The Hundred Group
of Finance Directors

Statement of Principles: Narrative Reporting

Position Statement of the Hundred Group of Finance Directors, Investor Relations and Markets Committee

1. The objective of financial reporting: ' a single consistent story'

Narrative Reporting should provide:

- Investment relevant information
- The voice of management speaking with one voice, consistently, concisely and focused.
- Fair and balanced report of the directors' stewardship
- Balanced and comprehensive analysis of the development, performance and position of the company's business.

Information provided should be aligned to the method of delivery and the nature of the stakeholder and is the responsibility of the Board

Integrity of information provided to investors is key to the effective operation of the capital market

The primary tool for communicating the historic performance of a company is through the Annual Report as this provides an annual and retrospective appraisal of performance. However other methods of information disclosure are more appropriate throughout the year for current information through a different media.

Consistency and coherence between management commentary, non-financial disclosures and the financial statements is also important. This requires management to go beyond ensuring that where the same numbers appear they are in agreement, but is more a consideration of the messages, terminology and coherence of information.

2. Framework for narrative reporting

Narrative Reporting Guidance and Requirements should consider the following.

- Stability and consistency of views on requirements is important to developing narrative reporting
- The international community - requirements should not put UK companies at a competitive disadvantage.
- Information provided in an annual report must be critical and relevant to the particular company's operations and business model.
- Flexibility in how / where information is provided - form and content should be more variable and based on the company and the judgements made by management.
- Companies should focus on what they perceive to be the most significant information and not extensive lists of generic disclosure applicable to any company.
- In some circumstances, less disclosure can provide more meaningful information to users.
- Mandating additional disclosure on numerous facets of company business could in fact serve to confuse and dilute key messages rather than clarify.

3. Context of narrative reporting

- Use of financial statements is of primary importance and a key communication tool in our ongoing dialogue with investors.
- Role of other communication tools cannot and should not be ignored when considering the appropriate requirements for narrative reporting within the financial statements. Management reports and regulatory filings are only one of a range of communications companies adopt
- Information included in our investor presentations and within our websites as live, relevant and adaptable communication tools vital to our ongoing stakeholder relationships. We ensure that all communications are available to all stakeholders ensuring that information reaches a wide audience. Companies are embracing technological change to refine the communications
- Annual reports and the narrative reporting within them are not and should not be designed to be all things to all stakeholders.
- Listed companies recognise the importance of having clear, balanced, focussed communication with stakeholders. Companies that do not do this tend to be valued lower and so the market has driven the improvements already seen.

4. Principles of narrative reporting

- Clear, relevant, timely communication of information has been consistently shown to improve investment decisions and boost investor confidence.
- Narrative Reporting is the strong arm of Corporate Governance.
- To be useful, disclosure must be tailored to the position of the particular company and must not descend to boilerplate. Boilerplate disclosure reduces relevance, quality, depletes transparency and boosts complexity.
- In our opinion, mandating management commentary on specific topics or metrics does not lead to good corporate reporting. To the contrary we believe that this can provide confusing, misleading and uninformative dialogue with investors. Metrics are as distinct as an organisation's business model and as such are bespoke to that organisation's policies and circumstances.
- If a company believes that its stakeholders, including investors, employees and customers, would be interested in ancillary information we believe that companies should be able to choose the medium, information and positioning of this information in a way that is most relevant to them.

5. Limitations of narrative reporting

- Commercial constraints exist over the disclosure of detailed forward-looking strategy. Understanding of the direction and intentions of a company are required for investors and stakeholders to make appropriate investment decisions, this must be offset by the need to keep some commercially sensitive developments inside the company.
- Narrative reporting is not the solution to all behavioural changes sought by interested bodies.