome is published.

Key proposals

- **Purpose and audience for annual report and accounts:** "Clarify who the annual report and accounts are for by reaffirming that they are a document primarily intended for investors and creditors"

- **Rationalising the scope and thresholds of reporting requirements:** including simplifying the thresholds under which companies are required to report different types of information, allowing certain medium sized companies to be eligible for an audit exemption, and removing the requirement for a parent company guarantee for wholly-owned subsidiaries to be eligible for an audit exemption

- **Content of annual reports:** removing requirements from legislation into accounting standards

- **Reconsidering the scope and extent of non-financial reporting:** testing "the merits of non-financial reporting requirements for private companies" and considering a new 'very large' threshold for non-financial reporting

- **Dividend payments:** replacing rules of distributable profits and capital maintenance with a solvency-based regime" for determining the legality of dividend payments

- **Simplifying the content requirements for a strategic report:** "Simplify and streamline the strategic report requirements" by removing prescriptive obligations and reflecting the size and nature of the business

- **Simplifying remuneration and corporate governance reporting:** removing the annual advisory vote on the directors' remuneration report and moving governance reporting to group level

- **Corporate communications:** moving towards a presumption in favour of digital communications to shareholders, consulting on fully virtual AGMs, shortening annual reports by moving some content onto the company's website or an online portal

- **Other minor changes:** designing a reporting gateway for greater Government oversight on new reporting requirements, revoking the Reports of Payments to Governments Regulations 2014, and a requirement to notify Companies House about the appointment of an auditor

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