

Deepa Raval
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15 November 2013

Dear Deepa,

RESPONSE TO THE FRC'S DRAFT GUIDANCE ON THE STRATEGIC REPORT

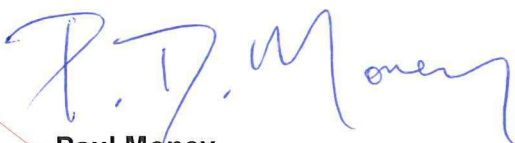
We welcome the opportunity to comment on the Exposure Draft of the FRC Guidance on the Strategic Report. We generally support the principles-based approach that the FRC has used to develop their Guidance, the way the Guidance is structured with a clear description of the new narrative reporting regulations and the FRC's interpretation of these new regulations to assist users of their Guidance in applying them.

We have undertaken our own analysis of the new rules and we view that compliance with them can be achieved in large part by reordering the structure and information that can be found in our current Annual Report. Therefore, we do not expect that the new rules trigger a sudden step change in corporate reporting practices which we suspect will be more evolutionary in approach.

We have set out our responses overleaf to the questions posed in the FRC's consultation on their draft Guidance. However, we would like to make a specific observation in our covering letter around the challenges dual listed filers like GSK face over the different UK and US corporate reporting rules on the disclosure of risk and mitigation/ risk management. Although, the FRC's Guidance document acknowledges this difference in approach, GSK and, we are sure, other dual listed companies would find it helpful to explore practical ways of trying to narrow the reporting gap between the two disclosure regimes. We suggest that this would be a useful subject for the FRC's Financial Reporting Lab to explore and develop best practice disclosure examples for dual listed filers to draw upon. We believe that this could be included in a Financial Reporting Lab session that we anticipate will be organised at an appropriate juncture after FRC's integrated guidance on internal control, risk management and going concern (which is currently the subject of a separate consultation exercise) has been published.

Please do not hesitate to contact me, (Tel: 0208 047 4505 or Email:paul.d.money@gsk.com) should you wish to discuss any aspect our response in greater detail.

Yours faithfully



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Question 1

Do you think that Illustration 1 is helpful in achieving this objective?

Yes. We agree that an illustration such as that set out in illustration 1 is helpful and will be a useful guide during the drafting process.

Question 2

Do you agree with the objectives of each component and section of the annual report which are included in Illustration 1?

In general terms yes, but please see our comments question 3. ‘

Question 3

Do you think the guidance on the placement of information in the Annual Report in paragraphs 3.10 to 3.14 will have a positive influence in making the Annual Report more understandable and relevant to shareholders?

It is not clear from the guidance how placing supplementary information into appendices or elsewhere (online) is going to work in practice, in part because there may be legal barriers in place but also because this is inconsistent with current market practice. It should be borne in mind that previous attempts to move reporting online have not been successful.

In addition, the examples given in the guidance are somewhat vague, and it is not obvious how safe harbour provisions contained in the Strategic Report and in the governance sections of the Annual Report might be imported.

The guidance states that duplication should be avoided: however there is merit in some repetition to aid the reader's understanding of the Annual Report, and ability to navigate it; in a well-crafted document this would not necessarily lead to excess volumes of disclosure.

As a more general observation, shareholders are not the only Annual Report audience. A wide range of stakeholders, including prospective employees, regulators, financial analysts and suppliers, will use this document and this could perhaps be more explicitly recognised in the guidance. Conversely, the Annual Report is not the shareholder's only source of information. Its primary purpose is to report to current and prospective investors, however, frequently, investment decisions will be made by shareholders, based on results announcements released under the Disclosure and Transparency Rules. It may therefore be appropriate to recognise the Annual Report as a fundamental document in the overall reporting suite, which incorporates information not included elsewhere.

Question 4

Do you agree that this approach [e.g. addresses the application of the concept of materiality to the Strategic Report, remaining as faithful as possible to the definition of materiality used in IFRS]? Is the level of guidance provided on the subject of materiality appropriate?

Keeping the concept of materiality to the Strategic Report in the guidance consistent with the IFRS definition is helpful. Levels of materiality will vary from business to business and might change over time. Furthermore, whilst the IFRS definition is useful as a starting point, narrative reporting frequently requires the inclusion of detailed information to clearly explain a company's strategy, and is a question of judgement for each issuer.

The need for the Strategic Report to be comprehensive is set out in paragraph 6.15 of the guidance, and this ought to be recognised.

Question 5

Do you agree with the proposed 'communication principles', set out in paragraphs 6.5 to 6.27 of the draft guidance, which describe the desired qualitative characteristics of information presented in the strategic report? Do you think that any other principles should be included?

We agree with the examples used which are helpful.

Question 6

In this draft guidance, we have aimed to strike a balance between the need to ensure that the structure and presentation of the strategic report is sufficiently tailored to the entity's current circumstances and the need to facilitate comparison of the strategic report from year to year. Do you think the guidance in paragraphs 6.26 and 6.27 achieves the correct balance?

We believe that it is appropriate and sensible that the structure and presentation of the Strategic Report should be reviewed on annual basis to ensure that its objectives continue to be met.

Question 7

The 'content elements' in bold described in paragraphs 6.28 to 6.73 do not go beyond the requirements set out in the Act, although the precise wording may have been expanded to make them more understandable. Do you think this is appropriate? If not, what other 'content elements' should be included in this draft guidance?

Clarity is helpful but it is probably not appropriate to go outside the requirements of the new regulations.

The guidance does not include any references to human rights disclosures, and therefore further guidance would be desirable, otherwise, such disclosures might become boilerplate statements. Conversely, examples might not be helpful since human rights issues will vary widely between different companies and sectors.

There is lack of clarity on diversity reporting in the new regulations and no additional guidance in the Exposure Draft. It is thought that reporting in area will evolve over time, as companies might have different ways of defining 'senior manager'. Without further guidance, it might take longer for accepted practice to emerge. Section 414 of the new regulations require companies that produce group accounts to provide a breakdown of persons of each sex who were directors of the entities included in the consolidation. It would be preferable for companies to make their own judgement on who is a 'senior manager', and subsidiary company directors are often corporate function employees rather than executive management, which leads to the question whether it is really appropriate to include data on such employee directors in gender reporting, as it might lead to an incorrect representation of a company's gender mix at senior level. Furthermore, such disclosures are not in line with materiality thresholds discussed in the guidance.