



**The future of narrative reporting: consulting on a new reporting framework. Response form**

Please send your response by: 25 Nov 2011

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I am responding on behalf of (please tick)	
<input type="checkbox"/>	Quoted company
<input type="checkbox"/>	Other company
<input type="checkbox"/>	Investor or investment manager
<input type="checkbox"/>	Business representative organisation
<input type="checkbox"/>	Investor representative organisation
<input checked="" type="checkbox"/>	Non-governmental organisation (NGO)
<input type="checkbox"/>	Trade Union
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## **Background and Rationale to Response**

The Corporate Responsibility (CORE) Coalition seeks to improve UK companies' impacts on people and the environment. With over 130 members, the coalition includes representatives from ethical businesses, women's groups, religious groups, unions, academics and environmental, development and human rights organizations. CORE's work is currently led by a board comprised of Amnesty International UK, CAFOD, Friends of the Earth and Traidcraft. This consultation submission draws on the experiences of different member organizations within the coalition.

CORE welcomes this opportunity to contribute to the consultation. We strongly support the objective of increased transparency of business operations. Given the central role which the private sector plays in our society, we believe that improving the quality of information available to investors, consumers and other stakeholders is necessary so that businesses are more publicly accountable. This consultation response also sets out practical ways in which the Government can deliver on its public commitment to ensure that 'directors' social and environmental duties have to be covered in company reporting, and investigate further ways of improving corporate accountability and transparency.'<sup>1</sup>

It is important to correct misconceptions about reporting. The current narrative reporting regime is not working effectively but this does not mean that disclosure requirements should therefore only be viewed as a burden of red tape for business. NGOs are not interested in lengthy disclosures from companies about their Corporate Social Responsibility activities. Instead we support the introduction of a well-considered, effective narrative reporting regime in the UK. At company level, the goal is not a box-ticking exercise but rather to drive better internal awareness so that management and shareholders have a clearer understanding of the impacts that the core business has on people and the environment, and act accordingly. This in turn can help support the development of business models which deliver sustainable long-term returns. Narrative reporting therefore not only drives decision makers to consider a wider set of stakeholders, but also provides evidence that companies are mindful of their wider impacts and are taking steps to manage these impacts responsibly.

### **Narrative reporting is where directors explain how they have fulfilled their duties**

The 2006 Companies Act clearly sets out directors' duties. Directors need to have regard to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the company's employees,
- c) the need to foster the company's business relationships with suppliers, customers and others,

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<sup>1</sup> The Coalition: Our Programme for Government, May 2010

- d) the impact of the company's operations on the community and the environment,
- e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the company.

The Business Review mandated by the Companies Act 2006 is where company directors are required to report on how they have implemented their duties. In CORE's view it is essential that any restructuring of reporting builds on and does not undermine the existing minimum requirements for disclosure set out in the Business Review.

### **Changes to reporting must reflect the Government's role in safeguarding public good**

The Government has a role to protect public good, as well as fair functioning of markets (of capital, products and services). Large/primary shareholders [members] of company already have the opportunity to significantly influence the operation of a company. Despite the hugely influential role that the private sector plays today, in parts of this consultation the Government's role in relation to public good seems to have been de-prioritised. We would welcome the government re-prioritising this aspect in recognition that social, human rights, environmental impacts and overseas suppliers' interests are often not championed by powerful stakeholders. HMG recognised the impacts of companies more broadly on society when it explicitly set out a wider set of directors' duties. We are now looking to the Government to follow through on that intent in how it shapes the nature of mandatory annual narrative reporting.

The Government is able to choose which signals it sends to the private sector in relation to the impact it intends companies to have on society and the environment. The Government can choose to send a signal that the status quo is acceptable; or that companies should do no harm, or that companies should make an explicit positive contribution through their core activities to global society and the environment.

The following are yardsticks that the Government could set for companies to report on in relation to achieving minimum standards on human rights and environmental sustainability. By requiring narrative reporting and disclosure on how pay relates to the following, the Government is able to send a signal to companies that these issues are important, as well as ensuring that companies understand and address their impact in these areas.

It is important to recognise that businesses can have both positive and negative impacts. Companies that do not undermine human well-being (particularly minimum needs<sup>2</sup>), nor planetary sustainability<sup>3</sup> might have the following characteristics:

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<sup>2</sup> These needs are based on Maslow's hierarchy of needs.

- a. Supporting individuals' ability to access their basic needs [clean air, water, nutritious food, sleep, healthy/functioning body]. These companies would not participate in activities that directly damage humans – for example the production of tobacco, health damaging foods and drinks, weapons, or pollution of soil, water or air.
- b. Supporting individuals' ability to have a livelihood –
  - 1) companies which do not stop individuals' access to resources/property which can be used as assets for livelihood – e.g. land, water, natural/common assets;
  - 2) companies which do not abuse dominant positions they have in markets and supply chains which vulnerable/poor people participate in - as evidenced by the absence of
    - i) unfair practices towards customers and suppliers;
    - ii) increased volatility in markets and pricing of commodities;
    - iii) payment of workers below minimum or locally agreed living wage levels.
- c. Not damaging to the planet (the life support system of biodiversity including humans) – companies which are not
  - 1) net producers of gases, liquids or solids which accumulate at a rate faster than the earth (and its biosphere) is able to re-absorb (E.g. companies which produce CO<sub>2</sub>, methane, other greenhouse gases, nuclear or toxic wastes.); *nor*
  - 2) lobbyists against public policies to that would result in the *rates* of production and re-absorption/biodegrading of gases/liquids/solids to be in equilibrium.

It is recognised companies may have a core business which produce gases, liquids or solids which put the sustainable functioning of the earth under stress, but as responsible citizens they should not abuse their position to lobby against sustainability of the planet.

### **Explicit recognition of human rights**

We welcome the explicit recognition in this consultation that human rights are already relevant to directors' duties and included the social and environmental issues set out in the Companies Act 2006. Human rights represent an important aspect of 'social' issues and may also be highly relevant to "*the desirability of the company maintaining a reputation for high standards of business conduct*" [173 (e)] and in relation to the Directors' report "the principal risks and uncertainties facing the company" [423 (3) b.]

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<sup>3</sup> These planetary sustainability features are loosely based on the System Conditions set out by Natural Step which has been endorsed by much of the scientific community. [www.thenaturalstep.org/en/canada/the-system-conditions](http://www.thenaturalstep.org/en/canada/the-system-conditions)

However many companies do not appear to recognise this and are not currently reporting on relevant human rights impacts and risks. Therefore it is important that the need for directors to consider human rights should be explicitly clarified in guidance to businesses on reporting requirements. This is also consistent with the new UN 'Protect, Respect, Remedy framework' and the Guiding Principles on Business and Human Rights which were adopted by the UN Human Rights Council in June 2011 and which the UK government is committed to implementing. The Framework and Guiding Principles outline that:

- a) it is government's role to protect human rights of citizens from abuses by third-party actors, including businesses;
- b) all companies have a responsibility to respect human rights; and
- c) victims of abuses should have access to remedy.

## **Remuneration**

In recognition of the increased emphasis on a wider set of duties [a) to f) above] which are explicitly written out in full in the Companies Act, CORE expects the Government to focus in particular on how directors are incorporating these considerations into their decision making, until these duties are fully embedded into corporate culture. As part of this, we would expect directors' pay to be based on a balanced scorecard of performance measures. We would expect the balanced scorecard to enable directors to demonstrate how they have fulfilled their directors' duties a) – f) above, as well as including more traditional metrics. We would welcome annual reporting by the company to disclose:

- how directors' remuneration related to their performance against a balanced scorecard that reflected their performance against directors' duties a) – f)

- how directors remuneration compared to the median pay and lowest paid members of staff.

## **Enforcement and sanctions**

It is not clear in the context of narrative reporting that there are sufficient sanctions when companies choose not to report in an accurate or complete manner. The UK government needs to ensure that directors do meet their directors' duties, including considering and acting to improve their human rights impacts. Requiring companies to disclose this information will help to ensure that more companies actually become aware of what impacts their decisions cause. Lack of enforcement of complete and accurate disclosure will result in companies not improving the ways decisions are made and the Government will also be sending a signal that it is not concerned about the implementation of its own laws.

## **Change in the nature of directors' decision making**

CORE would like to see directors more obviously having 'regard' to their duties listed a) – f) above, and then seeing how this translates into changes in

decision making. To make this happen in reality, it is clear that the Government needs to:

- Provide directors with guidance. (The draft Operating and Financial Review consultations provided directors with guidance on a good process to go through for considering what issues were material or constituted a risk.)
- Require narrative information not only to be assessed for its accuracy but also for completeness. We would welcome a form of enhanced audit. There is substantial support for this since most stakeholders only trust information which has been verified.
- Monitor and enforce companies' compliance with this requirement.

CORE notes the lack of monitoring and enforcement of the Business Review has led to some FTSE companies (who have substantial resources and access to extensive legal advice) failing to comply with its requirements.<sup>4</sup> The Accounting Standards Board (ASB) has also found poor information in a number of areas relating to the requirements of the Companies Act.<sup>5</sup> Very public monitoring and suitable enforcement of narrative reporting would lead company directors to take note of the need to consider a wider set of issues when they make decisions, thereby changing their way of working.

### **Forward looking information**

New projects and new investments have a significant impact on the communities in which a company establishes a presence, and on communities where divestment is happening. This information is materially useful to stakeholders and should be disclosed sufficiently early on to enable relevant stakeholders to engage meaningfully in the proposed change.

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<sup>4</sup> See for example 'The Reporting of Non-Financial Information in Annual Reports by the FTSE100' Prepared by Professor Adrian Henriques, Middlesex University, for the CORE Coalition, 2010 available at <http://corporate-responsibility.org/ftse100-company-reports-reveal-inadequacy-of-companies-act/>

<sup>5</sup>Effective Company Stewardship: Enhancing Corporate Reporting and Audit, p. 8  
<http://www.frc.org.uk/images/uploaded/documents/Effective%20Company%20Stewardship%20Final2.pdf>

### Question 1

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

Yes	No
<p><b>Yes, as long as valuable elements of the Business Review are not lost and the issue of enforcement is addressed.</b></p>	
Comments	
<p>In order to be effective, the restructuring of the current reporting framework should take into account the points on directors' duties, public good, human rights, remuneration, enforcement and sanctions and forward-looking information raised above in CORE's rationale for responding to the consultation.</p>	

### Question 2

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,
- key information on executive remuneration and its link to performance?

Yes	No
<p><b>Yes – with one change outlined below</b></p>	
Comments	
<p>All companies should report on their 'environmental and social information.'</p>	

The social and environmental impacts of a company are not determined by whether a company is listed or not. These impacts are most likely to be associated with the sector and core business activities of that company.

**Question 3**

Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?

Yes	No
<b>Depends</b>	
Comments	
Shortcomings with summary financial statements have been identified. <sup>6</sup> It is important that the Strategic Report contains sufficient information for shareholders to have a comprehensive and accurate picture of the company's development and performance.	

**Question 4**

Do you agree that the Strategic Report should be signed off by each director individually?

Yes	No
<b>Yes – by both executive Directors and non-executive Directors</b>	
Comments	

**Question 5**

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement

<sup>6</sup> ClientEarth 'Environmental and Social Transparency under the Companies Act 2006: Digging Deeper', 2010

- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

Yes	No
<b>Yes</b>	
Comments	
It needs to be made clear from the 1 <sup>st</sup> bullet point above that directors need to report on how they have implemented their Directors' duties – listed a) – f) above.	

### Question 6

Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

Yes	No
<b>Yes</b> – depending on the type of material. It is suitable for approved/signed-off policies which remain the same from year to year to sit on a company's website and for these to be cross referenced in the Annual Directors' Report.	
Comments	
The savings that might be achieved by allowing companies to include information by cross-reference are not currently quantified in the impact assessment.	

### Question 7

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

Yes	No

<b>Yes</b>	
<b>Comments</b>	

**Question 8**

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

<b>Yes</b>	<b>No</b>
<b>Yes</b>	
<b>Comments</b>	
<p>This approach will reduce costs which can then be off-set against any additional costs from ensuring that the information that the company presents is verified.</p>	

**Question 9**

Do you support removal of the disclosure requirements, arising from company law, identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs.

Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

<b>Yes</b>	<b>No</b>
	<b>No</b>
<b>Comments</b>	
<p><b>Asset Values</b>, including land and reserves – our understanding is that this information is likely to be of increasing importance for shareholders and stakeholders.</p> <p><b>Employee involvement</b> – this information should continue to be disclosed. There is evidence that workplaces which have effective systems of employee representation and involvement are more likely to show higher levels of productivity and performance.</p> <p><b>Policy &amp; practice on payment of creditors</b> This information should be disclosed, particularly in context of recession when both liquidity/cash in</p>	

hand and prompt payment are essential. We are aware of some UK retailers paying their suppliers 120, 90, or 60 days late which puts suppliers' cash flow under great strain, which in turn is a risk frequently passed onto overseas suppliers, resulting on some occasions in employees, and temporary workers being paid late. In developing countries, a context where there may be no social security safety net, delayed wages can directly impact on nutrition and health. This is unacceptable when developing country suppliers are selling into well-resourced supply chains of western retailers who maintain lean stock levels, and have high levels of liquidity because they are paid in cash or within three days of a consumer passing through the tills. (Three days is length of time it takes for credit card payment.) There should be increased disclosure of creditor terms:

- number of creditors
- value owed
- creditor days

This information should be disclosed on a month by month basis.

### Question 10

Are there areas where the Listing Rules, IFRS, company law and the Corporate Governance Code are inconsistent or require similar disclosures? If so, how could these best be resolved?

Yes	No
<b>Yes, see comments below.</b>	
Comments	
<p>The concept of 'Integrated Reporting', as it is being developed notably by the International Integrated Reported Committee (IIRC) with the support of a wide range of stakeholders from regulators, business, finance and civil society, provides a valuable basis for improving reporting in the UK and harmonising approaches within and across jurisdictions internationally. Integrated reporting focuses on: "[bringing] together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context in which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and sustains value. An Integrated Report should be an organization's primary reporting vehicle" (IIRC, "Towards Integrate Reporting - Communicating Value in the 21st Century", September 2011).</p> <p>Reporting requirements in different jurisdictions and institutions have developed separately over time. The development of an International</p>	

Integrated Reporting Framework will help harmonise reporting in the future around an approach that genuinely aspires to assess in a meaningful way organizations' long term viability and the way their operations impact upon all stakeholders, including through the integration of environmental and social factors.

In the UK, there has been a powerful shift over the last three decades in those recognised as legitimate users of accounts. The seminal 1975 publication of 'The Corporate Report', by the Accounting Standards Steering Committee (a predecessor of today's Financial Reporting Committee) identified seven groups as having "a reasonable right to information and whose information needs should be recognised by corporate reports": equity investors, loan creditors, employees, analysts and advisers including the media, the 'business contact group' including e.g. suppliers, the government including tax authorities, and 'the public including taxpayers, ratepayers, consumers and other community and special interest groups such as political parties, consumer and environmental protections societies and regional pressure groups'.<sup>7</sup>

Similar views hold sway today, for example the United Nations Conference on Trade and Development (UNCTAD, 2007) identifies investors and financial institutions; business partners; consumers; employees; surrounding community; civil society organizations; and governments and their institutions.<sup>8</sup>

Unfortunately, the FRC has shifted away from this consensus, along with the International Accounting Standards Board, and by 2010 stated that: "One widely acknowledged problem is that reports currently aim to please too many types of user. There is a need to refocus them on their primary purpose: providing investors with information that is useful for making their resource allocation decisions and assessing management's stewardship."

This retrograde step supports a move away from providing transparency to major stakeholders, and as the financial crisis has shown, ultimately risks also reducing the value of reporting to investors too.

## Question 11

Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the

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<sup>7</sup> Source: <http://www.ion.icaew.com/ClientFiles/6f45ef7e-1eff-41ff-909e-24eeb6e9ed15/The%20Corporate%20Report2.pdf>

<sup>8</sup> Source: [http://www.unctad.org/en/docs/iteteb20076\\_en.pdf](http://www.unctad.org/en/docs/iteteb20076_en.pdf)

development, performance or position of the company's business) in the Strategic Report?

Yes	No
Yes	
Comments	
<p>Yes – not only should quoted companies disclose information in relation to their Human Rights impact and management processes, but large and medium-sized unlisted companies should disclose this too. UN Special Representative John Ruggie explicitly recognised in the Guiding Principles that businesses of all sizes can have an impact on human rights.<sup>9</sup></p> <p>Section 417(5) Companies Act 2006 explicitly requires quoted companies to report on environmental matters (including the impact of the company's business on the environment), and social and community issues, to the extent necessary for an understanding of the development, performance or position of the company's business.</p> <p>As mentioned above, human rights represent an important element of social and environmental impacts and are already relevant to director's duties set out in the Companies Act 2006.</p> <p>Disclosure of human rights impacts and the processes a company operates to minimise its human rights impacts is consistent with the recently adopted UN Guiding Principles and the 'Protect, Respect, Remedy framework'. Company directors need guidance on how to identify relevant impacts and risks and improve their human rights performance. The UN Principles indicate that a minimum first step by companies should be to undertake a human rights due diligence impact assessment to assess the impacts of their actions on human rights. This process, the results of this process, and management actions taken are the type of information we would expect a company to disclose to demonstrate that they had thought about and managed the 'likely consequences of any decision in the long term'.</p>	

### Question 12

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

<sup>9</sup> See for example Principle 14, Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie  
Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, 2011

Yes	No
<b>Yes – but this should be widened.</b>	
Comments	
<p>The Companies Act 2006 puts an explicit obligation on directors to have regard to a wider set of issues than previously regularly discussed in board rooms. We would propose therefore that this disclosure requirement is widened. In particular:</p> <ul style="list-style-type: none"> <li>- Asking companies to disclose how the make-up of their company board covers the wide set of skills needed to have ‘regard’ for directors duties listed a) – f).</li> <li>- The attendance of individual directors to board meetings. This additional disclosure requirement will encourage full participation of all board members in their governance responsibilities, and avoid tokenistic non-attending directorship appointments.</li> </ul>	

### Question 13

Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements? If you believe that there are issues with the current regime, do these relate to:

- companies listing in the US as well as in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes.
- other concerns?

Yes	No
Comments	
<p>Forward-looking information does need to be disclosed, particularly in relation to changes to major projects. This is obviously of significance for shareholders but it is also important to enable stakeholders to meaningfully engage with the company in relation to potential social and environmental impacts.</p> <p>The current balance of incentives on companies is wrong if there is no incentive for a company to be transparent. Government has a role to play in increasing the transparency of companies’ actions given the significant impact they have on society and the environment.</p>	

One solution may be to require companies to 'comply or explain' why they are not disclosing forward looking information.

#### Question 14

Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements? Are there other activities or changes that the UK Government could make that you believe may be necessary?

Yes	No
Comments	
<p>Companies are very careful to avoid making disclosures in the financial statements which contain a large amount of uncertainty about future liabilities, for example. Such fears should not prevent companies from making meaningful forward-looking statements about material factors such as for example the projected cost of carbon emissions. If they do feel unable to make such statements, companies should adopt a 'comply or explain' approach and specify instances in which they have refrained from making disclosures. Such an approach would assist the users of reports to seek such information elsewhere if appropriate, and also would highlight over time the need to reform any deficiencies in the framework that regularly prevent companies from disclosing material and decision-useful forward-looking information.</p>	

#### Question 15

Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

Yes	No
<b>Yes</b>	
Comments	
<p>Since the directors are legally accountable for the company's operations, remuneration - a key element of how directors are incentivised - should be disclosed.</p> <p>Directors should be rewarded in line with how they have implemented their duties a) to f) listed in the Companies Act 2006. We would expect to see remuneration plans linked to a balanced scorecard which incorporated each</p>	

of these duties. Each component of the scorecard would have Key Performance Indicators that directors need to have achieved to earn a full remuneration package.

Yes, it would be helpful to have disclosure of remuneration provided in a standard format which ideally would include the following components:

- The actual pay package earned by directors by that financial year end date. This could be reported on in a format which sets out a) cash income earned that year, as well as b) the value of other non-cash items that each director has earned that year and c) the cash value of components of remuneration which that director will definitely get in the future. (This is a future minimum figure.)
- Forward-looking information about remuneration should be reported in the following manner – a) minimum basic remuneration that the director will definitely get, and b) maximum remuneration package that the director might get.
- Directors' pay compared to performance metrics (see question 19 - 23) and expressed as a ratio compared to staff median pay, and compared to the lowest paid staff member (see question 24).

Disclosure of minimum and maximum remuneration communicates to all that directors need to be paid for performance, rather than guaranteed 'bonuses'. Full details of what the directors' balanced scorecard set of objectives includes, as well as how performance will be assessed to enable maximum payment, can be disclosed in the full report.

**Question 16**

Which elements of the current disclosure requirements about director remuneration could be moved to the Annual Director's Statement, or removed entirely?

Yes	No
Comments	
<b>No response.</b>	

### Question 17

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?

If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

Yes	No
<p><b>Yes – if the single cumulative figure is presented in a meaningful way.</b></p> <p><b>It may in fact be helpful for two aggregated figures to be disclosed.</b></p>	
Comments	
<p>This needs to be calculated in a manner that enables comparison. The remuneration package not only provides an immediate income for directors whilst they are in post but also provides for their future. Both elements need to be disclosed in a manner that is comparable.</p> <p>A single cumulative figure needs to be given for the valuation of the directors' package at the financial year end date [pay, cash bonuses, valuation of shares they currently have, other components of remuneration which can be meaningfully evaluated now].</p> <p>It is not clear whether the value of the options/rights if they were exercised today would be useful incorporated into a single cumulative value.</p> <p>It may be better that remuneration which relates to an ability to earn a future income (e.g. pension and Long Term Investment Plans) is disclosed in a manner which highlights the potential range that a director might earn at a fixed point in the future, e.g. three or five years' time.</p> <p>The basis on which the options have been granted should be disclosed.</p>	

### Question 18

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?

Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

Yes	No
Yes	
Comments	
Individual staff members who have total remuneration packages more than or equal to the lowest paid executive director should have their remuneration package put into the public domain, in the Annual Director's report.	

### Question 19

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?

Yes	No
Yes	
Comments	
Narrative reporting by a company needs to disclose:	
<ul style="list-style-type: none"> <li>- How remuneration relates to a director's balanced scorecard that enables the directors to demonstrate they have exercised their directors' duties.</li> <li>- How the scorecard was assessed, including what the weightings are for the different elements of performance used to calculate remuneration.</li> </ul>	

### Question 20

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?

If so, which performance measure would be the most appropriate?

Yes	No
Yes	
Comments	
In terms of performance measures over the last 5 years – historic financial data on profit and turnover would complement the balanced scorecard performance discussed elsewhere in the response.	

### Question 21

Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

Yes	No
Yes	
Comments	
<p>See answer to question 19 recommending disclosure of how remuneration relates to a balanced scorecard set of targets for a director's performance. One component of the balanced scorecard would include strategic objectives.</p> <p>The policy for how a director is assessed needs to be disclosed. Assuming it is a policy that does not change that much from year to year, it could be disclosed in the supporting documents behind the strategic report. However, if there are major changes in relation to <i>what</i> needs to be achieved from year to year, this does need to be disclosed in hard copy format/strategic report.</p>	

### Question 22

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

Yes	No
Yes	
Comments	
<p>See answers to Questions 15 and 17. In order for these estimates to be useful, CORE proposes that quoted companies are required to disclose the range of remuneration that a director might earn, depending on their performance.</p>	

### Question 23

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

Yes	No
<b>Yes</b>	
Comments	
<p>See question 19. The disclosure of bonus structures is part of the disclosure of how total remuneration relates to performance against a balanced scorecard set of objectives.</p> <p>The actual pay should be disclosed on an annual basis. Disclosing the rationale for why a previous year's pay was assessed in a particular way could be delayed by maximum of two years if that information is commercially sensitive.</p>	

#### Question 24

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

Yes	No
<b>Yes – and in addition one other metric</b>	
Comments	
<p>The recent report of the High Pay Commission calculated that the average salary of a FTSE100 Chief Executive in 2010 was 145 times that of the average UK salary.<sup>10</sup></p> <p>To enable stakeholders to see how company benefits are shared across a specific company, it would be useful if the following were disclosed.</p> <p>Total remuneration of highest paid/Chief Executive compared (as a ratio) to remuneration of:</p> <ul style="list-style-type: none"> <li>- lowest paid individual employee (salary, bonus &amp; pension). (This gives the reader the full range of salaries paid.)</li> <li>- median paid employee (salary, bonus &amp; pension) (This gives the reader</li> </ul>	

<sup>10</sup> 'Cheques with balances: why tackling high pay is in the national interest' Final report of the High Pay Commission, November 2011

an idea of the spread of remuneration in an organisation.)

For example, Traidcraft operates a salary ratio in the UK of 1:6 which is the difference in pay between full-time equivalent salary of the lowest paid to the highest paid member of staff.

**Question 25**

Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

Yes	No
Comments	
<p>This depends - profit for the relevant financial year is one possible indicator but not the only consideration in relation to placing the directors' remuneration in context. Alternative comparisons could be made to compare total remuneration of directors with a) salary bill of total staff excluding directors, or b) with the total cost of purchases (this would be particularly relevant for sectors which don't transform a product but re-sell.)</p> <p>Above all, CORE would prioritize a package with all the elements discussed in responses to questions 15-24.</p>	

**Question 26**

Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

Yes	No
<b>Yes</b>	
Comments	
<p>Potential conflict of interests also need to be disclosed, particularly in relation to individuals who advise on each others' pay directly, or indirectly influence peers' pay through a network of relationships.</p>	

**Question 27**

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

Yes	No
Comments	
No response.	

**Question 28**

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

Yes	No
Comments	
No response.	

**Question 29**

Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?

If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

Yes	No
	No
Comments	
Readers want to know that the information that they are reading in annual report and accounts is correct and complete. There needs to be a mechanism which enables readers to know:	

- i) if the information is consistent with the financial data
- ii) if the information is accurate [i.e. event occurred, or value of capital of operational cost]
- iii) if the report is complete. [contains the all the important information. This could be determined by the company following a good process regarding what is important, material to the business. The process for determining materiality was articulated in some of the consultations on the draft Operating and Financial Review.]

Currently auditors may only check that the information is consistent (i).

Traidcraft currently has its Annual Report and Accounts and Social Accounts audited by a third party. For several years the social accounts have been audited to the AA1000S standard. This gives readers confidence that the information reported is accurate, complete and material, rather than carefully selected items reported by the company to present a particular façade. If narrative reporting is not independently audited there is the potential for this reporting to serve companies' public relations purposes, rather than the objectives set out in this response.

When preparing annual reports companies pay significantly more attention to those elements in their report which are audited to a high standard. It is therefore in the readers' interests that the data which is disclosed is both accurate and complete. There may be some set-up costs as a) perhaps a new standard needs to be developed/updated or benchmarked to others, b) new auditors need to be trained and c) companies may need to pay auditors' fees for additional time to do new work. Actual additional time needed for doing this enhanced audit/assurance will depend on how the report is compiled and how the new audit/assurance standard is developed. Once this improved standard is operating then on-going costs could be negligible.

A higher level of assurance of information will help create a virtuous circle of increased confidence in the information reported, leading to increased usage of that information by investors and other stakeholders and, in turn, to progressive improvement over time in the ability of companies to provide the best and most useful reports and of investors to make best use of that information.

### **Question 30**

Are there any actions that the Government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?

Yes	No
Yes	
Comments	
<p>The production of reports and their assurance will be less costly once it is clearer to company directors what is expected of them. This will be complied with if there is an expectation that the Government will enforce directors' duties and production of the business review (to be superseded by Strategic Report and Annual Directors' Statement.)</p> <p>We therefore propose that the following is produced:</p> <p>Guidance for directors on</p> <ul style="list-style-type: none"> <li>- how they produce their Strategic Report and Annual Directors' Statement (including how they report on activities that evidence compliance with fulfilling their directors' duties)</li> <li>- what headings relating to directors duties should be included and we would expect that these would evolve into Key Performance Indicators (as practice evolves and a new audit/assurance standard is developed. The use of KPIs will also be cheaper both for report producers and assurers.)</li> </ul> <p>Guidance or a standard for auditors and assurers to use when checking the new Strategic Report and Annual Directors' Statement.</p> <p>The new audit/assurance standard needs to assess if;</p> <ul style="list-style-type: none"> <li>- information disclosed is correct</li> <li>- information disclosed is consistent</li> <li>- that a complete set of data has been disclosed reflecting the most important (material) issues to the companies as set out in directors' duties.</li> </ul> <p>Indicators and guidance need to be developed to help directors report in a standardised format their impacts on environment, community, staff, customers, suppliers, and their considerations of long term impacts, as well as standard of good business ethics. Once these indicators are in place the auditor will check that data has been collected, processed and reported in correct manner so that the information is true, consistent and complete. Depending on how the indicators are developed the actual process of auditing some data could be very quick.</p> <p>For an assessment of whether the reporting of relationships between the company and suppliers, customers, employees, local communities, those impacted by environmental activities – is true the auditor/assurer would need to consult with the other party. This potentially could be costly. A possible lower cost solution compared to auditors verifying global data, or undertaking</p>	

detailed surveys of stakeholders could be for auditors to have an obligation to check data with third parties (e.g. environment agency, unions), and to check consistency with information in the public domain.

The standard for any assurance/audit should be an 'objective' one. That is to say, the assurance should be that the information is objectively accurate and complete according to a standard of reasonableness – rather than just that it is consistent with the subjective view of the directors about what information is necessary, material and sufficient. This would be consistent with a 'comply or explain' approach to reporting, which would further assist the user and auditor/assurer in making judgements about the quality and accuracy of reports.

### Question 31

Do you agree that the Audit Committee Report should contain, in addition to existing requirements:

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

Yes	No
<p><b>Yes</b> - how long the auditor has been in post</p> <p><b>Yes</b> – when the last tender was conducted</p> <p><b>No</b> – to directors having a discussion with principal shareholders about auditor's services</p>	
Comments	
<p>In addition to disclosing the items above, the directors should disclose why they selected the auditor they chose. [In fact one of Traidcraft's shareholders asked Traidcraft this question at a recent AGM.]</p> <p>Principal shareholders already exert significant influence on companies and are therefore already quite capable of initiating such a discussion if they so wish.</p> <p>Clarity on responsibilities needs to be maintained. The audit committee is a</p>	

sub-committee of the board and has a responsibility to report to the board as a whole. Non-executives on the board need to have sufficient skills on the board to have robust discussions. Rather than focussing on shareholders meeting directly with sub-committees of the board, CORE believes it would be a greater priority to improve the quality of non-executives on the board.

### Question 32

The Government would also welcome views on the impact of these proposals, both on the cost of preparation of the Audit Committee Report, and of the benefits to investors of having access to this information.

Yes	No
Comments	
<p>There will be negligible change in cost of preparation of the Audit Committee Report – since only an additional few sentences would need to be written to disclose how long the auditor had been in post and when the last audit tender had occurred.</p> <p>The benefit to investors of this disclosure would be significant since investors would be able to ask appropriate questions about how auditors were selected.</p>	

### Question 33

What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

Yes	No
Comments	
<p>Guidance does need to be provided. The lack of guidance is one of the factors which has led to FTSE100 companies producing such variable quality Business Reviews [see analysis prepared for CORE at <a href="http://corporate-responsibility.org/ftse100-company-reports-reveal-inadequacy-of-companies-act/">http://corporate-responsibility.org/ftse100-company-reports-reveal-inadequacy-of-companies-act/</a>]</p>	

Guidance needs to be consistent with and complemented by a) an improved external audit and b) enforcement of directors' duties and/or good reporting - to improve the quality of businesses' narrative reporting.

Guidance needs to start by providing directors with set of *principles* that relate to how they fulfil their directors' duties. These principles could be set as specific question(s) related to each director's duty. For example 'Directors need to explain what due diligence human rights impact assessment the company has undertaken to understand its major human rights impacts' followed by 'Directors need to explain what actions they have taken to cease or mitigate negative human rights impacts.'

Under each section/directors' duty we hope that specific indicators will evolve which will enable consistent and comparable reporting by companies. It would be helpful if guidance on completion of these new indicators did provide companies with the methodology for how to calculate the indicator.

### Question 34

Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

Yes	No
	No
Comments	
<p>For comparability, improved decision making, and in order to generate a new culture of decision making which reflects director's duties a mandatory reporting standard is needed. It is important to recognise that attention also needs to be paid to the quality of reporting, not just the need to make reporting to a particular standard mandatory. Where it has been optional whether a standard of reporting needs to be achieved, quality of reporting has been incomplete. When quality reporting is voluntary, stakeholders and investors do not have access to good quality information to base their assessments of the company upon, and the company potentially does not have a complete set of data to inform its decisions.</p> <p>It is important to recognise that having a clear and mandatory reporting standard need not lead to so-called 'boiler-plate' reporting. A standard that is clear and focused on the key attributes of good reporting, as well as some specified factors likely to be material for most, if not all, businesses, should decrease the chance of boiler-plate reports. It is clear that under the existing regime, a high degree of discretion for companies does not prevent the</p>	

inclusion of information on environmental and social factors that is highly generic, poorly evidenced, and amounts to little more than a very long and un-focused boiler plate.

**Question 35**

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

Yes	No
Comments	
<p>In CORE’s view the priority here to ensure that the FRRP is more effective in fulfilling its current remit. An important part of that is the Government backing up changes to the FRRP’s profile and working practices with sufficient resources.</p> <p>There has been inadequate enforcement of the Companies Act in respect of both directors’ duties and the production of the Business Review. FRRP has responsibilities towards the latter.</p> <p>The FRRP has wide-ranging responsibilities for ensuring that companies comply with the full range of reporting and accounting requirements in the UK. As such, it requires significant capacity and diverse skills and knowledge to fulfil its purpose.</p> <p>As it stands, the FRRP does not appear to have sufficient capacity and its composition represents a narrow spectrum of experience and interests. It is of special concern that overseeing compliance with modern best practice standards of reporting and accounting on environmental and social factors (and other novel challenges) requires a far greater breadth of knowledge and experience than that currently represented on the FRRP [see ClientEarth, ‘Environmental and Social Transparency under the Companies Act 2006: Digging Deeper’, 2010].</p> <p>We agree that the FRRP should be more proactive and outward-looking – including engaging with companies specifically on the need for compliance with provisions relating to reporting on environmental and social factors, and raising awareness among investors and other stakeholders of FRRP’s role and its ability to receive and act upon complaints regarding the compliance or not of specific company reports.</p> <p>Achieving a more diverse and better resourced FRRP has the potential to</p>	

enable it to assess any complaints more effectively and foster an increased level of independence and openness.

The Companies Act finished its passage through parliament in 2006, after much scrutiny and debate five years ago. However it has not resulted in a change of culture both in what directors consider and the nature of how they make decisions. The Government needs to show it is serious about delivering a culture of better decision making by company directors through enforcing directors' duties.

It is important to address the issue of profile. In a context where to date there has been insufficient culture change, enforcement by the FRRP (or other bodies) needs to be done visibly to ensure that all companies take their responsibility seriously to report and evidence actions which fulfil their directors' duties. In order to keep improving the quality of narrative reporting, the enforcement body could share the learning from specific cases, e.g. in the form of updating its guidance.

Above all enforcement needs to be proportionate and effective. Proportionate enforcement needs to recognise the significance of directors' decisions for wider society in today's world. For example, poor decision-making can result in accidents and environmental damage which have a global impact or the decision of a company to dump toxic waste in an unsuitable manner can result in severe health impacts being experienced by hundreds of people.

On the issue of improving compliance, CORE notes that requiring assurance or auditing of specific data in company narrative reports would complement measures to strengthen the FRRP in its role an effective enforcement mechanism.

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