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FRC
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**RE: Exposure Draft issued in August 2013 by the Financial Reporting Council
(FRC)**

We write in response to the Exposure Draft providing guidance on the Strategic Report and your request to provide comments on the current narrative reporting proposals and areas for improvement. This letter highlights our key views.

About Black Sun Plc

Black Sun is one of Europe's leading strategic corporate reporting consultancies. We have established our reputation through our strategic research and analysis and helping large UK and international organisations produce effective communications, which help to build greater trust and confidence with their stakeholders. Our clients include a range of organisations that operate on a global basis such as Babcock, HSBC, IAG, Rio Tinto, Temasek, Tullow Oil and Uralkali.

We bring together corporate reporting, sustainability and digital communications and we have tailored our response to this consultation with this focus, highlighting particular challenges in these areas of disclosure which form a significant aspect of the corporate reporting framework.

Building our response

We believe the Annual Report should be a company's most important strategic communications document. It should set out a company's vision, values and governance philosophy, as well as demonstrating the sustainability of the strategy for the past, present and future development of the business, including business model and associated risks. In short, it should evidence the

quality of decision-making and provide meaningful and reliable information to its primary users - the investors in the company.

It is for this reason we welcome the publication of the new regulations contained in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, primarily due to the focus on making Reports more material, strategic and concise.

Beyond our own opinions and feedback on the guidance we wanted to ensure that we also gauged the concerns and incorporated the views of investors and corporates who may not have the time or resource to put together a response. It is for this reason we held two events, each addressing the proposed guidance to both the Strategic Report and Directors' Remuneration Guidance. The events, which were attended by a number of corporates, were each panelled by Deepa Raval, from the FRC, and Susan Swabey and Jennifer Walmsley representing the GC100 and Investor Group. Our first event on 24th July offered a forum for corporates to address the current status of the guidance as well as provide insight into the level of detail they expected to see within the publication. Our second event, held on 23rd October, allowed corporates to air their feedback and put forward any concerns they had regarding the guidance, providing an informative and valuable morning contributing to the creation of our consultation response.

Additionally, we held a roundtable with a number of corporates who currently produce Annual Reviews and discussed the impact a Strategic Report will have on their current approach to reporting. We have incorporated key concerns within our response below.

Section 3 - The Annual Report

Black Sun agrees that the illustration is helpful in achieving the objective in clarifying the purpose and role of each part of the Annual Report and where information is best presented. Furthermore, we agree with the FRC's effort to emphasise that the illustration represents an example of an approach to communication rather than a rigid template, allowing entities to tailor their reporting structure on the approach which best serves the interest of investors.

The FRC may wish to consider the role of online within the discussion of the Annual Report structure. The role of providing information online could perhaps be addressed in paragraph 3.7 in regards to information which is of interest to users beyond investors. In the FRC's guidance paper 'Cutting the clutter', published in 2011, the online environment and company websites are mentioned as a unique tool in cutting excess content; the paper mentions that disclosure can be improved 'in part by moving explanatory information onto a website'. The FRC could consider whether the Strategic Report Guidance could be more explicit on

the role of online, whilst providing examples of disclosure or detail which would be fit to be included on the corporate website.

In regards to 'core and supplementary' information, as addressed in paragraph 3.12, Black Sun believes that the guidance should provide further detail regarding the approach to defining whether information should be considered core or supplementary. For example, is key information which does not change year-on-year considered to be core information year-on-year or supplementary?

Taking into account the legal perspective, the guidance could provide clarity as to whether supplementary information is covered by 'safe harbour' as well as addressing the significance of cross referencing. If a reporter is to cross-reference from the Strategic Report, is this referenced information considered part of the Strategic Report from a legal perspective?

Further guidance would also be beneficial for those companies who have previously prepared summary financial statements, as the new requirements may represent a significant change to some companies. For certain corporates the change will result in a significantly longer document, which may not have been the original intention. In addition, further guidance would be useful in providing clarity on the content. For example, it is not clear for these companies - who will now provide the Strategic Report with supplementary materials - whether summary financial statements should also be included.

Section 5 - The Strategic Report and materiality

Black Sun fully agrees with the importance of ensuring that the Strategic Report is material; however, the challenge comes in defining materiality. Providing further detail around the definition of materiality and how materiality is gauged would be useful. We acknowledge that guidance on materiality cannot be comprehensive due to the inevitable need for judgement in the application of the concept; however, there could perhaps be an outline on what approach corporates could take when it comes to defining those disclosures which are material.

Within the IASB/IFRS discussion paper 'A Review of the Conceptual Framework for Financial Reporting' there is a discussion addressing the importance of developing consistency between the narrative and financial sections of the Annual Report. The FRC should ensure that there is some consistency with this document and the guidance in regards to determining materiality.

Section 6 - The Strategic Report

Black Sun supports the majority of information provided in section 6 and believes this guidance is likely to be useful for report preparers throughout the transition to a Strategic Report.

However, we would like to stress the importance of ensuring that guidance on the business model and strategy is kept at a high-level, allowing flexibility for reporters to individually interpret the their company's articulation of the business model and strategy in order to avoid boilerplate reporting and promote innovation in these key areas of disclosure. Detail is needed to firm up the level of disclosure which is required in regards to human rights and whether all human rights issues addressed during the year are to be covered or whether companies should have the ability to make their own judgement as to which human rights issues are relevant/material to their businesses, and report on them as considered appropriate.

In regards to diversity, the issue concerns the specific level of information required. Reporting on diversity is likely to vary depending on the number of subsidiaries a company has and the number of directors and senior managers who are involved in more than one subsidiary. Reporting this information is likely to be difficult and could potentially be considered immaterial as well as misleading.

Black Sun believes that further clarity could be provided as to where in the Strategic Report sign off from the Board should be included; be this at the opening of the Report, the end of the Report or in a dedicated section. Additionally, the guidance should provide some insight into the level of detail which should be provided in the sign off, whether this is to simply be a confirmation and a signature, a detailed insight into the reviewing process or whether the level of detail is determined by the company as they see appropriate.

We hope this feedback will be of use. Please do not hesitate to contact us if you would like to discuss any of our comments further.

Yours sincerely,

Sallie Pilot
Director of Research & Strategy
Black Sun Plc