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15 November 2013

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Dear Deepa

Draft guidance on the Strategic Report

EY is pleased to comment on *Exposure Draft: Guidance on the Strategic Report*, ("the Guidance"). Our response to your specific questions is in the attached appendix.

Overall we find the Guidance to be informative and well presented. The table on page 10 is particularly useful as an illustrative outline of an annual report. Once the Guidance is published we encourage the FRC to keep it under review, to reflect new developments and practices in reporting, as and when they arise. Using user feedback, we also encourage the Financial Reporting Lab to pick up topics covered in the Guidance (e.g. business model disclosures) in future projects.

If you have any questions on our comments, or would like to discuss any related topics, please contact me using the details above.

Yours sincerely



Andrew Hobbs
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Appendix

Section three includes an illustration intended to clarify the purpose of each part of the annual report, and to help those that prepare annual reports to make judgements on where information is best presented.

Q1. Do you think that Illustration 1 is helpful in achieving this objective?

Yes. As noted in 3.3(a) of the Guidance, the structure of the annual report must comply with company law or other regulations. These may require disclosures to be included in specific parts of the annual report and accounts which may restrict the extent to which placement principles can be applied.

Q2. Do you agree with the objectives of each component and section of the annual report which are included in Illustration 1?

Yes subject to our response to Q1.

Q3. 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?

We support the concept of placing different categories of information in different areas of the report, or indeed outside of the report (e.g., company website) together with other material. However, it is important users are left in no doubt as to where related information is reported, and whether that information is audited or unaudited, so the FRC might wish to consider adding further guidance to deal with this.

Section 5 of this draft guidance addresses the application of the concept of materiality to the strategic report, remaining as faithful as possible to the definition of materiality used in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

Q4. Do you agree with this approach? Is the level of guidance provided on the subject of materiality appropriate?

Yes we agree with the approach, and the level of guidance provided.

Section 6 The strategic report

Q5. 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?

Yes we agree with the principles. We believe that more guidance or best practice examples of business model reporting would be helpful to users. See also our responses to Q7-Q9 below.

Q6. 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?

Yes.

Q7. 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?

Yes, we believe the expanded wording is appropriate. More insight on business model disclosures would also be helpful.

Q8. 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?

The way companies describe their business models varies. It would be helpful if "common denominators" in good business model disclosures could be highlighted, to help give companies some form of benchmark or perhaps itemise categories of information which users might expect to see in a business model description. This could also be something for the Financial Reporting Lab to work on.

Q9. 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?

Yes although in time some examples of best practice, highlighted by the Financial Reporting Lab, would be useful to highlight these differences.

Q10. 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 these linkage examples useful? If not, what alternative examples or approach should be used?

The linkage examples are helpful, but it may be even more useful in time if detailed case studies could be provided by the Financial Reporting Lab to highlight the development of good practice reporting. Examples might include studies to:

- Illustrate how relationships and interdependencies between different elements of the strategic report, and between the strategic report and other parts of the ARA, can help to make the ARA “fair, balanced and understandable”.
- Show how “integration” removes duplication and consolidates information, thereby removing the need in some cases for linkages.

Other comments

FRC and BIS may also wish to consider the following:

- Summary Financial Statements (SFS) provided a flexible way for companies to communicate with shareholders, and for some this was the preferred means of communicating with private shareholders. We have heard companies express concern that replacement of the SFS with the Strategic Report could result in private shareholders receiving much more information than they have historically. Conversely, if a company were to write a Strategic Report that meets the legal requirements but which is written as succinctly as possible for that private shareholder audience, it might not contain a sufficient depth of information for institutional investors. While there is an option to provide supplementary information with the Strategic Report, using such a format could detract from the flow of the narrative. As a consequence, some companies believe that having one report covering both purposes is potentially unhelpful.
- Requirements for the reporting of a company’s gender split: It would be helpful if companies could have the option not to include directors of subsidiary undertakings. The role of some of these directors may well be different and or less senior than directors or even senior managers in the UK parent.
- Principal risks and uncertainties: Concerns have been expressed by a number of companies we work with relating to the interaction of reporting requirements between UK and US SEC reporting requirements; specifically where the SEC’s lengthy risk disclosure requirements (e.g., 20F Report & Accounts requirements) are contrary to the UK’s requirement for a more limited disclosure of principal risks.