By Appointment to
Her Majesty The Queen
Suppliers of Communications, Broadband
and Networked Services
BT
London

BT

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

19 October 2010

Dear Ms Leavens

**THE FUTURE OF NARRATIVE REPORTING – A CONSULTATION**

BT welcomes the opportunity to contribute to the above consultation. BT is one of the world's leading communications service companies. In the UK we are the largest communications service provider to the residential and business markets. We have operations in more than 170 countries around the world where we are also a supplier of networked IT services to government departments and multinational companies.

In summary, we believe that it is important that the complexity of Annual Reports should be reduced as far as possible to ensure their content is relevant and 'decision useful' for users. Further prescriptive regulation over form and content will not, in our view, improve the quality of narrative reporting. Rather, the focus should be on setting key principles and best practice guidance, the application of which is a matter of judgement for companies and their directors.

We set out below our comments on the specific questions raised.

**Value of narrative reporting**

**Question 1: Are company directors providing useful and relevant information on the company's:**
**i) forward-looking strategy? and**
**ii) principal risks and uncertainties?**

We believe companies and their directors must generally be free to frame their narrative reports and provide relevant disclosures in the way they judge most appropriate, while addressing the specific legal and regulatory requirements. Taking into account the constraints that companies face in making these types of disclosures (see Answer 2. below) we still believe the disclosures provided are useful and relevant.

Speaking for BT, as regards principal risks and uncertainties we consider that our disclosure provides an appropriate and relevant insight into the group's most significant risks. In relation to forward looking strategy, we believe our aims and strategic priorities are clearly articulated, and in our 2010 Annual Report we have also provided details of our future strategy, by which the delivery of our strategic priorities can be measured.

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

The reporting of forward looking information, by definition, involves projections, forecasts and predictive statements – 'soft' information - which can later turn out to be wrong. While steps have been taken to limit the possible litigation and liability risks, there are still significant considerations

for companies and their directors in making predictive statements, which can be used as a measure, but could ultimately prove to be incorrect.

Principal risks and uncertainties can be challenging to report given the inherent 'negative' nature of the disclosures and the desire to present a more 'balanced' report of risk management. As a dual listed company producing a combined Annual Report & Form 20-F we face the additional constraints of compliance with US (and UK) requirements, including the SEC's dislike for mitigation language in the risks disclosures.

In terms of narrative reporting more generally, we consider that one of the main barriers to effective communication is the need to comply with multi source and multi jurisdictional disclosure requirements. This can result in involved and lengthy disclosures, which are often overly complex making it difficult for companies to highlight the key information.

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

In BT's case, the information provided reflects the matters discussed by the directors in board meetings. The directors are consulted at an early stage in relation to the content of the Business Review and they have opportunities to comment during the drafting process, before being asked to approve the final content prior to publication. Specifically in connection with the group's principal risks and uncertainties, the information provided reflects the risks recorded on the group's risk register which is reviewed by the Operating Committee and approved the Board of directors.

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

For shareholders and their representative bodies to comment.

**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?**

For investors and their representative bodies to comment

**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)?**

For investors and their representative bodies to comment.

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

Yes. At present, the number of different sources of corporate reporting regulations makes life challenging for preparers of Annual Reports, as well as the sheer volume of requirements. There is significant overlap between the different sources of requirements (such as the Companies Act, US legislation, the Combined Code on Corporate Governance and Investor requirements), which add unnecessarily to the total regulatory burden. One of the key issues is the constant growth in disclosure requirements made worse, we believe, by the current piecemeal approach to developing narrative and financial disclosure requirements. There is seemingly no process in place for reviewing whether existing disclosure requirements are still relevant. Perhaps a policy of only introducing a new requirement if at least one existing requirement is removed is worthy of consideration.

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

We believe companies should be free to decide the most appropriate format and layout for their Annual Reports. The more important question is how to limit the constantly expanding body of requirements.

**Business Review**

**Question 9: Looking at an Operating & Financial Review and the existing business review, 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?**

We do not believe that it is necessary to make the existing ASB Reporting Statement, which is intended to represent best practice, into a formal, mandatory Reporting Standard. This would seem only to add to the existing regulatory requirements on narrative reporting, and would encourage boiler plate reporting for no proven benefit. Rather, what should be encouraged is for companies and directors to report in the manner which they consider most appropriate and useful for their shareholders and other stakeholders, and according to their company's particular situation, circumstances, objectives and priorities. It is important that disclosure is company specific.

We see no need for additional regulatory intervention in this area. Best practice reporting should be driven by market, investor and shareholder requirements.

**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?**

Shareholders, investors and their representative bodies to comment on what information is most useful to them.

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

We do not believe further guidance in this area is helpful or warranted. In our view, directors should be free to choose the most appropriate key performance indicators which are most relevant in the explanation of their business performance, and they should be company specific.

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

No. There is already a shareholder vote on the Annual Report and Accounts and a separate vote on the Report on Directors' remuneration. We do not believe that an additional advisory vote would serve any benefit.

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

We support the contribution that Awards for Narrative Reporting in Annual Accounts can play in the development of best practice, such as the Building Public Trust Awards and the ICSA (Company Secretaries') Awards.

**Directors' Remuneration Report**

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

- **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**

We do not see any need for or benefit in the disclosure of further information as the current requirements already mean that very detailed information about directors' remuneration is given. Due to the complexity of remuneration arrangements however, companies should be encouraged to provide a clear presentation of executive remuneration so that the reader is able to quickly grasp the total value of each director's package for both the year under review, and going forward, and how that remuneration is linked to the performance and strategy of the company

**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**

The production of our Annual Report & Form 20-F (175 pages for the 2010 Report) is an extensive and detailed process, which currently involves the input of around 100 people across our organisation, from planning to preparation through to finalisation, printing and filing/publication. Any additional requirements in relation to the content of the Business Review will increase our resource commitments even further, for no proven benefit.

We trust these comments are helpful in contributing to your deliberations. If you have any questions or would like to discuss these comments, please do not hesitate to contact us.

Yours sincerely,

Uwiene A Hayes

pp. Andrew Parker
Company Secretary
BT GROUP PLC