

2 November 2009

Ms M Kerr
Financial Reporting Council
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via e-mail complexity@frc.org.uk

Dear Melanie

**Louder than Words –
Principles and actions for making corporate reports less complex and more relevant**

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this discussion paper. CIMA, founded in 1919, is the world's leading and largest professional body of Management Accountants, with 171,000 members and students operating at the heart of business in 165 countries.

We welcome this FRC initiative which is very timely. Earlier this year CIMA published *Complexity, Relevance and Clarity of Corporate Reporting* in which CIMA FTSE 350 Directors expressed concern that the amount of information that is required to be reported is excessive and overly complex. In a straw poll of CIMA members nine out of ten respondents agreed that corporate reporting is more complex than it needs to be.

There is no doubt that companies are operating in an increasingly complex business environment with more and more intricate transactions but there is more that can be done to make corporate reports more accessible and understandable. CIMA has joined with PriceWaterhouseCoopers and Radley Yeldar in the Report Leadership initiative (www.reportleadership.com) with the aim of making corporate reporting more effective. We have produced a number of reports for improving corporate reports based on three key principles:

- It is important that instead of simply presenting the figures within the prescribed templates, that management actually describes what has taken place, allowing the reader to understand the underlying messages;
- Align external reporting with management reporting to create a virtuous circle of improvement. External reports should represent the top slice of information regularly reported to the Board; and
- Companies should make their corporate reports more interesting, engaging and accessible to a range of audiences and that includes both online and hard-copy reports.

We are pleased to see that the FRC discussion paper specifically refers to the work of the Report Leadership group and picks up each of these principles in its four principles for effective communication and we remain committed to improvement in the preparation of corporate reports. Alongside Board Effectiveness and Management Information CIMA's Innovation and Development agenda includes Accountability to Stakeholders which is an issue for management, the board, investors, analysts and other stakeholders who want to be better informed about an organisations' strategies and prospects.

page 1 of 4

from the Chief Executive Charles Tilley

We are pleased to see that the FRC discussion paper also addresses reductions in complexity of reporting regulations and the processes by which they are created. As recognised by the FRC achieving a reduction in the complexity of corporate reports will require changes in behaviour from all members of the financial reporting supply chain - regulators, preparers, auditors and investors. It is with this point that we have the greatest concern with the FRC's proposals – to what extent can the FRC influence other regulators such as the IASB and national and international legislators.

We welcome the work that the ASB is undertaking with the World Standard Setters organisation and encourage it to continue to develop international ties especially with emerging and developing nations to provide effective global input into the IASB's deliberations. However, we fear that the IASB agenda is unlikely to contain a project on reducing complexity in corporate reporting in the near future other than for specific areas like financial instrument accounting. Reaction to political pressures resulting from the global financial crisis and international convergence is likely to occupy the vast majority of the IASB's resources for the foreseeable future. Without fully abandoning attempts to reduce complexity in international financial reporting standards, we recommend that the FRC concentrates on influencing other stakeholders such as UK and European legislators and the preparer community. Also the work of the FRC itself should be measured up against the proposed principles for less complex regulation for instance outputs from the Accounting Standards Board and the Audit Practices board.

The FRC discussion paper contains five calls for action and we would like to take the opportunity to comment on these individually.

- 1) *The FRC should launch a project to further investigate users' needs for cash flow and net debt reporting with a view to better aligning reporting with these needs, possibly through best practice guidance*

This is an area of focus for CIMA. We have heard from preparers and users of corporate reports who have told us that the cash flow statement and net debt disclosures are inadequate. In our Report Leadership publications we included a model net debt statement that both reconciled to amounts contained in the balance sheet and showed the movement from year to year.

We also advocated the use of non-GAAP measures of performance and position to augment the IFRS financial statements. Many preparers have told us that the cash flow statement in IFRS financial statements is far removed from anything that can be used to manage or understand cash flows. At the present time the IASB seems fixed in its mind that the cash flow statement should show the net movement in cash and cash equivalents even though many preparers and users consider this metric largely irrelevant. We have come to the conclusion that the only short-term way in which corporate reporting can be improved in this area is to encourage an additional non-GAAP measure within the narrative report. Free Cash Flow is both a liquidity measure and an important indicator of overall operational performance and we believe it is a useful non-GAAP measure that should be included in corporate reports. We recognise that Free Cash Flow may not be the most appropriate alternative cash flow measure for financial institutions but would urge such entities to consider the provision of alternative metrics.

We are shortly going to publish a report on the reporting of cash flow and net debt in FTSE 100 companies. Our desktop research has shown that around 30% of FTSE 100 companies report Free Cash Flow and 60% include an analysis of movements in net debt. We have identified a number of company reports that we regard as displaying good practice in terms of cash flow and net debt reporting and we will promote these in the report.

We agree with the need for best practice guidance in this area and stand-ready to assist the FRC in any way that we can with this call for action.

2) The FRC would like to see a project on disclosure which investigates the characteristics of useful disclosures and the main objectives of financial reporting disclosure.

Companies are faced with a multitude of disclosure requirements from various sources. There are the requirements of UK legislation, UK accounting standards, EU directives and International Financial Reporting Standards. While the FRC is an appropriate body to investigate the UK requirements we believe that it should consider working with others with respect to European and International requirements. The model employed by European accounting standard setters in their Proactive Accounting Activities in Europe (PAAinE) initiative may well be appropriate in this wider context. The PAAinE model involves a number of European Accounting Standard Setters working together to produce a report. We believe that a collaborative report would carry more weight within Europe and also potentially have more influence with the IASB.

3) The FRC recommend further study of the costs and benefits of subsidiary reporting requirements to determine if we can better match requirements to user needs and reduce the overall burden on UK companies.

The FRC recognises that it is possible that one of the necessary steps to achieving significant progress in this area requires changes to EU and / or UK law. We believe that it is virtually certain that such legislative changes will be required and so it should be recognised that this will not be a short project.

4) The IASB should consider a project to reorganise its standards, accompanying documents and interpretations around accounting topics, using an easy-to-follow structure and clearly expressing the desired outcomes.

Whilst this is a laudable aim, it is unlikely that the IASB will have the resources to include such a project on its agenda for quite some time. The current focus of their work is on issues arising from the financial crisis and international convergence. Furthermore, once these two issues have been resolved, we believe that the Board should concentrate on completing its revision of its conceptual framework which should provide the necessary framework for a long-term reorganisation of the standards.

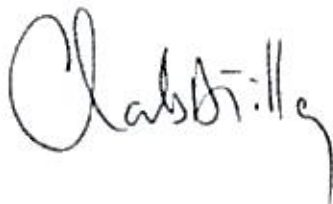
5) To begin tackling clutter in reports we believe two steps are urgently necessary:

- a. Preparers should remember that immaterial disclosures undermine the quality of reports and make a concerted effort to cut clutter*
- b. The FRC recommend an investigation into the way various sources of regulation are contributing to clutter in annual reports.*

We support this call for action and have for quite some time encouraged preparers to produce corporate reports that are more engaging and effective. Our work with others in the Report Leadership group is well known to you and has this as one of its main areas of focus. We would welcome an investigation into regulatory sources of clutter followed by a concerted effort to reduce unnecessary requirements.

CIMA is pleased to have been able to assist in this project by providing access to preparers of corporate reports and, on a personal note, I am glad that I was able to help by sitting on the Complexity Advisory Panel. We look forward to assisting the FRC with future stages of this project as appropriate and would be pleased to discuss with you any aspect of this letter that you may wish to raise.

Yours sincerely

A handwritten signature in black ink, which appears to read 'Charles Tilley'. The signature is written in a cursive, flowing style.

CHARLES TILLEY
Chief Executive