



Deepa Raval
Financial Reporting Council
Aldwych House
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London WC2B 4HN

14th November 2013

Dear Ms Raval,

Re: Exposure Draft: Guidance on the Strategic Report

Thank you for giving us the opportunity to comment on the [draft] Guidance on the Strategic Report.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community. The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two way communication with the markets and to create a level playing field for all investors. It has over 670 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

The Annual Report is an important tool for communicating a company's recent and historic performance. It is a key part of the package of measures companies use to provide systematic and regular communications to investors. However its usefulness to those investors over recent years has been compromised by inclusion of new mandatory information aimed at transparency, but in fact, in our view, achieving complexity. The Annual Report has attempted to become a transparency cure-all, and in spite of the best efforts of listed companies and their advisors, can be cluttered with irrelevant information needed by regulation. We therefore support any ideas that can help the Annual Report become again a

communication tool, and in particular give management the freedom to present information relevant to the company's performance.

The placing of strategic information separate from the Directors' Report – the Strategic Report – has been welcomed as it gives companies the opportunity to communicate strategy effectively and succinctly from the outset of the document in a way that is unique to them, and of relevance to their stakeholders. We feel that it is important, however, that companies are not expected to include information other than what is deemed material, to avoid needless and counter-productive boiler plating. The Strategic Report has encouraged companies to review their content of the Annual Report and we welcome the FRC's draft guidance on the strategic report as an opportunity to 'cut the clutter'. We also commend the FRC for its efforts to join up regulation with the UK Corporate Governance Code.

We address all three areas from your proposals in our submission below, and our key points from our response can be summarised as follows:

- The IR Society considers the overall guidance on the Strategic Report to be a useful starting point for companies to achieve best practice in reporting
- While the guidance is helpful, it should remain flexible in its template, to avoid a 'one size fits all approach' and boilerplate language
- Further clarity on materiality, diversity and human rights reporting is required
- Illustration of good Strategic Report examples in the future will help achieve best practice

Section 3 The Annual Report (Questions 1-3)

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

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

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?

The IR Society agrees that Illustration 1 is helpful in achieving the objective in clarifying the purpose of each part of the Annual Report and where information is best presented. However, we do not have a strong opinion of the order in which each component of the Annual Report should be presented. We stress that the illustration should serve the purpose of clarification but should not reflect a rigid template and we suggest there should be some

communication from the FRC/within the guidance that there is flexibility within this structure/illustration 1.

Section 5 Strategic Reports and materiality

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

The IR Society understands that the challenge within the Strategic Report is defining materiality. Further clarity on the definition would be appreciated, as well guidance on whether material non-financial KPIs should be integrated with financial KPIs. This will go some way to enhancing greater connectivity between the front and back sections of the Annual Report. While we appreciate guidance, too much rigidity in the guidelines however, will hinder the flexibility in reporting.

While it is clear that material information will be included in the Strategic Report, further clarity around sign-posting/referencing to further detailed information could be provided. At present it is not entirely clear whether information which is referenced to within the Strategic Report would also be considered to be part of the Strategic Report.

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?

The IR Society believes that the draft guidance provides enough 'communications principles' as set out and no further principles should be included. The information presented in the Strategic Report will vary depending on the size of the company and the make-up of the investor base. We maintain there should not be a 'one size fits all' approach to the Strategic Report to allow for creativity and flexibility in reporting. For those companies who previously provided Summary Financial Statements for private shareholders, if they are to comply with the current guidance this may become more onerous in terms of time and cost. These companies will now need to provide the Strategic Report with supplementary material, which may lead to significantly more content within private shareholder documents. Those companies who are in this situation would also benefit from further guidance on the content for this document. At present there is no requirement to include any financial statements, however, as this forms the main communications piece for a private shareholders each year

it might be expected that this information is included. Time and budget constraints may also be a factor for bringing online reporting back onto the agenda.

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?

We agree with the guidance in paragraphs 6.26 and 6.27 but it will depend on the company, its size, sector and business activities. If a company's business model and strategy doesn't change in the short-term, then it needs to be acknowledged that there may be no need for comparison from one year to the next.

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 would support further clarification on the requirements to report on human rights issues in the Strategic Report. Our concern is over measuring and reporting human rights issues as we feel this is practically difficult to arrange and will invariably lead to boiler plate. In our view, companies should use their own judgement as to which human rights issues are relevant to their businesses and report on them as they consider appropriate, within the description of their business to the extent necessary for investor and stakeholder understanding.

We support the recommendation for the Strategic Report to include a breakdown of the number of men and women on a company's board, in executive committees and in the organisation as a whole. This is both measurable and tangible and we have previously voiced our endorsement of Lord Davies' recommendations which go a long way towards the encouragement of gender diversity while allowing companies sufficient flexibility for implementation (rather like 'comply or explain' in the wider corporate governance area). However, reporting diversity will vary depending on the company size and sector and a company with a large number of subsidiaries of varying sizes and make up of Directors, may find it an additional burden and potentially misleading to report at this level.

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?

The IR Society advocates the avoidance of boilerplate language and we feel the level of guidance is sufficient. We would not request more prescription and it is up to the reporting company to decide on the business model description.

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?

We would want further clarity on the definition of business model and strategy. From our experience different companies have a different view of the business model and strategy and the relationship between the two.

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

We agree that the 'linkage examples' are helpful. It would also be useful for the FRC to gather views from investors on what they consider to be useful information provided. We would also recommend that, over time, if the FRC could provide examples of companies that have demonstrated good illustrations of the Strategic Report, this would help in ensuring a best practice platform for companies going forward.

In summary, we commend the FRC for the joined up regulation with the UK Corporate Governance Code and we believe that these draft regulations update legislation to where best practice in reporting currently lies and we are, notwithstanding our expressed caveats, supportive of them.

Kind regards



Emma Burdett

Chair of The Investor Relations Society's Policy Committee

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