

22 November 2013

Ms Deepa Raval
Financial Reporting Council
Aldwych House
71-91 Aldwych
London WC2B 4HN

Dear Deepa

EXPOSURE DRAFT: GUIDANCE ON THE STRATEGIC REPORT

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £4.5 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that IMA members managed holdings amounting to 30% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in companies whose securities are traded on regulated markets. Therefore, they have an interest in how such companies prepare their annual report and accounts and the information disclosed to them as users.

We welcome the Financial Reporting Council preparing this draft guidance and giving us the opportunity to comment. Reporting has become increasingly complex and the Strategic Report has an important role to play in helping shareholders understand a company and its forward strategies. The audited financial accounts on their own do not provide adequate qualitative and forward-looking information to enable shareholders to make an informed assessment of a company and a well drafted Strategic Review should explain to them the possible risks to, and issues that will impact, a company's business and how it delivers value.

We consider the guidance as a whole should help companies do this. The concerns that we do have with the guidance are set out below and in the attached, our comments on the detailed questions raised.

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- IMA considers that the audience for the report should be the holders of ordinary shares, as the providers of the risk capital and bearers of the residual risk. Paragraph 3.6 of the Guidance states: "the needs of other investors and potential investors and their advisers should also be given a high priority" and 3.7 that it should address issues relevant to other users. We recognise that reporting is expected to meet a growing set of needs and that some consider it should also be aimed at other stakeholders, such as creditors – including purchasers of traded debt - employees, bankers, customers and suppliers. However, these other stakeholders are protected by contractual and other rights that are not shared by shareholders. If shareholders' needs are satisfied, then we believe the needs of other external users should be also. If reports seek to satisfy everyone, there is the danger that they will end up being uninformative for everyone.
- The guidance is not clear as to which are the mandatory requirements and the 'extra' areas which may be included within the strategic report. It is also largely aimed at quoted companies and it is not clear which parts apply to private companies. It may be helpful if two sets of guidance were prepared – one for quoted and one for private companies. The guidance is also quite long which may not encourage preparers to read and apply it.

Please contact me if you would like clarification on any of the points in this letter or if you would like to discuss any issues further.

Yours sincerely



Liz Murrall
Director, Corporate Governance and Reporting

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IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

IMA's answers to the detailed questions raised are set out below.

Section 3: The annual report

Section 3 of this draft guidance includes an illustration (Illustration 1) which is intended to clarify the purpose of each part of the annual report and help those that prepare annual reports to make judgements regarding where information would be best presented.

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

IMA considers the illustration helpful, particularly in distinguishing between the contents of the strategic report and the directors' report. However, we would highlight the absence of any reference to the audit committee and audit report both of which form essential parts of the annual report and are valuable tools for shareholder engagement.

Question 2: Do you agree with the objectives of each component and section of the annual report which are included in Illustration 1?

IMA agrees the detailed lists on the objectives of each component. The strategic report also aims to inform on wider societal matters such as environment, human rights etc. as described in Section 414C, subsection 7.b of the Regulation. In view of this, we consider the sustainability report as set out in paragraph 6.66 should be referred to in the illustration.

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?

IMA considers this guidance should be helpful in making the annual report more understandable and relevant to shareholders. However, more explanation as to the "core and supplementary information" principle could be given perhaps with the use of examples. Moreover, it should be emphasised that companies should have the flexibility to decide themselves how best to structure their reports – keeping always in view that they should be concise, informative and easy to understand. Investors do not expect the format to remain static year on year in that there should be a degree of latitude in the ordering of the report.

Section 5: Strategic reports and materiality

Section 5 of this draft guidance addresses the application of the concept of materiality to the strategic report, remaining as faithful as possible to the definition of materiality used in International Financial Reporting Standards (IFRSs).

Question 4: Do you agree with this approach? Is the level of guidance provided on the subject of materiality appropriate?

IMA agrees with this approach. However, it would be helpful the guidance specified what constitutes "relevant to shareholder needs" (paragraph 5.2) in order to allow management to reach a reasoned judgement on materiality.

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

Section 6: The strategic report

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?

IMA welcomes paragraphs 6.7 and 6.8 as they highlight the importance of keeping a balance between positive and negative aspects and also of using accessible language. The former should ensure that shareholders have all the relevant information to assess the company's situation and the latter should make the report easy to understand for all stakeholders.

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?

IMA supports the structure being reviewed annually (6.26) as we believe that the report should evolve over time. However, when considering changes (6.27) it should also be considered that a radically different structure could make comparison between years more difficult.

Question 7: The 'content elements' in bold type 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?

We are concerned that in expanding the "content elements" to make them more understandable and paraphrasing Sections in the Act and re-ordering them may only serve to be confusing for preparers.

Question 8: Appendix I 'Glossary' uses the same definition of a business model as the Code ('how the entity generates or preserves value'). Is the level of guidance provided on the business model description in paragraphs 6.38 to 6.41 sufficient?

IMA considers this definition is sufficient in that there are significant dangers in making this too prescriptive.

Question 9: Do you think that this draft guidance differentiates sufficiently between the concepts of business model, objectives and strategies? If not, why not and how might the guidance be improved?

IMA considers the concepts of business model, objectives and strategy are sufficiently explained, including how they are interrelated.

Question 10: This draft guidance includes illustrative guidance (the 'linkage examples') on how the content elements might be approached in order to highlight relationships and interdependencies in the information presented. Are

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these linkage examples useful? If not, what alternative examples or approach should be used?

IMA considers the illustrative guidance to be helpful, particularly for the largest enterprises where the annual report is written in modules by different teams. However, we consider that there is possibly too much use of "text boxes" which may only serve to confuse.