

21 July 2015

Meeting the quality of reporting by smaller listed and AIM quoted companies

As Chairman of Keywords Studios plc, I thought it appropriate to review your discussion paper of June 2015 and provide feedback. It has to be said that Keywords has many of the classic characteristics that your paper identifies, namely:

- it is a smallish business, but growing fast;
- the company is highly acquisitive and has trebled in size over the last 18 months; and
- the finance function is doing its best to keep up with the demands placed on it within a very cost conscious regime.

Having provided the background, let me provide a few observations as someone who has been a finance director of a very acquisitive business, Misys plc, that grew from virtually nothing in 1987 to being part of the FTSE100 in 1999; I have also served on a number of plc boards since standing down from my executive duties at Misys in 2002. My observations are as follows:-

- The quality of reporting to a large degree is a reflection of the calibre of the top management including the non executive directors. It is, I believe, frankly sloppy and not acceptable for the front end of the report and accounts (by which I really mean the strategy report including the Chairman's statement) to be anything other than a good description of the business, its business model, the salient characteristics that should define its potential (and the challenges it faces) and a reasonable description for investors to understand the cash generating attributes of the business. Put another way, if the front end does not describe the business properly, then it is probably a reasonable conclusion that the management are not fully on top of the operations.
- For all that investors may say, it is not the detailed accounts at the back that really matter; as I have just described, the strategic report (operating and financial review, etc) tells the real story. Accordingly, moving from IFRS for all its flaws will not help that; indeed the very fact that IFRS is a horrid framework has triggered the growing focus in the strategic report which I personally believe has been a good thing.
- The skill and expertise of the Chairman and NEDs is a crucial ingredient in ensuring sufficient time is devoted to the quality of the accounts (ironically the fee levels for Chairmen and non executives are very considerably lower than those provided by companies on the main market and yet the expertise required and the time involvement are of a higher order - this may be a reason why people of sufficient calibre are not attracted to do work for the smaller companies.
- The quality of audit personnel who undertake work on the smaller companies is, frankly, not as high as in the Big 4. In my view, relaxing the rules a bit to allow the auditors to provide greater management input could be undertaken without in any way affecting auditor independence or ethical standards.
- A useful resource for crafting the front end of the report and accounts is the firm providing financial PR input. In the case of Keywords, we use MHP Communications who have been very helpful, not only in the word-smithing of the front end, but also in making sure that the slides for the analyst presentations are consistent with the accounts.

Contrary to what the discussion paper says, we at Keywords have had virtually no feedback on the quality of the accounts from investors, or indeed from anyone else for that matter. I believe, given the resources available to the company, that the report and accounts are of a pretty good standard, but if institution investors are so keen on the "record in time" then it would be nice to have very open feedback on where it is felt that the report and accounts have done their job and, as importantly, where there are weaknesses or omissions. To that end the FRC input would be helpful, but I have to say that many of the other recommendations within the discussion paper frankly take up more time to implement than your standard AIM company in particular has available.

Best regards.

Ross Graham