BIS | Department for Business Innovation & Skills

Consultation response form: The Future of Narrative Reporting

A copy of the consultation available at: http://www.bis.gov.uk/consultations.

Responses to the Consultation by be received by 19 October 2010

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Please tick the box from the following list of options that best describes you:

	Quoted company
	Other company
	Investor or investment manager
X	**Business representative organisation**
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

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 opportunities?

Comments
We believe smaller listed companies are providing useful information on their forward-looking strategy and principal risks and opportunities. There will naturally always be opportunities for companies to enhance the quality of their narrative reporting and we would support non-regulatory initiatives that seek to achieve this goal. We believe that the most effective advocate for such change will be a company's shareholders.

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

Comments
For smaller quoted companies, constraints include a lack of resources and, linked to this, knowledge of best practice and where to obtain guidance.

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

Comments
We would hope the information provided does reflect the issues discussed by the Board. However, smaller quoted companies, in particular, may be concerned that some disclosures in the Business Review may reveal commercially sensitive information, eg the risks resulting from a reliance on a small number of key suppliers or customers, which, if openly highlighted in the annual report, could weaken the company's negotiating position. Boards consider two types of issues: • 'matters in hand' and transactions; and • strategic issues Narrative reporting will and should only ever relate to some of these points and only those which are relevant.

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

Comments
The information should help shareholders to press directors on key issues relating to strategy and risk, assuming it is of the necessary quality.

<u>Question 5</u>: 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?

Comments
We view this question as not applicable to an organisation representing small and mid-cap quoted companies.

<u>Question 6:</u> 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)?

Comments
A number of alternative sources of company information are available as set out in the question. The differing sources will be of varying degrees of relevance and reliability to shareholders and others. We particularly welcome companies placing analyst and shareholder presentations on their websites, including, where relevant, transcripts, to ensure transparency. These materials should be a relevant balanced summary and a useful resource.

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

Comments
We broadly support the current requirements and the differentiation in them that is drawn between fully listed and other companies. As a general policy, we do not support a 'one size fits all' approach for quoted companies given the enormous difference in nature, size and complexity of a smaller quoted company with a market capitalisation of well under £100m compared with a globally quoted business with a capitalisation of tens of billion pounds sterling at the upper end.

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

Comments
We strongly believe the presentation and ordering of information is very important as well as the fact that particular information is included. However, there will be different priorities for different businesses as well as for different stages in a company's development. It would not be useful therefore to define a hierarchy that must be adopted. Nonetheless, a culture of transparency and improvement should be promoted. The presentation and ordering can have a significant impact on the messages conveyed. If important information is concealed among voluminous disclosures of less relevance, key messages may be hidden or, at least, diluted in impact. We therefore continue to strongly support FRC's project on reducing complexity and clutter in annual reporting. There would also be merits in reviewing which information should be required to be published in the annual report and which may be provided by way of the company's website. Reporting requirements are still to a very large extent in a pre-electronic age.

Business Review

Question 9: **Looking at an Operating & Financial Review and the existing business review (see Annex D), 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?**

Comments
In the case of fully listed companies, the Companies Act 2006 reinstated much of that which was lost when the OFR was originally replaced by the Business Review and the UK Corporate Governance Code now calls on listed companies to disclose their business model. The onus is on companies to disclose all material information and additional regulation risks encouraging clutter by promoting companies to make irrelevant disclosures. In any event, such information should have been disclosed in compliance with the Listing Rules, AIM Rules and PLUS Markets rules as appropriate. Narrative reporting should promote the quality analysis of factual and material information. We do not see merit, in particular at this stage in the economic cycle, in reintroducing the above requirements, especially for companies quoted on exchange regulated markets, eg AIM and PLUS-quoted companies.

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?

Comments
We believe disclosures set out in the question are generally useful to readers of annual reports. We believe the increased dissemination of good practice reporting examples by quoted companies could help improve the overall quality of narrative reporting. We do not believe that there are any key issues that are missing from disclosure requirements when one also takes into account the UK Corporate Governance Code.

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

Comments

We would not support more statutory guidance on narrative reporting.

We would see merit in the development of non-mandatory guidance on the Business Review, including the enhanced review, and have produced a guide, *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. Any guidance produced needs to be high-level and non-prescriptive and it is difficult to see how any additional guidance may be substantially different from the current reporting standard.

We would not favour providing best practice examples of KPIs as such an approach tends to lead to boilerplate reporting with the template being adopted on more occasions than those where it is relevant. There may, however, be merit in listing different types of KPIs (sample KPIs) from which companies could draw on when preparing their Business Reviews.

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

Comments

In principle, we can see some merit in a shareholder's advisory vote as it may increase the attention paid by investors to the information contained in the Business Review. The views of shareholders would be very important on this matter.

On balance, however, we are not persuaded on cost/benefit grounds of the merits of adding to current AGM requirements at present. Voting against the report and accounts is the currently available mechanism to express concerns about a company's reporting. A shareholder with concerns should engage with the company about its concerns and so an additional vote is not necessarily desired.

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

Comments

Please see our comments on Question 11. We would support best practice guidance, probably from the FRC, based on reviews of annual reports of quoted companies.

We also consider there is an opportunity for the promotion of a prestigious set of awards for high quality reporting, including narrative reporting, especially for quoted companies. We would be pleased to discuss how we might contribute to such an initiative as the representative body for small and mid-cap quoted companies.

Directors' Remuneration Report

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

- **the 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?]**

Comments
We would not support changing the current arrangements with regard to director's remuneration at present. They appear to be operating in a broadly satisfactory manner.

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

Comments
We do not have any quantitative evidence on the costs associated with narrative reporting requirements readily available. However, it is clear that Boards that take such narrative reporting requirements seriously devote many hours to such matters.