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Effective Company Stewardship: Enhancing Corporate Reporting and Audit

Dear Mr Haddrill,

Thank you for the opportunity to respond to your consultation *Effective Company Stewardship: Enhancing Corporate Reporting and Audit.* As an agency that supports companies in their drive to enhance their corporate – especially narrative – reporting both in print and online, we applaud your initiative to make corporate reporting more useful to investors by providing clarity on best practice.

We regularly undertake research and analysis in this area, including our annual *How does it stack up?* report (www.howdoesitstackup.co.uk), which we've conducted each year since 2006. It assesses the reporting of the entire FTSE 100, establishing best practice and drivers.

In our response to the enquiry conducted last year by the Department for Business, Innovation and Skills, we highlighted what our analysis identifies as best practices. We attach a copy of our submission for your reference. Our comments remain true: the best practitioners provide reports that link corporate strategy to the business model, KPIs and risks, to create a clearer insight than numbers alone can provide. Presenting this information in a user-friendly, accessible way that is specific to each and every company is also important.

In your consultation you make a number of important proposals. We will group these into three:

First, comments about the current state of regulation in response to the points raised in Chapter 3 ('Narrative reporting') of your consultation. From our research and our work with clients, there has been a significant improvement in the standard of reporting since the introduction of RS1 in 2005. Best practice has moved on to the extent that today's average reporters often feature the strengths of the top performers five years ago. There is certainly still a wide gap between top performers and the rest, but in our experience this gap depends more on the attitude of the company towards the report, rather than an absence of guidance. We do not believe that new 'rules' can change this. Creating new, more exacting structures against which companies should report will in our view inevitably lead to boiler plating. The first task for any preparer is compliance, and if a detailed regulatory standard exists, it will surely become a template to be followed, before good communication is considered. Moreover, the new Governance Code needs time to bed in before any further changes are considered.

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One area in which regulatory change *can* help is in simplifying the regime, which currently includes the Companies Act, Listing Rules, DTR and Governance Code. Streamlining the current regulatory system would certainly be helpful. In principle, we support the Government's recently published Plan for Growth, which includes a commitment to simplify the reporting regime.

Second, the consultations on the role of technology in corporate reporting (Chapter 3, p11). On a number of recent occasions both FRC and BIS have proposed ideas around how technology can improve access. We applaud these ideas, and believe that many technologies have the potential to widen access. However large savings would not be made, as print is only a small fraction of the total cost of producing a report. The majority of the cost lies in preparing the report, irrespective of the means of delivery. This cost will remain, even if the obligation to produce a printed report is removed.

Since the changed default, allowing companies to require shareholders to opt in to receiving a hard copy of the report, many companies have been actively marketing electronic access. Among 35 of our clients, (predominantly FTSE 350), print runs have consequently reduced by an average of 50%, and by up to 84% for those with large private shareholder bases. However, there remains a significant level of demand for hard copies of the report. Of the companies who have implemented the default to e-comms, a quarter of their shareholders actively request hard copies. Moreover, our recent interviews with fund managers and analysts highlight that the vast majority still use the printed report for reference throughout the year. This continuing demand for hard copies may be due in part to the nature of content in annual reports, with many users preferring to work from hard copy when analysing a large amount of detailed information. Given the substantial proportion of shareholders and other users requesting hard copies, there is still a clear need for companies to continue to be required to produce printed reports in order to deliver what shareholders want. It may well be possible to remove that requirement in the longer term, however.

So we welcome the FRC's encouragement of the use of technology, but it is unlikely to lead to substantial cost savings. We would advise against placing too much emphasis on one media channel when there is clear demand for hard copies too.

Finally, the recommendation that the auditing of narrative reporting be extended (Chapter 4, p13). The practicalities of assuring that broad statements were true, would lead without doubt to companies providing minimalist statements. Instead of "we are among market leaders in XX, which we expect to grow as an important contributor to company profits" we would see "we produce XX". The Management Discussion and Analysis reports produced in the US are examples of this law of unintended consequences.

We also have concerns that time scales, already tight, would be under pressure, and that costs would increase with the extra assurance. Our interviews with fund managers and analysts also highlighted the desire for reports to become available much earlier (at final results date if possible), and further pressures on the auditing process would discourage this.

Thank you again for the opportunity to comment; clearly our comments are made without the benefit of feedback from the BIS Narrative Reporting consultation, or from the Cut the Clutter initiative. We would of course be delighted to expand on these comments when appropriate.

Yours sincerely,

Clive Bidwell

Head of Corporate Reporting