



31 March 2014

New Lab Project: Disclosure of Dividend Policy and Capacity

The Financial Reporting Council's (FRC's) Financial Reporting Lab (the Lab) invites listed companies and investors/analysts to participate in a project on the effective communication and disclosure of dividend policy (sometimes referred to as dividend strategy) and capacity.

This project will assist companies in better understanding investor concerns on current practices. It will also provide an opportunity for companies to enhance their reporting and provide information on dividend policy and capacity which investors indicate is important to their assessment of an investment case, for example:

- details of the company's track record on dividends, its current position including any proposed dividends, and information that helps investors assess potential future dividends in consideration of any barriers to dividend payments and management of the capital needs of the business, and
- where companies hold relatively high levels of cash, communication of how the company plans to use the cash it considers to be excess (or how it plans to decide on the use), including its approach to paying cash dividends.

Such disclosures are also seen as highly relevant in the light of current developments in the strategic report and the reporting of solvency and liquidity risks. Investors are also seeking more clarity and transparency in this area, given the increased use of fair values in accounting which can increase the complexity of assessing which profits are distributable.

Proposed scope of the project

It is anticipated that the project will explore the communication by companies at the group/holding company level, in respect of:

- any significant constraints on dividends, such as structural, legal, accounting, tax, operational or other considerations that could prove limiting to the conversion of profits to a flow of cash dividends to shareholders; and
- the nature of the company's dividend policy and how the policy relates to its strategic objectives and the company's capacity to pay dividends.

We are looking for a number of listed companies to highlight disclosures in their annual reports, investor presentations or on the company website for example, and to discuss the rationale behind their approach on the content and presentation of information, given the related economic, legal and cash affordability of dividends. The examples provided will be tested with the investment community through a series of meetings facilitated by the Lab. Alternatively, unpublished examples could potentially be developed and presented to the investment community on an anonymous basis.

All parties involved in the project will be required to respect the confidentiality of information provided by other participants, in addition to the names of companies and investors/analysts participating in the project, until such information is made public in the Lab's published report.

What is the timing of the project and the level of involvement required?

Companies and investors/analysts are asked to indicate their interest in participating in this project over the course of April. This will allow the Lab to obtain input from the investment community over the following months, with the aim of publishing the Lab's report on this topic in the second half of the year.

Beyond providing example communications and relevant considerations for testing, we do not expect company participants to commit significant time to this project. For example, the Lab team can facilitate meetings with the investment community and share insights gained with participating companies. Investors and analysts are generally requested to participate in a relatively brief meeting with the Lab team to provide their views. All participants will be provided with an opportunity to review a draft of the Lab's report and provide any further input for consideration by participants before it is published.

What is the Financial Reporting Lab?

The FRC launched the Lab with the aim of improving the effectiveness of corporate reporting in the UK. The Lab provides a collaborative environment for companies, investors/analysts to discuss innovative reporting solutions that better meet the needs of both communities.

Further information on the Lab and its activities can be found on the FRC's website [here](#).

How should companies and investors/analysts express interest in participating?

Companies and investors/analysts interested in discussing participation in this project should contact the Lab team by email at: FinancialReportingLab@frc.org.uk or contact Sue Harding by telephone on 020 7492 2442 or Marian Williams on 020 7492 2428.