

Deepa Raval
Financial Reporting Council
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By email: narrative@frc.org.uk

25th November 2013

Dear Deepa,

Re: Exposure Draft: Guidance on the Strategic Report

We welcome the opportunity to provide feedback on the FRC's proposed guidance document on the strategic report. We consider the annual report to be a key communication mechanism between a company and its shareholders, and are highly supportive of initiatives that promote innovation in this area. We believe that the new regulations, and this guidance document, will be very helpful in this regard.

We make some comments to your consultation below.

Section 3 – The annual report

We agree that this illustration is useful. In addition, we believe it would also be helpful to include, or make reference to, the board committee reports within the governance statements section. These are areas that can be prone to boilerplate, but can provide some very useful information with which to assess the board's stewardship of the company. In particular we would reference the 2012 revisions to the UK Corporate Governance Code and the inclusion of the additional requirements on audit committee disclosures. It would also be helpful to make reference to the auditor's report to reinforce the importance of good communication in this section as part, as promoted by ISA 700, of the complete annual report. Lastly, we wonder whether some reference to the notes to the accounts would be helpful: we are seeing a number of companies innovating here and using the notes as a further opportunity to provide clarity. For reference, examples include ITV and Vodafone's latest reports and accounts.

Section 5 – Strategic Reports and materiality

We agree that the guidance on materiality is useful, in particular with reference to the focus on relevance to shareholders' needs. That said certain "non-financial" matters

are often not reported on in a way that is commensurate to their strategic importance to the business. While it is ultimately the board's decision what is material to the company and consequently what to include in the report, and therefore for investors to challenge if they do not agree with the assessment, we wonder whether some specific reference to "non-financial" matters in the guidance would be helpful in highlighting the importance of their consideration. By way of example, Unilever's 2012 Annual Report and Accounts state: "Our first priority is to our consumers – then customers, employees, suppliers and communities. When we fulfil our responsibilities to them, we believe that our shareholders will be rewarded."

Section 6 – The strategic report

We are concerned that the word "neutral" under 6.7 could be mis-interpreted: we are looking for reports that paint a full picture of the company's performance. Neutral could imply insipid disclosures, which we would not want to encourage: indeed the best reports that we see are those where the unique culture of the company and tone from the board shine through. We would suggest wording such as "The strategic report should address openly the positive and negative aspects of..." might better achieve what we are sure is the intended outcome.

We are glad that the guidance refers specifically to the reporting on the future, and welcome more companies reporting more openly on the board's thoughts for what the future might hold. On a related note, we would also welcome the inclusion of guidance on reporting on the state of the market and competition. In our experience companies often report as if they operate in a bubble with no competitors, which is clearly unhelpful for the user of the report when trying to understand how the company will continue to be successful, sustaining and generating value.

Linkage examples

We believe that while examples will be very helpful, as the guidance recognises it is important to emphasise that examples are not exhaustive to promote innovation beyond those examples as well.

On the topic of examples, over the last five years we have, in conjunction with the Institute of Chartered Secretaries and Administrators (ICSA), run the Transparency in Governance Awards, which reward best in class reporting across a number of categories. The winners and short-listers provide a wealth of real-life examples of top-quality quality reporting; details from the 2013 Awards can be found at <https://www.icsa.org.uk/excellence-in-governance-awards/transparency-in-governance-awards-winners>.

I would be glad to discuss the contents of this response with you: you can contact me at f.woolfe@hermes.co.uk or on 020 7680 3789.

Yours sincerely,



Freddie Woolfe

Head of UK Engagement