

The future of narrative reporting: consulting on a new reporting framework. Response form

Please send your response by: 25 Nov 2011

About You	
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I am responding on behalf of (please tick)	
	Quoted company
	Other company
<input checked="" type="checkbox"/> [TICK]	Investor or investment manager
	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

About this submission

This submission represents the joint views of the Church of England Ethical Investment Advisory Group (EIAG)¹ and the Church of England national investing bodies.² The submission should be regarded as an asset owner response.

Introductory comments

The EIAG and national investing bodies warmly welcome the BIS review of narrative reporting. Relevant, clear, honest and concise reporting within company disclosures is imperative if shareholders are to be allowed the opportunity to understand company approaches on various issues. Poor quality and over-long reporting does not facilitate a high quality dialogue between management and the company's various stakeholders.

The EIAG and national investing bodies often find that existing reporting in company disclosures fails efficiently to support engagement with investee companies. It can readily be understood that the higher the quality of disclosures a company makes, the faster information can be absorbed and, therefore, the more time is left to carry out engagement work with other investee companies.

The national investing bodies would like the EIAG, on their behalf, to engage with more investee companies than it currently does in order that they can fulfil their responsibilities as shareholders on a wider basis. However, poor reporting means some company disclosures require a disproportionate amount of time to analyse. In addition, as part of this engagement work, one of the EIAG's principal responsibilities is to execute a voting policy in respect of the shares of the national investing bodies. Certain aspects of the voting approach rely on companies making particular disclosures (for example, details of and limits on remuneration plans); failure by a company to make what the national investing bodies consider to be a sufficiently clear disclosure results in the EIAG, by default, recommending a vote against management on an appropriate resolution (in this instance, the remuneration report).

¹ The Church of England Ethical Investment Advisory Group (EIAG) makes recommendations on ethical investment policy to the Church of England's national investing bodies. The EIAG and its Secretariat also conduct engagement and proxy voting activities on behalf of the national investing bodies. Seven of the voting members of the EIAG are nominated by the national investing bodies, the General Synod, the Archbishops' Council and the Council for Mission and Public Affairs. The remaining three voting members are co-opted for their experience of investment and business. Further information can be found at www.churchofengland.org/about-us/structure/eiag.

² There are three Church of England national investing bodies: the Church Commissioners for England, the Church of England Pensions Board and the CBF Church of England Funds. They have combined assets in the order of £8bn.

In summary, the EIAG largely supports the proposed efforts to improve disclosure standards as this will help all shareholders to:

- make better investment decisions
- understand more about company strategy
- ensure that engagements with companies can be effective.

Questions

Question 1

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

Yes	No
[TICK]	
Comments	
<p>The EIAG and national investing bodies would welcome this restructuring.</p> <p>Introducing a Strategic Report and an Annual Directors' Statement in the terms described in the consultation paper would appear to allow for a clear disclosure, right at the start of a company's annual report, of information relevant to the manner in which a company's management seeks to create value for shareholders in the long-term; for both the EIAG and the national investing bodies, such information is key to understanding how the interests of a company's management are aligned with shareholder interests and ethics.</p> <p>It would appear also to allow for a clear description of the non-financial criteria management consider when determining business models and strategy. The national investing bodies are not only long-term investors but also ethical investors, and we would therefore particularly welcome the introduction of this requirement as we believe that consideration of environmental, social and governance factors is crucial to the creation of sustained and sustainable value for shareholders over the longer term.</p>	

Question 2

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,
- key information on executive remuneration and its link to performance?

Yes	No
[TICK]	
Comments	
<p>The information indicated would seem to be well positioned within the proposed Strategic Report.</p> <p>For quoted companies we would also like to see specific narrative reporting on company values and ethics, and how these support corporate strategy and mitigate corporate risk.</p> <p>In addition, information about the themes raised by shareholders and how they have affected corporate strategy would also be welcomed.</p>	

Question 3

Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?

Yes	No
[YES]	
Comments	
<p>We note from the consultation paper that this change is proposed in order to bring about a change in emphasis within company reports from historical financial performance to strategy and governance. To this extent, we would welcome the replacement of the Summary Financial Statements by the Strategic Report.</p>	

Question 4

Do you agree that the Strategic Report should be signed off by each director individually?

Yes	No
[TICK]	
Comments	
<p>This requirement would seem likely to encourage all directors to scrutinise the content of the report more closely and could therefore act to drive up the quality of company reports. As such, we would welcome the introduction of this proposal.</p>	

Question 5

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement
- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

Yes	No
<input checked="" type="checkbox"/> [TICK]	
Comments	
<p>The information indicated would seem to be well positioned within the proposed Annual Directors' Report. However, we would recommend that the Corporate Governance Statement, the Directors Remuneration Report, and the Financial Statements be kept in their own discrete sections; however, we would encourage the development of a coherent narrative around these sections based on the other disclosures that are required in order to improve clarity for readers.</p> <p>The EIAG would welcome the reassurance that the Directors Remuneration Report should also include key information on executive remuneration and its link to performance, notwithstanding the fact this may already be included in the Strategic Report.</p> <p>We also consider that companies should be required to present information contained in the Annual Directors' Statement in a manner that facilitates comparison with peers and which readily permits historical analysis; in this way, shareholders would be able to readily determine the company's relative performance over time.</p>	

Question 6

Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

Yes	No
[TICK]	
Comments	
Yes. As users of company disclosures are increasingly computer-literate, the notion of splitting some disclosures between on-line and off-line content to reduce duplication is to be welcomed. However, companies would need to be required to provide an undertaking to take all necessary measures to keep relevant on-line information available and up-to-date at all times.	

Question 7

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

Yes	No
[TICK]	
Comments	
Yes. This seems eminently sensible.	

Question 8

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

Yes	No
[TICK]	
Comments	
<p>In the long-run, provision of the vast majority of company disclosures and corporate communications in digital format seems likely to become the norm. Even so, the EIAG believes that companies should continue to notify shareholders separately that the Annual Directors' Statement has issued; shareholders may otherwise go unaware that it has been uploaded to the Internet.</p>	

Question 9

Do you support removal of the disclosure requirements, arising from company law, identified in Table 1?

If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs.

Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

Yes	No
[TICK]	
Comments	
<p>Yes.</p>	

Question 10

Are there areas where the Listing Rules, IFRS, company law and the Corporate Governance Code are inconsistent or require similar disclosures?

If so, how could these best be resolved?

Comments
No comment.

Question 11

Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the Strategic Report?

Yes	No
<input checked="" type="checkbox"/> [TICK]	
Comments	
The EIAG and national investing bodies fully support disclosure of the extent to which human rights issues have a bearing on the company's operations and are approached. We believe that the management of social issues is a vital component of ethical business and can have a serious impact on shareholder value. We would welcome the introduction of a requirement for companies to report on their approach to human rights issues and the extent to which this is aligned with Prof Ruggie's Guiding Principles on business and human rights.	

Question 12

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

Yes	No
[TICK]	
Comments	
<p>Yes. There is a widely recognised need for women to be recognised for their contribution to business. As most company boards remain male-dominated, the EIAG and the national investing bodies would welcome disclosure of the proportion of women employed within companies as well as forward-looking statements as to the steps that the company proposes to take to redress the balance across the various management strata within the business.</p> <p>In addition, we would welcome the introduction of a requirement for companies to state what is being done to improve the quality and availability of gender information disclosures, particularly in jurisdictions and regions which are difficult to assess meaningfully.</p>	

Question 13

Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements?

If you believe that there are issues with the current regime, do these relate to:

- companies listing in the US as well as in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes.
- other concerns?

Yes	No
Comments	
No comment.	

Question 14

Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements?

Are there other activities or changes that the UK Government could make that you believe may be necessary?

Yes	No
Comments	
No comment.	

Question 15

Do you agree that the key information on remuneration should be included in the new Strategic Report?

If so, would a standard format for this information be helpful?

Yes	No
[TICK]	
Comments	
Yes (see question 2). It is essential that the relationship between corporate strategy and executive remuneration can be demonstrated.	

Question 16

Which elements of the current disclosure requirements could be moved to the Annual Director's Statement, or removed entirely?

Comments
It appears from para.5.7 that much of the most important information the EIAG reviews when assessing remuneration is already intended for the Strategic Report which is good to see. However, we are not convinced of the need to actively excise any other elements that currently are required to be presented within a remuneration report.

Question 17

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?

If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

Yes	No
[TICK]	
Comments	
<p>We believe that there are two sides to this issue. Whilst it would definitely be informative for shareholders to have a clear understanding of the total remuneration drawn down by individual directors in a particular year, it would also be useful to have a “best-efforts” projection of the remuneration that stands to be drawn down as a result of the awards and entitlements from which individual directors will benefit in the year to come.</p> <p>The most appropriate way to determine total remuneration for the year under review is not entirely clear at this time but we believe that it should clearly reflect the remuneration realised as a result of awards provided by the company in respect of each director individually. As such, factors that could be considered include: annual salary; the cash value of any annual bonus received; the market value of shares awarded (either through deferral mechanisms or under LTIPs); gains from options exercised in the year; gains from shares sold in the year; and an indication of the extent to which each executive’s pension improved over the year. This backwards-looking figure would then provide a means for shareholders to conduct historical analysis of the remuneration derived by each director.</p> <p>However, as indicated, we would also welcome the introduction of a requirement for a forward-looking figure for total remuneration for each executive in the manner proposed in para 5.7. For example, the figure could include: an executive’s proposed salary; the maximum potential value of the forthcoming annual bonus; a measure of the maximum potential value of new option/share awards; and an indication of the extent to which each executive’s pension will be improved over the year. Additional figures could also be provided to describe the scenarios in which performance measures for variable remuneration awards are met at ‘target’ rather than ‘stretch’ levels, or are not met at all.</p>	

Question 18

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?

Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

Yes	No
[TICK]	
Comments	
<p>The EIAG believes that there would be benefits from disclosing the remuneration of the most highly paid non-board executives; the primary benefit would seem to be the provision to shareholders of an indication of the extent to which the remuneration committee is aware of and managing below-board remuneration issues. Indeed we are sympathetic to the remuneration report indicating the company’s approach to remuneration for all employees in the business and how strategies for board and general employee remuneration are aligned.</p> <p>Furthermore, we see no reason why this requirement could not be made of all quoted companies.</p>	

Question 19

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company’s strategic objectives?

Yes	No
[TICK]	
Comments	
<p>Absolutely. In assessing a company’s approach to variable remuneration, the EIAG looks for a clear correlation between performance and pay; without provision of information on the manner in which remuneration awarded relates to performance (be it corporate or personal), shareholders are deprived of the opportunity to assess</p>	

meaningfully the company's remuneration arrangements.

Requiring companies to disclose how remuneration awarded related to the achievement of the company's strategic objectives would be welcome as, in the EIAG's experience, this information is rarely presented. Indeed, the metrics applied under a company's variable remuneration plans are not always the same as the company's strategic KPIs which we believe can result in confusion for directors as to how they are to manage the business in the interests of shareholders.

Question 20

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?

If so, which performance measure would be the most appropriate?

Yes	No
[TICK]	
Comments	
<p>The EIAG would welcome an illustration of historical performance versus total CEO remuneration over a five year period as a means for assessing the link between pay and performance over time. This illustration would also help to highlight the step change that can occur when a new CEO is recruited from an external source and may, therefore, serve to keep in check wage inflation resulting from external recruitment.</p> <p>As regards the performance measure to be used, we would caution against the use solely of share-price related metrics and would recommend instead the use of a blend of clearly stated financial and non-financial performance factors.</p>	

Question 21

Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

Yes	No
[TICK]	
Comments	
<p>Absolutely. The EIAG considers that remuneration plans are often too complicated for all but specialist readers and suspects that even company executives may not themselves deeply understand the manner in which remuneration plans operate to incentivise the achievement of strategic objectives for the year ahead (and beyond). The EIAG would welcome the introduction of a requirement for companies to explain clearly, for the benefit of all shareholders, how the achievement of strategic objectives is incentivised by remuneration plans, focussing in particular on how the performance targets set under particular remuneration plans (long-term or annual) encourage this and why they should be considered appropriate.</p>	

Question 22

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

Yes	No
[TICK]	
Comments	
<p>Yes – see our answer to question 17.</p>	

Question 23

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

Yes	No
[TICK]	
Comments	
<p>If companies are to provide annual bonuses, the EIAG believes that it is entirely legitimate for shareholders to expect to learn of the performance criteria assessed in their determination: whether delaying of the publication of commercially sensitive information for two years is a sufficiently long time though is unclear. Of course, if companies are prepared to disclose such information so soon, this would be welcomed.</p>	

Question 24

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

Yes	No
[TICK]	
Comments	
<p>The EIAG and the national investing bodies support competitive salaries for senior executives, commensurate to the heavy responsibilities involved, and also support variable remuneration which genuinely rewards success and aligns the interests of executives, shareholders and wider society. However, we believe that the remuneration packages offered to many senior executives not only go beyond what is either required or equitable, but also have potential to impact negatively on companies through the erosion of shareholder</p>	

value and company reputation. As such, the EIAG believes that disclosing the ratio of a CEO's total pay to the median of the workforce beneath him would definitely be of use to shareholders as a means for demonstrating an awareness of the issue of excess in pay. Disclosure of the extent to which lower-paid activities are outsourced to contractors would also be welcomed as a means for assessing the impact of the company's business model on median remuneration.

In order to establish average pay across the workforce, we believe that a figure first needs to be determined for the number of full-time equivalents; this could be determined through the assessment of the number of hours worked by all staff in a year divided by the length of the average working day (this would include part-time and full-time staff, occasionals and interns). Dividing the total spend on remuneration for the workforce by the number of full-time equivalents would provide a figure for average worker pay. We would then recommend comparing this figure to the total remuneration realised by the CEO during the course of the year under review.

We also favour the disclosure of the numbers of employees in different pay bands.

Question 25

Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

Yes	No
[TICK]	
Comments	
<p>The EIAG believes that provision of information on the proportion of profit distributed as director remuneration could be of great interest to shareholders, particularly if compared to the proportion of profit reinvested or distributed to shareholders through dividends. As such, requiring the disclosure of such ratios is to be welcomed. If variable remuneration is also paid to non-board level executives it would be helpful to see the total spend on staff variable remuneration as a whole stated as a proportion of profit. This would be particularly useful for example in the financial services sector.</p>	

Question 26

Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

Yes	No
[TICK]	
Comments	
Mandating the disclosure of the fees paid to remuneration consultants, and the services received in relation to remuneration services (as well as any other services provided by the consultant or its affiliate companies), would be welcome. Such a requirement already exists for external auditors servicing company needs and the EIAG sees no reason why this should not be extended to companies providing remuneration consultancy services.	

Question 27

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

Yes	No
Comments	
No comment.	

Question 28

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

Yes	No
Comments	
No comment.	

Question 29

Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?

If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

Yes	No
Comments	
No comment.	

Question 30

Are there any actions that the Government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?

Yes	No
Comments	
No comment.	

Question 31

Do you agree that the Audit Committee Report should contain, in addition to existing requirements:

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

Yes	No
Comments	
No comment.	

Question 32

The Government would also welcome views on the impact of these proposals, both on the cost of preparation of the Audit Committee Report, and of the benefits to investors of having access to this information.

Comments
No comment.

Question 33

What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

Comments
The EIAG supports the implementation of principles-based rather than rules-based approaches to matters relating to the interaction of companies and their shareholders. As such, we would recommend that companies are encouraged particularly to focus on producing reports that are readily decipherable for shareholders and also which are readily comparable to industry and sector peers. Although this answers a question with another question, perhaps the best guidance for individual companies would be for them to turn to their shareholders and ask how they want information to be presented?

Question 34

Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

Yes	No
[TICK]	
Comments	
The EIAG believes that, until the effectiveness of the new format can be assessed, adherence to the ASB reporting standard and the supporting guidance should remain voluntary.	

Question 35

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

Yes	No
Comments	
No comment.	