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Dear Jane

The Future of Narrative Reporting - A Consultation

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. We believe the narrative report is a crucially important development in effective corporate reporting. In our view the purpose of the narrative report is to demonstrate the long-term sustainability of the company concerned. The narrative content should therefore only address issues which are material to this purpose through the eyes of the Board.

We see effective narrative reporting as a sign of a well-managed organisation. External reports, in our opinion, should contain the top-slice of information that is regularly reported to the Board. If the external narrative report is well-structured, concise and clear then this is an indication that the regular management information provided to the Board is similarly well-positioned for effective decision-making. An inability to produce an effective narrative report is often seen as a sign of a poorly managed business.

We attach detailed comments and would be pleased to discuss any aspect of this response that you may wish to raise with us.

Yours sincerely

CHARLES TILLEY
Chief Executive

CIMA response to The Future of Narrative Reporting Consultation

CIMA believes that narrative reporting should provide the essential contextual information needed to gain a proper understanding of the financial statements. We were a founder member of the Report Leadership group which has published a number of reports on how to make narrative reports more effective. These reports are available at www.reportleadership.com

CIMA's view on reporting derives from the first sentence in the new UK Corporate Governance Code. Internally the role of reporting is to facilitate effective entrepreneurial and prudent management that can deliver the long-term success of the organisation. External reporting should allow users to form a judgement as to the organisation's performance, position and prospects in relation to achievement of long-term success

2010 sees the inaugural presentation of the CIMA Annual Report of the Year award and we have been very impressed with the standard of entries. However, we are equally aware of annual reports that simply fail to communicate key narrative information to their readers. Why this is the case is a very good question and is one of the areas we are currently looking at with PwC and Tomorrow's Company in our Tomorrow's Corporate Reporting project. This project is still at the information gathering stage but we anticipate publishing initial findings before the end of the year. For current information please see www.cimaglobal.com/tcrcfe

The BIS consultation document asks whether an advisory vote of shareholders on the content of the narrative report would help to promote more effective reporting. It is difficult to argue that it would not help but we believe its usefulness could be limited by the demographics of the usual shareholder base of our major companies. To the extent that shares are held by short-term investors then the vote would naturally be biased towards inclusion of more short-term information which may come at the expense of longer-term strategic content.

Publication of an annual ranking of published narrative reports is suggested in the consultation document as another potential non-regulatory way to promote better narrative reporting. We are not convinced that this would have a major affect as there are already a number of awards, besides the CIMA award, that recognise achievement in this area include a ranking of the FTSE 100 for example. However, we have been told by a major UK company that produces award-winning annual reports that one of the major reasons that they devote the necessary resources is 'peer-pressure from other organisations in their sector'.

As you will be aware, CIMA was represented at one of the recent BIS narrative reporting workshops. At that meeting a view was expressed by one of the corporates present that the new requirement for companies to report on their business model contained in the UK Corporate Governance Code would drive them to redesign their narrative reporting structure to place reporting on the business model at the heart of the report. They believed that other companies would also come to the same conclusion and asked that time be allowed for the Code to bed-down before any new regulations on narrative reporting were put in place.

We believe that there is some merit in this argument but also recognise the political imperative for some action to explicitly require companies to report on environmental and social factors. We would propose limited new regulation that required the Accounting Standards Board (ASB) to update its narrative reporting statement to become a 'one-stop shop' for all narrative reporting requirements whether they derive from the Business Review legislation, the EU Transparency Directive, the IASB's Management Commentary project or

the new environmental and social concerns and then, once this has been done, re-instate the mandatory nature of this ASB statement.

Companies should be required to adopt a 'comply or explain' approach to the ASB statement recognising that immaterial or irrelevant information should not be reported just to 'tick a box' on the disclosure checklist.

We believe that a number of other areas should be looked at with a view to helping to create a culture of effective narrative reporting:

- The role of the annual audit could be extended to specifically report on the process of producing the narrative report. For example, did the Board have all of the information required for it to properly produce the narrative report?
- It could be made explicit that the whole of the Board has approved all of the various sections of the narrative report including the Chief Executive's review, the remuneration report and the operating and financial review.
- The Financial Reporting Review Panel investigates complaints of mis-reporting and also proactively targets the financial reports of sectors it considers under stress. We believe that this monitoring work be extended to include narrative reporting.

Although the focus is on narrative reporting as presented in the annual report, it should be recognised that this is only one part of what should be an ongoing dialogue with stakeholders. We believe that this is perhaps best encouraged with a system that requires publication of smaller, more succinct reports with far greater use of the internet to hold detailed compliance data. The summary reports need only contain the narrative information required to satisfy the ASB reporting statement plus summary financial statements.