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19th October 2010

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

We write in response to the consultation on the future of narrative reporting and your request to provide comments on the current narrative reporting framework and areas for improvement. This letter highlights our key views.

About Black Sun Plc

Black Sun is one of Europe's leading strategic corporate reporting consultancies. We have established our reputation through our strategic research and analysis and helping large UK and international organisations produce effective communications, which help to build greater trust and confidence with their stakeholders. Our clients include a range of organisations that operate on a global basis such as BAE Systems, Burberry, Rio Tinto, Temasek, Tullow Oil and Xstrata.

We bring together corporate reporting, corporate responsibility communications and digital communications and we have tailored our response to this consultation with this focus, highlighting particular challenges in these areas of disclosure which form a significant aspect of the corporate reporting framework.

Redefining the role of the annual report

We believe the Annual Report should be a company's most important strategic communications document. It should set out a company's vision, values and governance philosophy, as well as demonstrate the sustainability of the strategy for the past, present and future development of the business, including business model and associated risks. In short, it should evidence the quality of decision-making and provide meaningful and reliable information to its primary users – the investors in the company.

Over time the content of narrative reporting, like that of the financial statements, has been largely driven by legal and regulatory requirements rather than the needs of its main

audiences. In addition, the role of the Annual Report has been changed by innovations in technology, which have broadened and quickened access to information. Not only do we have more distribution channels for this information, but additional reporting of key information through various channels (news organisations, analysts reports, competitors) has exploded the sources of financial data and business information. The result; the Annual Report has lost its voice, its purpose and its impact.

There has never been a more critical period for redefining the role and evaluating the importance of the Annual Report in providing decision-useful information. More than ever before, people are demanding greater transparency in the way that companies, institutions and government are run. We are living in an age of accountability, and the pressures on companies in particular to 'manage their accountability challenge' are growing day by day. We believe that the key to meeting the accountability challenge is through disclosure. As we see it, disclosure creates the right conditions for transparency; transparency leads to accountability, which in turn generates confidence and trust and enhances a company's reputation. This is referred to as 'the disclosure continuum' – a process that requires a solid, strategic approach to disclosure, and a process that is dependent on accessible, clear and credible corporate reporting.

We believe that the Annual Report offers the 'once a year' opportunity to unify strategic messages across a company and the significance of this must not be underestimated. Without a strategic communications approach, the result will be a disparate set of messages that are worthless to companies, investors and stakeholders alike. We believe that the Annual Report should put a stake in the ground against which multiple communications strategies can flow throughout the year across all areas of a company's external and internal communications activities.

Current state of narrative reporting

Over the last five years we have observed an overall trend towards improvement in the quality of narrative reporting. Certain companies have raised the bar in terms of the level of information provided and the accessibility of their reported material, showing a real appetite to explain their business to investors and articulate what the drivers of value are. In that time, there has been an increasing number of companies providing greater insight into their business strategy and objectives, with the best companies describing both what the company is aiming for and how it will be achieved.

Leading reporters continue to evolve and refine their narrative reporting, developing their disclosure and providing value to investors through key performance indicators (KPIs) (93% up from 19% in 2004), details of strategy, principal risks, market trends and, increasingly, information about the character and personality of the company. There are also some efforts being made to integrate corporate responsibility (CR) information into the body of reports, 36% explaining how CR is integrated into business strategy and how it is a central part of a successful and profitable business.

For these companies, good communication is a sign of strong leadership, and reporting is rightly regarded as an opportunity for enhanced engagement and dialogue with stakeholders.

Unfortunately, the approach described above does not seem to be representative of the majority of companies with many getting the balance wrong when reporting, providing too much generic information and data, with not nearly enough insight into their business objectives, strategies, performance, governance or risk. Furthermore, this information is all too often presented in an inaccessible manner, both in print and online.

Our latest research shows that the majority of companies are unable to communicate any connective link between business and CR activities and more than half of company annual reports present CR information as disconnected from their overall business strategy, and over 40% of companies still fail to identify any non-financial KPIs. This suggests a begrudging, 'bare-minimum' mindset out of step with a post-financial crisis world. But above all, our research reveals that far too many companies produce reports which are drowning in technical information, disconnected data and impersonal, boilerplate copy which obscures the vital, unifying message. In short, they're killing the story.

As is stated in the UK Corporate Governance Code, "There should be a dialogue with shareholders based on mutual understanding of objectives." Yet this dialogue is unlikely to be able to take place if an increasing number of investors are not being equipped by companies with the information which is necessary to understand the business. Increasingly companies seem to struggle to 'tell the story' of their business within the Annual Report – particularly in terms of a layman's description of what the company does and how it makes money. Yet in presentations to investors and conversations with senior management the message is much clearer. The slightly more informal nature of these communication channels and the absence of a regulatory obligation seems to release the shackles in terms of disclosure and allows the company to communicate the key features of the business without obscuring the message in amongst a raft of 'box ticking' information.

So what do we suggest?

Clarifying and simplifying

The absence of an 'annual report act' leaves preparers checking several pieces of individual legislation or guidance to ensure that they have covered all the requirements. This layered legislative regime is also not helped by the existence of a range of different regulators responsible for overseeing different aspects of corporate reporting depending on what the content is and who it is targeted at. Despite the commonalities which may exist between these organisations in terms of where they derive their mandate from, it is incredibly difficult for companies, and indeed stakeholders, to understand who is responsible for the overall quality of corporate reporting and ensuring high standards of disclosure.

At an international level, there is a distinct lack of one overarching voluntary or mandatory standard, which sets the framework for narrative reporting globally. Instead we have a number of different standards and guidance notes, particularly in relation to ESG reporting, all of which leaves companies slightly bewildered as to which set of guidelines they should be following. While we recognise the IASB's forthcoming Management Commentary as helping in part to fill this void, it arguably does not go far enough in encouraging the integration of material non-financial and governance issues to present a complete picture of company strategy and performance – prospective as well as retrospective.

Resolving this situation is far from straightforward; removing or reducing the obligation on companies to report would no doubt lead some companies to not disclose anything at all, yet for those companies who do embrace voluntary disclosure, the regulated information often serves to inhibit investors' ability to extract anything useful from the narrative. However, we believe that rather than new regulation or standards, what we need is principle based guidance that provides an overarching framework for companies to work with – that is descriptive yet not prescriptive and gives companies the control and flexibility to communicate what makes them distinctive. It is companies themselves who best understand what is happening in their business and therefore they are in the best position to determine what should be communicated.

This guidance should by owned by the Financial Reporting Council and encapsulate all of the legislative and regulatory demands on a company report, focusing on 'outputs' rather than 'inputs'. For example, understanding of the business strategy and how it will be delivered, what risks might be encountered, what worries the board and changes that have taken place during the year. All of this should be delivered in a clear, simple, consistent cohesive story which embraces high-level principles and the 'spirit' of the guidance rather than the letter.

Rethinking the basics

Companies need to rethink and see their Annual Report as the best opportunity to provide a consistent and clear story about their direction. Because investors love a good story, they want to hear a convincing account of a company's activities and objectives. They need to see the logic in what a company is trying to do, and understand how it will achieve its goals. They want to know what a company stands for, what it cares about and strives towards. Ultimately they want a story they can believe in. To this end, companies need to stop hiding behind complexity and simply 'tell it how it is'. Clear, accessible storytelling will engender faith and confidence in a company and its future. It will answer the most crucial question: 'why would someone want to invest in this organisation'.

Thinking about audience needs

The Annual Report has, in essence, been trying to be 'all things to all people' and at times a repository for all types of information. However, it must be recognised that corporate reporting is evolving and that companies are giving more information to a wider group of stakeholders and the main purpose of the narrative is 'to inform members of the company and help them assess how the directors have performed their duty to promote the success of the company'. Therefore directors need to consider carefully the issues that are relevant to their wider stakeholder groups. Companies need to define who the Annual Report is targeted at before preparing, as meeting the needs of all audiences in one document creates an unwieldy and confusing repository of information rather than a communications opportunity.

We believe that companies should be encouraged to take advantage of all communications channels, including; meetings with management, presentations, investor meetings, other reports and the corporate website. However, we view the Annual Report as ***the*** opportunity to unify strategic messages once a year across a company and this disclosure should provide real value to investors. It is an opportunity for an enhanced engagement process and should be used as a basis to drive multiple communications strategies, which flow throughout the year across all areas of a company's external and internal disclosures.

The idea of introducing some form of 'principles based' short form report in which companies could provide a succinct and powerful summary of their story, which relates their equity story and explains the business, is one we feel should be explored further. This could be in addition to a more 'compliance focused' Annual Report containing all of the regulated disclosures currently required, thereby reducing the burden on companies to try and put all the information about their business into one document.

Embracing technology

We believe that regulators should embrace the use of technology. With a multiplicity of channels and the evolution of web functionality, corporate communications have been revolutionised in recent years and there is certainly scope for this evolution to continue over the coming years. In particular, we see the use of the corporate website in helping companies to fulfil their regulatory obligations as a crucial step in 'de-cluttering' the Annual Report, specifically in relation to the information which is static year-on-year. Naturally this process should be carefully orchestrated to avoid devaluing the disclosures in the audited report though we would certainly view this as an option which should be evaluated.

We have set our response to the individual questions set on the following pages and have used statistics from our own research of FTSE 100 corporate reporting ('*Rethinking Reporting', June 2010,* www.blacksunplc.com) to support some of the statements made. Please do not hesitate to contact us if you would like to discuss any of our comments further.

Yours sincerely,

Sallie Pilot
Director of Research & Strategy
Black Sun Plc

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
	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

<u>Question 1</u>: Are company directors providing useful and relevant information on the company's:

i) forward-looking strategy and
ii) principal risks and opportunities?

Comments

i) **<u>Forward looking strategy</u>**

Strategic discussion has long been an area where the companies who do it well, do it well consistently year-on-year, with those at the other end of the spectrum who make no attempt to discuss strategy also continuing to do so. This being said, on the whole we have seen some excellent examples of disclosure in this area with many companies giving good detail around overall vision, long term objectives and specific short-term priorities.

Linkage is one area which could be improved, with strategy often discussed in a silo and not reviewed in conjunction with KPIs, risks, resources and remuneration. Forward-looking disclosures are also usually dependent on the industry in question – those dealing with long term contracts who have visibility of revenue are usually a lot stronger in this area. In addition, the economic climate has had a slight impact on the level of forward-looking information with many companies reticent to provide any specific details about long term prospects due to external market volatility.

Related statistics from Black Sun analysis of FTSE 100 corporate reporting:

- 95% of companies discuss strategy in some form
- 32% are providing good detail on strategy and linking to other areas such as KPIs, risks and remuneration
- 86% of companies discuss business objectives (40% in 2005).
- 57% link KPIs to strategy (41% in 2007).
- 42% mention 'business model', however, only 12% describe in detail

ii) **<u>Principal risks and opportunities</u>**

Risk reporting in general is still often very boiler-plate, driven by an extremely 'liability conscience' corporate world concerned with providing a disclaimer for any forward-looking statements or thoughts about strategic direction and operational execution. This has led to a situation whereby risk discussions tend to be a 'copy and paste' section year-on-year, in spite of inevitable changes in risk profile and appetite.

In addition, disclosures in this area are almost always focused on what the threats are, with companies covering themselves rather than using the Report as a chance to outline where opportunities exist due to uncertainties within the marketplace.

Our research has also shown that risk discussions tend to be disconnected from overall group strategy (under 50% provide any kind of link to strategy) with no

indication of which risks could have a direct impact on the achievement of specific objectives or delivery against KPIs (some companies are however, beginning to address this area).

More context needs to be provided about the risks and uncertainties mean in practice – often they are just left as 'conceptual' descriptions about things which could go wrong, unsupported by practical examples.

Related statistics from Black Sun analysis of FTSE 100 corporate reporting:

- 42% describe the link between risks and strategy
- 91% provide some details about risk management processes (54% in 2006)
- 73% provide information about risk identification processes (39% in 2006) and 32% give detailed or very detailed description of the process.
- Average number of risks disclosed is 13 (31 max), 70% report between 6 and 15 risk factors
- 56% provide mitigation details for all risk factors (37% in 2008)

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

Comments

Internal barriers

Many companies are in a situation whereby they have several different contributors and 'owners' of sections for their annual report. While this is understandable given the often devolved nature of global businesses, it can lead to the narrative appearing disconnected and fragmented as each section is produced within a silo. This problem of 'siloed reporting' is usually a consequence of corporate structure, leadership direction on strategy or the lack of one owner for the content of the report. Or there may be an issue in terms of resourcing whereby those involved with the annual report simply do not have the time to be able to write every single section and therefore it is left to individual teams to compile sections separately without sufficient inter-departmental communication to ensure that they are all articulating the same message.

In addition, the annual report is seldom someone's only job; it is just one of many things they are trying to produce during what is usually an extremely busy time in the corporate calendar. This can lead to a situation whereby the preparers of the report take the path of least resistance internally, favouring 'safe' uncontroversial disclosure which is likely to be approved by senior management, rather than producing a report which is much more useful to investors and stakeholders but which will be significantly more challenging in terms of internal approval. The consequence of this is that reports become boilerplate, with copy often recycled year-on-year and a mentality that if it was approved and signed off last year then in all likelihood it will face minimal opposition for the current reporting year. This situation can often be compounded if the directors do not buy-in to the concept of enhanced reporting and fail to see the value in developing the narrative because 'nobody reads the annual

report'.

Competitive barriers

Issues of competitive sensitivity are increasingly being reduced due to the plethora of information about companies which exists in the market place and the fact that seldom is a particular organisation's strategy or market positioning not understood by its major competitors. Even so, there are still some of the more important elements of a company's equity story which do not feature in the annual report – particularly in terms of nuances around business model and specific growth priorities – widening the gap with messages being conveyed in investor presentations and by management at shareholder meetings. This is perhaps one area where we will see some development over the coming years with the requirement within the UK Corporate Governance Code for companies to report on their business model, outlining how the firm generates and preserves value. This will challenge companies to think about, and be more accountable for, the long-term positioning of the business and drivers of business success.

Issuer liability

Issuer liability is a problem with risks and uncertainties/forward-looking information, despite the safe harbour put in place by s.463 of CA 2006. Many companies are reluctant to provide too much detail on future plans/prospects, particularly in a post crisis operating environment. In addition, risk sections are often seen as a 'disclaimer' reviewing everything which could go wrong rather than just those issues which are material. Those companies listed in the US tend to be influenced by their SEC requirements and will often copy the full disclosure required for the Form 20-F, straight into their Annual Report.

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

Comments

We are not in a position to answer this question fully. However, anecdotally, we can say that there are some company boards who buy into the value of reporting and look to ensure that the narrative represents a 'through the eyes of management' perspective. Conversely, there are also those who are happy just to let communications departments, IR teams and secretariats write the report while the board merely signs the document off at the end of the process.

We have also seen many instances where companies who have faced particular issues or challenges within their business, improve their reporting as a result in order to reduce reputational risk and communicate 'their side of the story'.

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

Comments
As we are not shareholders, we are not in a position to answer this question.

Question 5: 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
As we are not shareholders, we are not in a position to answer this question.

Question 6: 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
In 2009 we conducted a survey of 40 buy-side and sell-side investment professionals to gain insights into their attitudes and perceptions towards corporate reporting, particularly regarding the Annual Report. Participants were asked how credible they viewed the following corporate reporting tools to be. The figures reflect the percentage of respondents who answered 'credible' or 'very credible': **Annual Report:** 88% **Preliminary results announcement:** 82% **Analyst presentations:** 76% **Corporate website:** 53% In addition, we also asked participants how often they used the Annual Report: **Only for initial research into a company:** 21% **Quarterly:** 29% **Often monthly**: 29% **Very often – weekly:** 21%

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

Comments

The point is made frequently among commentators that the regulatory burden on UK companies is significant - some would argue necessary - and this has indeed been acknowledged by the Coalition Government in their pledge to avoid increasing 'net' regulation. The consequence of this regulatory burden is that companies have a lot which they need to be mindful of in fulfilling their statutory obligations; therefore reporting can often get shifted to the bottom of the pile, particularly if it is only a small facet of an individual's role.

Legislation and regulation pertaining to reporting also suffers from being extremely fragmented and piecemeal in its composition. There is no 'Annual Report Act' and therefore preparers are left checking several pieces of individual legislation or guidance to ensure that they have covered all the requirements and then literally going through and 'ticking the box'. In addition, the requirements of the Listing Rules and Disclosure and Transparency Rules have resulted in a layered legislative regime with some overlap and duplication and some discrepancies with what is filed under the Companies Act and what is disseminated to market through an RIS.

The depth and breadth of legal requirements is also not helped by the existence of a range of different regulators responsible for overseeing different aspects of corporate reporting depending on what the content is and who it is targeted at. Despite the commonalities which may exist between these organisations in terms of where they derive their mandate from, it is incredibly difficult for companies, and indeed stakeholders, to understand who is responsible for the overall quality of corporate reporting and ensuring high standards of disclosure. Any moves to consolidate regulation for Annual Reports, and indeed the responsibility for overseeing compliance, would therefore certainly be welcome.

We also see that there is a real opportunity to use the corporate website as a place to store the more static information and subsequently de-clutter the Annual Report. While care must be taken to ensure that the corporate site does not become a 'dumping ground' for regulated information, if used correctly it could serve as a useful repository for content which seldom changes year-on-year or that which could be communicated more effectively through the use of enhanced functionality available online. We welcome the Financial Reporting Council's acknowledgement of this approach in the Review of the Combined Code and would certainly support any further moves to evaluate the use of the online environment in assisting companies to manage their reporting obligations.

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

Comments

Narrative reporting is something which is very unique and individual to each business, what may be a correct approach for a UK focused retailer is unlikely to be suitable for a global financial institution in terms of the way the Report is structured. We would say that a 'one size fits all' approach or any efforts to try to coerce companies to structure their reports in a certain way are likely to be counterproductive. Part of the value of the current UK principles based regime is that each organisation is free to interpret the requirements and apply them how they see fit – as opposed to a US approach whereby the 'form' structure for reporting is widely used.

This being said, as highlighted in our opening introduction, should it be deemed appropriate by the legislature to encourage two different annual reports – one for regulated information and a short form document for telling the equity story – then we would certainly see some value in more uniform structure for the regulatory document in order to aid comparability and streamline the preparation for companies themselves. This approach would however, only be appropriate if there was also an additional document which looked to communicate the business model and strategy of the company. Any efforts to mandate in terms of structure for a 'communications led' document, beyond the current OFR guidance, would be a mistake in our opinion.

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 our view, the introduction of a statutory framework beyond a set guiding principles (as the Business Review is at the moment) would encourage a box-ticking approach to reporting and would not allow companies to report in a way which best reflects their organisation and culture. The voluntary principles contained in the ASB's Reporting Statement serve as a useful set of recommendations for companies to apply as they see fit, providing them with a 'model to shoot for' rather than a list of requirements to ensure compliance with. A full mandatory standard is likely to put companies off communicating their story rather than encouraging it. Often what companies need is the freedom to be able to communicate how they see fit rather than feeling like they have to cover certain points purely for the purpose of satisfying a regulatory obligation.

This being said, we could see some value in a greater focus within the existing business review on encouraging companies to report on their objectives and the strategies in place to achieve those objectives. Principles 33, 36 and 38 of the ASB's Reporting Statement all merit re-emphasis in our opinion:

> 33 The [business review] should discuss the objectives of the business to generate or preserve value over the longer term.
>
> 36 The [business review] should set out the directors' strategies for achieving the objectives of the business.
>
> 38 The [business review] should include the key performance indicators, both financial and, where appropriate, non-financial, used by directors to assess progress against their stated objectives.

We see the focus on these provisions as critical to ensuring that directors explain what the objectives for the company are, and how they measure progress against these objectives. This in turn allows shareholders to better perform their role as stewards through the ability to assess performance based on the objectives that are outlined by the company.

<u>Question 10</u>: 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

Trends and factors

Companies have become much more adept at explaining their markets and the factors which are driving their business or indeed hindering performance. The financial crisis has been a significant catalyst of reporting in this area as many companies have been quick to highlight the prevalence of factors outside their control which have had a substantial impact on operational and financial performance over the last 2-3 years. We now feel that high quality, useful discussions of market conditions are part and parcel of many reports with a large number of companies taking the opportunity to communicate context for chosen strategies and management thoughts about the development of their industry and the wider economy moving forward. Therefore it would seem that this aspect of the business review has had the desired effect, to the extent that useful contextual information is embedded within the UK reporting regime.

Related statistics from Black Sun analysis of FTSE 100 corporate reporting:

- 45% of companies used their discussion of the market to justify performance
- 51% talk about their competition with 17% specifically naming competitors
- 60% provide an outlook for their industry
- 67% explain the impact of industry trends on the company

Corporate responsibility reporting

A significant number of companies acknowledge that they need to report on CR issues and the policies which they have in place, but find themselves getting bogged down in the detail of individual incidents or failing to cut through a plethora of data to actually explain whether these issues are core to business strategy and if so how they are managed throughout day-to-day operations. One of the major barriers to integration is the uncertainty as to whether shareholders or stakeholders are actually interested in CR issues. Traditionally, perhaps, a company's environmental impact or philanthropic projects would have been of little concern to investors, though we would expect there to be a gradual sea change in this area as carbon trading begins to have a more significant impact on cash flow which should in turn raise investor interest with company reporting responding to the increase in demand for information. In terms of the development of this area going forward, we would like to see some cohesion from

standard setters, regulatory bodies and 3rd parties in terms of the guidance or regulation, which is issued. At present, there seems to be a very disparate approach to setting a framework for CR reporting with the consequence being that companies are slightly bewildered in terms of what standard they should adhere to. We would hope that the International Integrated Reporting Committee will help to resolve this issue slightly by getting formal agreement from the G20 as to what the approach should be to better report on environmental, social and governance issue and their relevance to a company's strategy and success in reporting in the future.

In addition, the current requirements of the business review for companies to provide information on environmental matters, employees, and social and community issues presents quite a rigid framework which we have seen many companies apply a box-ticking approach to. Instead, we would favour a requirement for companies to report on those non-financial issues which are material to the business. This would hopefully lead to disclosure which provided more useful information about the impacts of a business and the relationship which these impacts had to overall business strategy or performance.

Related statistics from Black Sun analysis of FTSE 100 corporate reporting:

- 59% provide a link between CR and strategy
- 59% provide a description of the rationale for CR
- Environmental reporting: 78% outline the issues, 77% report on performance
- Social & community: 65% outline the issues, 66% report on performance
- People: 81% outline the issues, 74% report on performance.

Essential contracts

We have found that a large number of companies do not seem to have explicitly addressed this requirement within their annual report and have instead left it to the reader to adjudge whether there are any such agreements or relationships. Others have ticked the box by simply stating that they have no such contracts – perhaps unwilling to disclose whether or not their business is reliant on one particular customer or supplier. Further guidance in this area would certainly be helpful to ensure that companies observe the requirement and provide the desired information.

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

Comments
The ASB's Reporting Statement provides a useful 'go to framework' for preparing a business review and other than perhaps refreshing this document we do not feel that any additional guidance is necessary.

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

Comments
The AGM provides shareholders with an opportunity to ask management questions about the annual report and accounts and to voice any concerns they may have about its content. For this reason, and given the extensive content often included in a business review, we feel that an advisory vote is both unnecessary and impractical.

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

Comments
There are a number of market forces which drive quality in reporting, particularly amongst competitors, where there tends to be a 'ratcheting' effect in terms of the level of detail and the innovation in disclosure year-on-year. In addition, there are a number of awards for disclosure as well as independent rankings which are also helping to drive quality and if these initiatives gain traction we would see their impact in the future as positive.

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
Results from our annual research into FTSE 100 corporate reporting reveal that 31% of companies make some kind of link between key performance indicators and remuneration with only 12% providing a specific link between individual KPIs and compensation for executives. Clearly then, this is an area which still requires attention, particularly due to the fact that there is often a disconnect between the information provided in the 'front end' of the report and that which is disclosed in the remuneration report. This disconnect usually stems from a different set of KPIs being disclosed within the business review relative to those measures which the company indicates as being used to determine pay.

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
Currently companies spend a significant amount of time managing the regulatory burden of reporting and if this were simplified they would be in a position to spend more time providing meaningful, decision useful information to shareholders.

Appendix: Black Sun survey results

Each year Black Sun hosts an annual corporate reporting seminar bringing together over 100 people from a variety of different fields including: company secretarial, investor relations, corporate communications, regulators, NGOs, 3rd party organisations and investors. This event included representatives from approximately 30 FTSE 100 companies. We conducted a survey of delegates views on different areas of reporting, the results of which are published on the following pages.

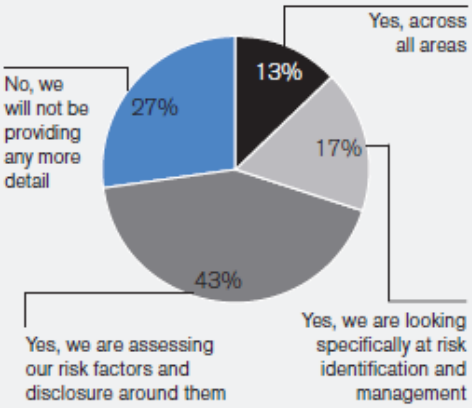
Corporate reporting overview

Commentary

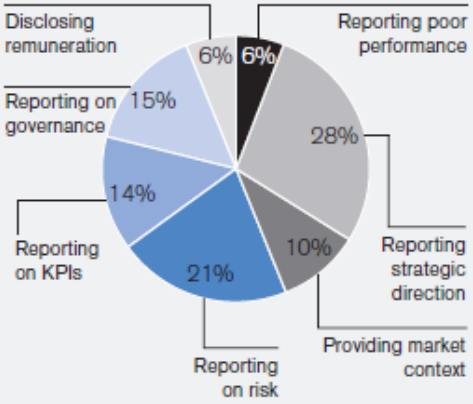
There has not been any major advancement in best practice in the last 12 months, and clearly there is room for improvement in the overall quality of corporate reporting in the UK. However, more companies are looking to report on risk and governance disclosure in the year ahead. Taking the lead from 'risk' and 'poor performance' from the previous year, it looks as though 'strategic direction' will be the most challenging reporting area in 2010/2011.

Do you think your annual report currently meets best practice standards?

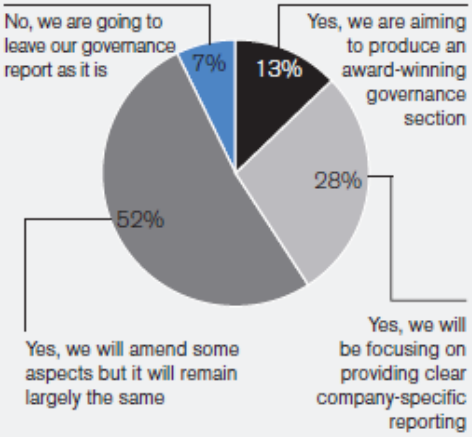
Do you anticipate disclosing more detail around your risk reporting moving forward?



In terms of reporting, what will be the most challenging areas over the next 12 months?



Will you be going further in your governance disclosure now that guidelines have been given?

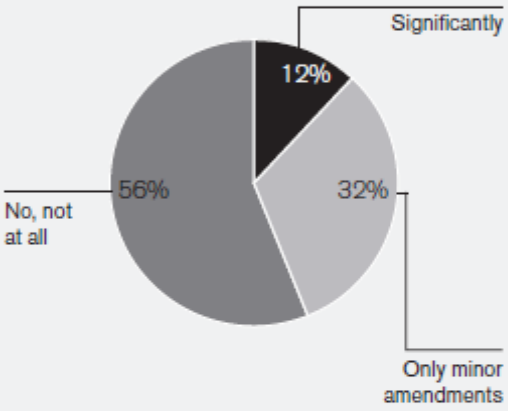


Disclosure in the UK

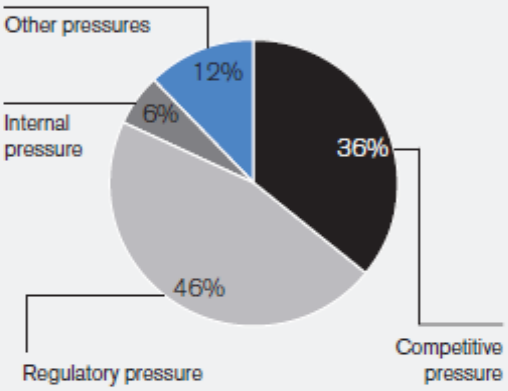
Commentary

Perhaps somewhat predictably, few people want to see any more reporting legislation in the UK, while it's believed that reforms will improve transparency marginally and incrementally. Change in governance disclosure, it seems, will be driven by a mixture of competitive and legislative pressures, and overall the UK could clearly learn a thing or two from other reporting regimes.

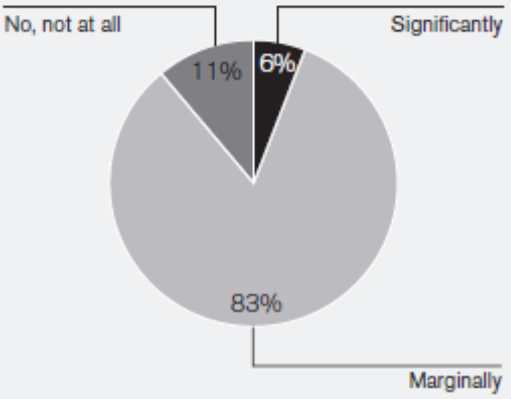
Is more legislation required to improve reporting standards in 2010/2011?



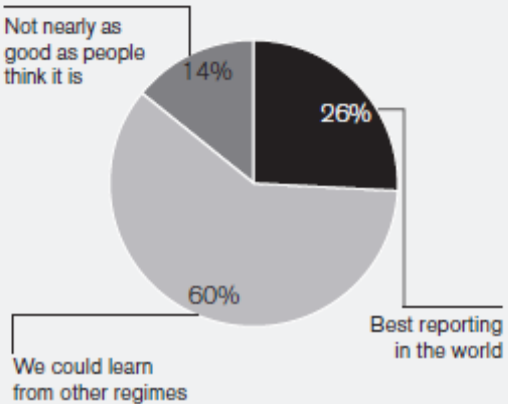
What will be the main driver for change in governance disclosure?



Will recent reporting reforms encourage greater transparency and disclosure?



How do you rate the quality of the reporting in the UK?

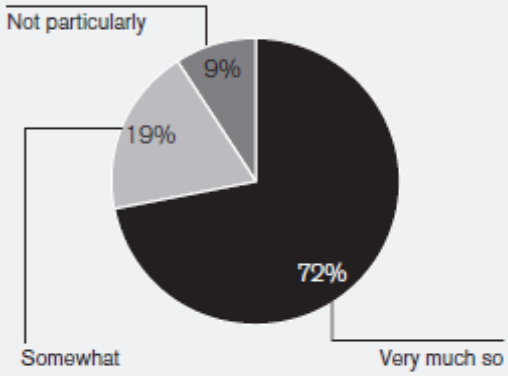


Corporate responsibility reporting

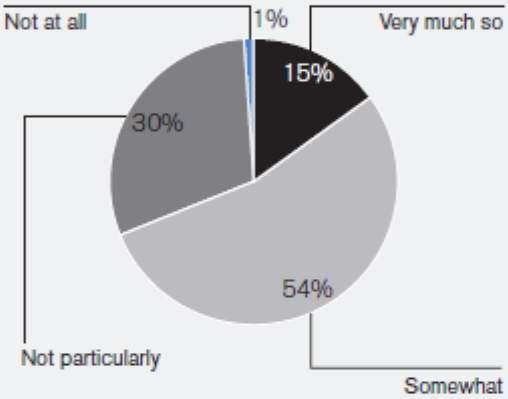
Commentary

The good news is that a large majority of companies – 72% – say that CR is on their reporting agenda for 2010/2011. Work still needs to be done, though, to integrate CR into the business strategy, and to integrate non-financial reporting into the decision-making process. Only through fully integrated reporting will companies be able to demonstrate that CR is at the heart of their organisation's vision and ethos.

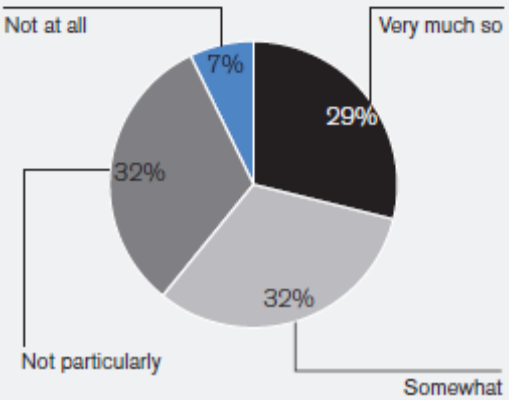
Is CR and sustainability reporting on your corporate agenda for 2010 and 2011?



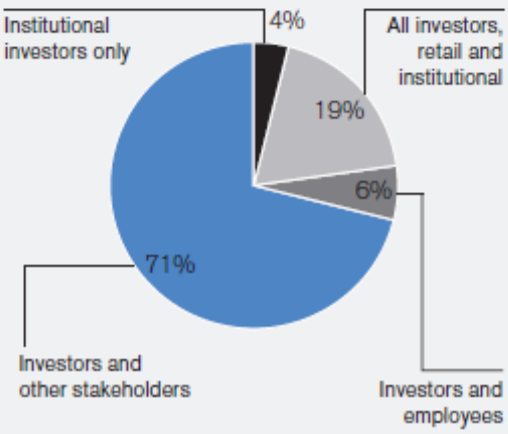
How well is non-financial reporting integrated into the group reporting and decision-making process?



Is CR and sustainability integrated at the core of your business strategy?



Which audience groups do you write for when compiling your annual report?

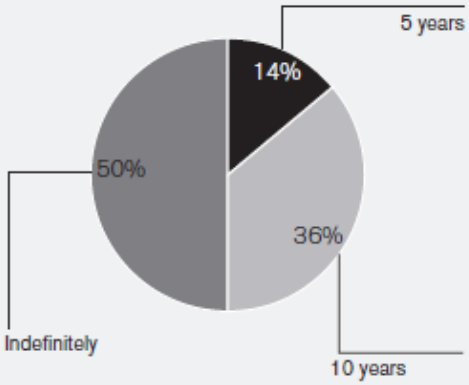


Digital reporting

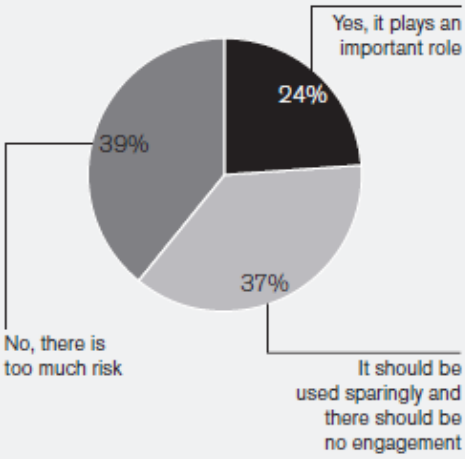
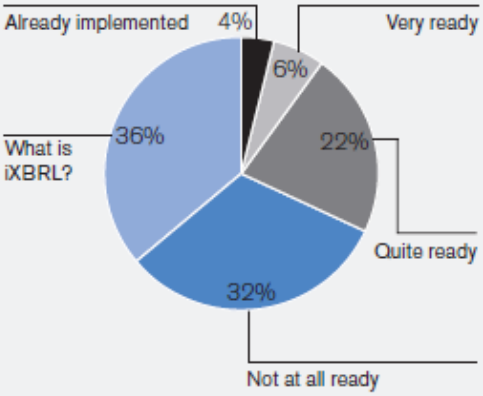
Commentary

Based on these figures, it would seem there is still a future for the printed corporate report, despite the myriad of communications platforms that are opening up all around us. Business folk still like the palpable materiality of a printed document, with all the security and integrity that this medium guarantees. Many clearly believe we need to proceed cautiously when it comes to technology, with 37% saying that social media should only be used sparingly in corporate communications, and 39% that it shouldn't be used at all given the associated risks.

For how long do you think the printed annual report will survive?



Do you think social media such as Twitter and Facebook should be used in corporate communications?



How ready your company is for Inline XBRL (iXBRL)?