Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET
14 October 2010

Dear Madam

Response to consultation on The Future of Narrative Reporting

Thank you for giving us the opportunity to respond to the above consultation.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two way communication with the markets and to create a level playing field for all investors. It has nearly 600 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

Our response is based on feedback we have received from our members who are engaged in the preparation of Annual Reports both as companies and advisors.

We include below an overview of the issues which we consider are important as well as specific answers to your detailed questions where we are in a position to have an opinion.

Central to the investor relations task is ' two way communication': communication of the equity story, the business model, its financials and the current state of the business and its prospects, together with listening to feedback from the financial audience. IR aims to set the context in which the company's ambitions and achievements should be seen. An important aim is to achieve the right balance between long term ownership and liquidity. An excess of either is problematic.

"Shareholder engagement" is at heart of what IR teams do.

So, in preparing an annual report today, companies have to start by considering who the report is for. Companies with long retail investor tails will write for an audience entirely different from one that is largely institutionally owned. Unionised companies,

environmentally sensitive companies, multi-national companies will have their own specific audiences in mind. Layering obligations for ALL of these audiences on to ALL companies creates a regulatory repository, rather than a communications opportunity. Nonetheless, we believe that there is a place for an audited record of required information.

We believe however that companies should be encouraged to take advantage of all communication channels. These include meeting investors, analysts and other stakeholders, during which an investor presentation is often used. The investor presentation has a number of merits; timeliness, an 'informality' and absence of mandated structure. This allows the company's management team the flexibility to share the specific information that the investors need about *their* company. One size of information set does not fit all.

Regular, timely updates are also key. Through regulatory disclosures such as half yearly results, Interim Management Statements and compliance with the DTR regime, regular updates to the company's non financial position are also provided. In addition, companies choose to update the market with non-mandated information throughout the year. This may be sales statistics, market share, production volumes etc. These are heavily used by analysts and investors.

The annual report is therefore another opportunity to communicate. However the narrative section faces many limitations. From the experience of IR professionals, it is rarely relied on as a key document. Some of the information contained is already in the public domain through one of the above alternative channels. Our concern therefore is to avoid the annual report becoming a historical repository for regulators' mandated information – rather than a useful *additional* information source for the market.

We are concerned that the annual report is rooted in the earliest versions of the Companies Act, in a completely different information era. Changes in the 'audience' for the report, changes in investor decision making, rising focus on governance, and of course the way we consume information have made the concept of the annual report very different from its original intent. For example, as more and more companies have gradually taken up the opportunity presented by changes in Company Law to allow ecomms, fewer printed copies of the Annual Report are now necessary as investors generally look to the internet to provide far more up to date/relevant information.

As a consequence of these and other changes, the required content of the annual report has grown exponentially. We are also concerned that this regulatory approach may be inconsistent. The FSA Handbook regularly makes the point in its Disclosure and Transparency Rules that no two companies are the same, and consequently a principles based regulation is appropriate, rather than fixing a set of required disclosures. By contrast, the Companies Act, and the Financial Reporting Council's Reporting Standard 1, creates a 'standard' – regardless of whether the content of that standard is relevant or not.

The gap between those whose reports embrace best practice, and those who simply seek to comply, is growing larger. This is partly due to the variable audiences for the reports, and partly to variable resources at small and large companies.

So what do we suggest?

First, we believe that any changes should be in the form of principles based guidance and encouragement, rather than new standards or regulations. As noted, creating a mandatory standard to be followed does not allow companies the flexibility to tell their own story, and risks a templated box ticking approach.

We think that any changes to the narrative reporting regime should bear in mind the total flow of information to the investor. The annual report should not be regarded as a standalone communication.

Also, we are not persuaded that the differences between the Operating and Financial Review and Enhanced Business Review are sufficiently stark to warrant changes in regulatory standards.

Second, we believe that regulations should embrace the use of technology. We agree with the sentiment behind the question "*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?*" Companies already use their corporate websites to deliver more detailed information about their businesses; recognising that information as part of the narrative report would allow annual reports to become focussed, uncluttered communication opportunities.

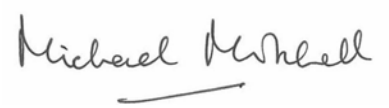
Third, inclusion of the auditing process is very important. We believe that audited data should be identified as such.

Fourth, we do not believe that adding to an already crowded AGM agenda by including an advisory vote on the Business Review would make a difference to the quality of narrative reporting.

Finally, costs of preparation are an obvious concern for all companies. By simplifying the guidance on what companies should include, regulators would encourage companies to invest more on those areas that matter to them and to their stakeholders.

A copy of our response form to the detailed questions is included with this letter. If you would like to discuss any of the matters raised in this response please do not hesitate to come back to us.

Yours faithfully,



Michael Mitchell

General Manager

The Investor Relations Society