From: Jeff Hewitt [mailto:jeffhewitt@talk21.com]
Sent: Friday, April 26, 2013 07:17 PM
To: Marek Grabowski
Subject: Sharman Consultation Meeting April 25

Dear Marek

Thank you for setting up the Sharman Meeting yesterday which I attended and found most useful, even if a little concerning. I had to leave immediately afterwards otherwise I would have tried to discuss a couple of issues with you or Stephen over coffee.

I chair a number of audit committees of various sizes and structures, currently Vesuvius plc, Cenkos Securities plc and Foreign & Colonial Investment Trust ... and in the recent past the John Lewis Partnership and a number of others. This e mail is not intended to be a considered consultation response as I do not have the available time, but rather an attempt to raise a concern on the various stewardship related initiatives that will impact the reporting in 2013 and 2014. I would hasten to add that I am commenting personally and not on behalf of any of the companies that I am involved with, though I have raised similar issues in workshops arranged by the Big 4 in their different ways. Most recently I had a useful hour with Jennifer Guest and Sue Harding a couple of weeks ago and aired some of the points.

Set against a not too easy trading backdrop in 2013 that will likely to persist into 2014, the FRC and BIS are introducing a considerable raft of changes for implementation of the next eighteen months or so:

Sharman, with the new emphasis on solvency and impacting this year
Guidance on Audit Committees
Changes in Auditors' Reports
Reshaping of the Front End Narrative
Remuneration Committee Reporting

And the Corporate Governance Code is new. And there might be ramifications arising out of the Monopolies Commission on Auditors and indeed the on-going consultation on Internal Auditors. And two key new Regulators will be finding their feet. And there is a desire to simplify corporate reporting and cut the clutter!

Each of these stewardship proposals would seem to be important steps forward on a consensus view and so laudable in their own right, but in combination could well result in confusion (and indeed constipation) when the corporate mind should be directed to growth (or possibly survival!). My concern is that implementation will not be given the due care and attention and hence the good intentions might well be undermined in practice, particularly in smaller companies and those outside financial services. Working through the interactions implied by the proposals will inevitably lengthen and quite likely confuse the year end reporting processes and so become itself a source of risk. Hence I wonder whether the individual proposals would not be better considered as a whole with a phased implementation considered more holistically so that the interactions are allowed to be worked through and better understood. My possibly misguided impression is that the initiatives have been developed separately and on a naturally lagged, but common, timeline after the banking crisis. Hence they have come together now. The intention to move to the whole framework would be made clear, but the mandatory requirements could be staged over say three years to allow experience to be gained and gleaned over this period. Obviously it should be to the advantage of companies, auditors and indeed regulators to build a robust framework that operates soundly in practice.

In this context the discussion of Sharman was interesting as it highlighted that a proposal of considerable importance that is expected to impact reporting of interims in two months is still in consultation and subject to debate. Stephen implied that the FRC consultation and decision making would spread into July and I would suggest there would be a possibility of the timeframe extending over the summer period. Might this not be a case for deferral , in particular for implementation of the solvency reporting being delayed for a year? On the specifics of the discussion yesterday, I would agree that a SME (non-banking sector!) guide would be useful. I thought the debate over terminology was important: using "Going Concern" to mean two different things will lead to confusion. The current narrower meaning is well understood even if it is not perfect, so why not use Solvency Risk as a label to convey the second meaning?

I hope that these comments are helpful, but I can well understand that too many helpful comments are dangerous!

Best regards
Jeff Hewitt

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