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

Name: Greg Davies

Organisation (if applicable): Elemetus / EIC

Address: 26 Redkiln Way, Horsham, W Sussex RH13 5QH

Email:

Return completed forms to:
Jane Leavens
Corporate Law & Governance Directorate
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Tel: 020 7215 1686
Narrativereporting@bis.gsi.gov.uk

Please tick the box from the following list of options that best describes you:

	Quoted company
	Other company
	Investor or investment manager
X	**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
Not always. The variety and types of information provided can make it difficult to identify a clear picture. Separate and different reporting formats (annual accounts, environmental reports, CSR reports, etc) can fragment the wider picture. **Companies selectively concentrate on elements they are "strong" on and don't consider others or if they do it is in passing.**

<u>Question 2:</u> What are the constraints on companies providing information on these issues?

Comments
Inconsistent reporting formats, variable standards, misunderstanding, competitive disadvantage, poorly applied legislation – the need to consider environment and community is under section 172 (d) of the Companies Act 2006 and health and safety is not mentioned at all. **If considering the broader agenda for reporting it should at least incorporate Workplace, environment, community and marketplace as major topic headings. Within each, definable sub headings could be used to consider specific topic areas (i.e. carbon, ethical investment, health and safety etc).** **Some standard reporting methods have been adopted, but these are not always consistent.**

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

Comments

Financially - probably yes.

Non financially – Unlikely to any degree other than endorsing or agreeing the strategy/initiative. It is not uncommon to find statements made in environmental or health and safety policies are difficult to prove or substantiate in the day to day working of an organisation.

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

Comments
Financially – yes **Non financially – difficult to assess. As this aspect of reporting is relatively new, and with a myriad of standards in place, comparisons are difficult and the methods use can often confuse.** **Careful selection of a measurement method (particularly for carbon currently) can increase or conversely decrease the result to suit a particular position or circumstance. This neither promotes honesty or clarity.**

<u>Question 5</u>: 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
Where working with then – yes. **Clear, concise and standardised means of gathering interpreting and reporting non-financial performance.**

<u>Question 6:</u> 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
All the methods and detailed analysis of policy documents, targets and objectives. **Use of standardised comparison data (EPC, DEC), HSE statistics etc can support the work undertaken.**

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

Comments
Yes - see previous comments (Question 2).

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

Comments
Yes – see previous comments (Question2).

Business Review

<u>Question 9</u>: 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
Yes. A standardised reporting format would aid consistency and comparability of reporting. **Specific topic headings would also make it simpler to produce and the reports more easily understood by all stakeholders.**

<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
Health and safety directly is missing it is implied through "information on employees" but that is all. **Environment should be split to cover carbon and other issues separately (biodiversity etc).** **The other elements are well covered. As previously mentioned having a report format with specific sub-headings would help with consistency and interpretation.**

<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
Yes. Standardised terms of reference and performance categories (See question 2 again as an example). **Some markets/ sectors place different weightings on different elements this too could be reflected in the report. It would make the information more relevant and more pertinent for stakeholders.**

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

Comments
No comment.

<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
Great question. Comparison, transparency, quality and credibility are the keys, as long as there are numerous ways of achieving an outcome, there will be numerous solutions and numerous different answers. **A consistent method of reporting would help with consistent standards of measurement. Balance sheet, P&L and cash flow all started somewhere!**

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
Yes, largely.

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
Sorry. No.