

BIS | Department for Business
Innovation & Skills

CORPORATE LAW & GOVERNANCE

THE FUTURE OF NARRATIVE
REPORTING – A CONSULTATION

AUGUST 2010

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The Future of Narrative Reporting

This consultation invites views on the current UK narrative reporting framework, with a particular focus on the business review and directors' remuneration report. The results will inform future government proposals

Issued: 2 August 2010

Respond by: 19 October 2010

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Narrativereporting@bis.gsi.gov.uk

This consultation is relevant to company directors and those within companies preparing annual reports, shareholders and other stakeholders who use company reports.

Foreword by Edward Davey, Minister for Employment Relations, Consumer and Postal Affairs



UK companies are rightly considered to rank among the best in the world in their standards of corporate governance and reporting. However, the recent economic crisis has put a spotlight on all aspects of our regulatory framework including our corporate governance model and forced us to consider where things have gone wrong and why. The broad consensus is that, while the UK model of corporate governance is not essentially flawed, there are areas where we all need to do better – as Government, as companies and as shareholders.

Our goal must be to ensure that our companies are clear-sighted and focused on the issues which matter to their long term success and therefore to their members. Disclosing good quality and relevant information on these issues in company narrative reporting is necessary if shareholders are to make well informed decisions in their role as company owners. And it is very important that there is a clear link between the company's strategic objectives and the criteria for payments to directors.

The coalition's commitment to reinstating an Operating and Financial Review to ensure that social and environmental duties have to be covered in company reporting and to investigate further ways of improving corporate accountability and transparency is central to achieving these aims.

I have three objectives for this consultation. First, I want to see what we can do collectively to drive up the quality of narrative reporting to the level of the best, including on social and environmental issues. Second, I want to empower shareholders so they can step up and act as effective owners in the long term interests of the companies they invest in but to do this, they need companies to report on their activities in a material and relevant manner. Finally, I want to achieve coherence without increasing the regulatory burden on business.

I look forward to hearing your ideas and to discussing how we take forward the outcomes of this consultation.

EDWARD DAVEY

Executive Summary

1. Narrative reporting in company annual reports has come a long way over the past 30 years. Good narrative reporting should tell the company's story effectively and in a balanced way that puts financial information into context. The statutory reporting framework is intended to help boards consider material issues facing the business so they can determine the right strategy for long term company success in the interests of company members. Social and environmental issues should be central to these discussions where they are relevant to the company's strategy and long term success, as should discussion about pay and reward. Companies should then use the narrative in their reports to provide material information on these issues to their shareholders.
2. For their part, shareholders - the members and those acting on their behalf - need to use the narrative information in company reports to fulfil their responsibility as active company owners. Shareholders should engage with the company on relevant issues and challenge where the company does not provide information which is material to members in assessing the long term prospects of the business. Various studies have looked at companies' narrative reporting. Broadly, many conclude that most companies comply with the legal requirements but some question the quality and relevance of some reporting. A number of researchers highlight the increasing length and complexity of reports as a trend that might be militating against presentation of a clear, coherent and relevant picture of the business.
3. This consultation is looking at how the narrative reporting framework is working in practice. How well are companies complying with the existing requirements? Are they focusing on their strategy, their principal risks and uncertainties and providing the right quality of relevant information on these matters to enable their members to hold them to account? Are shareholders actually using the information that companies provide? Do narrative reports generally reflect the intentions and spirit underlying the statutory framework? Are there ways to improve the narrative reporting framework as a whole?
4. The consultation focuses in particular on the business review provisions. In this context, the Coalition commitment to reinstate an Operating and Financial Review to ensure that directors' social and environmental duties have to be covered in company reporting and investigate further ways of improving corporate accountability and transparency is particularly relevant.
5. It also considers issues relating to remuneration, and in particular to the link between performance criteria for payment to directors and the company's objectives and performance.
6. The consultation is for 11 weeks and is seeking views from all those concerned in company reporting including companies, their members

and others who regularly use company reports. Paragraphs 20 - 28 outline current narrative reporting requirements and consider recent developments which have a bearing on the framework. Paragraphs 29 - 35 provide more detail on the scope of this consultation and some preliminary ideas we may want to explore further, depending on respondents' views. You can find the questions we would like you to consider at pages 15-16. We want to gather views on how well the current framework is working and, if improvement is needed, what measures might drive up the quality of narrative reports to the level of the best and help shareholders to act as responsible owners. The government will consider these views to develop options for change, which meet three objectives, to:

- drive up quality of narrative reporting to the standard of the best including on social and environmental issues
 - empower shareholders and
 - achieve coherence without increasing the regulatory burden on business
7. The Government will publish its conclusions at the end of the year. Where change is proposed, it is as likely to be non-regulatory as regulatory and may require further public consultation before being taken forward.
 8. The UK Government is responsible for company law in England, Wales and in Scotland. The Northern Ireland administration has agreed that, while company law remains a transferred matter within the legislative competence of the Northern Ireland Assembly, the Companies Act 2006 should apply to the whole of the United Kingdom. Consequently any changes to company law resulting from this consultation will also apply UK-wide.

How to respond

9. The discussion opened on 2 August 2010. Responses must be received by 19 October 2010.
10. When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation response form and, where applicable, how the views of members were assembled.
11. For your ease, you can reply to this Consultation online via survey monkey at <http://www.surveymonkey.com/s/narrativereportingconsultation>
12. A copy of the Consultation Response form is enclosed at Annex A, or available electronically at www.bis.gov.uk/Consultations. If you decide to respond this way, please send your reply preferably by email to:

Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Tel: 020 7215 1686
Email: Narrativereporting@bis.gsi.gov.uk

Additional copies

13. You may make copies of this document without seeking permission. An electronic version can be found at www.bis.gov.uk/Consultations
14. Further printed copies of the consultation document can be obtained from:

BIS Publications Orderline
ADMAIL 528
London SW1W 8YT
Tel: 0845-015 0010
Fax: 0845-015 0020
Minicom: 0845-015 0030
www.bis.gov.uk/publications

15. Other versions of the document in Braille, other languages or audio-cassette are available on request.

Confidentiality & Data Protection

16. Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
17. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

Help with queries

18. Questions about the policy issues raised in the document can be addressed to:

Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Tel: 020 7215 1686

Email: Narrativereporting@bis.gsi.gov.uk

19. A copy of the Code of Practice on Consultation is at Annex C.

Background on narrative reporting

Narrative reporting

20. The current provisions on narrative reporting reflect European requirements and the extensive debate and consultation on UK company law which led to the Companies Act 2006. The term 'narrative reporting' is used to describe the non-financial information that is included in company reports in order to provide a broad and meaningful picture of a company's business, its market position, strategy, performance and future prospects. Narrative reporting - sometimes referred to as the "front half" of the annual report - includes a number of elements, some of which are required by statute or Financial Services Authority (FSA) rules. These include:

- the Directors' report, including the business review;
- the Chairman's statement and the Chief Executive's review;
- the Directors' Remuneration Report;
- corporate governance disclosures.

21. Some companies also choose to provide separate social and environmental reports. In addition, the FSA's Disclosure & Transparency Rules require some companies to make periodic financial statements, which contain forward looking statements about the company's strategy and objectives. These various elements of narrative reporting should be consistent and clearly presented so that readers can understand the principal factors likely to affect a company's long-term performance, for example:

- by relating long-term performance criteria for directors' remuneration to the company's strategic objectives;
- where appropriate, by linking reporting on social and environmental factors to the principal risks set out in the business review.

Business Review

22. The business review is an essential element in company narrative reporting. The EU Accounts Modernisation Directive required all companies other than small¹ to prepare a business review. These requirements were implemented by the Companies Act 1985 (Operating and Financial Review and Directors' Report etc) Regulations 2005², which introduced a mandatory Operating & Financial Review (OFR) for quoted companies with effect from financial years beginning on or after 1 April 2005. The Regulations recognised a reporting standard for OFRs prepared by the Accounting Standards Board³. They also provided an enhanced audit requirement whereby the auditor needed to state

¹ As defined in section 382 of the Companies Act 2006

² (Statutory Instrument no. 2005/1011).

³ The Reporting Standard was withdrawn when the statutory OFR was repealed to be replaced by the ASB Reporting Statement on the OFR as non mandatory best practice guidance

whether any matters coming to their attention in the course of the audit were inconsistent with the information in the OFR.

23. The statutory OFR was repealed in December 2005 and, following further consultation, the Business Review provisions were enhanced for quoted companies and restated in the Companies Act 2006; these provisions came into effect for reporting years beginning on or after 1 October 2007. The Business Review requires companies to provide broadly the same information on non-financial matters as the earlier OFR. Briefly, all companies, other than small, are required to prepare a business review as part of the directors' annual report. The purpose is to help shareholders assess how the directors have performed their duty to promote the success of the company. Quoted companies must also, to the extent necessary for an understanding of the company's business, include information on environmental, employee, social and community matters, as well as on contractual and other arrangements essential to the business. The Business Review does not include the enhanced audit requirement for the OFR or statutory recognition of a reporting standard. Annex D sets out the provisions of the statutory OFR and the current business review.

Directors' Remuneration Report

24. The Directors' Remuneration Report was introduced in 2002 with a view to improving transparency and accountability to shareholders, particularly in relation to the link between pay and performance. The report has a number of sections:
- detail of the amounts paid or payable to directors;
 - a narrative report on matters relating to directors' remuneration, including a statement of the company's policy on directors' remuneration;
 - a graph showing how the company's total shareholder return compared to that of comparator companies over the preceding five financial years.
25. A key element of the new regime was the requirement for quoted companies to put the report to an advisory shareholder vote at the annual general meeting. The detailed disclosure requirements are set out in Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.⁴

Developments since the Companies Act 2006

26. Concern about how we are tackling major social and environmental challenges and in particular those arising from climate change have gathered pace. The role of companies in helping to manage our impacts as well as in developing new technologies for the future is critical. We

⁴ (Statutory Instrument no. 2008/410).

would therefore expect that many companies would discuss these issues in their reports as business risks and opportunities.

27. The Department for the Environment, Food and Rural Affairs (DEFRA) issued guidance in 2006 on how companies might report on key environmental performance indicators, such as water, waste, emissions to air, etc. Then in 2008 the Climate Change Act set a statutory framework for meeting our climate change goals. Detailed guidance has since been published on how companies should measure and report on greenhouse gas emissions⁵. The Government is currently reviewing the contribution that reporting is making to reducing emissions and the findings of that review, led by DEFRA, will be laid before Parliament by 1 December 2010. We are also committed under the Act either to introduce regulations, under the Companies Act by April 2012, to require corporate greenhouse gas reporting, or explain why not⁶. BIS is working with DEFRA and DECC on implementation of the Climate Change Act commitments. The outcome of that work and this consultation on narrative reporting will inform the Government's approach to any changes to the company reporting framework.

Europe and international developments

28. The UK has generally been seen as a leader in standards of corporate governance and reporting. We need however to continue to be actively engaged on these issues in Europe and wider international fora so we can influence and shape any developments at that level. For example, the European Commission's consultation on the Transparency Directive contains questions with a view to gathering evidence on the impact of transparency requirements on smaller listed companies and whether there is a case for a specific regime for the smaller listed companies. One of the areas addressed is whether the various rules around narrative disclosures by listed companies should be integrated into the Transparency Directive and whether maximum harmonisation of the content of narrative reports would reduce costs for small listed companies. This focus on narrative disclosures reflects continuing wider debate within Europe on the quality of reporting on environmental, social and governance issues. This consultation should help to inform the UK position in these ongoing discussions. At international level, the International Accounting Standards Board (IASB) is also continuing work on its draft "management commentary" which proposes a non binding framework for the presentation of management commentary to accompany financial statements.

⁵ Guidance on how to measure and report your GHG emissions is available here:

<http://www.defra.gov.uk/environment/business/reporting/index.htm>

⁶ Section 85 of Climate Change Act 2008

Scope of the consultation

29. This consultation considers how the narrative reporting framework is working in practice. How well are companies complying with the existing requirements? Are they focusing on their strategy, their principal risks and uncertainties and providing the right quality of relevant information on these matters to enable their shareholders to hold them to account? Does the information provided reflect the issues discussed by the directors in board meetings? Are shareholders able to use the information provided to press directors on key issues relating to strategy and risk? Do narrative reports generally reflect the intentions and spirit underlying the statutory framework? Are there ways to improve the narrative reporting framework as a whole?
30. The consultation focuses in particular on the provisions of the Business Review, in line with the Coalition commitment to reinstate an Operating and Financial Review to ensure that directors' social and environmental duties have to be covered in company reporting and investigate further ways of improving corporate accountability and transparency. We want to hear from interested parties, whether companies, shareholders or others, about the effectiveness of the Business Review, whether the requirements are clear, guidance is sufficient and all importantly, whether the reports are high quality and relevant. As part of this, we are putting forward some preliminary ideas on which we would welcome views. For example:
- Should there be an advisory vote on the Business Review to allow shareholders to express their view on the directors' performance and the company's future prospects on the basis of the directors' description of the company's performance, forward looking strategy and principal risks?
 - are there non-regulatory solutions to increasing quality through better guidance or publicising excellence in business reports? An annual ranking could harness companies' competitive spirit to drive up reporting standards. Awards are already used to recognise best practice on corporate governance including reporting; is there value additionally in a process to judge how well company reports meet requirements by convening an expert panel to rank company performance.
 - Would report users welcome a way of limiting the narrative report to a summary of the strategic issues with the more detailed supporting information presented separately for those who wanted that extra level of information?
31. These ideas are included in order to gauge views on whether they merit further exploration. Respondents are invited to put forward any other options which they may feel would meet our objectives. Are there, for example, additional areas which the Business Review should cover? Would it be helpful to reintroduce statutory reporting standards?

32. A number of studies have looked at the Business Review. We would welcome advice on other sources of evidence on the quality of narrative reporting and how such information is being used. Equally if respondents feel there are gaps in the evidence base, we would be interested to hear their views.
33. The consultation also addresses information about directors' remuneration. We want in particular to explore whether the current disclosure requirements provide clear and usable information about:
 - the total remuneration paid to directors, and how this is made up;
 - the performance criteria for payments to directors, and how these relate to the company's strategic objectives;
 - company performance against these criteria, so that there is a demonstrable link between pay and performance;
 - the process by which directors' remuneration is decided.
34. To implement the Coalition Agreement commitment to cut red tape, BIS is introducing an approach that will control and reduce the burden of regulation. As well as reviewing all regulation in the pipeline for implementation, a "one-in, one-out" approach is planned to make sure that new regulatory burdens on business are only brought in when reductions can be made to existing regulation. We would welcome views on potential costs and benefits in relation to issues raised in this consultation and will draw up impact assessments if we consult in the light of this consultation on more specific proposals.
35. This consultation is about exploring all options - regulatory and non regulatory - for driving up the standards of company narrative reporting to the level of the best and thereby enabling stronger and more effective shareholder engagement. If there are ways we can improve the existing statutory regime, including clarifying or amending the requirements or alternatively considering non-regulatory routes we will look at them. We also want to hear whether there are important elements missing from the current regime or indeed elements which are not needed.

What happens next?

36. This consultation will close on 19 October 2010. Following analysis of the responses, the Minister will discuss the findings with stakeholder groups. The outcome of the consultation including the Government's proposals will be published on the BIS website by the end of the year.

Consultation Questions

Some questions may be more applicable to some respondents than others; where a question is not applicable to you, please just reply N/A.

Value of narrative reporting

1. Are company directors providing useful and relevant information on the company's:
 - i) forward-looking strategy and
 - ii) principal risks and uncertainties?
2. What are the constraints on companies providing information on these issues?
3. Does the information provided reflect the issues discussed by the directors in board meetings?
4. Does the information help shareholders to press directors on key issues relating to strategy and risk, or inform their business decisions?
5. If a company does not provide sufficient or material information to you, do you challenge it? Is there anything which could help you to do so?
6. What other sources of company information do you use and how valuable are they (e.g. information provided on the website, analysts' briefings, dialogue with the company, corporate social responsibility report)?
7. Is there scope to reduce or simplify the requirements on which companies report?
8. Is there scope to arrange the information in a more useful way?

Business Review

9. Looking at an Operating & Financial Review and the existing business review (see Annex D), do you see value in reinstating elements of an OFR and if so what would they be? In particular, would a statutory reporting standard help to improve the quality of reporting?
10. The business review provisions require quoted companies to report, to the extent necessary, on:
 - main trends and factors likely to affect the future development, performance and position of the company's business
 - information on environmental matters
 - information on employees
 - information on social and community matters
 - persons with whom the company has essential contractual and other relationships

- i) Is this information useful to you? How do you use it?
 - ii) Could disclosure be improved? If so, how?
 - iii) Are there key issues which are missing? If so, please explain?
11. Would more guidance be helpful? If so, what form should this take? For example: best practice example, sample Key Performance Indicators, etc?
12. Should there be a shareholder's advisory vote on the Business Review?
13. Are there non-regulatory solutions to increasing quality through better guidance or publicising excellence in business reports? If so, what?

Directors' Remuneration Report

14. Do the current disclosure requirements provide clear and usable information about:
- the total remuneration paid to directors, and how this is made up;
 - the performance criteria for payments to directors, and how these relate to the company's strategic objectives;
 - company performance against these criteria, so that there is a demonstrable link between pay and performance;
 - the process by which directors' remuneration is decided?
- If not, please explain including any views on how this might be improved

Potential Costs

15. If you can provide any information on costs associated either with the existing narrative reporting requirements eg preparing your business review or your views on potential costs and benefits in relation to any of the ideas in this consultation, please give details.

Annex A: Consultation response form

The Future of Narrative Reporting

A copy of the consultation is available at: <http://www.bis.gov.uk/consultations>.

Responses to the Consultation must be received by 19 October 2010

Name:

Organisation (if applicable):

Address:

Email:

Return completed forms to:

Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Tel: 020 7215 1686

Narrativereporting@bis.gsi.gov.uk

Please tick the box from the following list of options that best describes you:

<input type="checkbox"/>	Quoted company
<input type="checkbox"/>	Other company
<input type="checkbox"/>	Investor or investment manager
<input type="checkbox"/>	Business representative organisation
<input type="checkbox"/>	Investor representative organisation
<input type="checkbox"/>	Non governmental organisation (NGO)
<input type="checkbox"/>	Trade Union
<input type="checkbox"/>	Lawyer or accountant
<input type="checkbox"/>	Other (e.g. consultant or private individual)

Value of narrative reporting

Question 1: Are company directors providing useful and relevant information on the company's:

- iii) forward-looking strategy? and
- iv) principal risks and uncertainties?

Comments

Question 2: What are the constraints on companies providing information on these issues?

Comments

Question 3: Does the information provided reflect the issues discussed by the directors in board meetings?

Comments

Question 4: Does the information help shareholders to press directors on key issues relating to strategy and risk, or inform their business decisions?

Comments

Question 5: If a company does not provide sufficient or material information to you, do you challenge it? Is there anything which could help you to do so?

Comments

Question 6: What other sources of company information do you use and how valuable are they (e.g. information provided on the website, analysts' briefings, dialogue with the company, corporate social responsibility report)?

Comments

Question 7: Is there scope to reduce or simplify the requirements on which companies report?

Comments

Question 8: Is there scope to arrange the information in a more useful way?

Comments

Business Review

Question 9: Looking at an Operating & Financial Review and the existing business review (see Annex D), do you see value in reinstating elements of an OFR and if so what would they be? In particular, would a statutory reporting standard help to improve the quality of reporting?

Comments

Question 10: The business review provisions require quoted companies to report, to the extent necessary, on:

- main trends and factors likely to affect the future development, performance and position of the company's business
 - information on environmental matters
 - information on employees
 - information on social and community matters
 - persons with whom the company has essential contractual and other relationships
- i) Is this information useful to you? How do you use it?
ii) Could disclosure be improved? If so, how?
iii) Are there key issues which are missing? If so, please explain?

Comments

Question 11: Would more guidance be helpful? If so, what form should this take? For example: best practice example, sample Key Performance Indicators, etc?

Comments

Question 12: Should there be a shareholder's advisory vote on the Business Review?

Comments

Question 13: Are there non-regulatory solutions to increasing quality through better guidance or publicising excellence in business reports? If so, what?

Comments

Directors' Remuneration Report

Question 14: Do the current disclosure requirements provide clear and usable information about:

- the total remuneration paid to directors, and how this is made up;
- the performance criteria for payments to directors, and how these relate to the company's strategic objectives;
- company performance against these criteria, so that there is a demonstrable link between pay and performance;
- the process by which directors' remuneration is decided?

If not, please explain including any views on how this might be improved

Comments

Costs

Question 15:

If you can provide any information on costs associated either with the existing narrative reporting requirements eg preparing your business review or your views on potential costs and benefits in relation to any of the ideas in this consultation, please give details

Comments

Annex B: Who has been consulted

This consultation has been sent to approximately 700 interested parties who have asked to be on the circulation list of the Corporate Law & Governance Directorate of BIS as well as organisations or individuals who have expressed an interest in this consultation.

Please feel free to pass the consultation on to anyone you think may wish to be involved in this consultation process.

Annex C: Code of Practice on Consultations

1. Formal consultation should take place at a stage when there is scope to influence policy outcome.
2. Consultation should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
4. Consultation exercise should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

Comments or complaints

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

Tunde Idowu,
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Tel: 020 7215 0412

E-mail to: Babatunde.Idowu@bis.gsi.gov.uk

Annex D: Comparison of the Operating and Financial Review and Business Review Provisions⁷

<p>Operating and Financial Review (Schedule 7ZA of the Companies Act 1985) –applies only to quoted companies</p>	<p>Directors’ Report: Business Review (Section 417 the Companies Act 2006) – applies to all companies other than small but see (5) and footnote 6</p>
<p>(1) An operating and financial review must be a balanced and comprehensive analysis, consistent with size and complexity of the business, of -</p> <ul style="list-style-type: none"> (a) the development and performance of the business of the company during the financial year, (b) the position of the company at the end of the year, (c) the main trends and factors underlying the development, performance and position of the business of the company during the financial year, and (d) the main trends and factors which are likely to affect the company’s future development, performance and position, prepared so as to assist the members of the company to assess the strategies adopted by the company and the potential for those strategies to succeed. 	<p>(2) The purpose of the business review 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).</p> <p>(3) The business review must contain:</p> <ul style="list-style-type: none"> (a) a fair review of the company’s business, and (b) a description of the principal risks and uncertainties facing the company <p>(4) The review required is a balanced and comprehensive analysis of :</p> <ul style="list-style-type: none"> (a) the development and performance of the business of the company during the financial year; and (b) the position of the company’s business at the end of that year, consistent with the size and complexity of the business.

⁷ See paragraphs 22-23 for the background to the OFR and business review. The statutory OFR was introduced in 2005 by SI 2005/1011 alongside provisions for all companies other than small to produce a business review in line with the requirements of the EU Accounts Modernisation Directive. The statutory OFR was repealed in December 2005. Following consultation, the business review provisions were enhanced for quoted companies and restated in the Companies Act 2006 coming into effect for reporting years on or after 1 October 2007. Under the Companies Act 2006 quoted companies must address additional requirements in their business review over and above the requirements of non quoted companies.

<p>2. The review must include –</p> <ul style="list-style-type: none"> (a) a statement of the business, objectives and strategies of the company; (b) a description of the resources available to the company; (c) a description of the principal risks and uncertainties facing the company; and (d) a description of the capital structure, treasury policies and objectives and the liquidity of the company. 	
<p>3 (2) If the review does not contain information and analysis of each kind mentioned in paragraphs 4 and 5, it must state which of those kinds of information and analysis it does not contain.</p> <p>4 (1) [To the extent necessary to comply with the general requirements of paragraphs 1 and 2,] the review must include -</p> <ul style="list-style-type: none"> (a) information about environmental matters (including the impact of the business of the company on the environment), (b) information about the company’s employees, and (c) information about social and community issues. <p>(2) The review must, in particular, include -</p> <ul style="list-style-type: none"> (a) information about the policies of the company in each area mentioned in sub-paragraph (1), and 	<p>(5). In the case of a quoted company, the business review must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include:</p> <ul style="list-style-type: none"> (a) the main trends and factors likely to affect the future development, performance and position of the company’s business; and (b) information about- <ul style="list-style-type: none"> (i) environmental matters (including the impact of the company’s business on the environment); (ii) the company’s employees, and (iii) social and community issues, <p>including information about any policies of the company in relation to those matters and the effectiveness of those policies; and</p> <ul style="list-style-type: none"> (c) subject to subsection (11), information about persons

<p>(b) information about the extent to which those policies have been successfully implemented.</p> <p>5. [To the extent necessary to comply with the general requirements of paragraphs 1 and 2,] the review must also include -</p> <p>(a) information about persons with whom the company has contractual or other arrangements which are essential to the business of the company; and</p> <p>(b) information about receipts from, and returns to, members of the company in respect of shares held by them.</p>	<p>with whom the company has contractual or other arrangements essential to the business of the company.</p> <p>If the review does not contain information of the kind mentioned in b & c, it must state which of those kinds of information it does not contain.</p> <p>....</p> <p>(10) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.</p> <p>(11) Nothing in subsection (5)(c) requires the disclosure of information about a person if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.</p>
<p>6. (1) [To the extent necessary to comply with the general requirements of paragraphs 1 and 2, the review must] include analysis using financial and, where appropriate, other key performance indicators, including information relating to environmental matters and employee matters.</p> <p>(2) In sub-paragraph (1), “key performance indicators” means factors by reference to which the development, performance or position of the business of the company can be measured effectively</p>	<p>(6). The review must, to the extent necessary for an understanding of the development, performance or position of the business of the company, include –</p> <p>(a) analysis using financial key performance indicators, and</p> <p>(b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters</p> <p>“key performance indicators” means factors by reference to</p>

	<p>which the development, performance or position of the business of the company can be measured effectively</p> <p>(7) Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the directors' report for the year need not comply with the requirements of subsection (6) so far as they relate to non-financial information.</p> <p>(8) The review must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.</p>
<p>8. The review must-</p> <p>(a) state whether it has been prepared in accordance with relevant reporting standards and</p> <p>(b) contain particulars of, and reasons for, any departure from such standards.</p>	
<p>Section 235 (3A). If the company is a quoted company, the auditors must state in their report –</p> <p>(a) whether in their opinion the information given in the operating and financial review for the financial year for which the accounts are prepared is consistent with those accounts; and</p> <p>(b) whether any matters have come to their attention, in the performance of their functions as auditors of the company, which in their opinion are inconsistent with the information given in the operating and financial review.</p>	<p>Section 496 The auditors must state in his report on the company's annual accounts whether in his opinion the information given in the directors' report for the financial year for which the accounts are prepared is consistent with those accounts</p>

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