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Principles and actions for making corporate reports less complex and more relevant

1. I am writing in response to this consultation on behalf of the Association of Friendly Societies. The objectives we seek from our response are to:
 - Signify our support for the main objectives of the consultation;
 - Offer limited observations on the proposed principles.
2. The Association of Friendly Societies (AFS) has 45 members and represents Friendly Societies in the UK. Between them, these organisations manage the savings and protection needs of over 5 million people, and have total funds under management approaching £16 billion.
3. Friendly Societies are member-owned organisations, set up originally to encourage self-help and personal responsibility and to enable people with limited financial resources to improve their economic status. They typically provide and promote financial products – including life insurance, income protection insurance, and savings and investment plans – to this sector of the market, although their products and services are generally open to all.
4. As member-owned organisations, customers of friendly societies also take on important responsibilities as owners of the business. So the challenge to make corporate reports less complex and more relevant is at least if not more important for our members than it is for shareholder-owned companies, as the experience of the investor is likely to be less and their potential to engage and influence the direction of the organisation is probably greater.
5. Friendly societies vary in size significantly, from large multi-business organisations with international operations, to very small organisations employing no more than a handful of employees. All report that the length and complexity of corporate reports has grown significantly in recent years, as the need to present different information to different audiences has grown. For smaller friendly societies in particular the cost and complexity of preparing and issuing corporate reports is disproportionately high, and the skills available internally to present the accounts in an unambiguous manner are limited.

6. As a result we therefore support the work of FRC on this project unreservedly. The opportunity for, and the value of, improving the relevance of reports is unchallenged. However, we firmly believe that for the project to be successful it has to be joined up with other areas of regulation: at the moment the absence of a clear definition of materiality, and the risk of sanction for missing out information is such that firms take a conservative approach to disclosure.
7. Turning to some of the specific points raised in the paper:
 - a. The primary audience of corporate reports must be the investors, or more accurately owners of the business. As we state above, as mutual organisations, our policyholders enjoy membership/ ownership rights. Your rightly point out that there are other stakeholders who are interested in the reports, but do not include consumers who, in our experience, are increasingly interested in the probity of the organisation they are buying from;
 - b. The principles for less complex regulation of reporting cover the main issues succinctly. We ask that in considering consistency, you take account both of statutory regulation, but also Codes, especially the Combined Code, and its counterpart for friendly societies and mutual insurers, the Annotated Combined Code: we would be happy to provide you with details.
 - c. We agree with the relevance of all the calls for action, though in reality these all appear to require action by regulators before they can be adopted by reporters.
 - d. We agree with the first three principles for effective communication. The fourth, “interesting and engaging”, is relevant but perhaps less ambitious than it might be: we consider that corporate reports should enable relevant stakeholders to make an informed decision on how they might discharge their responsibilities; for example investor/ members should be given information in such a way that they are motivated to take an active role in key decisions they are asked to vote on.
 - e. The coverage on electronic communications is relevant, though at present friendly societies do not have permissions to adopt these, although we are working with Treasury to see the relevant Order introduced, probably for reports produced in 2011.
8. In summary, we support this project and look forward to it delivering real improvements in the readability and useability of corporate reports.
9. We would be happy to discuss our comments in more detail.

Yours sincerely,

MARTIN SHAW

General Secretary
Association of Friendly Societies