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The Quoted
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Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
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Narrativereporting@bis.gsi.gov.uk

15 November 2010

Dear Ms. Leavens,

BIS – The Future of Narrative Reporting

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Corporate Governance and Financial Reporting Committees has examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

The Quoted Companies Alliance is pleased to comment on the above consultation. We warmly welcome the consultation as narrative reporting is a critically important element of corporate reporting which has often been in the shadow of the audited financial statements with regards to the attention paid to it by companies and regulators. We seek to promote high quality narrative reporting in our Corporate Reporting Charter, a copy of which is enclosed.

No support for legislative or regulatory reform
We do not believe there is currently a case for legislative or regulatory reform in relation to narrative reporting and would urge that no additional reporting burdens be placed on smaller quoted companies at this stage, as every effort should be made to reduce the costs of regulation for them in order to enable them to maximise their growth and thereby create much needed new employment in the UK economy, as we build our way out of recession.

Good practice reporting
We would support non mandatory initiatives to highlight how companies can ensure their narrative reporting, and corporate reporting generally, is of a high standard. These should both encompass the processes to be followed by management and the board to facilitate this outcome and the key features which underpin high quality reporting. The QCA itself has produced a guidance booklet, *Guidance for Smaller Quoted Companies on preparing a Business Review* (August 2006), which provides small and mid-cap quoted companies practical assistance in developing their own narrative reporting on areas covered by the Business Review. We have also enclosed this with our response.

Good practice examples of narrative reporting, especially by quoted companies of different sizes under relevant headings and perhaps with an explanatory commentary might also be helpful and could be produced under the auspices of FRC. The QCA would support this and would be very willing to actively promote such a publication to its membership and to the wider constituency of smaller quoted companies.

A prestigious award for high quality reporting
We believe there is scope for encouragement of best practice in narrative reporting through initiatives such as a new prestigious scheme of self financing awards for high quality reporting backed probably by BIS, FEE (Federation of European Accountants), the London Stock Exchange, professional bodies, investors/shareholders, representative bodies for quoted companies, and potentially other users of accounts (e.g. stockbrokers). The QCA would be willing to play its full part in the development and promotion of such an initiative.

Strategic review of corporate reporting requirements
There would be merit in a strategic review of corporate reporting requirements to see which need to continue to be met by being provided in paper form in the annual report and which could be satisfied by publication on the company's website. When it comes to reporting, the requirements still seems to be focused on a largely pre-electronic age.

Further discussion
If you would like to discuss further any points in our response, we would be pleased to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

Enc: QCA Response to BIS – The Future of Narrative Reporting – Questions
Guidance for Smaller Quoted Companies on Preparing a Business Review (August 2006) – PDF version

APPENDIX A

QCA FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)*	-	Mazars LLP
Peter Chidgey	-	BDO Stoy Hayward LLP
Sarah Cox	-	Ernst & Young LLP
Ian Davies	-	Victoria plc
David Gray	-	DHG Management
Chris Ogle	-	SQC Consultant
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	RSM Tenon Group PLC
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

QCA CORPORATE GOVERNANCE COMMITTEE

Tim Goodman (Chairman)	-	Hermes Equity Ownership Services Ltd
Mirza Baig	-	F & C Asset Management
Edward Beale	-	City Group plc
Tim Bird/Edward Craft	-	Wedlake Bell LLP
Nigel Burton	-	Advanced Power
Anthony Carey	-	Mazars LLP
Louis Cooper	-	Crowe Clark Whitehill LLP
Clive Garston	-	Davies Arnold Cooper LLP
Nick Graves	-	Burges Salmon LLP
Dalia Joseph	-	Oriel Securities
Michael Landon/Cliff Weight	-	MM & K Ltd
Andrew Viner	-	BDO LLP
Melanie Wadsworth	-	Faegre & Benson LLP
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author

The Quoted Companies Alliance

The QCA Financial Reporting Committee's Corporate Reporting Charter

» The Quoted Companies Alliance is committed to working with boards, investors, regulators and standard-setters to promoting high quality corporate reporting by quoted companies, especially smaller quoted companies.

We will encourage the boards of quoted companies to be aware of the importance of high quality reporting in order that the market can have confidence in their businesses and in the information provided by companies generally. In order to undertake our work effectively, we will work with investors to better understand their information needs. We will also encourage standard-setters, regulators and others to set standards and other requirements that meet the genuine needs of investors in a practical way.

» We seek to foster a culture of continuous improvement in corporate reporting.

We will encourage companies to keep their corporate reporting under regular review and to seek ways of responding to changing market needs. Information provided should be understandable, avoid unnecessary complexity, be presented in a timely fashion and in a format that makes use of modern technology where appropriate. We will similarly encourage regulators and standard-setters to remain responsive to marketplace changes and to provide information to preparers on good practice and on reporting issues which companies generally need to address. Standard-setters should also take a strategic rather than a piecemeal approach to their work and should periodically seek to eliminate requirements which have not been found to provide useful information.

» We believe the concept of stewardship lies at the heart of good corporate reporting.

Directors are responsible to the shareholders for the long-term success of their businesses and this will have a bearing both on what they are expected to report on and the most suitable method of measurement in financial statements. It is likely to have implications, for example, for the circumstances in which fair values are used and for what is considered to be the most appropriate means of measuring fair value in particular situations.

» Corporate reporting requirements should be subject to robust cost-benefit tests.

Standard-setters need to carefully assess the costs compared to the benefits of introducing requirements and to avoid unintended consequences wherever possible. To do this, they need to be conscious of the risks of a 'one-size-fits-all' approach since quoted companies encompass both global companies with a market valuation of tens of billions of pounds and smaller quoted

companies with one of a relatively few million pounds. Moreover, there should be a clear and public consensus between boards, investors, standard-setters, regulators and auditors on how materiality is to be applied in practice by companies when preparing their financial statements. A proportionate approach to corporate reporting that focuses on significant disclosures and avoids clutter in the financial statements with immaterial disclosures will both improve the quality of corporate reporting and reduce the costs of providing relevant information.

» We press for accounting standards which properly reflect economic reality when implemented.

Standards when applied, as well as when written, should focus on principles and not rules, enabling appropriate judgement to be exercised, and in their drafting should take account of practical concerns raised when they are being prepared. In measurement terms, a theoretically optimum solution may turn out to be sub-optimal if, for example, the assumptions of active markets are not met in practice. A mission to reflect economic reality also calls for post-implementation reviews of issues arising. Furthermore, investors may well wish to distinguish between those profits that have between realised in cash and those that have not. Moreover, how best to reflect economic reality may be impacted by the time horizon over which performance is being measured. Further work on what is meant by, and how best to capture, economic reality in financial statements would be helpful. There should be a pre-eminent emphasis on economic reality when standard-setters agree on convergence programmes.

» Standard-setters should be in close touch with their marketplace.

In a fast-changing modern market economy, if standards are to reflect economic reality and to be practical, the standard-setters need to be fully in touch with their marketplace. Standard-setters as a team should have substantial current or recent practical experience of operating in the marketplace as a user, preparer or adviser. They should also be drawn from a broad range of backgrounds, including those related to smaller quoted companies as well as to global corporations.

» We emphasise the importance of good narrative reporting as an integral part of corporate reporting.

Whilst the focus on narrative reporting is increasing, it has traditionally tended to be the ‘Cinderella’ of the corporate reporting model. To enable the development of a business to be seen in its proper context, it is essential that high quality information be provided on its strategy, its key risks and how they are being managed, the KPIs used to manage the business, current performance and future prospects, and its corporate governance.