



31 March 2011

Stephen Haddrill
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Dear Stephen

Response to the Effective Company Stewardship Consultation

On behalf of the Trustees of the Society I am submitting herein our response to the Discussion Paper 'Effective Company Stewardship: Enhancing Corporate Reporting and Audit'.

We wish to address in particular the first of the five aims of the FRC listed in the Introduction to the discussion paper:

- Higher quality narrative reporting, particularly on business strategy and risk management

It is the Society's belief that it will be difficult for the FRC to achieve the other aims of this Discussion Paper, or indeed any advance in narrative reporting, without addressing the Society's observations.

The Trustees have asked me to point out that five years of evaluating and recognising best practice in respect of how FTSE350 companies report strategy and strategy-related information in their Annual Reports qualifies the Society to make these comments with particular authority. Based on our extensive review of Annual Reports in conjunction with FutureValue we estimate that less than one third of FTSE350 companies display any rigour in their strategic thinking or clarity in their articulation of this thinking in their narrative.

We do not believe that Annual Reports as a whole currently provide a fair and balanced report on the Directors' stewardship of the business. We maintain that every company should be able to demonstrate its strategic leadership by expressing clearly its strategic thinking and how this translates into action in the business. Only a minority currently

show that they have the ability to do this. This undermines the value of the Annual Report and the insight it can afford investors, analysts and other stakeholders as to a company's future potential.

We are concerned that the lack of consistency in how companies report strategy-related information may even be dangerous as a reliable comparative source of information. There is a need for better guidance, definitions of strategy and illustrative strategic frameworks. We hope at least that our 'Strategic Value in Corporate Reporting Awards' highlight the very best practice and point to some exemplars. We should point out that over the five years of the Awards there have only ever been just over forty companies short-listed for those awards that assess the quality of strategic value. We see this as an indicator of the paucity of strategic thinking in UK boardrooms.

We also question whether auditors are the right people to comment expertly on narrative that purports to look forward. As accountants they have a historical mindset. Nor are they skilled in strategy, strategic thinking or its application. We firmly believe that the shortage of strategic literacy in Audit Committees and among Auditors validates our view that the present general reliance on strategy information in Annual Reports may even be dangerous.

We will be pleased to assist further in these discussions and related initiatives. We are currently planning a comprehensive research programme 'Strategic Value in Corporate Reporting' – see <http://svcr.squarespace.com> for details of the six themes. We will be pleased to involve the FRC in this research and its outcomes.

We are at your service.

Yours sincerely



Ian McDonald Wood
Chairman