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Deepa Raval
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15 November 2013

Dear Ms Raval,

Exposure Draft: Guidance on the Strategic Report

ABI members are both significant users and preparers of annual reports. As such, they are supportive of high quality narrative reporting with a focus on strategy, the business model, performance and significant risks and uncertainties, all underpinned by the principle of materiality.

The value of a good narrative report can be seen in many areas, by:

- providing shareholders with reliable information about the quality of management's stewardship of the business and, in turn, fostering constructive relations between shareholders and companies;
- imposing a discipline that contributes to management's clarity of thought when developing a company's strategy and business model;
- focusing attention on material non-financial aspects of corporate reporting, including social and environmental factors; and
- helping to bring a forward looking view to the annual report.

However, the standard of reporting varies considerably between companies. At its worst, reporting is boiler-plate and barely meets the legal requirements. Unfortunately, narrative reporting is also, on occasion, considered a marketing exercise increasingly disconnected from neutrality and prudence. In this context, we are supportive of the separate, but connected, package of measures the FRC has introduced regarding the requirement for, and governance of, fair, balanced and understandable reporting, Audit Committee reporting and ISA (UK & Ireland) 700.

It is our view that the quality of reporting has traditionally improved as a result of the promotion of best practice standards and the inevitable market pressure for companies to meet them. We therefore welcome the development of this guidance by the FRC and, while some uncertainties have resulted from the regulation, broadly, we believe that the draft represents a commendable approach.

Drawing on member feedback, we should like to highlight a few areas that we believe require careful consideration:

- **Section 3**: we agree that illustration 1 is helpful for preparers in forming judgements on where information should be best presented. However, consistent with the requirement for fair, balanced and understandable reporting, we believe that the component objective for narrative reporting should be amended to include the concept of reliability. For example: "To provide *reliable* information on the entity and insights…"

  Section 5: We emphasise the importance of materiality in reporting to shareholders. Inevitably, though, consideration of what is material to the business requires the application of judgment. Therefore, we believe that it should be for the company's board to make the assessment of materiality to the business. However, such judgements are then subject to shareholder engagement, particularly where disclosures fail to highlight material aspects, and it is this market approach [/pressure] that facilitates improvements in reporting.

  Some preparers have raised concern over a perceived lack of clarity as regards the concept of materiality. "Materiality" has different meanings when used colloquially and when used in legal or accounting parlance. For example, there are different approaches to materiality even within the audit (e.g. planning and performance materiality), both of which may be viewed as different to that desired in narrative reporting. Due to the range of possible definitions it has come to mean everything at once and nothing at all.

  While we believe section 5 remains faithful to the current International Financial Reporting Standards (IFRS) definition, acknowledging the international uncertainty, particularly for dual-listed entities, we understand that the International Accounting Standards Board (IASB) will be consulting on materiality next year. While this will be a clear focus for preparers and investors, we believe that section 5 is drawn sufficiently widely to complement any likely IASB changes.

- **Section 6**: we agree with the proposed 'communication principles' and the approach to 'content elements'. While we support the focus on cross-referencing and the use of 'linkage examples' so as to aid concise narrative, clearer delineation between the Strategic Report and the Directors' Report may be necessary. Some members are concerned that the wide scope here may undermine the requirement for fair, balanced and understandable reporting.

  We also suggest that the guidance on the use of KPIs could call for clarity where similar measures are used for different purposes and have different bases, for example where adjusted EPSs used to explain company performance are not the same as those in executive remuneration disclosures.

I trust the above feedback is constructive and should you wish discuss the issues raised in more detail, please contact Phineas.Glover@abi.org.uk (020 7216 7537).

Yours sincerely,

Robert Hingley
Director of Investment Affairs