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Dear Sirs,

Thank you for the opportunity to respond to your consultation on narrative reporting.

Radley Yeldar is a corporate communications agency committed to developing the effectiveness of corporate reporting and regularly undertakes research and analysis in this area. Our annual *How does it stack up?* research, for example, assesses the reporting of the entire FTSE 100, establishing best practice trends and drivers. Report Leadership, meanwhile, is a joint initiative with PwC and CIMA that aims to challenge established thinking on corporate reporting.

The last five years have seen massive changes in how and why companies communicate. The growth of electronic communications, the complexity of business models, the changing audiences, the changing approach to risk by investors, the growing diversity of the regulatory burden and not least, the economic downturn have all created pressures on the ways in which companies engage with investors.

At Radley Yeldar, we believe that the key to meeting this engagement challenge is through disclosure. As we see it, disclosure creates the opportunity for communication, which is a first step towards transparency. This in its turn generates stakeholder confidence and trust, as well as building on the company's reputation. So we support the need for a review of narrative reporting as part of the thinking around stewardship and investor engagement.

"Disclosure" takes many forms. Whether through ad hoc market updates of inside information, through the financial calendar, IMS, half and full year reporting, or through investor presentations used at investor conferences and one on one meetings, a consistent flow of information is reaching stakeholders. The annual report is one part of this flow of information; indeed we argue that it is a crucial part. It interprets, in an audited framework, the complete equity story of the company.

And yet the approach by companies to the annual report is very diverse. Since 2006, Radley Yeldar has charted the evolution of the annual report. Our *How does it stack up?* initiative highlights companies that have embraced best practice reporting. Here are some of the things which these companies do well:

- Tell a story, presenting key content – strategy, marketplace, KPIs, risk – in a joined-up way
- Explain their business model

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- Support strategic discussion with information about the key resources and relationships necessary to successfully deliver their objectives
- Discuss key trends across their markets, backed up with relevant data
- Update their risk disclosures to reflect developments in 2009, and discussed risk management frameworks and processes
- Give equal billing to financial and non-financial KPIs and integrate both through the business review
- Explain the business case for sustainability and link it to strategy

However the gap between those who regard the annual report as a communications opportunity, embracing the approaches and techniques above, and those who simply seek to comply has grown wider. This leads to an asymmetric information flow. Investors and the market generally have patchy access to the story that companies tell. Far too many companies fail to provide insight into their business objectives, strategies, performance, governance or risk.

Barriers for preparers

In hosting a recent event, we contacted in advance the attendees – all of whom were responsible for preparing their annual reports at their (FTSE 100) companies. We wanted to know their concerns, and what gets in the way of preparing the annual report. These were some of our findings:

Content

1. One document; many audiences. A starting point is to whom is the report directed? Creating language and data that allows an institutional investor to model future performance and the sell side the sector market data they need, while giving retail investors an overview, and the governance/environmental/employee groups the detail they want, is complex. Where do you focus? Who are you writing for? What is the role of an Annual Review?
2. How do you discuss the keys to the company's success, while maintaining company confidentiality?
3. Compliance AND communication. Mapping disclosure obligations, best practice guidance, and external awards criteria, with what is internally possible.
4. "Integrated reporting". Telling the company's financial and non-financial story in a joined-up way throughout the report.

Compilation

1. A company network is key. The preparer is a journalist, detective, compliance officer and diplomat, meshing fact gathering, variable internal opinions and perceptions, different writing styles, and the need for consistency with key company messaging.
2. Keeping control. The annual report is a mass of moving parts, which suddenly stops. Data validation, version control, deadlines, 'true and fair view' are just some of the challenges.
3. Senior management buy in. From winning recognition that the report is a flagship communications tool, to getting board/management consensus and subsequent sign off, all at a time when the financial team's focus is on the half-year results.

Communication

1. More content in fewer pages. There is clearly a desire among companies to achieve a better understanding of the company, its business model and strategies, but doing so crisply is a true skill. Does detail have precedence over storytelling?
2. Making it accessible. How do you make the text engaging, interesting, flowing, transparent and cliché-free, keeping it fresh and different but evolutionary? And how do you use design and visual assets to bring the narrative to life?
3. Balancing hard copy reporting against an online strategy. Ensuring that the content stays consistent, but that each adds distinct value.

Regulatory barriers

Regulation surrounding corporate reporting, and the preparation of the annual report has changed in content and intent since the origins of the annual report in the late 1880s. Regulation and guidance has become dispersed across various rule sets and regulators. IR and company secretarial teams, corporate communications and others preparing narrative reports have to bear in mind the Companies Act, the FSA Disclosure and Transparency Rules, the ASB's OFR Reporting Statement and their guidance on narrative reporting, and the DEFRA rules. Different regulators also oversee compliance with corporate reporting. Proxy voting agencies also have their own templates that present challenges, and the 'awards' process creates further best practice standards.

Layer in the distinct implementations of the Transparency Obligations Directive across the European Union, international standards such as the Global Reporting Initiative, the IASB standards on reporting, and the International Integrated Reporting Committee, and preparers face a complex task – long before they get to thinking about communication.

What we think should happen

Regulators can help in a number of ways:

First, simplify the regulatory/ guidance burden. Put all the regulatory obligations in one place under a single regulatory oversight.

Compliance should be in the form of principles based guidance and encouragement, rather than new standards or regulations. Creating a mandatory standard to be followed does not allow companies the flexibility to tell their own story, and perversely encourages a templated box ticking approach.

We think that any changes to the narrative reporting regime should bear in mind the total flow of information to the investor. The annual report should not be regarded as a standalone communication, a repository of information mostly already in the public domain. Rather, it should act as a means of adding to the coherence through which all of the disclosures come together. Guidance should encourage companies to make sure that their equity story is consistent.

Second, we believe that regulators should clarify how technology can help. With many companies already struggling to make the annual report a coherent, holistic story, we believe that moving content out of the annual report and onto the corporate website would simply exacerbate this problem. Companies already use their corporate websites to deliver more detailed information about their businesses. That said, allowing companies the freedom to link from the audited annual

report to other complementary sources of information would enable preparers to direct stakeholder groups to further detail elsewhere and encourage them to achieve consistency across these different sources.

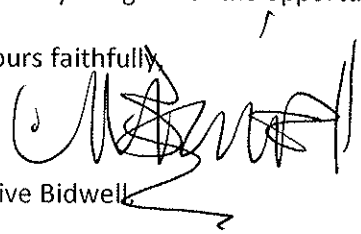
Third, inclusion of the auditing process is very important. We believe that environmental and social data should be audited, and that all audited data should be identified as such.

Fourth, we do not believe that adding to an already crowded AGM agenda by adding an advisory vote on the Business Review would make a difference to the quality of narrative reporting.

Finally, costs of preparation are an obvious concern for all companies. By simplifying the guidance on what companies should include, regulators would encourage companies to invest more on those areas that matter to them and to their stakeholders.

Thank you again for the opportunity to respond.

Yours faithfully,



Clive Bidwell,

Head of Corporate Reporting.

Value of narrative reporting

Question 1: Are company directors providing useful and relevant information on the company's:

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

In our annual review of narrative reporting across the FTSE 100 How does it stack up? we highlight several examples of companies who have done excellent work on both these areas. Common shortfalls, however, are the absence of measurable targets in forward-looking statements. More generally, few companies currently work hard enough to articulate their business models and explain why they are sustainable. Many companies continue to struggle with outlining their plans and priorities for the coming year(s) or setting out the market factors likely to influence the business' plans in the future. Risk information is similarly patchy. While the level of risk management information has improved in recent years, some companies still simply list what they see as key risks, without stating why those are 'key' risks, quantifying them or explaining mitigation of those risks. Others provide a boilerplate list of risks which could apply to any company or copy and paste the list from one year to the next. As such, many of the risks are too broad to be of use in modelling future performance.

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

In our view there are three challenges for companies. First, corporate policy on 'guidance' issued to the market. Companies that choose not to guide formally are reluctant to do so in their annual reports. Second, many companies are unwilling to commit themselves by providing information about future plans and market outlook, when there are no guarantees that those plans will prove successful or that markets will evolve as predicted. Thirdly, companies are often concerned that articulating key risks and forward-looking strategy provides competitors with too much information.

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

While corporate governance statements have traditionally been filled with boilerplate content, the new Corporate Governance Code should encourage preparers to discuss what the board has actually focussed on during the year and show how the board has added value to the company. This should ensure that the governance statement and the business review link up, setting out the business' performance, plans and prospects and the board's contribution to these.

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

n/a

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?

n/a.

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)?

From the preparer's perspective, the key is to achieve consistency of messaging across these different sources. Consistency of guidance and regulatory approach would be helpful.

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

Yes. Annual reports are important because they gather together the information disclosed by the company throughout the year and offer the opportunity to tell the company's story in a coherent, contextualised way. Recognising that many of the mandatory disclosure obligations covering annual reports cover issues that are already in the public domain and simplifying the rules/guidance that companies need to comply with would allow companies the freedom to communicate their equity story more effectively.

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

Yes. If regulator(s) recognise the range of means used by investors to access information, companies will find it easier to communicate quality information, rather than comply. We believe that it is important that the annual report continues to represent an integrated story, consolidating and interpreting key information. Other media such as corporate brochures, data books and the corporate website are used to complement this, providing additional detail for specific stakeholder groups. Allowing companies to link more freely from the annual report to other sources of information would therefore enhance communication and might encourage preparers to ensure consistency across their communications.

Similarly, in terms of how the information in the annual report is arranged and delivered, then there are always opportunities to make the annual report more communicative by improving the quality of the narrative, structure and design.

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?

We do not believe that the distinctions between the OFR and Enhanced Business Review merit any rule changes. Nonetheless, the guidance around the OFR is helpful.

Question 10: The business review provisions require quoted companies to report, to the extent necessary, on:

- main trends and factors likely to affect the future development, performance and position of the company's business
- information on environmental matters
- information on employees
- information on social and community matters
- persons with whom the company has essential contractual and other relationships

i Is this information useful to you? How do you use it?

i Could disclosure be improved? If so, how?

ii Are there key issues which are missing? If so, please explain?

From our How does it stack up? research, the last four of these issues are those with which companies struggle. Other than those with a significant impact on, for example, the environment, or those with large numbers of employees, few provide true insights which add value, and many would appear to be compliance oriented, or simple PR add-ons. We believe that this is because many companies are failing to identify and discuss the issues that are material to them, rather than not having material issues to discuss. Creating guidance around the phrase "To the extent necessary" such that companies would not feel obliged to add immaterial information simply for compliance, would help.

We also believe the relevance of disclosures might increase if more companies were equipped with consistent guidance on the identification of (and subsequently, reporting on) non-financial materiality. Existing publications that may be consulted for guidance include AccountAbility's 2006 publication "The Materiality Report" or Accounting for Sustainability's 2009 "Connected Reporting" publication. Similarly, the timeframe used to determine materiality will need to be revisited. For investors to be able to judge how sustainable a business is, companies need to report on material social and environmental issues within a medium to long-term timeframe (3+ years).

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

We feel that there is already a wealth of guidance available to companies, from the guidance around the ASB's OFR Statement and regulators' reviews, to awards such as PwC's Building Public Trust Awards and the various best practice analyses and examples from third parties such as Radley Yeldar. We believe that any further guidance should therefore be sector specific.

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

We do not believe that adding to an already crowded AGM agenda by adding an advisory vote on the Business Review would enhance to the quality of narrative reporting.

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

See question 11.

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?

If not, please explain including any views on how this might be improved.

Radley Yeldar is one of the partners in the Report Leadership initiative. In our brochure "Executive Remuneration: Simple, practical proposals for better practice in reporting executive reward" we offer our views on how this should be communicated.

Costs

Question 15: If you can provide any information on costs associated either with the existing narrative reporting requirements e.g. 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.

The costs of preparation are an obvious concern for all companies. Simplifying the guidance on what should be included in the annual report would encourage companies to invest more in those areas that matter to them and their stakeholders.