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

SW1H 0ET

22 October 2010

Re: USS Consultation response: the Future of Narrative Reporting

Dear Ms Leavens

I am writing to you on behalf of the Universities Superannuation Scheme, one of the UK's largest private-sector pension funds, with assets of approximately £30 billion. USS welcomes the opportunity to respond to your consultation on the Future of Narrative Reporting.

As an institution that takes seriously its responsibility to be an active and long term investor, USS is of the view that disclosure of company strategies, risks and opportunities is essential if shareholders are to be able to make informed decisions as to the likely long term performance of our investments. USS was supportive of and involved in the development of the Operating and Financial Review (OFR), and the Fund was therefore disappointed when the original plans for the OFR were withdrawn in 2005.

USS was of the view that the OFR was an opportunity for companies to provide investors with details of long-term strategies and how they would achieve them. The forward looking aspects of the proposed OFR were particularly welcomed, as they would have provided investors with insight into how management viewed complex issues facing companies and how they would be addressed. The Fund also saw benefit in the proposed improved coverage of governance, social and environmental issues in the OFR for the same reasons. These are areas in which companies need to improve their reporting on key risks and opportunities to shareholders.

With respect to the current Consultation, USS believes that whilst the current Enhanced Business Review has had some success in encouraging better forward looking information from the companies in which we invest, there is scope for significant improvement in many cases. As a result, we are supportive of the idea of mandatory disclosure in this area and the introduction of an OFR–like requirement for UK companies. Whilst some express concerns of “boiler plate” reporting, USS is of the view that raising the standard of reporting for all companies is more important than a hypothetical lowering of standards in the companies that are already leading the way in their disclosures.

To support this enhanced disclosure, the government and regulators should encourage the Accounting Standards Board to revisit its original guidance for the OFR, Reporting Standard 1. Significant resources from many quarters (companies, investors, regulators and other stakeholders) went into the development of this document, and USS is of the view that, with some updating, it could still provide a useful guide for corporate narrative reporting.

USS is not supportive of the idea of a separate vote on the narrative report (either in the form of an OFR or the current Business Review). As shareholders, we already have the ability to vote against a company’s report and accounts if we decide that the information contained therein is not of an appropriate standard or does not provide us with the information we require. Having an additional

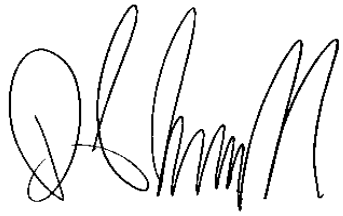
vote on this aspect of disclosure is therefore an unnecessary distraction and will require resources that would be better spent in other areas of active ownership and stewardship.

With respect to Question 14 on the Director's Remuneration Report, we would welcome greater disclosure from companies regarding the selection of performance criteria and targets for executive remuneration. We would welcome better information on the rationale behind the selected criteria relating to strategic objectives, the company's stated KPIs, and performance targets. We would also welcome greater transparency regarding the calculations and assumptions underlying the stated targets and behind the achievement of targets for vested and short term performance awards. We believe the remuneration report should be fully integrated within the Annual Report and Accounts and references to data within the financial statements should be included where appropriate.

Finally, it is worth noting that the annual reporting and disclosure cycle, and the voting associated with AGMs, is only one area where shareholders should be reviewing company communications and engaging with corporate management. It is the fund's view that asset owners and managers should behave as active owners, and not just at the time of the AGM. In this context, USS has been supportive of the development of the FRC's Stewardship Code and has produced a statement in support of the Code[1].

USS is happy to discuss any of the issues raised here further, and we look forward to seeing the results of this consultation in the form of improved corporate disclosure.

Yours sincerely,



David Russell
Co Head of Responsible Investment

Universities Superannuation Scheme

[1] http://www.uss.co.uk/news/Pages/USSandthenewUKStewardshipCode.aspx