

From: roy.tooley@bt.com
To: [Narrative Reporting](#)
Subject: Response to FRC Exposure Draft: Guidance on the Strategic Report
Date: 19 November 2013 09:50:25

Dear Ms Raval

BT Group plc ("BT") is one of the world's leading communications service companies, serving the needs of customers in the UK and in more than 170 countries worldwide. The shares of BT are listed on the London and New York Stock Exchanges and BT is a FTSE 100 company.

BT welcomes the Exposure Draft: Guidance on the Strategic Report (the "Guidance") published by the Financial Reporting Council (FRC). The Guidance allows companies flexibility to formulate an approach to reporting that best suits individual circumstances. This flexibility should assist companies to avoid boilerplate disclosure and improve the standard of corporate reporting.

The Guidance is also consistent with messages from the FRC and others over the past few years. We support concepts such as: cutting clutter; emphasis on non-financial as well as financial Key Performance Indicators (KPIs); linkage of content across the annual report and telling the "company story" in an accessible way. It is also helpful for the FRC to reference the continuing work of the International Integrated Reporting Council.

We suggest some additional areas that the Guidance could cover, or where the guidance could be enhanced, to help companies further.

1. The Strategic Report as a replacement for the Summary Financial Statements

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "Regulations"), removes provision for the production of the Summary Financial Statements (SFS). The SFS was a summary document sent largely to individual "retail" shareholders, who wished to focus on some key elements of corporate performance, but did not wish to receive the entire Annual Report. The SFS has typically provided a summary of: the income statement; balance sheet; cash flow statement; executive remuneration; dividends and developments within the business.

The Regulations provide for shareholders to receive the Strategic Report (SR), with certain "supplementary material", where they have previously requested the SFS.

The content of the SR is quite different from the previously required SFS content. We believe that the SR content, even with supplementary material, is unlikely to meet the needs of many retail shareholders. Companies will have to provide additional information in the SR, beyond that contained in the Regulations, to address retail shareholders' needs. For example shareholders will have to vote on remuneration policy in 2014, but remuneration policy is not included in the SR supplementary material. We also believe that the SR will be materially longer than the SFS and this additional content will erode the concept of the SR as a summary document that is concise and relevant for such shareholders.

Further FRC guidance on the content and structure of the SR, where used as a standalone document in place of the SFS, would assist companies that wish to continue to send a summary document to retail shareholders.

2. Safe Harbour Provisions

The Guidance proposes a “core and supplementary” approach with material potentially moved from the SR, and placed elsewhere in the Annual Report (for example in a supporting appendix), with linkage from the SR.

Paragraph 3.14 identifies the Companies Act “safe harbour” provisions for material that is contained within the SR, Directors’ Report and Directors’ Remuneration Report.

Companies will be reluctant to place material outside these designated reports, and potentially outside the safe harbour provisions, without clarity on the legal implications.

It would be helpful if the Guidance addressed how companies might manage content to retain safe harbour protection for material outside the designated reports. For example, if some high level content is contained in the SR, with more detailed disclosure set out in an appendix, would the safe harbour apply to the material in the appendix? The Guidance should be supported by appropriate legal advice to give directors the confidence to apply the “core and supplementary” principles. In our view such advice is best provided by BIS or the FRC directly. If not, potentially, a number of companies may separately seek legal advice on the same topic.

Guidance would also be helpful as to whether supplementary information placed in an appendix outside the SR, but linked to core information within the SR, should be included in the SR with supplementary material produced as a replacement for the SFS.

3. Diversity reporting

The Regulations include a new measure of diversity. Although we support the principle of disclosure of diversity information, we feel that the definition of the measure may not provide meaningful information for users of the financial statements. For reference, BT provides diversity disclosure (page 64 of our Annual Report & Form 20-F 2013). We wish to continue to do so in an informative way.

The measure for senior managers within the Regulations includes an employee who is also a director of a subsidiary company, in addition to those responsible for directing or controlling the activities of the listed entity or a strategically significant part of it. Some directors of subsidiary companies are senior managers, but in many cases directors are mid-level management or functional experts.

Listed companies often have a large number of subsidiary companies which will range from dormant holding companies to major trading entities. For example, BT has around 500 subsidiary companies, reflecting a complex global business organisation, operating in over 170 countries.

We would welcome any additional FRC guidance on how to make diversity disclosure more meaningful, for example in bridging the required disclosure with a senior manager measure companies would themselves use.

Paragraph 6.71 of the Guidance also proposes disclosure that could allow identification of those who might, in due course, become directors of the parent entity. Companies will typically put in place development plans for high performing individuals with potential to make a material difference to the business. In normal practice these high

performing individuals will be promoted as suitable positions become available. Companies will not in general quantify how many of these individuals are potential board level appointees.

We suggest removing the proposal to quantify those of each sex who might become directors, as it will be very difficult to establish an approach to such disclosure that would result in providing this information on a basis that is consistent over time as well as giving a meaningful comparison between companies.

The FRC may consider recommending to the Department of Business, Innovation and Skills that the diversity reporting element of the Regulations be amended to simplify the required disclosure.

I trust the content of this response is helpful. Please do not hesitate to contact me if you have any questions.

Kind regards

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