Future of Narrative Reporting: A Consultation

Response via Surveymonkey

Respondent Details:

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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?

Were there items i) and ii) above? If so I can't see them.

The key question is useful and relevant to whom? The framework provided by the IASB is unhelpful as it focuses on the needs of 'casino' investors in the stock market - who rarely provide actual resources to companies. And when they do, further information is provided in the form of a prospectus. It would be much better to regard reporting as an activity that aims to promote stability of the economy, allow people to enter into productive economic relationships and direct resources towards people who can use them well. None of these objectives is currently espoused by financial reporting regulators and good governance is explicitly rejected by them as a valid objective of reporting. (Please contact me if you want to find out more about this critique.)

By and large, disclosures are not useful for the purpose of making investment decisions. They may be for stewardship (reducing theft and incompetence by holding directors accountable) but this aspect of reporting has been sadly neglected.

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

Directors are unlikely to voluntarily provide information that is of use to competitors or regulators, if they can help it.

Largely, disclosures are anodyne or so voluminous that it is impossible to see the wood from the trees. Competitors are valid users of financial statements since encouraging competition leads to a more efficient economy.

Directors are also loth to make meaningful disclosures about the future or risk because they perceive that they, the directors, will be held accountable or even suffer litigation if they turn out to be wrong.

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

We don't know since the proceedings of Board meetings are not published.

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

Potentially it could, which is why disclosures tend not to be meaningful. As things stand practice is variable. Some companies say very little, some provide waffle and motherhood statements, some make meaningful disclosures. Companies that make meaningful disclosures are either in industries (eg mining) where investors demand a lot of information, or the company is trying signal quality, or it is trying to turn aside the wrath of regulators or consumers. (Ryanair's disclosures are surprisingly good.)

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?

I don't challenge it, but I might write something sarcastic on by blog

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)?

These days, I mainly go to the website

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

The vast expansion of annual reports seems to have served no useful purpose - are company share prices more 'accurate' or less volatile - it seems unlikely. Remuneration disclosures do not seem to have made directors less greedy. The one area where some improvement is notable is governance where the Cadbury disclosures are implicit in the increase in Board independence. The IASB FRS on SMEs holds some hope of simplification and, after trial, could usefully be extended to smaller listed companies although this would require legislative change.

On the other hand, since the web is now the main reporting medium the costs of disclosure have decreased a great deal.

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

The arrangement of the information is about as important as the arrangement of deck chairs on the Titanic. The important question is how the profit is measured.

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?

There are now several sources of guidance including the IASB ED and the UK Corporate Governance Code as well as the ASB guidance. It would probably be best to let the IASB get on with it. Legislating in the area would lead to boilerplate and motherhood statements that are of little use. (Although sometimes non-boilerplate statements are harder to interpret.)

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?

The first bullet point is different in kind from the rest. The others are essentially accountability matters and disclosure of them is useful as it encourages companies to be good citizens and to consider a range of stakeholders. The first item is asking directors for information that is sensitive (see previous answers) and they are likely to dissemble.

The information is not useful to me as an individual it doesn't help me make personal economic decisions. It

is useful to me as a member of society as it helps companies to be more accountable and hence better behaved.

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

Probably not worth the bother.

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

I find it difficult to see how this would affect matters. It would be better to give shareholders more teeth on remuneration.

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

Vilifying miscreants would be more productive.

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

Disclosure in all these areas in inadequate, although voluminous. The disclosures have not proved effective in controlling excessive bonus payments or prevented directors 'moving the goal posts for their own benefit'. I'm not persuaded that there is a such a shortage of managerial talent that the vast payments received by directors are justified.

It might be better to give shareholders more control over directors pay, or to provide some direct control over agreements and changes in them.

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

Well run companies should have all the information needed for the business review to hand, so preparation costs should be minor. The economic consequences of the accountability information required are probably positive. I did some research into compliance costs with accounting standards a long time ago. At that time they seemed to be relatively unimportant.