

Henry Langley

Telephone: *Medway 235406*
01634 235406

Mr Stephen Haddrill
Chief Executive
Financial Reporting Council
5th Floor
Aldwych House
71–91 Aldwych
London WC2B 4HN

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Dear Mr Haddrill

FRC REPORT

1. I am writing in connection with your recent report *Effective Company Stewardship: Enhancing Corporate Reporting and Audit*. I was first alerted to the report in the *Financial Times* of 8 January where I read about the extraordinary idea that had been proposed that companies might be allowed to stop printing hard copies of their annual report and accounts.
2. Accordingly, I downloaded your report and I have read through it, and I would like to comment in particular on this aspect, although I will also take the opportunity to add a couple of other comments on the report. I write as a long-term but small-scale private investor. FYI I have individual shareholdings in about 30 companies and about 15 investment trusts. I attend the AGMs of a number of these companies, some on a regular basis (eg Barclays, BSKyB, Monks Investment Trust and Witan Investment Trust) and some less frequently (eg BT and Marks & Spencer).
3. I would certainly agree with your report when you say that annual reports should be ‘relevant and present an accurate, coherent and balanced picture of the business and its prospects’. As you will see, I receive quite a lot of annual reports through the year. I have a glance at most of the reports if I have time and a more detailed read of those in which I am most interested or of those which represent the most valuable of my shareholdings. Also I tend to read more closely those reports of companies or investment trusts where I intend to go to the AGM. I should say that when I do go to the AGM that I always take with me the printed copy of the annual report and indeed I have used it to ask a question at the AGM, as I did at the most recent BSKyB AGM.
4. So, I think you will understand why I regard a printed copy of the annual report and accounts as absolutely essential and that is why I very strongly object to any proposal that says that they should be posted on a company’s website rather than being produced in print. I don’t think your proposal has been fully thought through and I hope it will be withdrawn as I think it would do a great disservice to those shareholders like myself who do regard the printed copy of a company’s annual report and accounts as the main means by which companies and investment trusts communicate with their shareholders.
5. Having said that, I do find that there is considerable variation in the quality and the amount of information that I receive from companies and investment trusts. I would agree that in certain cases the annual report is unnecessarily long and bulky and that there could be savings here by cutting out some of the superfluous information (including some of the financial information) – here is a case where this type of information

that most ordinary shareholders are unlikely to want to read in detail could be removed from the annual report and just put on the company's website.

6. However, I would suggest that it is essential that each listed company and investment trust should continue to be required to produce in hard copy form a basic annual report and accounts. This would set out the main information about the company's operations, including a description of what took place during the year concerned and a look at the year ahead, together with appropriate financial figures on income, expenditure and other figures including the dividend, number of shareholders etc. There should also be sufficient information on the directors and on the remuneration policy and how the directors are paid and their benefits. Perhaps this is a case where the FRC could consider how much information should be provided in this basic report and how much of the more detailed information could be just listed on the company's website.
7. I think this does need to be carefully considered. For example, I attended the AGM of National Express in May 2010. The company had had a rights issue a few months previously and had taken the decision to send out to shareholders a 'Shareholder Summary 2009' setting out the results for 2009 rather than including a copy of its full Annual Report and Accounts. Unfortunately, this summary document was lacking in a number of important features. For example, there were no comparisons with 2008, no list of directors, no remuneration report and no reference to the position on the dividend (or rather lack of dividend) and the policy on the dividend. I, along with other shareholders, raised the inadequacy of this Shareholder Summary at the AGM and the Chairman, John Devaney, duly acknowledged this and hopefully the arrangements for the report for 2010 will have been improved. In this case a basic Annual Report would have proved sufficient if it had been properly produced with all the relevant information that shareholders needed.
8. I will take the opportunity to comment on a couple of other points in connection with the report. First, I welcome some of the comments in the report eg greater investor involvement in the process by which auditors are appointed. It seems to me that there is a case for more frequent consideration of a company's auditor, and that this should be put out to competitive tender on a regular basis. Secondly, while a number of the conclusions of the report are very worthy, references to fuller reports of the Audit Committee would add to the bureaucracy involved. Here I think there is a case for these more detailed reports to be mentioned on the company's website rather than in the Annual Report and Accounts, although if there are any important qualifications to the Report and Accounts then these should of course be included in the printed document.

Incidentally, in case you are not aware of it, I would like to draw your attention to an article in the Business section of today's *Daily Telegraph*. This is by John Owens, a private investor and former deputy DG of the CBI. The title of the article says it all: 'Don't scrap printed company reports – they're vital to small investors'.

I trust that these comments will be helpful.

Yours sincerely

Henry Langley