



Mark Jackson
Business Environment
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

24 November 2011

Dear Mr Jackson,

Investor Relations Society – Response to BIS consultation on the future of narrative reporting.

I have pleasure in enclosing the Investor Relations Society's response to the above consultation.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two way communication with the markets and to create a level playing field for all investors. It has over 600 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

The Annual Report is an important tool for communicating a company's historic performance. It forms part of a suite of systematic, regular communications to investors. However its usefulness to those investors over recent years has been compromised by inclusion of new mandatory information aimed at transparency, but in fact achieving complexity. The Annual Report has attempted to become a transparency panacea, and in spite of the best efforts of listed companies and their advisors, can be cluttered with irrelevant information needed by regulation.

As a consequence, investors tell us that the annual report is useful as a double check for the models maintained for each company, but that the primary source of that data is through prelims, or other company materials.

We support ideas that can help the Annual Report become again a communication tool, and in particular give management the freedom to present information relevant to the Company's performance. We think that the proposals to introduce a Strategic Report will particularly help, allowing Directors to tell the company's story in way that is unique to them, and of relevance to their stakeholders.

We also support the new Annual Directors Statement which will enable the presentation of other useful information, not directly relevant to understanding the current period performance to be shown in a more appropriate format.

However we would wish to avoid the route of adopting for the ADS to become a 20F or Document de Reference, with boxes – relevant or not – to be completed. In our view, the temptation to require disclosure – material or not to the company – simply to achieve comparability should be resisted. The ADS needs clarity just as much as the Strategic Report.

However we are concerned that the timetable for implementation is aggressive and could require changes to systems in order to collect additional information.

Finally, we note that several regulators – both in the UK and outside - are looking at narrative reporting and any framework developed by the UK Government should be harmonised with them. Future proofing UK regulation against an insular approach – at a time when UK companies have majority overseas ownership and/or listings – is essential.

Our detailed response to your individual questions is attached below. If you have any further matters which you would like to discuss with us please do not hesitate to contact me.

Yours sincerely,

Michael Mitchell

General Manager

The Investor Relations Society

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

Please send your response by: 25 Nov 2011

About You	
Name: John Dawson, Chairman	The Investor Relations Society
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I am responding on behalf of (please tick)	
<input type="checkbox"/>	Quoted company
<input type="checkbox"/>	Other company
<input type="checkbox"/>	Investor or investment manager
<input checked="" type="checkbox"/>	Business representative organisation
<input type="checkbox"/>	Investor representative organisation

	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

Questions

Question 1

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

Yes	
Yes	
Comments	
<p>We support the approach in principle provided that there is clarity over which information should appear in which document, that duplication is avoided.</p> <p>Our primary concern however is over the speed of implementation; allowing time for (especially) the format of the ADS to evolve is important.</p> <p>We would consequently suggest moving the implementation date forward from October 1st 2012,. To October 1st 2013.</p>	

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	No
Yes	
Comments	
<p>Broadly, yes, if relevant for the understanding of the Company's performance.</p> <p>The current best in class reports are able to contextualise and explain the financial information being presented in the context of the company's overall strategy and objectives, the risks associated with the achievement of those objectives and the manner in which the management monitors its progress.</p> <p>The key is that the company should be able to include information it sees as material, which should only be presented in the Strategic Review if key to the understanding of the company performance.</p>	

Question 3

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

Yes	No
Yes	
Comments	
<p>However our support is based on the assumption that the content of the strategic report will not grow to become longer than the current Annual Reviews or SFS's.</p>	

Question 4

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

Yes	No
	No
Comments	

There is already a collective board responsibility for the annual report

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	No
Yes, subject to comments below	
Comments	
There is a risk in this approach that a form of boilerplating would emerge. The way to avoid this would be to allow flexibility for companies to adapt the content of the ADS to their particular circumstances.	

Question 6

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

Yes	No
Yes	
Comments	
In principle this is welcome, however preparers would welcome clarity in 2 areas: First in regard to how and whether to link between an audited document to non audited material. Second, coordination of timing. If the annual report is a document at a point in time, linking to materials which refer to different periods may cause confusion. Clarity over audit standards is crucial.	

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	No
Yes	
Comments	

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	No
Yes	
Comments	
We think that companies should be free to choose the manner in which they make their content available to stakeholders, whether this is as a single or multiple documents.	

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	No
Yes	
Comments	

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	No
Comments	
N/A	

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	No
	NO
Comments	
<p>Practically this is difficult to arrange and would invariably lead to boiler plate. In our view, companies should use their own judgement as to which human rights – and other CSR issues - are relevant to their businesses, and to report on them, as they consider appropriate, within the description of their business.</p>	

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	No
	No
Comments	
<p>A common criticism of the current disclosure regime for Annual Reports is that additional requirements have been bolted on over a number of years in response to specific issues, resulting in the presentation of extensive information in a manner that lacks coherence.</p> <p>We do not understand how an explicit requirement to disclose this information is consistent with the aim of the Strategic Review for presenting information of</p>	

importance to shareholders in understanding the business.

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	No
Yes	
Comments	
We do not think that the current UK regime prevents companies having a reasonable discussion about future prospects within the constraints of the normal rules on profits forecasts	

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	No
	No
Comments	
The existing protection under the Company's Act is sufficient and should be retained.	

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	No
Yes, provided that it is key information – see below.	
Comments	
<p>It is important in helping understanding of the link between company performance and executive remuneration and so we support discussion in the SR of the key changes to remuneration policy, to the extent that they support the narrative of the strategy.</p> <p>However we would advise against mandating the full text of the Remuneration Report appearing in the Strategic Report.</p>	

Question 16

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

Yes	No
Comments	
<p>The following should be moved to the ADR:</p> <ul style="list-style-type: none"> Details of Board of Directors Corporate Governance statements, Board committees and details of Board activities during the year Directors’ report Full remuneration report Corporate responsibility statements 	

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	No
	No
Comments	
Remuneration as defined includes cash and non cash elements and it is misleading to aggregate all benefits. Most employees think of their 'take home pay' as a benchmark (a much lower figure than gross pay including benefits, pension contributions and possible bonuses) – maybe this is what should be disclosed.	

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	No
	No
Comments	
We do not think there is an argument for mandating the disclosure of pay below board level as a general rule, as it is a matter for board consideration, unlike disclosure of pay of board members which is a matter for shareholders. We think that the current disclosure requirements are adequate and further disclosure would only add to the complexity of reporting, without any benefit.	

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	No
Yes	No
Comments	
We think that board remuneration should be clearly linked to the achievement of strategic	

objectives, and would note that this is already a subject of discussion between shareholders and companies. Requiring disclosure would have the effect of halting that growing level of engagement on pay.

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	No
	No
Comments	
We think that this would create an added layer of complexity and would not necessarily provide comparable information given the likelihood of changes in incumbency over a five year period.	

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	No
Yes	
Comments	
We think that board remuneration should be clearly linked to the achievement of strategic objectives.	

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	No
	No

Comments
This would be a hugely complex task and create a vast amount of additional disclosure. Some remuneration consultants generally do provide companies with such information, but mandating a standard that would allow for true comparability would be next to impossible.

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	No
Yes	
Comments	
We think that board remuneration should be clearly linked to the achievement of strategic objectives.	

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	No
	No
Comments	
We think that such disclosure is superfluous to a reasonable understanding of the company's strategic activities. It would also be open to potential manipulation (such as outsourcing low-paid tasks) and hence any value of the information provided would be diminished.	

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	No
	No
Comments	
We think that such disclosure is superfluous to a reasonable understanding of the company's strategic activities.	

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	No
	No
Comments	
Whilst there may be a debate about the role of remuneration consultants in setting directors' pay we do not think companies should have to disclose what they pay their consultants. It may be useful to disclose if remuneration consultants have been used in the procedure for setting directors' remuneration.	

Question 27

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

Yes	No
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	No
Comments	
We do not have a comment on this question.	

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	No
Yes	
Comments	
<p>The Directors of the Company should be clearly accountable for the accuracy, integrity and balance in non-financial reporting.</p> <p>We do not support that idea that the auditors should give assurance for the entire SR and ADS. They should continue to comment, as they do now, if there are inconsistencies between the narrative and audited sections.</p>	

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	No
Comments	
We do not have a comment on this question.	

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	No
	No
Comments	
We do not think it is realistic or helpful to require companies to discuss the company's relationship with its auditors, including the quality of service provided, with major shareholders. If there is an issue about auditors, shareholder can discuss this with management as necessary.	

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	No
Comments	
We do not think these proposals are necessary – see answer to Q 32 above.	

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	No
Comments	
We recommend a principles based approach. Guidance should be in the form of an updated RSI and as examples of best practice taken from actual reports.	

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	No
Yes	
Comments	

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	No
Yes	
Comments	
We agree with an unchanged remit, but until there is clarity over how the profile and working practices of the FRRP should be ‘enhanced’ it is impossible to comment.	

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