UK Shareholders' Association

UK Shareholders' Association,
Chislehurst Business Centre,
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20th September, 2011

Mr Bill Knight,
Chairman,
Financial Reporting Review Panel

Dear Mr Knight,

Our response to 'Cutting Clutter'

We enjoyed reading *Cutting Clutter* and are pleased to say that its subject and objectives are dear to the hearts of our members. Our members make considerable use of annual reports and all the other information sources that make up the flow of corporate communication. As the leading organisation in the UK representing the interests of private investors, please may we be included in the meeting of interested parties in the autumn.

We welcome the suggestion on page 5 that the primary purpose of a company's annual report is to provide information to the investors in that company (including potential investors). It must be remembered that these include private individuals who are often long-term owners and not merely traders or institutions without a beneficial interest. Accounts need to be friendly to readers without an accounting background.

There are two big issues which need to be addressed in considering how to achieve the objectives of the booklet. The first is what incentive is needed for issuers to make the effort necessary to make the drastic changes to their reports that would be involved. We doubt whether asking report-writers to use judgment will be enough. We favour an improvement in governance — finding a mechanism for beneficial owners to have some influence, perhaps through a Shareholders Committee.

The second is whether it is realistic to think that sufficient changes can be made without quite a drastic review of the current regulations and guidance. Also, changing regulations etc. could provide the needed spur for a more general review of a company's approach to its report. So long as extensive and wordy text provides a 'safe harbour' that is what we will get. We would welcome the FRC's leadership in this respect.

Other points are:

- There should be a separation of the statutory information and items which change little from year to year from those which are really relevant to judging the company's management, performance and prospects. This is consistent with the suggestion in pages 24 and 25 of the booklet of separating statutory information although, possibly, going a step further.

- Information about remuneration is often presented in such a way that it makes it very difficult to assess the value of the overall package and the incentive structure. This is not surprising when the report is prepared by the beneficiaries, who may wish to obfuscate rather than clarify.

- It is clear that our members are very unhappy with the substantial increase in the length of reports that has occurred in recent years. This has not resulted in more or better information but in large chunks of largely meaningless verbiage. A quick scan of various companies' published accounts will show that large sections such as "Statement of Directors' Responsibilities" and "Audit Committee report" are almost word for word identical. Just one simple example of unnecessary wording is the list in the independent auditors' report of the items on which they are only required to comment by exception.

We welcome the discussion process that the FRC has initiated to find out just what investors do and do not need.

Overall we feel that in some way very strong pressure needs to be applied to both issuers and those who provide the regulations and guidance if significant progress is to be made. We look forward to hearing the outcome of your consultation and the follow-up meeting.

Yours Sincerely,

Roy Colbran
Chairman of UKSA Government Policy Group