

The future of narrative reporting: consulting on a new reporting framework. Response form

Please send your response by: 25 Nov 2011

About You	
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I am responding on behalf of (please tick)	
	Yourself : Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
YES	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

Narrative reporting

Comments on Introduction:

1 UKSA position

The United Kingdom Shareholders' Association (UKSA) represents the interests of private shareholders and is financed by its members' subscriptions. It is therefore principally concerned to encourage reporting, in this case, narrative reporting, which provides clear and useful information as to how the board of directors has discharged its responsibility of stewardship of the company part owned by those shareholders.

We welcome the production of this consultation and the clear way in which it lays out issues which have concerned shareholders and especially the smaller shareholders. One of the key questions in relation to annual reports has always been, "Who is the report for?" It is addressed to shareholders as the "owners" of the company but is also required by a range of regulators and will be read by a number of other stakeholders for a wide range of purposes. We would comment that not all shareholders are "owners" in the sense that they are agents or trustees for others who are the beneficial owners.

2 We strongly welcome the thrust of these proposals as expressed in Para 2.5.

3 We recognise the demands of what the paper describes as other stakeholders for information which may be of use for their own purposes such as what is referred to as "corporate responsibility". However we regard such matters, per se, principally as of concern and interest to individuals in their involvement otherwise than as shareholders. Such matters are however clearly of concern to all shareholders to the extent that they impinge upon the performance of the company. Certain shareholders are interested in making investments based on ethical as well as financial criteria and thus we welcome the suggestion of including material on social and environmental matters.

4 Quality

The paper refers to "high quality disclosure" (e.g. Para 2.10) but does not seem to define what is meant by this.

Questions

Question 1

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

Yes

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2.9

We are pleased to see the references to the Strategic Report being prepared for shareholders and indeed note that that aim is stated twice in Para 2.9
There is no such reference in connection with the Annual Directors' Statement. We would like to see this restated

Para 2.15 Online disclosure:

See practical comments to Question 6

Responsible business and Open Data:

This box after Para 2.19 seems out of place. The paper is, as stated in Para 2.5, aimed at improving the quality of narrative reporting, empowering shareholders and increasing coherence. The comments in this box do not seem to address these issues. They deal with five areas which may well be of relevance to the wider community but which are incidental to, for example, "empowering shareholders". It is not at all clear what is meant by the phrase "race to the top... in terms of value and service". How does reporting on certain "community" areas help a company improve the value it offer its customers or the service it offers?

Para :3.8Printed company reports

We are pleased that printed copies of all a company's reports will continue to be available. Members find these far easier to annotate and cross check than home printouts. We recognise the advantages of digital access and believe this should be developed alongside the printed reports.

We agree that the intension to divide the company report into two sections, one delivering strategic information and the other the required factual information, is to be welcomed. We have a concern that over time the two might become to be seen as meeting the needs of two distinctly different audiences and that insufficient financial information in a digestible form may be provided as part of the Strategic Report. While it matters that strategy and vision are well presented here it is also important that all the information presented here is soundly and where appropriate factually and financially based and subject to scrutiny in the same way as material in the Directors Statement. In dividing material between the two sections it will be important to allow for overlap in content but with a difference in presentation and balance. The question which we raise in our introduction to our comments "Who is the report for?" remains important and is addressed in Para 2.9- the shareholders .Also important are the questions what will they do with the information and what decisions will it inform on the part of readers. We accept that these are issues covered in Para's 3.3-3.5 and in Table 1 but we feel that it is important that such questions are explicitly considered when reports are being provided.

Question 2

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,
- key information on executive remuneration and its link to performance?

Yes
Comments
Yes. We agree with what is being suggested but emphasise the importance of comparability between the presentation of information especially between companies functioning in the same sector.

Question 3

Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?

Yes
Comments
Summary Financial Statements (SFS)(Para 3.20) If the SFS are no longer to be produced UKSA believes it important that at least the same historical information is included in the Strategic Report. This means that the SFS must have appropriate financial information within it and be presented in such a way as to be a meaningful summary and perhaps with detailed route map links to where information in fuller format can be found on the company web site.

Question 4

Do you agree that the Strategic Report should be signed off by each director individually?

Yes

Comments
We have been concerned that the increasing importance attached to audit Committees has diluted the acceptance by the whole board that all directors are equally responsible for the company's accounts and reports. We therefore welcome this proposal.

Question 5

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement
- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

Yes
Comments
Yes we welcome the information to be provided as suggested in Para's 3.26-3.27 as we feel that comparability between the reports of companies working within a sector matters. Some members are particularly supportive of the comments made in Para 3.28. In respect of the voluntary information to be included in the directors' statement .They believe that it will be critical for there to be appropriate guidance as to how such information should be presented in this part of the report. It will be important that, for example, information on climate change/energy use/ carbon balance is provided with a clear and explicit methodology. The annual review discussed in Para 3.31 is an important element in this document.

Question 6

Do you agree that companies should be able to include material in the Annual Directors' Report (Statement?) (ADS) (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

Yes
Comments

Yes for those policies and procedures which change rarely. However this should go along with a specific requirement that if any of these items change attention is drawn to such changes in the ADS This will place an increased responsibility on companies to have web sites which are up to date and which are easy to navigate. This is not currently the case. It may be necessary for companies to issue a statement of compliance in respect of this on an annual basis. In taking a decision on this it is important to recognise that there are still many areas of the UK where high speed broad band is not, and may not become, available.

Question 7

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

Yes
Comments
See comment to 6 above.

Question 8

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

Yes
Comments
Only if it is ensured that this statement is fully incorporated into the full annual report as the ADS will contain information pertinent to a full understanding of the accounts. This is an area which gives us some concern. Current mechanisms for obtaining hard copy reports and for making choices leave much to be desired. For many companies choices have to be made electronically. Our answer to Q6 indicated that broad band is not yet available to all shareholders so it matters that choices can be made and changed easily and by mechanisms which do not require electronic communication. Serious study of reports requires hard copy. It is important that at the beginning of shareholding that shareholders are asked if they want a hard copy and with the presumption of a yes answer and that once such an election has been made that it should stay in force until the shareholder asks for a change.

Question 9

Do you support removal of the disclosure requirements, arising from company law, identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs.

Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

Yes
Comments
It is unclear how such a consultation, referred to in Para 4.4 would be carried out and how shareholders, including private shareholders, will be contacted for their views.

Question 10

Are there areas where the Listing Rules, IFRS, company law and the Corporate Governance Code are inconsistent or require similar disclosures? If so, how could these best be resolved?

Yes
Comments
No Comment

Question 11

Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the Strategic Report?

Yes
Comments
Yes. Information of this type matters to those who are responsible for ethical investments

Question 12

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

Yes

Comments
It firstly matters that companies are run by those best equipped to do so regardless of gender. Before there can be sufficient women directors there have to be appropriate levels of recruitment to other positions and periods of experience and training. This is a long term need which is incompatible with set figures and short time scales but is a valued longer tem aim. The success of the company should not be compromised.

Question 13

Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements? If you believe that there are issues with the current regime, do these relate to:

- companies listing in the US as well as in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes.
- other concerns?

Yes
Comments
Any regime is comprised of both regulations and the prevailing attitude to their enforcement. The UK has a history of promulgating many regulations but also of detailed enforcement which has limited what business can do and added substantial costs. Every EU directive is gold plated and used to restrict rather than to promote. There is need for the development of a business orientated culture in our regulatory bodies. Development of a positive attitude in our regulators matters.

Question 14

Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements? Are there other activities or changes that the UK Government could make that you believe may be necessary?

Yes
Comments
Anything that can be done to encourage meaningful forward statements should be encouraged.

Question 15

Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

Yes

Comments
<p>Yes. This is an important issue for many shareholders and so should be in this document but in the form of an appropriate summary and in a format permitting of comparison especially with in a business sector. We support the suggestions made in Para's 5.7 and 5.9. Detailed comment on this area is contained in the UKSA response to your discussion paper on Executive Remuneration</p>

Question 16

Which elements of the current disclosure requirements could be moved to the Annual Director's Statement, or removed entirely?

Yes
Comments
No Comment

Question 17

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?
 If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

Yes
Comments
<p>Certainly a total figure would be helpful showing all remuneration from the year being reported on along with a reminder of the present value of any deferred payments not yet made. There needs to be a clear and easily understood methodology for valuing share options and pensionable rewards. Experience of how this is dealt with in other countries such as USA and Germany would help inform good practice in this area</p>

Question 18

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?
 Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

Yes

Comments
Yes but achieving this would require clear definition and care with the use of language. If such a requirement were introduced it should only apply to the largest companies e.g. FTSE100. As a general rule we would expect the board to keep control of this area of expense as they are required to do for other areas.

Question 19

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?

Yes
Comments
Yes but it should be appreciated that this is far from a simple issue and the relationship will vary between different types of companies because of the inevitable lag between a key decision and its financial impact

Question 20

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?
If so, which performance measure would be the most appropriate?

Yes
Comments
Return on Assets: see the comments made by Haldane in his recent Wincott lecture.

Question 21

Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

Yes
Comments
Yes we support the importance of this as a link between company activities and the work of its directors. This should be set out in the strategy part of the report so as to raise its importance in the thinking of boards and becomes useful to the education of

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investors. This is particularly needed for the financial and especially the banking sector.

Question 22

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

Yes

Comments

The history of the problems with the banking sector and especially of those banks now in effective public ownership and major national companies such as BP suggest that this is very important but may be very difficult to do meaningfully.

Question 23

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

Yes

Comments

We support this suggestion. We find it difficult to see how the criteria for remuneration should be commercially sensitive.

Question 24

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

Yes

Comments

There are varying views on this. If it is done it is important that there should be comparability in terms of how the calculation is done both on a UK basis and internationally

Question 25

Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

Yes
Comments
Yes

Question 26

Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

Yes
Comments
UKSA has for many years advocated the introduction of shareholder committees. Such committees would be comprised of beneficial shareholders, not investment managers, and would have the task of overseeing such matters as director remuneration (as well as e.g. audit appointments) so as to ensure that the voice of such shareholders is properly heard as they will have no interest in maintaining the status quo or increasing salary levels even further, but will have a direct interest in the long term profitability of the company.

Question 27

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

Yes
Comments

Question 28

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

Yes
Comments
The important thing is not to have more than one basis

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Question 29

Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?

If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

Yes
Comments
It is important that information which could be factual and numerical should be so. This applies equally to the directors' statement and to the strategic review. Whilst assurance is attractive it is likely to be expensive and some form of careful cost benefit analysis would be needed before this became a requirement.

Question 30

Are there any actions that the Government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?

Yes
Comments
No Comment

Question 31

Do you agree that the Audit Committee Report should contain, in addition to existing requirements:

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

Yes
Comments
We support this requirement. We would also refer to our proposal as mentioned above under question 26 that shareholder committees should be involved in audit appointment decisions. It is crucial to reflect the views of private as well "principal" shareholders.

Question 32

The Government would also welcome views on the impact of these proposals, both on the cost of preparation of the Audit Committee Report, and of the benefits to investors of having access to this information.

Yes
Comments
No Comment

Question 33

What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

Yes
Comments
As this is in effect a new requirement it is important that its need and the meeting of the requirement be well explained and that examples are produced on how new information such as that on environmental impact and social models should be presented and calculated. There will be a need to provide variants for companies working in different sectors. There is a large training "industry" which would be keen to undertake this role.

Question 34

Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

Yes
Comments
yes

Question 35

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

Yes
Comments

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