

**YEAR-END
FINANCIAL REPORTS:
IMPROVING
COMMUNICATION**



**ACCOUNTING
STANDARDS
BOARD**

**DISCUSSION
PAPER**

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OVERVIEW AND INVITATION TO COMMENT

Reason for and scope of review

It is widely acknowledged that recent changes in financial reporting requirements have improved the quality of information provided to institutional investors and analysts. But there have also been concerns that, as financial statements become longer and more complex, they are becoming less accessible to private shareholders. There is evidence that many shareholders do not read or understand much of the detail that now has to be disclosed.

Prompted by these concerns, the Accounting Standards Board has undertaken a review of ways in which financial statements of listed companies could be simplified for private shareholders. The objective has been to seek a way of improving communication with private shareholders without unduly increasing the cost burden on companies or detracting from the quality and timeliness of reporting to the markets.

The Board's review has coincided with the independent Company Law Review being coordinated by the Department of Trade and Industry (DTI). This review provides an opportunity to amend the legal requirements for reporting to shareholders, and the Board has conducted its review with this opportunity in mind.

Proposals

The Board's first conclusion was that listed companies would communicate more effectively with private shareholders if they sent them shorter reports than the full financial statements that are prepared at present.

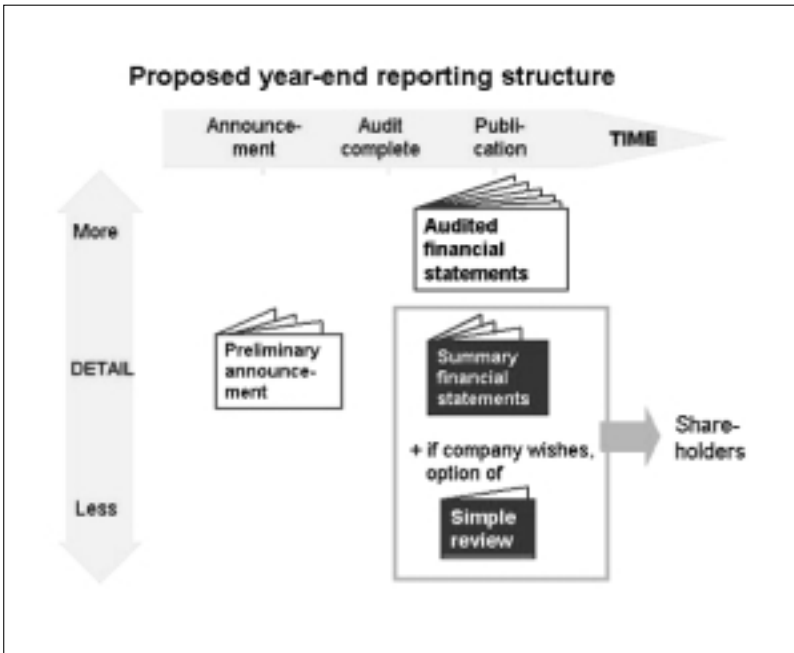
The law already allows listed companies to send summary financial statements to those shareholders who are content to receive them instead of the full financial statements. But at present, the shareholders of most listed companies do not have the opportunity of opting for summary financial statements. To overcome this, the Board proposes that:

- the law should be reframed so that summary financial statements become the main report for shareholders. All listed companies would prepare them.
- the full audited financial statements (which are of vital importance to expert users) should continue to be produced for those who request them and for filing purposes. But they would probably become less important as promotional documents. Hence, in time they might evolve into ‘plain paper’ formats, similar to the ‘10-K’ document prepared by companies listed in the USA. This could lead to further cost savings.
- the requirements/guidance addressing the financial content of summary financial statements could be the same as those addressing the content of preliminary announcements. This would simplify the reporting process.

The Board therefore proposes that summary financial statements prepared as the main report circulated to shareholders in accordance with a reframed statutory requirement should contain at least the financial information recommended in the Board’s Statement of best practice ‘Preliminary Announcements’. The Board does not intend to imply by this that summary financial statements should be prepared to the same timetable as the preliminary announcement or that the content of the two should be identical. But for many listed companies, possibly the smaller ones in particular, cost and effort could be saved by making the content of the two very similar.

There are some companies, such as the utility companies, that have very large numbers of shareholders, only a small proportion of whom might be inclined to read even the summary financial statements outlined above. The Board proposes that such companies might also offer their shareholders an even simpler narrative review ('simplified financial review') that reported and commented on a standardised set of financial highlights in plain language, without including tabular profit and loss accounts, balance sheets etc. Shareholders could be sent this review unless they opted to receive financial statements (full or summary) instead. A change in company law would be necessary to permit companies to provide financial information in the form of highlights rather than tabular statements.

The proposed structure, summarised in the following diagram, would not be radically different from present practice for companies that already prepare summary financial statements. For such companies the main change would be the opportunity to send shareholders an even simpler review instead.



Detailed requirements and guidance

Chapter 4 sets out the Board's views on the basic financial content that should be required by law for simplified financial reviews.

The Board has also considered whether it should provide guidance on the format and content of summary financial statements and/or simplified financial reviews. It has concluded that, depending on the outcome of this consultation and changes to company law resulting from the Company Law Review, it might be appropriate for it to publish a Statement of best practice in future. Such a Statement would be non-mandatory and similar to the Statements that the Board has previously published on interim reports and preliminary announcements. It would contain suggestions on how companies might structure summary financial statements and/or simplified financial reviews to communicate most effectively with private shareholders. It could also recommend a time-scale for their publication. The guidance that might be included in such a Statement is discussed in Chapters 3 and 4.

Implications of the Internet

The Board's review focused on financial reports published in paper form, since this remains at present the principal method of communicating with private shareholders. But the position is changing. Chapter 5 considers the implications of the Internet for reporting to private shareholders. It suggests that, at some future date, companies might be able to meet the information needs of many private shareholders by placing their preliminary announcements on their Website and providing easy-to-read electronic versions of the full financial statements. Such financial statements would have to allow users to access all key information without requiring them to scroll through less important disclosures. In time, demand for hard copies of summary financial statements might reduce.

Chapter 5 also proposes that there is a case for developing standards for business reporting on the Internet. It requests views on what the Board's involvement in setting such standards might be.

Acknowledgements

The Board is grateful to the finance directors, investors and senior partners of accounting firms who have participated in the working party that has advised the Board on year-end reporting issues. The working party's observations and recommendations enriched the Board's discussions and helped to shape its conclusions.

Invitation to comment

The Board would welcome comments on any matters discussed in this Paper. Respondents' views are especially sought on the matters set out below. It would be helpful if respondents could support comments with reasons and, where applicable, preferred alternatives.

- 1 Do you support the year-end reporting structure for listed companies proposed by the Board in Chapter 2 whereby:
 - (a) the preliminary announcement would retain its present role as an early communication to the markets of a company's financial performance? It might be placed on the company's Website but, as at present, would not routinely be sent to private shareholders.
 - (b) all shareholders would, by default, be sent a set of summary financial statements?
 - (c) the full financial statements would be used for filing purposes and be available on request?
 - (d) companies would be allowed to offer shareholders the further choice of summary financial statements or a simplified financial review?

- 2 Do you agree with the majority view of the Board that summary financial statements should be published concurrently with the full audited financial statements rather than at the earliest possible date following the preliminary announcement? (paragraphs 3.12-3.14)
- 3 If such a reporting structure were implemented would you wish the Board to publish a Statement of best practice on summary financial statements and/or simplified financial reviews?
- 4 Do you support the Board's proposals for guidance that could be included in such a Statement of best practice? (Chapters 3 and 4)
- 5 In particular, do you believe that a Statement of best practice should encourage companies to publish their financial statements (full and summary) within 80 days of the year-end and 30 days of the preliminary announcement? (Chapter 3)
- 6 Do you think that companies should be required to send financial statements to shareholders who hold their shares via nominees? (Chapter 3)
- 7 Do you support the suggestions in Chapter 4 that:
 - (a) companies legislation should be amended to allow companies to omit tabular financial statements from simplified financial reviews, including only financial highlights instead?
 - (b) the amended legislation should specify and define the financial highlights to be included?
 - (c) the prescribed highlights should be those proposed by the Board in paragraphs 4.5 and 4.6?
- 8 Do you agree that there is a need for reporting standards covering business reporting on the Internet? If so, what do you believe the Board's involvement in setting such standards should be? (Chapter 5)

Chapter 1: Reasons for and scope of review

Reasons for review

1.1 Recently, the financial statements that companies, in particular listed companies, prepare each year for their shareholders have become much longer and more detailed. There are a number of reasons for this:

- (a) businesses themselves have become more complex;
- (b) new requirements have been introduced by the Stock Exchange, companies legislation and accounting standards to address previous weaknesses and gaps in reporting practice;
- (c) institutional investors have requested more information to assist in their increasingly sophisticated analysis of company results; and
- (d) companies have increasingly wished to be transparent and seen to be complying with best practice.

1.2 However, there is evidence that much of the more detailed information now required to be given in financial statements* is aimed at and understood only by institutional investors and other expert users. As a consequence, a frequently-voiced concern is that too much information now has to be disclosed. The concern is not just that the mounting costs of preparing and distributing annual financial statements exceed the benefits to shareholders. A more fundamental concern is that the majority of shareholders, who have less time and expertise, are worse off because the information that is of interest and importance to them becomes lost in the detail.

* *References to the financial statements are to the primary financial statements (profit and loss account, statement of total recognised gains and losses, balance sheet and cash flow statement) and the accompanying notes.*

1.3 Listed companies are permitted to send summary financial statements to shareholders who are content to receive them. But in practice most choose not to do so. And those that choose to prepare summary financial statements, for various reasons considered further in paragraph 2.15, tend to prepare longer and more complex documents than many private shareholders require.

1.4 Prompted by these concerns, the Board has considered how year-end reporting requirements might be altered to improve communication with private shareholders.

Scope of review

1.5 The scope of the Board's review has extended only to the financial aspects of year-end reporting, ie information that is given in the financial statements and operating and financial review in the annual report and accounts. It has touched on corporate governance reporting, but not on the other information—publicity material, shareholder information, environmental, employee and health and safety reports etc—that is included in the annual report and accounts.

1.6 The review has been conducted with listed companies in mind. However, some of the ideas explored are also likely to be relevant to unlisted companies—in particular larger unlisted companies—that would like to improve the way in which they communicate financial information to shareholders and other users.

1.7 The Board's review has coincided with the independent Company Law Review being coordinated by the Department of Trade and Industry (DTI). This review provides an opportunity to amend the legal requirements for reporting to shareholders, and the Board has conducted its review with this opportunity in mind.

1.8 The purpose of this Paper is to summarise the Board's discussions and invite views on the future development of year-end reporting requirements. The Board intends to pass the results of this consultation to the DTI.

Chapter 2: Ways of improving communication with private shareholders

Whether there is a need for change

2.1 The Board first considered whether there is a genuine need to change the way in which companies report financial information to private shareholders. Although it has been suggested by some that financial statements are becoming too long and complex to be read and understood by many private shareholders, it has been suggested by others that:

- private shareholders who have a serious interest in the financial performance of a company are able and willing to extract the information they require from the full financial statements. They could be aided in this by good referencing within the financial statements, or perhaps by colour-coding different sections to identify the key information of general interest.
- information overload should be addressed by eliminating unnecessary disclosures from the full financial statements, not by requiring companies to prepare a second, shorter report. Research has suggested that even professional users have less time available than might be expected and that information overload may directly affect the quality of the decisions they make.
- companies legislation already permits listed companies to send summary financial statements to shareholders who prefer them to the full financial statements. So the framework for reducing any information overload already exists.

2.2 These suggestions are considered in more detail below.

Retaining the existing reporting structure

2.3 The first of the views outlined above is that nothing need be done beyond perhaps encouraging companies to identify within their financial statements the main information of general interest. Those supporting this view believe that any shareholder who makes serious use of the financial statements is able to extract the information he or she requires from the full financial statements, and would not wish to be deprived of information that might be of use.

2.4 The Board took the view that there is a need to do more to address the needs of private shareholders. There is evidence that many shareholders read only a small proportion of the full financial statements and would prefer a shorter document.

2.5 Further, it is not necessarily easy to highlight the key information of general interest within the full financial statements. If the frequently-used disclosures are placed together at the front of the report, they are not close to others on related topics, making it more difficult for the expert users to access the detailed information they require. If frequently-used disclosures are not placed together but are identified by, say, colour-coding, the private shareholders still have to read through the whole of the financial statements to find these disclosures. And it would remain difficult for the more time-constrained shareholder to extract the key messages from the detailed operating and financial review.

Reducing the content of the full financial statements

2.6 The Board investigated the possibility of reducing the length of the full financial statements by eliminating certain disclosure requirements altogether. Jointly with the Research Board of the Institute of Chartered Accountants in England and Wales (ICAEW), it commissioned a team from the University of Essex to identify required disclosures that were not used in the decisions made by financial and corporate lending analysts.

2.7 The research team's findings, published in 1996,^{*} classified only 15 disclosures as 'candidates for deletion'. All 15 were required by either companies legislation or the Stock Exchange rather than by accounting standards, and so were outside the direct control of the Board.

2.8 A further 58 disclosure requirements were classified as 'possible deletions'. However, of these, only 13 were disclosures required only by accounting standards. And of these 13 disclosures, 11 were required by old accounting standards—Statements of Standard Accounting Practice (SSAPs)—that were already under review by the Board. This suggested that reductions in disclosure requirements should be considered by the Board on a project-by-project basis: a separate project was not justified.

2.9 After a further informal consultation, the Board concluded that the full financial statements, with the depth of information they contain at present, are of vital importance to expert users. There would be very limited scope for reducing the financial content of the full financial statements, which should remain available for those who require them.

Summary financial statements

Existing legislation and practice

2.10 Companies legislation already permits listed companies to send summary financial statements to those shareholders who are willing to receive them instead of the full financial statements. Some companies who take advantage of this concession prepare a version of the annual report and accounts in which only the financial statements have been summarised: other parts are reproduced in full. Others also summarise the other parts of the annual report, such as the operating and financial review.

^{*} *Manson, Sherer and Wearing, 'Reductions in disclosure requirements', published by the Research Board of the ICAEW in March 1996.*

2.11 Companies have substantial freedom over what they include in summary financial statements. The legislation requires only summarised versions of the directors' report, profit and loss account and balance sheet, and any other information necessary to make the summary financial statements consistent with the full financial statements. With the summary financial statements there must also be an auditors' report, a warning about the limitations of the summarised information and details of how to receive the full financial statements. In addition, the Stock Exchange requires the disclosure of earnings per share. But there is no need to give any other disclosures that are prescribed by accounting standards, the Stock Exchange or companies legislation and companies are free to use whatever terminology they wish to describe the amounts reported in the summary financial statements.

2.12 In a consultative document published in 1995, the DTI stated that the purpose of summary financial statements was to:

- improve communication between companies and their shareholders
- provide cost savings, and
- relieve shareholders of the burden of long and complex documents if they do not understand or have little interest in them.

2.13 And there is evidence that summary financial statements are readily accepted by such shareholders: of 14 companies preparing summary financial statements and responding to an ICAEW survey in 1993, 12 noted that more than 90 per cent of shareholders were willing to receive the summary rather than the full financial statements.

2.14 Summary financial statements should therefore provide a means of communicating more effectively with private shareholders. However, despite their potential, they have not had the impact that might have been expected. The first problem is that most listed companies choose not to prepare them, even now that the legislation permitting them has become well-established. Surveys undertaken to find out why this is the case* concluded that companies were primarily concerned that:

- (a) the costs of preparing a second version of the financial statements would outweigh the savings achieved by printing and posting the shorter version to the bulk of shareholders. This consideration was especially persuasive for those listed companies that did not have very large numbers of private shareholders;
- (b) it would be unwise to reduce the information provided to shareholders, especially in a post-Cadbury climate where fuller disclosure was being emphasised;
- (c) the legislative requirements were too complex.†

2.15 A further factor reducing the impact of summary financial statements is that those that are prepared tend not to be as short and user-friendly as the legislation intended:

- few companies have taken advantage of the freedom to adopt terminology that is more comprehensible to the lay reader than the statutory terminology.

* Summarised in a report 'Summary Financial Statements: The Way Forward' published by the ICAEW in 1996.

† The surveys were conducted before the legislative requirements were simplified in September 1995.

- summary financial statements tend to be longer and more complex than they are required to be. It appears that companies have been reluctant to send their shareholders less rather than more information than they might need. This could in part reflect the concern expressed in paragraph 2.14(b) above. It could also be that companies are trying to meet the needs of too wide a range of users, ie not only various categories of shareholders but also others to whom the annual report and accounts is given as part of the company's public relations activities.

2.16 It appears from the above that the summary financial statements legislation, whilst capable in theory of improving communication with private shareholders, has not achieved its potential in practice. It is possible that more needs to be done to overcome concerns about cost and a possible reluctance to provide shareholders with less rather than more information.

2.17 The Board therefore considered a number of ways in which the process of producing summary financial statements might be made more attractive to companies.

Possible solutions

2.18 One suggestion supported by the Board was that, as so many shareholders are likely to benefit from receiving more succinct financial information, the law might be reframed so that some form of summary financial statements become the main reports sent to shareholders. The full financial statements would still be prepared for filing with relevant authorities and for any shareholder who requested them.

2.19 Because summary financial statements would be the norm, the concerns that companies that prepared them were depriving shareholders of information might be overcome.

2.20 The change in the law would not in itself reduce the costs of preparing both the full and summary financial statements. However, other consequential changes might have an impact. At present, companies that prepare both full and summary financial statements tend to prepare both in glossy formats, enhanced by colour, graphs, visual design and photographic images. Both are used to promote corporate image. If the summary financial statements became the mainstream financial report, the role of the full financial statements would probably change. They would probably become less important as public relations vehicles and, in time, might evolve into less expensive 'plain paper' /electronic documents, similar to the '10-K' document prepared by companies listed in the USA.

2.21 Such a move would be in tune with other recent and possible future developments. For example, the London Stock Exchange has recently introduced 'shelf registration', which allows listed companies that expect to issue securities on a frequent basis to file a 'shelf document' annually. The shelf document (which can be prepared by incorporating additional information into the annual report and accounts) contains much of the background information that would otherwise have to be included in the listing particulars prepared each time the company issued new securities. Because the Exchange places every shelf document on its Website, it requires companies to submit the documents electronically in a plain format that excludes pictures, graphs and other illustrations.

2.22 A possible future development that could further accelerate a trend towards preparing financial statements in plain format would be a change in legislation that allowed companies to file their financial statements with the Registrar of Companies in electronic rather than paper form. This has been proposed as part of the Company Law Review.*

* *Consultation Document 'Modern Company Law for a Competitive Economy: The Strategic Framework', February 1999.*

Two-part financial statements

2.23 It was suggested that the costs and administrative difficulties of preparing both full and shortened financial statements could be reduced if a single two-part document were prepared instead of two stand-alone documents. Some companies already prepare financial statements in this way.

2.24 The first part would contain the summary financial statements. It would be sent to all shareholders. The second part would contain the additional information required to make up the full financial statements. This second part would be filed with the first part but would be available from the company only on request. For ease of reference, there might have to be some duplication between the two parts, but this would have to be minimised if the objectives of a two-part document were to be met.

2.25 Although neat in concept, such an approach has disadvantages:

- (a) the notes to the financial information might not be easy to allocate to either one of the two parts. Some would have to be split between the two, making the financial statements less comprehensible. Institutional investors have emphasised to the Board that they prefer to have all the detail relating to each aspect of the company's financial performance disclosed as far as possible in one place within a single document.
- (b) it could be especially difficult to divide the operating and financial review into a summary in the first part of the document with additional details in the second part. Inevitably, therefore, companies would wish to include the whole of the detailed operating and financial review with the summary financial statements. The messages of interest to private shareholders could become lost in the detail.

2.26 The Board, whilst accepting that two-part financial statements have been used with apparent success by some companies, would not wish to impose this solution on all companies.

Form and content of summary financial statements

2.27 Having concluded that some form of summary financial statements should become the default financial statements sent to shareholders, the Board went on to consider what form such summaries might take.

Summary financial statements based on preliminary announcement

2.28 The Board takes the view that companies require substantial flexibility to report their year-end results in a way that best suits their widely varying circumstances and their particular private shareholders. The Board would therefore wish to avoid proposing requirements for the summary financial statements that were unduly prescriptive. However, the Board believes that a basic minimum content would have to be prescribed by law. And, for reasons outlined below, it proposes that the minimum content could be the same as that required and recommended for preliminary announcements, possibly with additional requirements regarding the disclosure of directors' emoluments.

2.29 The preliminary announcement is a company's earliest communication of its results to the markets. Every company listed on the London Stock Exchange is required to make the announcement to the Exchange without delay after board approval. The Exchange disseminates the information by electronic means using its Regulatory News Service. Companies also tend to release their preliminary announcement to the press, financial analysts, and major institutional investors at the same time as or soon after they have notified the Exchange. Some companies also place their preliminary announcement on their Website, but they do not normally distribute it to all shareholders.

2.30 The Listing Rules require the preliminary announcement to include at a minimum:

- a summary profit and loss account, balance sheet and cash flow statement
- earnings per share
- an accompanying commentary.

2.31 The Board's Statement of best practice on preliminary announcements further recommends the inclusion of:

- a statement of total recognised gains and losses
- a segmental analysis of turnover and profit
- details of exceptional items, significant changes in accounting policies, acquisitions and disposals
- reconciliations of cash flows to operating profits and movement in net debt
- details of significant financial commitments, contingencies and post balance sheet events
- any other information required to understand significant items in the financial statements.

The Statement also specifies a small number of individual items that should be shown separately in the summary balance sheet, profit and loss account and cash flow statement.

2.32 The advantages of basing the requirements and recommendations for summary financial statements on those for preliminary announcements would be that:

- (a) the preliminary announcement is carefully designed to provide a focused summary of the key aspects of the company's financial performance for the period. Although the preliminary announcement is prepared for market analysts and institutional investors, its succinct format could be an ideal basis for the summary financial statements.
- (b) costs and administrative efforts would be minimised if the content of the two reports were similar. This would help to address concerns over the costs of preparing both summary and full financial statements.
- (c) because only a very basic financial content would be prescribed, companies would retain the flexibility to adapt the summary financial statements to best reflect their widely varying circumstances and the needs of their particular shareholders.

2.33 Although the Board proposes that the content of summary financial statements could follow the recommendations of its Statement of best practice for preliminary announcements, it does not intend to imply by this that summary financial statements should be issued at the same time as the preliminary announcement. Issues regarding timing are discussed in paragraphs 3.12-3.20.

2.34 The Board considered a suggestion that companies could simply provide their private shareholders with a printed version of the preliminary announcement, ie with little or no additional pictures, background information or promotional material. In support of this suggestion it was argued that it would ensure that all shareholders received a sober summary that, free of distracting promotional material, would convey the key financial messages in a way that could easily be absorbed by time-constrained shareholders. It might also lead to cost savings and earlier publication.

2.35 However, the Board as a whole did not favour this suggestion. It took note of concerns that:

- preliminary announcements are aimed at expert users, who can be assumed to be familiar with the industry, the company and previously reported results. They may need to be adapted to meet the needs of shareholders who are less familiar with the business.
- some preliminary announcements may contain substantial details on topics that the company has learnt from experience are of particular interest to certain market analysts or institutional investors. Such details might not be regarded as being of general relevance and companies should be free to omit them from summary financial statements.
- companies should be given flexibility to adapt summary financial statements so that they best meet the needs of their particular shareholders and to include any information that might be of relevance to any of the resolutions to be placed before the annual general meeting.

2.36 Whilst the Board takes the view that flexibility should be allowed in the format and content of summary financial statements, it wishes to emphasise that key information is communicated more effectively to private shareholders if it is not surrounded by other, less significant information. Further considerations regarding the form, content, distribution and timing of summary financial statements are set out in Chapter 3.

Simplified financial reviews

2.37 It was suggested during the Board's discussions that there may be a large number of shareholders who are unlikely to read even summary financial statements: many of those who are unfamiliar with accounting terminology and concepts are

unwilling to invest the time and effort required. Such shareholders may find the essentially numerical format with tabular profit and loss accounts and balance sheets intimidating. They might benefit most if they receive a very simplified narrative review that explains and comments upon the financial highlights in plain language, avoiding tabular statements, technical terms and numerical disclosures.

2.38 It was therefore suggested that companies might provide shareholders with the option of receiving a simplified financial review instead of summary financial statements.

2.39 The Board took the view that it would be unreasonable to require all companies to provide this option to their shareholders. Although the costs of printing such reviews might be lower than the costs of printing summary financial statements, there would be additional costs and administrative efforts involved in preparing an additional report and identifying the shareholders to whom it should be sent. In the Board's view, such costs would be justified only for companies, such as the utility companies, that have large numbers of shareholders with very small shareholdings.

2.40 The Board would therefore support moves to permit but not require companies to provide their shareholders with the option of receiving a simplified financial review instead of summary financial statements. Such a move would require a change in companies legislation, which at present requires summary financial statements to include a tabular profit and loss account and balance sheet.

2.41 This and further considerations regarding the form and content of simplified financial reviews are set out in Chapter 4.

Proposals

2.42 In the light of the considerations outlined in this chapter, the Board proposes that:

- the law should be reframed so that summary financial statements become the main report for shareholders. All listed companies would prepare them.
- the full audited financial statements (which are of vital importance to expert users) should continue to be produced for those who request them and for filing purposes. But they could probably become less important as promotional documents. Hence, in time they might evolve into ‘plain paper’ formats, similar to the ‘10-K’ document prepared by companies listed in the USA. This would reduce the costs of producing two different reports.
- the requirements/guidance addressing the financial content of summary financial statements could be the same as those addressing the content of preliminary announcements. This would simplify the reporting process.
- consideration should also be given to amending companies legislation to permit (but not require) companies to offer their shareholders the option of receiving a simplified financial review instead of summary financial statements.

2.43 If the responses to this Discussion Paper indicate broad support for the changes in legislation discussed above, the Board will submit proposals to the DTI.

Chapter 3: Requirements and guidance: summary financial statements

3.1 Depending on the outcome of this consultation and any developments in company law, the Board might publish additional guidance on year-end reporting to private shareholders. This guidance could take the form of a Statement, which, like the Statements that the Board has previously published on interim reports and preliminary announcements, would be non-mandatory and would draw on the best features of existing practice.

3.2 Guidance that might be included in such a Statement is discussed below. The discussion assumes that the year-end reporting structure would be that proposed at the end of Chapter 2. It therefore addresses summary financial statements based on preliminary announcements (this chapter) and simplified financial reviews (Chapter 4). However, it could be adapted to apply to any summary financial reports for private shareholders, since similar underlying principles would apply.

Form and content of summary financial statements

Fundamental characteristics

3.3 The Board believes that, if summary financial statements are to fulfil their objectives, they should display certain fundamental characteristics. It proposes to emphasise in its Statement that they should be:

- (a) *brief*. Key information is communicated much more effectively if it is not buried within other, less significant, information. If, having ascertained the main points, readers want further information, fuller accounts are available on request. Hence, summary financial statements, whilst relatively comprehensive, should not attempt to be complete. Rather, they should focus on the salient aspects of the company's financial performance. For the same reasons, pictures and other promotional material should be limited and kept separate from the financial information.

- (b) *balanced and objective*. The overall impression created by summary financial statements should be consistent with that which would be conveyed to knowledgeable users of the full financial statements and operating and financial review.

Content

3.4 Under the reporting structure proposed by the Board in Chapter 2, summary financial statements would be required by legislation to contain at least the financial information recommended by its Statement of best practice on preliminary announcements,^{*} along with details of directors' remuneration. One advantage of linking the content of the summary financial statements to that of the preliminary announcement is that it would reduce the need for further guidance. However, some guidance might be required on the disclosure of directors' remuneration, and other matters might have to be clarified.

3.5 It might, for example, be necessary to explain whether the content of the summary financial statements should be identical to that of the company's preliminary announcement. The Board believes that, as the two reports are aimed at very different users, they should not be required to be the same. It could therefore clarify in the guidance that:

- information that has been included in preliminary announcements because it is expected to be of interest to certain market analysts might not be regarded as being of general relevance. Companies should be free to omit it from summary financial statements.
- companies should be given flexibility to adapt their summary financial statements to best meet the needs of their particular shareholders and to include information that might be of relevance to any of the resolutions to be placed before the annual general meeting.

^{*} As set out in paragraphs 2.30 and 2.31

3.6 The Board envisages that the commentary included in the preliminary announcement could also be used in summary financial statements. The Board could emphasise that this abbreviated commentary is likely to be of more use to the bulk of shareholders than a detailed operating and financial review would be.

3.7 The commentary might have to be adapted to ensure that it is readily understood by private shareholders. It might, for example, be necessary to provide more background information about:

- (a) the activities of the business. It cannot usually be assumed that the reader is familiar with the entity's business or industry. A brief explanation of what the company does helps to put the rest of the information into context.
- (b) the economic environment. For example, if the commentary refers to the effects of a movement in exchange rates, it might be necessary to explain to private shareholders how exchange rates have moved.

These and other examples could be included in the Statement.

Presentation

3.8 The Board envisages that the presentation of the information in summary financial statements would be similar to that in the preliminary announcement. But it would not wish to be too prescriptive, believing that companies should have the flexibility to present their results in a manner that is most readily understood by private investors.

3.9 The Board could include suggestions in any Statement it develops. These suggestions, which have already been put into practice by a number of companies, might include:

- (a) *using glossaries and plain language where possible.* Some companies have already experimented with alternative wording and glossaries that explain in plain language the meaning of various accounting terms. Examples of plain language explanations for technical terms are set out in the appendix to this Paper.
- (b) *using ratios.* It can be easier to absorb the meaning and implication of some concepts, such as profitability and financial structure, when they are expressed as ratios, such as margins and gearing. To ensure that they are not misleading, the ratios should be accompanied by commentary explaining their meaning and significance. And the numbers should be put into context by comparing them with the corresponding amount for the previous year or an industry benchmark.

Similarly, it may be helpful to show percentage changes on the previous year at the side of the summary balance sheet and profit and loss account.

- (c) *using graphs.* Graphs communicate essential information, especially patterns and trends, in a way that is readily understood and quickly absorbed. They are therefore an effective way of communicating in summary financial statements. However, because graphs communicate so powerfully, particular care must be taken to ensure that the impression they give is balanced and objective, ie consistent with the overall impression that would be conveyed to a knowledgeable reader of the full financial statements. Drawing on suggestions in a research report published by the Association of Chartered Certified Accountants* the Board proposes to recommend that:

* ACCA Research Report 56 'Graphical Reporting Choices: Communication or Manipulation' by Professor Vivien Beattie and Professor Michael John Jones, 1998.

- graphs should not be used selectively, ie only when performance is good or for the key financial measures in which performance has been best.
- the periods covered by graphs should not be chosen selectively. Where a five-year trend is the norm, graphs should not include a greater or lesser number of years in order to show a lower benchmark.
- the sizes of the symbols (columns, bars etc) should vary in direct proportion to the numerical values they represent. For example, in bar graphs, the y-axis should not be truncated to exaggerate differences and the bars should be of equal and constant width.
- simple two-dimensional formats should be used. In three-dimensional bar graphs, the ‘farther’ bars can seem larger than they are. Unusual pictorial designs can be difficult to interpret.
- as with ratios and other financial highlights, graphs should be placed adjacent to the commentary that explains their significance.

Feedback

3.10 A fundamental feature of summary financial statements is the scope to vary the contents and presentation to meet the specific needs of the company’s private shareholders. The Board therefore regards it as important that companies take steps to ensure that shareholder needs *are* being met. Formal surveys can be expensive, but might be justified when summary financial statements are first prepared. Alternatively, questionnaires could be included with the summary financial statements.

3.11 The Board proposes that its Statement should encourage companies to seek feedback on summary financial statements.

Timing

3.12 The Board considered whether there might be a case for publishing summary financial statements as soon as possible after the preliminary announcement rather than waiting for completion of the full audited financial statements. A minority believed that summary financial statements could be finalised more quickly than full audited financial statements and that there was no reason for delaying their distribution.

3.13 However, the majority of the Board take the view that:

- a need to prepare summary financial statements for rapid publication after the preliminary announcement could interfere with the preparation, and hence delay the release, of the preliminary announcement. The Board believes strongly that changes to the way in which companies report to private shareholders should not delay the release of financial information to the markets.
- companies are already encouraged in the Board's Statement of best practice 'Preliminary Announcements' to make those announcements available at the earliest possible date to shareholders who request them.
- it is important that summary financial statements are consistent with the full audited financial statements. It would be possible to ensure that this was the case only if the summary financial statements were finalised no earlier than the full financial statements.
- it is desirable to allow companies to add information to include in summary financial statements information that has not been included in the preliminary announcement. Such information might be price-sensitive and hence could not be included unless the full financial statements had been released at the same time to the market.
- all shareholders should be sent the annual financial report (whichever version they elect to receive) at the same time.

3.14 The Board would therefore recommend that summary financial statements should be issued at the same time as the full financial statements, not before.

3.15 The Board considered whether it should recommend a timescale for the publication of financial statements. In its Statement on preliminary announcements, the Board encourages companies to publish their preliminary announcements within 60 days of the year-end. The Statement on summary financial statements could build on this, recommending that the date of their issue should fall within a specified number of days after the preliminary announcement.

3.16 On the one hand some argue that such a recommendation would not be appropriate on the grounds that timeliness is of less importance to readers of summary financial statements (who are unlikely to be making investment decisions solely on the basis of those statements) than it is to users of preliminary announcements. The benefits of accelerating a reporting timetable to comply with targets specified by the Board might not exceed the costs of doing so.

3.17 On the other hand, summary financial statements are probably of most value to private shareholders if they are received soon after the shareholders have read about the company's results in the press or from other sources. They should be produced as quickly as possible. And given that the Board's recommendations would not be mandatory, they could not be regarded as unduly onerous. A target could help to disseminate best practice, provided it was one that could be met by the majority of companies.

3.18 The listing rules of the London Stock Exchange require listed companies to publish their annual report and accounts within six months of the year-end. In practice, most companies publish them earlier. An ICAEW Research Board paper 'The Reporting of Preliminary Announcements' (1996) provides some evidence of the time that companies take at present. Of the companies surveyed, 55 per cent published financial statements within 30 days of their preliminary announcement. A more detailed analysis is shown in the following table.

<i>Time between preliminary announcement and publication of report and accounts</i>	<i>Percentage</i>
7 days or less	11
8-14 days	8
15-30 days	36
31-60 days	34
More than 60 days	11
Total	100

3.19 A more recent survey of the summary financial statements of 20 FTSE 100 companies* found that 12 were issued within 60 days of the year-end, and the remaining eight within 90 days of the year-end.

3.20 In the light of the above, the Board believes that it would be reasonable to suggest that companies should aim to distribute their summary and full financial statements:

- (a) within 80 days of the year-end; and
- (b) within 30 days of the preliminary announcement.

* Katharine Bagshaw 'Summary Financial Statements: A Guide to Best Practice', Accountancy Books, November 1999

Nominee holdings

3.21 In recent times, more private individuals have been investing in the stock market. Some delegate the investment decisions entirely by investing, for example, in unit trusts and other funds. Others retain more control by investing in specific companies. But, primarily to reduce costs, they may invest via nominees, such as brokers. Companies are required to send financial statements only to the nominee shareholder, eg the broker.

3.22 The Board regards it as undesirable, in principle, that shareholders who hold shares via nominees should in effect be disfranchised: they should have the same rights to receive year-end financial information as those shareholders who are named on share certificates. However, the Board acknowledges that there may be difficulties and costs involved.

3.23 The Board proposes that this issue should be addressed in the present Company Law Review. It would like to hear views and proposes to pass suggestions to the DTI.

Chapter 4: Requirements and guidance: simplified financial reviews

4.1 As discussed in paragraphs 2.37–2.40 the Board proposes that companies might offer their shareholders the option of receiving a ‘simplified financial review’ instead of summary or full financial statements. The review would comprise just a few pages of narrative highlighting key financial measures and explaining them in a readily understandable manner. This chapter considers the detailed requirements and guidance that might be needed for simplified financial reviews.

Legal requirements

Content

4.2 Companies already have substantial freedom to prepare very simple summary financial statements. The legislation requires only summarised versions of the directors’ report, profit and loss account and balance sheet, along with any other information necessary to make the summary financial statements consistent with the full financial statements. The Stock Exchange adds only a requirement to disclose earnings per share.

4.3 The inclusion of a traditional profit and loss account and balance sheet ensures that readers receive a complete analysis of the company’s performance and financial position in a standardised format that allows readers to compare the results of different companies. However, it has been suggested to the Board that these traditional formats are not the ideal way of communicating simplified financial information to readers who are unfamiliar with the layout of accounts. Even when simplified terminology is used, the essentially numerical layout may intimidate the reader. And completeness does not necessarily improve communication: the less important figures may obscure the more important ones.

4.4 The Board would support a change in legislation that allowed companies to include only the key performance measures from their profit and loss account and balance sheet within a simplified financial review. This would be consistent with the aim of presenting the results in a way that is easily absorbed ‘at a glance’: the financial highlights could be included within narrative, where they could be more easily explained.

4.5 The Board would support the change if a set of standard core measures—selected from those given in the full financial statements—were required instead. It proposes that measures that are likely to be relevant for the majority of companies,^{*} and hence should be required by legislation might include:

- turnover
- operating profit
- exceptional items (as defined in FRS 3 ‘Reporting Financial Performance’)
- profit after tax
- earnings per share
- dividends
- net assets
- debt
- operating cash flow
- change in net debt.

4.6 The Board would further wish companies to provide additional key figures that were:

^{*} *Different measures could be specified for financial institutions.*

- *relevant to their particular industry sector.* For example, retailers would be encouraged to disclose gross margins and stock turnover and property companies to disclose property values.
- *significant in their particular circumstances.* Common examples might be liquidity or gearing ratios and amounts relating to acquired businesses.

4.7 If the responses to this Discussion Paper indicated broad support for the changes in legislation suggested above, the Board would submit proposals to the DTI.

Process

4.8 At present, the legislation governing summary financial statements is framed in such a way that, in practice, shareholders are, by default, sent summary financial statements, ie unless they take positive action to opt for full financial statements instead.

4.9 If the law were to be changed to allow companies to offer their shareholders a simplified financial review instead of summary financial statements, it would be necessary to consider which should be the default report when both were prepared.

4.10 The Board proposes that companies should be allowed to make the simplified financial review the default report, sending it to shareholders unless they request summary or full financial statements. This would be justified on the grounds that companies are likely to offer shareholders the simplified review only when they have a large percentage of shareholders for whom the review would be more appropriate than summary financial statements. It is also likely that it would minimise costs: it would inevitably increase the number of shareholders who received the (shorter) review.

Statement of best practice

4.11 As noted in Chapter 3, depending on the outcome of this consultation and the changes arising from the Company Law Review, the Board might decide to prepare a non-mandatory Statement of best practice addressing summary financial statements and simplified financial reviews.

4.12 Much of the guidance discussed in Chapter 3 in respect of summary financial statements would also apply to simplified financial reviews. For example, guidance relating to ratios and graphs, shareholder feedback, links with the audited financial statements, timing and nominee shareholdings would apply to both documents.

4.13 There would, however, be greater emphasis on the need for brevity and simplified presentation. Guidance that the Board could add specifically in relation to simplified financial reviews is discussed below.

Fundamental characteristics

4.14 In discussing fundamental characteristics, the Statement would emphasise that simplified financial reviews, to an even greater extent than summary financial statements, should not attempt to be comprehensive or complete. Rather, they should focus on the main aspects of the company's financial performance, showing the results at a glance and avoiding less significant items or excessive detail.

Content

4.15 The Board proposes that, provided the minimum financial content required by law is no less than that proposed in paragraph 4.5, its Statement would not suggest that further information should be added. Even a list of suggested disclosures could encourage a 'checklist' approach, discouraging companies from tailoring their simplified financial review to the circumstances of their business and the needs of their particular private shareholders.

4.16 A Statement could however identify aspects of the business that research has found to be of particular interest to private shareholders. It could recommend that companies might consider including simple explanations of:

- (a) *the activities and drivers of the business.* It cannot usually be assumed that the reader is familiar with the entity's business or industry. A brief explanation of what the company does helps to put the rest of the information into context.
- (b) *significant events occurring in the period.* Such events might include, for example, major acquisitions and disposals and new or discontinued activities. They might also include external events such as fluctuations in exchange or interest rates or competitor activity.
- (c) *financial performance and position.* The emphasis should be on explaining trends and the impact of significant events that have occurred in the year. Care would have to be taken not to mislead the reader, for example, by referring to profit before exceptional items without also referring to the impact and nature of the exceptional items.
- (d) *direction and future prospects.* Commentary on the company's financial performance and position could be linked with its aims and strategy—has the company fully achieved what it set out to achieve, and if not why not? Similarly, commentary on the significant events in the period could explain their possible impact on the company's future prospects. The discussion could include an overview of steps (such as capital investment, marketing or product development) being taken to enhance future earnings.

Presentation

4.17 The effectiveness of simplified financial reviews might depend to a large extent on presentation. Effective presentation requires some thought: it is unlikely that straight extracts from the full financial statements and operating and financial review would be the best way of communicating with lay readers.

4.18 There are many ways of presenting information clearly and simply. To a certain extent it is a matter of corporate style and different methods suit different circumstances. There is certainly no ‘best practice’ method or rigid structure that the Board would wish to impose on companies.

4.19 But, given the importance of presentation, the Board is keen to encourage companies to be innovative and would propose to include ideas and suggestions in its Statement. These suggestions, might include:

- (a) *making the review narrative-based.* Legislation permitting, the Board would recommend that simplified financial reviews should exclude tabular profit and loss accounts and balance sheets. Even if tabular statements were still required by legislation the review could be primarily narrative in form. The narrative could be contained within a stand-alone commentary that referred to the figures shown in the accompanying balance sheet and profit and loss account. In this case, it could be helpful to highlight significant numbers in the balance sheet and profit and loss account that were discussed within the commentary. Alternatively, a short relevant comment could be included on the pages containing the balance sheet and profit and loss account, next to the relevant figures. This might make it easier for readers to relate the balance sheet and profit and loss account to the discussion.
- (b) *using plain language.* The Board would encourage companies to avoid or explain technical terms. The Board proposes that glossaries should not be used in simplified financial reviews: it is likely to be easier for readers if technical terms are explained each time they are used, or avoided altogether.

Chapter 5: Financial reporting on the Internet

Introduction

5.1 This chapter considers the possible implications of the Internet for year-end reporting to private shareholders.

Potential of Internet reporting

Increased accessibility and reduced distribution costs

5.2 One of the barriers to preparing different packages of financial information for different classes of user is the cost of doing so. It is not just the cost of compiling the information for each different report: there are also costs associated with identifying the shareholders to whom the report should be distributed, printing the reports and distributing them. Such costs could, however, be reduced if the reports could be placed on the company's Website rather than being distributed in printed form. This could be possible in the near future: the DTI is at present consulting on the possibility of permitting companies to communicate electronically with shareholders (subject to their approval).

5.3 Of course, communication via the Internet is effective only if private shareholders are able and willing to access financial information via the company's Website. Increasingly such shareholders are doing so. Developments in on-line trading, which have reduced the costs of buying and selling small numbers of shares, mean that there are now large numbers of private shareholders using the Internet to trade. And according to a Discussion Paper issued by the staff of the International Accounting Standards Committee (IASC) recently,^{*} even more are using the Web for research purposes.

^{*} Discussion Paper 'Business Reporting on the Internet' by Andrew Lymer, Roger Debreceeny, Glen L Grey and Asheq Rahman, IASC, November 1999.

5.4 It has been suggested during the Board's discussions that, in the near future at least, it will typically be the more involved private shareholders who will use the Internet for share trading and research purposes. It is thus to this category of private shareholders (rather than those who may read only a simplified financial review) that companies may first be able to communicate year-end financial information via the Internet.

5.5 One step towards this might be to encourage more companies to post preliminary announcements (and other financial information given to analysts and institutional investors) on their Websites. This possibility has already been suggested in a consultation paper issued by the Company Law Steering Group set up by the DTI.* The consultation paper suggests that such a move would reduce the present disparity between the information available to private investors and that available to institutional investors. It proposes that the changes should be brought about through the development of best practice, rather than through new statutory provisions.

5.6 As discussed in paragraph 2.35, the Board takes the view that a preliminary announcement alone is unlikely to provide private shareholders with the information they need about a company and its performance. However, if private shareholders were able to extract further information from full financial statements more easily than is possible at present, there might be less need for specially tailored summary financial statements. As discussed further below, the Web has the power to make this possible.

* Consultation Document 'Modern Company Law for a Competitive Economy: Company General Meetings and Shareholder Communication', Company Law Review Steering Group, October 1999. The document is on the DTI's Website at www.dti.gov.uk/cld/review.htm.

Financial statements that can be read more easily

5.7 The potential of the Internet goes beyond that of improving accessibility. The Web also has the power to provide navigation through electronic versions of the financial statements and to integrate different sections covering the same topic. 'Hyperlinks' can be used to allow users to jump from one area to other areas where the same topic is discussed. They have the potential to make it easier for readers to find the information they need within financial statements, by moving directly from a high level overview to more detailed information or graphs on topics of interest.

5.8 At present, companies do not exploit the full potential of this technology. Most simply duplicate the printed annual report and accounts, sometimes with links from an index to the main sections. However, the staff of the US Financial Accounting Standards Board (FASB) have developed a demonstration model illustrating how hyperlinks, amongst other things, might be used to improve electronic financial reports. The model report, based on a fictitious company, FauxCom, is demonstrated on the FASB's Website.*

5.9 This technology could help to overcome concerns about information overload without resorting to removal of disclosures that may be useful to some users. It could therefore be of benefit to both expert users and private shareholders, reducing the need for summary financial statements. However, it would not necessarily reduce the need for simplified financial reviews, since the full financial statements would still not provide a simplified overview in plain language.

* Within the 'Technical Projects' area at www.fasb.org

Portable financial information and analytical tools

5.10 The potential of the Internet for financial reporting goes beyond accessibility and navigation. It is possible to make financial information portable, ie capable of being extracted for further analysis. At present, some companies already include financial statements on spreadsheets that can be downloaded and merged with those of other companies to enable comparisons to be made. In future, this technology could be taken further if, as has been postulated, a standard business reporting language, capable of being interrogated electronically, were developed.* Companies would place on the Internet a database of audited financial information in a standardised coded format. Users could then prepare their own reports, using programs to interrogate the information and present it in a way that best met their particular needs.

5.11 It is likely that any developments in this area will focus on the needs of expert users and, in the near future at least, may have few implications for reporting to private investors.

Regulation of Internet reporting

5.12 As discussed above, the Internet allows companies to disseminate more financial information to more users in more ways than is feasible in a purely paper-based environment. The potential benefits to users are clear. However, with the benefits come increased risks that users may be confused or misled. For example:

- *there is an increased risk that information will be inaccurate.* Even if electronic financial statements are checked when they are first published, in the absence of adequate controls they might be altered subsequently (by either the company or rogue outsiders). Or information could be selectively updated, without any acknowledgement that it no longer represents part of the audited financial statements.

* Chapter 5 of the Discussion Paper issued by IASC staff and referred to in paragraph 5.3 above discusses possible future developments in detail.

- *it may be unclear which information is regulated (prepared in accordance with statutory or other requirements) and which is unregulated.* The ease with which information can be placed on a Website increases the likelihood that companies will supplement their standardised reports to shareholders with further unregulated information. This information could, for example, take the form of additional analyses or alternative presentations to those required in audited financial statements. Or it could be selective extracts from audited financial statements. In the absence of any clear labelling, users might be misled into thinking that information they are reading is regulated when it is not. This might be a particular problem where hyperlinks allow the user to leap directly between different areas of the Website.
- *information that is inconsistent with the audited financial statements may be given.* Users have no guarantees that unregulated information is consistent with the standard financial reports sent to shareholders within existing legal and regulatory frameworks.

5.13 It has been suggested that there may be a case for introducing standards for electronic reporting. Such standards could, for example, require companies reporting financial information on their Websites to:

- implement controls to ensure the continuing accuracy of information on the Website and prevent it from being updated selectively
- include full audited financial statements on the Website, and possibly other financial information that has been published in paper form
- identify extracts appearing elsewhere on the Website as being incomplete, providing a reference to where the complete financial statements can be found

- identify the boundaries of the regulated financial information, possibly warning users when they move outside these boundaries
- where relevant, reconcile additional financial information to numbers that are included in the full financial statements.

5.14 Whilst the opportunities for abuse, and hence the potential need for standards, are clear, there is also a view that detailed standards should be set only when Internet reporting has become more developed. At that point, there will be more tangible evidence of the type of problems that have occurred or are likely to occur. In the meantime, a small number of core standards might be more appropriate. It might, for instance, be sufficient if companies were simply required to label any financial information given on their Websites as being either 'regulated' or 'unregulated'. Regulated information would comprise only the information prepared in accordance with legal and listing requirements.

Conclusions

5.15 The Internet undoubtedly provides companies with opportunities to improve communications with private shareholders who are able and willing to access financial information via company Websites. The Board therefore supports the DTI's suggestion that companies should be encouraged to place their preliminary announcements (and other information given to analysts) on their Websites. The Board further envisages that if, in future, companies place on their Websites all information that they provide to the markets and also make the electronic versions of their full financial statements easier to read at different levels, the need for hard copy summary financial statements might in time reduce. It may be less likely that improvements in technology will reduce the need for separate simplified financial reviews.

5.16 The Board supports, in principle, the suggestion that there should be standards governing business reporting on the Internet. It would welcome views on what its involvement in setting such standards might be.

Appendix: Examples of plain language terminology

Several companies now use plain language explanations for technical terms used within full or summary financial statements. Examples are given below.

Profit and loss account	<i>The profit and loss account shows how much profit the group has made since the previous balance sheet was prepared. It is a summary of income and expenditure during the year.</i>
Turnover	<i>Sales of our products to customers, excluding VAT.</i>
Income from interests in associated undertakings	<i>Associated undertakings are businesses in which we hold a significant percentage of the shares and over whose policies we have significant influence but not control. The income recorded is our share of their profits.</i>
Operating profit	<i>The profit we earned from making and selling our products.</i>
Exceptional items	<i>Large items of income or expenditure that do not normally arise.</i>
Profit before tax	<i>Operating profit, plus exceptional items and income from investments held by us, less interest on money borrowed from banks and others.</i>

Dividends	<i>The share of profits paid to shareholders.</i>
Retained profits	<i>The share of profits to be used in maintaining and expanding our business.</i>
Summary group balance sheet	<i>A snapshot of the group's financial position at the year-end.</i>
<i>What we own:</i>	
Fixed assets	<i>Property, plant, machinery, vehicles and equipment that we own and use in the business. They are shown at original cost, less amounts we have charged against profits for the wearing out of these items.</i>
Investments	<i>Money we have invested in other companies.</i>
Current assets	<i>Materials purchased for production, money due to us from our customers and money we have in the bank.</i>
<i>The way our business is financed</i>	
<i>Shareholders:</i>	
Shareholders' funds	<i>Money originally invested in the company by shareholders and profits reinvested in the business both this year and in past years.</i>

Outsiders:

Minority interests

The share of the net assets of our subsidiary companies that belong not to us but to others holding shares in these companies.

Long-term loans

Money borrowed from banks and other institutions on which we have to pay interest and which we are due to repay no earlier than twelve months from the balance sheet date.

Deferred tax

Amounts we have set aside for tax yet to be charged on profits we have already earned.

Current liabilities

Money borrowed that we will have to repay within one year, and moneys due to providers of goods and services.

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