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30 October 2009

Dear Melanie

LOUDER THAN WORDS: PRINCIPLES AND ACTIONS FOR MAKING CORPORATE REPORTS LESS COMPLEX AND MORE RELEVANT

BT welcomes the opportunity to comment on the above discussion paper. BT is one of the world's leading communications service companies. In the UK we are the largest communications service provider to the residential and business markets. We have operations in more than 170 countries around the world where we are also a supplier of networked IT services to government departments and multinational companies.

We welcome and support this initiative from the Financial Reporting Council (FRC). We believe it is important that the complexity of Annual Reports be reduced as far as possible to ensure their relevance is increased for users. The discussion paper (DP) provides valuable insight into the issues identified from both preparers and users and also makes some sensible and practical recommendations as to how progress could be made. However, the implementation of these recommendations lies with third parties, for the most part. Therefore we are keen to understand, in due course, what the FRC plans to do once it has considered the feedback on the DP and what further actions will be taken. We set out below our comments and observations on the key points and questions raised in the DP.

1. Complexity and relevance

In spite of the DP's title, the focus appears to be more heavily weighted towards the issue of complexity rather than relevance. The link between these two areas set out in the DP is that relevance is an aspect of complexity because missing information and irrelevant detail can obscure the overall message and so add to the complexity. However, relevance in corporate reporting is an important issue in its own right and we believe it deserves further and broader consideration.

The DP defines 'complexity' as 'anything that makes regulations or the reports themselves unnecessarily difficult to understand, implement or analyse'. This is a sensible definition but does make it difficult to see how much complexity can realistically be removed.

Interestingly, we note that the users (defined as capital providers and their advisors in the DP) who the FRC interviewed did not consider annual reports too complex. Based on the evidence set out in the DP, concerns about complexity lie more with preparers. Users identified a number of shortcomings in annual reports but had greater concerns about 'relevance' rather than 'complexity'. This is probably a function of the diverse nature and varying needs and requirements of users. Not only are there many types of equity investors, both professional and private, but there are also debt-related users such as credit rating agencies and others. The type, extent and complexity of information that these users may want from the Annual Report may vary considerably and yet all are served by general purpose financial statements under the IASB framework. We believe that the DP's discussion on 'remembering who the users are' needs to be more sophisticated in terms of developing insight into who the different users are. Users have diverse sources of information available to them and hence their overall approach to information in the annual report needs to be better understood.

However, we do agree with the DP's proposal that the annual report should not be used for other types of reporting such as environmental or employee diversity issues. There are other mechanisms whereby such information can be reported separately, such as via websites.

2. Principles for less complex regulation

To provide a toolkit for improving the quality and effectiveness of regulation, the DP proposes that regulators should adopt a single set of principles that govern how they set and communicate those regulations, which are: targeted, proportionate, coordinated and clear.

We believe that the four principles proposed would help reduce complexity if they were in fact implemented. The difficulty clearly lies in putting them into effect. Also, as mentioned earlier, a lot of what may be currently regarded as regulatory complexity is nonetheless unavoidable and necessary complexity, which limits the potential effectiveness of the four principles.

One other point to consider when considering the length (and hence complexity) of the annual report is whether there are more imaginative ways to present information. The length of the annual report could be shortened if some of the information was made available on a company's website. For example, accounting policies rarely change significantly from year to year and could be easily accommodated on a website, with appropriate structure and navigation tools. Changes in policies and critical estimates and key judgements could continue to be disclosed in the Annual Report. Transferring information to websites would not reduce the volume or complexity of corporate reporting overall but it would help address the problem that some people see with the length and accessibility of information in the annual report.

3. Cash flow reporting

Based on the 'Targeted' principle, the DP poses the question as to whether cash flow reporting is in need of improvement. This is clearly an important question, and is supported by the feedback from user interviews who felt that the cash flow statement in its current form was failing to provide a clear understanding of the cash flows of a business. Preparers also agreed that the cash flow statement was not useful for internal management purposes and as a consequence many companies are voluntarily providing significant additional detail in their Annual Reports with regard to free cash flow and net debt movements.

.We would endorse the point made in the DP that there is a need for a reconciliation of opening and closing net debt, which would provide helpful information to users. Providing clearer reconciliations between the income statement and cash flow statement, including an explanation of non cash items, would also be useful.

4. Accounting disclosure requirements

The DP notes that constant growth in disclosure requirements is of particular concern. The current piecemeal approach to developing disclosure has resulted in a continually expanding body of requirements. Further there is no process in place for reviewing whether existing disclosures are still relevant. As a consequence, one of the DP's calls for action is for a project on disclosure to investigate the characteristics of useful disclosures and the main objective of financial reporting disclosure.

We believe that listed companies often already do their best to highlight important financial reporting information. Going beyond this, and trying to establish in a standardised way what the most important disclosures should be might well add to the unnecessary regulation; what is important will vary from company, and often from year to year.

5. Better coordination between national and international regulators

The DP notes that the number of different sources of corporate reporting regulations makes life challenging for preparers of corporate reports, due to the sheer volume of requirements and the difficulty of tracking down which regulations apply to them. There is significant overlap between the different sources of requirements, which add unnecessarily to the total regulatory burden. The DP asks whether it would increase or decrease complexity if national and international regulators worked together in a more joined-up way, or is there a risk that international regulators working together might result in imported complexity for some jurisdictions.

We support increased coordination by international regulators with the objective of reducing complexity. However, we believe this will be very challenging practically, given the varying legal and financial reporting approaches to regulation in different jurisdictions.

6. Principles for effective communication which can reduce complexity in corporate reporting

The DP identifies four key principles which should be followed for effective communication in corporate reporting: focused, open and honest, clear and understandable, interesting and engaging.

We are sure that everyone would welcome corporate reporting that is based on these four principles. Most preparers may consider that they already try to apply them, or where they do not, there are regulatory barriers. The DP suggests that one way in which preparers could reduce unnecessary complexity is by removing unnecessary disclosures. However, most disclosures are required by some form of regulatory requirement.

One of the main barriers to more effective communication is the fact that preparers take great care in ensuring they meet all legal and regulatory requirements, as the failure to do so can have serious consequences. Therefore it is not surprising if preparers tend to give priority to compliance rather than some of the positive aspects of communication. For example, as a dual listed company, we produce a combined Annual Report and Form 20-F which must comply with all relevant UK, IFRS and SEC regulatory disclosure requirements.

Ultimately, making corporate reporting interesting and engaging will always be a challenge. There will always be a constraint on how well-resourced a financial reporting function will be and how much time will be available, given reporting deadlines and other priorities.

7. Specific sources of complexity which warrant further action

The DP lists opportunities for further action. We comment briefly on these below.

Acquisition accounting: We agree that the valuation of acquired intangibles is unnecessarily complex because it is very time consuming, often involves engaging external advisors and does not result in useful information, being merely an allocation exercise. This should be a matter for the IASB to consider.

Choices: The DP states that users are concerned that choices and options in accounting standards reduce the ability to compare entities, particularly in relation to the choice of adoption dates for IFRS. This is not a particular area of concern to us as a preparer.

CSR agenda: The DP states that users and preparers say that CSR information can be important but they are concerned that overloading annual reports with this type of information may make them cluttered. We do not believe companies should be prohibited from including CSR information in their annual reports if they wish to do so. However we don't believe it is necessarily the best place for this information and it could instead be included on a company's website and hence would avoid cluttering up the annual report unnecessarily.

Defined benefit pensions: The DP states that both users and preparers say there is significant underlying complexity in relation to the accounting valuation of pension schemes. We agree this is a significant issue and believe that pension disclosures should include a linkage to the future cash flows relating to pension scheme funding. This should be a matter for the IASB to consider.

Discontinued operations: The DP states that many users consider discontinued operations accounting to be complex because it can often result in numerous restatements for each discontinued operation. Many favour this being addressed by disclosure. We agree that the accounting requirements for discontinued operations should be investigated and would be a matter for the IASB to consider.

Embedded derivatives: The DP states that many preparers observe that the 'witch hunt' for embedded derivatives and the process for valuing them is overly complex and time consuming – and does not always yield a sensible result. We agree this in an area which should be investigated and would be a matter for the IASB to consider.

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.***Fair value:*** The DP states that fair values are considered complex when there is an absence of a market for determining the value. The IASB has recently issued an exposure draft on fair value measurement providing further guidance in relation to this area.

Financial instruments: The DP notes that users and preparers are concerned about the significant underlying complexity of financial instruments as well as the extremely complex and detailed accounting standards and guidance that many consider adds unnecessarily to the complexity in this area to such an extent that it is only understood by subject matter experts. The issue of complexity in financial instruments is being reviewed by the IASB and they should be encouraged to reduce complexity in this area.

Hedge accounting: Qualifying for hedge accounting treatment requires significant and burdensome documentation and administration by preparers. Both users and preparers have a preference for the accounting to reflect the impact of economic hedges, even if they don't meet the strict accounting definition to qualify for hedge accounting. We agree that it would be desirable for hedge accounting to be more closely aligned with the economic reality. This matter is currently being reviewed by the IASB.

Interpretive guidance: The DP notes that many preparers say the proliferation of interpretative guidance for accounting standards such as IFRIC interpretations and accounting manuals produced by audit firms add to complexity. This appears rather counter-intuitive but it is important that interpretative guidance is provided only where necessary otherwise the risk is that accounting becomes rules-based rather than principles-based. Accounting manuals prepared by audit firms should be seen as a useful way of helping preparers deal with complexity rather than adding to it. We don't support this call to action as we are unclear what is actually being proposed.

Parent company financial statements: The DP notes that many users say they do not use the parent company financial statements in the annual report. Only once the extent of usage is properly understood could it be determined whether the existing disclosures could be reduced. This should be a matter for the Department for Business, Innovation and Skills (BIS) and the FRC to consider.

Remuneration reports: The DP notes that many users observe that remuneration reports are too dense to be useful. They want greater focus on important details such as how performance ties to remuneration, less boilerplate text and greater use of graphical displays of information. It would be useful to understand whether the issue stems from the disclosure requirements or how companies comply with them. This is an important area and we would support an initiative to improve remuneration reporting. This should be a matter for the BIS and FRC to consider.

Segmental reporting: The DP notes that users are looking for greater granularity and cash flow information at the segment level. We agree that the possibility of providing further segmental reporting should be investigated where it is used internally by executive management to manage and monitor business performance. This should be a matter for the IASB to consider.

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Share based payments: The DP notes that share based payments are difficult for preparers to value. Because there is significant underlying complexity and the standard is very detailed and rules based they often need to employ expert advice to assist in the valuation and accounting. The DP also notes that many interviewees thought that IFRS 2 should be rewritten to emphasise principles. We are not sure how easy this would be to do but it would be a matter for the IASB to consider. We support the view that the level of disclosures currently required by IFRS 2 is unnecessarily excessive and does not provide decision useful information.

8. Other areas

It would have been helpful to have a more extensive discussion on non-GAAP measures and how they are used by management and users in describing and understanding the underlying business performance. At present, there are very different requirements and approaches taken in the use of non-GAAP measures by the US and European regulators. It would have been useful to consider both approaches in the DP and canvass opinion as to the most appropriate use and disclosure of non-GAAP measures. For example, should they be brought within the remit of financial accounting standards or continue to be left to the local regulators to deal with?

We trust these comments are helpful in contributing to your deliberations. If you have any questions or would like to discuss these comments, please do not hesitate to contact me.

Yours sincerely

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