The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

By email: dpresponses@theiirc.org

Professor Mervyn King
International Integrated Reporting Committee
c/o The Prince's Accounting for Sustainability Project
Clarence House
London
SW1A 1BA

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Dear Professor King

Discussion Paper: Towards Integrated Reporting; Communicating Value in the 21st Century

Our Members have long been concerned that the proliferation of numerous different requirements over a number of years have resulted in narrative reports becoming cluttered with irrelevant information which obscures the key messages being presented. We welcome the IIRC's initiative in proposing a radical solution to address the current problems of narrative reporting. We are pleased to give our first impressions on the contents of the Committee's paper and look forward to responding more fully once the proposals (and the evidence to support them) are presented in more detail

Who we are

The Hundred Group represents the views of the Chief Financial Officers FTSE 100 index, and several large UK private companies. Our Members collectively employ over 1.8 million people in the UK, and generate 12% of the UK Exchequer's overall tax take. We seek to assist the development of UK businesses particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

Our views

Our Members strive to provide balanced and focussed reporting which provides relevant and meaningful information to our shareholders on a timely basis. Each company is different, as is each shareholder base, and consequently narrative reporting should be capable of being tailored to suit the local environment and the company's specific circumstances.

However we recognise that the current regulatory framework has resulted in some reports that:

- are too long;
- present information without context, often using a silo based approach;
- present key performance indicators that are not always relevant to strategies; and
- are cluttered with information that is not relevant to shareholders.

The time has come to rethink the approach to narrative reporting, to reassert its relevance and reduce the time and effort currently spent by management providing stakeholders with meaningful information.

We are generally supportive of the contents of the IIRC's discussion paper and have provided our detailed responses to your questions below. We note that a number of bodies are also looking at these issues and it is critical that any framework developed by the IIRC is harmonised with the current and future regulatory environment such that overlap between the IIRC framework and the requirements of national and international authorities is maximised. This represents an opportunity for the Committee to take the lead in developing a harmonised framework but to fail to do so will cause confusion amongst users and regulatory overload for preparers.

We are, however concerned at the implication that immaterial information may need to be provided, albeit on the corporate website. This defeats the object of reporting being concise and relevant – cluttering a company's website should not be the quid pro quo for de-cluttering the financial statements.

Going forward, we recommend that the utmost importance is attached to maintaining the framework as a stable platform for the future. Adding further reporting requirements in response to specific issues risks integrated reporting falling into the same trap as existing narrative reporting, which too often lacks cohesion as a result of additional reporting requirements being bolted on over time, without regard to the overall narrative reporting picture.

We have recently developed a set of principles on narrative reporting which I have attached as an appendix to this letter for the Committee's consideration. Where relevant we have referenced these principles in our detailed responses, but in our view these provide a structure for ensuring that the annual reports of the future retain their relevance as being one of the key means of communicating the performance of the company to shareholders.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Yours sincerely

Robin Freestone
Chairman
Hundred Group: Investor Relations and Markets Committee

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

(b) Do you agree that this action should be international in scope? Why/why not?

As Directors of large listed companies we recognise the importance of having clear, balanced, focussed communication with stakeholders.

A common criticism of the current disclosure regime for Annual Reports is that additional requirements have been bolted on over a number of years in response to specific issues, resulting in the presentation of extensive information in a manner that lacks coherence. Indeed, additional disclosure in the Annual Report has been seen as a panacea to addressing concerns (including by NGOs) in a range of areas, but this has only served to add length, clutter and obscure the key messages being presented. It is not uncommon amongst our Members to find that over recent years, the number of pages in the Annual Report has doubled whilst at the same time the number of shareholders wishing to receive a copy has halved.

We agree that the time has come for an overhaul in the guidance and regulation that governs the narrative sections of the annual report and we are supportive of any measures that will help companies present information in meaningful and concise ways, in a manner that is relevant to the readers of the reports. However, we are clear in our view that annual reports, and the narrative reporting within them are not, and should not, be designed to be all things to all stakeholders. The primary audience for the annual report is the Company's shareholder base and it is on this premise that our support for integrated reporting is based – we would welcome the opportunity to review the evidence from investors that underlies the rationale for the Committee's proposals.

Narrative reporting, and in particular the disclosure of non financial information in Annual Reports, is currently being considered by a number of bodies, including the European Commission and the UK Department for Business, Innovation and Skills. There is a risk that the final proposals from these bodies will be different from what is envisaged by the IIRC. This risks weakening the integrated reporting proposition and causing confusion in the marketplace, not to say the incremental cost in terms of management time in preparing a report which seeks to meet differing reporting requirements. It does, though, present the Committee with an opportunity to truly take the lead in formulating a global reporting framework. We therefore favour an approach which is capable of being applied internationally, but we would caution that the final proposals should be drafted such that they can be adapted to the culture and expectation of the local environment. In putting forward a global solution, it is more important than ever to recognise that, across a multiplicity of complex companies, one size does not fit all.

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

The increasing trend amongst our members is that environmental, social and governance issues are having a greater impact on the conduct and financial returns of their operations and it is important that these issues are managed and reported to the extent that they have a material impact on the business performance. Shareholders are also becoming increasingly aware of these issues and consequently reporting is already evolving to capture this information.

Our members take very seriously their corporate, social and environmental responsibilities, not least because to do so makes sound commercial sense, both from a cost and a reputational point of view. We are supportive of initiatives that promote a greater awareness of how we view this. The best in class reports amongst our membership already show how their organisation's strategy has responded to these issues and how it has performed against its strategic objectives, but we recognise that more can be done.

The definition of integrated reporting picks up the key issues that we think are important. In particular we would emphasise that considerations of materiality and proportionality are key – information should only be required to be presented if it is relevant and genuinely adds to the shareholder's understanding of the business performance. We welcome the IIRC's inclusion of this point in the definition, and would support a strengthening of this view.

We are very concerned at the implication that other non material information may still need to be provided, albeit in an online environment. Whilst we recognise that some users may benefit from financial and other information communicated in this way, it defeats the object of reporting being concise and relevant. Therefore such information should only be included if material – cluttering a company's website should not be the quid pro quo for decluttering the financial statements.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

We support the development of a framework that should be applied by preparers on a voluntary (or comply or explain) basis. It is important that the outcome of the IIRC's work is not a prescriptive list of items that all companies need to disclose – this misses the point that, to be really effective, reporting has to be adapted to suit the needs of the local environment and the particular company's circumstances. We recognise that the Committee's paper represents an early summary of its proposals and that further work will be required in due course to determine what exactly is meant by an integrated reporting framework.

Ultimately it is for the preparer to define, having regard to the needs of its shareholders, and an overall framework for presentation, how reporting may best be done to reflect the trends towards more integrated presentation. Having a guide to help frame these discussions is a helpful step forward.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

No response provided as we only represent FTSE 100 and other large private companies.

Q5. Are:

(a) the organization's business model; and

(b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

In our view, the best narrative reports provide a concise description of the business model, set out the company's strategy and key objectives over the short, medium and long term, outline the risks that may impact the achievement of those objectives and finally use the key financial and non financial information to illustrate progress towards achieving those objectives. In this way, management is able to tell its story of how it runs the business and how it plans to move the business forward. This presentation also helps to contextualise the financial information contained in the rest of the report.

It is important that there is a balance between the provision of forward looking information and a record of historic information – the annual report continues to serve a purpose as the main tool for communicating a company's historic performance and this needs to be taken into account in developing an integrated framework.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

Modern multinational businesses as represented by our Members are hugely complex organisations whose performance is impacted by a range of factors. Our members may not refer to these capitals in the way the IIRC describes, but they would recognise that these items have an important role to play in the way they operate their businesses.

The extent to which individual members would create and sustain value through each of the capitals outlined will differ according to the nature of their organisations, a fact that reinforces the need to ensure there is flexibility in how companyies report against these capitals to the shareholders.

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

Broadly yes, in particular the emphasis on narrative around strategy, connectivity of information and conciseness.

We do, however express caution over the following aspects of the guiding principles:

Future orientation: we recognise the importance of setting out future strategies and measurement targets, which will be used to monitor achievement of these strategies. We do not agree that it would be appropriate to extend this reporting to include forecasts and projections as envisaged by the guiding principles. There are circumstances where commercial sensitivity does not permit the detailed disclosure of such information, notwithstanding the implications for Directors liability if such information is to shown under the regulatory framework currently applicable in the UK. The question of the ability to audit future oriented information also needs to be addressed.

Responsiveness and stakeholder inclusiveness: there are already existing requirements to disclose information about customer or supplier relationships that are material to the operation of the business. We would be cautious of extending this disclosure even further given the commercial constraints that already exist around the disclosure of certain aspects of these relationships. We also take the opportunity to remind the Committee that the primary audience for the Annual Report is the Company's shareholders and a disclosure regime should not primarily be designed to address the perceived needs of all other stakeholders, especially those representing specific interests.

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

Broadly yes. Certain aspects of the Content Elements refer to the disclosure of processes that management have undertaken: In our experience extensive requirements to disclose processes often result in boilerplate narrative that does not meaningfully add to the user's understanding of the information being presented and should be avoided where possible.

In relation to key performance indicators, it is important that management is able to select the KPIs which are most relevant to its organisation and which most appropriately demonstrate progress against strategic objectives. In our experience, mandating the disclosure of a range of KPIs in an attempt to promote comparability across businesses neglects to take into account the particular circumstances and serves to add clutter to the narrative report.

Q9. From your perspective:

> **(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?**
>
> **(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?**
>
> **(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?**

Critical to answering the first part of this question are the views of the investor community. Proposals to amend regulations affecting reporting (and other aspects of corporate governance) are often premised on the strong feeling purported to exist amongst the investor community that change is required. All too often the evidence to substantiate this claim is lacking, or at best contradictory. We recommend that a thorough analysis of what investors do actually want to see disclosed is undertaken and presented as evidence to support the detailed proposals.

It is important that the Committee sets out a robust and meaningful cost benefit analysis to accompany any detailed proposals that are put forward. We recognise that the benefits may be hard to quantify as they relate to (1) clearer, more focussed reporting and (2) the consequential impact on management behaviours that may result from thinking about the various capitals outlined in the Committee's paper in a more integrated way (although in our experience, the best companies already approach the management of their businesses in this way).

The importance of a thorough analysis of the costs of what for some will be a fundamental change in the way they collect and report information should not be underestimated. Key to minimising the cost of change will be to ensure a regime that fits with the national requirements for narrative reporting, one that is capable of being tailored to a company's specific circumstances and one that will represent a stable platform into the future. At a time of such economic uncertainty, the need for resources to be put towards promotion of growth and competitiveness is second to none and should be borne in mind when proposing the detailed requirements.

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

(b) What priority should be afforded to each action? Why?

In our view the key priority for the IIRC is harmonisation. It is critical that the framework that is developed fits appropriately into the current and future regulatory environment being proposed by European and national authorities to ensure that not only is the overall approach consistent, but that the overlap of requirements is maximised.

It is also important that whatever regulation is developed is maintained as a stable platform once implemented. We have already alluded to one of the problems of current narrative reports is that additional requirements have been bolted on over time in response to specific issues. In general these additional requirements have damaged the cohesion of the report and led to confusion for the reader.

We also recommend that the IIRC adds to its future programme an impact assessment and makes provision for a post implementation review to ensure that best practice and implementation difficulties are fed back into the continuous development of the framework.

Q11. Do you have any other comments that you would like the IIRC to consider?

No.

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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.