

Climate Disclosure Standards Board  
c/o Carbon Disclosure Project  
40 Bowling Green Lane  
London EC1R 0NE

Mr Mark Jackson  
Business Environment  
Department for Business Innovation and Skills  
1 Victoria Street  
London SW1H 0ET

25 November 2011

By e mail to [Narrativereoprtng@bis.gsi.gov.uk](mailto:Narrativereoprtng@bis.gsi.gov.uk)

Dear Sir,

**Consultation on the future of narrative reporting**

About You	
Name: Lois Guthrie	Organisation (if applicable): Climate Disclosure Standards Board
Email: Lois.guthrie@cdproject.net	Address: 40 Bowling Green Lane London EC1R 0NE

I am responding on behalf of (please tick)	
√	<b>Non governmental organisation (NGO)</b>

- 1) We welcome the opportunity to respond to your consultation on the future of narrative reporting and begin by expressing strong support for your objectives to provide clarity on narrative disclosure requirements and to streamline existing arrangements. We have some reservations about whether your proposals will succeed as currently drafted and hope that our suggestions below will assist with the progress of your work.
- 2) By way of introduction, CDSB is an international organization committed to the integration of climate change-related information into mainstream corporate reporting. In support of its objectives, CDSB has developed a Climate Change Reporting Framework “CCRF” (attached). The CCRF draws on the work of CDSB’s Board Members (listed in the front cover of the CCRF), on international developments in corporate disclosure and on the work of the International Accounting Standards Board (IASB).

- 3) Although it is focussed on climate change-related disclosure, the approach and principles set out in the CCRF are based on and enhance relevant principles from many other corporate disclosure practices and from the established financial reporting model. The approach taken in the CCRF is therefore extensible to many other forms of corporate reporting and we believe that the extensive process through which CDSB went to determine the most suitable framework mirrors some of the challenges that you face in achieving your objectives.
- 4) Please note that the views expressed in this response are the collective views of CDSB's Technical Working Group and Secretariat, but not necessarily of the organizations represented. Together with the Carbon Disclosure Project, CDSB also responded to your October 2010 consultation on narrative reporting and a copy of that response is attached for completeness.
- 5) Our response to the consultation is organized as follows:
  - Part I – Offer of resources to assist with the development of your work
  - Part II – General comments on narrative reporting
  - Part III – Responses to selected consultation questions
  - Part IV – Conclusions

## **Part I – Resources**

- 6) The Climate Disclosure Standards Board (CDSB) is delighted to offer various resources in order to assist with the development of your work on narrative reporting. First, as noted above, the approach and principles set out in our CCRF are equally applicable to narrative reporting generally. For example, we draw your attention to page 13 of the CCRF which demonstrates how reporting is made up of a three part process involving:
  - a) determination of the disclosures to be made, focussing on those content elements that are of most use to the intended audience;
  - b) preparation of disclosures so as to make them consistent;
  - c) presentation and communication of disclosures so as to make them clear, straightforward, easy to find and comparable.
- 7) Secondly, we refer you to the attached summary of the “Consistency Project” we are working on with the Global Reporting Initiative, OECD and UNCTAD. The project is designed, in part to track and monitor international developments on reporting including on finance, governance and environment. We would be pleased to offer you access to our online database of international rules on reporting that supports the Consistency Project if that is likely to be of assistance to your work.
- 8) Thirdly, we should draw to your attention a joint project of the Carbon Disclosure Project and CDSB to develop interactive data taxonomy (XBRL) for climate change-related information. This could provide a model for the development of XBRL for other forms of narrative reporting.

## **Part II - General comments on narrative reporting**

### **Seven elements required for successful reporting**

- 9) In our view, seven elements are required for successful corporate reporting as listed below. All elements should be mutually reinforcing and periodically reviewed to ensure that the objective of reporting is achieved. By way of introduction, we offer a brief analysis of whether and to what extent your proposals address each of these elements. We

suggest that as part of the development of your work, you consider the efficacy of each element individually and collectively and in the context of international developments as this will help to bring some order to this complex project.

- a) A clear objective for the reported information
- b) The requirement to deliver information
- c) Content requirements
- d) A standard or guidance for complying with the requirements
- e) A system for delivery and analysis of information
- f) Assurance arrangements
- g) A process of review to ensure that the requirements serve the objective and user needs

## **Objective**

- 10) The objective of your review is clear from paragraph 2.4 of the consultation document. The focus of your consultation is very much on the requirement to deliver information, the structure of the requirement, associated content (elements 2 and 3) and the practical effect of the proposals (paragraph 2.8). However, there is no single, coherent description of the objective of narrative reporting under the framework you envisage. We suggest that the process of clearly defining the objective of narrative reporting will help to identify the requirements necessary to achieve that objective. The FRC's "clutter cutting" work shows that preparers sometimes provide information just because it was in the report last year or because everyone else does it. Clearly articulating why/the purpose for which information is needed could help to curtail that behaviour.
- 11) As well as helping the preparer, defining the objective of reporting should reflect the needs of the user. As mentioned in the second bullet point of paragraph 2.7 of the consultation document, we think that scope for confusion is increased where one report tries to satisfy the needs of different audiences. We therefore support the provision of the strategic report for shareholders (whilst also being relevant to other users) as stated in paragraph 2.9.
- 12) Based on the consultation document, we suggest that the objective of the Strategic Report could be defined as follows:

*"To better enable investors (and others) to hold companies to account both in terms of achieving sustainable long term value creation and on the impact of the business to society and the environment (taken from paragraphs 2.1 and 3.17), the Strategic Report should provide:*

- a) a clear line of sight from the strategy, business model and risks of the company to the financial results and the resulting rewards for the company's directors" (paragraph 1.4)... as well as from "the company's historic financial performance to its future strategy and business model.." (paragraph 3.17);*
- b) a fair and balanced view of the business "to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company) (per existing section 417 Companies Act 2006);*
- c) a context within which to interpret the financial position, financial performance and cash flows of an entity (per the IASB's guidance on management commentary)".*

## **Requirement to deliver**

- 13) Paragraph 3.8 of the consultation document states that the requirement to deliver the Strategic Report and Annual Directors' Statement will form part of the requirement to

provide company reports to shareholders, presumably under Part 15 of the Companies Act 2006. We have no objection to this but encourage you to consider the potential consequential effects on related provisions including on corporate governance, listing requirements, environment etc. It might be useful to consider how the French Government approached Grenelle II, by developing a single body of law that makes consequential amendments to existing laws on commerce, finance, environment etc. In other words, we wonder whether all of the above objectives (if indeed they are right) can be contained within requirements under the Companies Act, or whether the objectives and content requirements are so wide as to necessitate new or amended requirements in other statutes/instruments? This theme is developed further under “Standard for Compliance” below.

### **Content requirement – Strategic Report**

14) We think that the content requirements in Annex B could be made clearer if they were categorised as listed below. We do not include in the list the requirements in the first and last bullet points in Annex B as these pertain to compliance rather than content.

a) Requirements applicable to all companies (except where the small companies regime applies)

- i) Principal risks and uncertainties;
- ii) Comprehensive analysis of the development and performance of the business during the financial year;
- iii) Comprehensive analysis of the financial position of the business at the end of the year.

b) Additional requirements for quoted companies if necessary for an understanding of the business

- i) A description of the company’s strategy;
- ii) A description of the company’s business model;
- iii) An analysis of the main trends and factors likely to affect the future development, performance and position of the business;
- iv) A description of critical changes to the company’s governance;
- v) Environmental matters, impact on the environment, related policies and effectiveness of policies;
- vi) Employee, social and community issues, related policies and effectiveness of policies;
- vii) Information about persons with whom the company has contractual or other arrangements which are essential to the business of the company;
- viii) Information regarding human rights;
- ix) Analysis using KPIs in line with current business review requirements;
- x) Analysis using other KPIs including information relating to environmental and employee matters (although this does not apply to medium companies).

c) Additional requirements for quoted companies

- i) Specific information on executive remuneration;
- ii) Critical changes in governance;
- iii) Disclosure about women on Boards.

15) We have the following comments on the content elements.

a) Risks, uncertainty, performance, strategy and business model (14(a)(i) & (ii) and (b)(i) & (ii) above)

We suggest that you consider adopting the formulation from the IASB's management commentary guidance with some minor elaboration as follows:

- i) the nature of the business;
- ii) management's objectives and its strategies for meeting those objectives;
- iii) the entity's most significant resources, risks and relationships and any planned or current action to secure resources, address risks and protect relationships;
- iv) the results of operations and prospects.

We caution against using the phrase "business model" unless you are able to define it clearly for this purpose as there are various interpretations of what this means.

b) Financial position (14(a)(iii) above)

Paragraph 3.18 of the consultation document suggests that key financial data should be similar to Summary Financial Statements (presumably by virtue of Part 15, Chapter 2 of the Companies Act 2006 and regulations made under section 1292(4) of the Companies Act 2006). Paragraph 3.20 and page 18 suggest that the financial information supplied in the Strategic Report will replace summary financial statements. We have some reservations about whether this will work, particularly in view of the associated audit requirements.

c) Governance

We cannot tell from Annexe B whether disclosure by quoted companies of critical changes in governance is required only where necessary for an understanding of the business or in all cases. We wonder if there is some duplication here.

d) KPIs (14(b)(ix) &(x))

It is not completely clear to us the circumstances in which and type of KPIs that should be included in the Strategic Report. For clarity, we again suggest adopting words from the IASB's management commentary guidance with some elaboration as follows:

"include the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives..." AND where disclosures are required about environmental, employee, social and community matters, the KPIs used to analyse progress and impacts on those issues."

### **Content requirement - Annual Directors Statement**

- 16) We support your objective to make the statement more structured and comparable (paragraph 3.4) through the prescription of headings and format. However we have some reservations about your proposals that the Annual Directors Statement should contain both required and voluntary disclosures (3.5) whether material to the business or not (2.13). It is almost as if your plan is to manage and move clutter to a particular place in a more organized format. However, it remains clutter. In our view, information has no place in the Annual Directors Statement (particularly if required by law) unless:
- a) Management considers that it is relevant to/affects the business' performance or condition now or in the future; and/or
  - b) Users specifically require it; and/or
  - c) It explains statements made in the Strategic Report.

### **Standard for/guidance on compliance**

- 17) Guidance on how to comply with reporting requirements should help preparers to develop a process that results in fair, balanced, concise, comprehensive, readable and meaningful information specific to the company (per paragraph 3.16 of the consultation document).

Therefore, guidance on compliance should explain how content should be constrained, what process companies should use to determine what can be left out and how they should explain their approach to users. For example, as stated in paragraph 3.18 of the consultation document, disclosures should reflect the discussions on the topics that the board has had through the reporting period, they should be presented in the same way that the board would explain these issues to shareholders and they should ensure that links are made between company performance and the remuneration of the company’s directors and executives. These matters represent “how to report” guidance rather than “what to report” addressed under “content” above. We welcome the plans outlined in Chapter 7 of the consultation document to provide guidance on reporting and encourage you to pay more attention to the “how to” aspects of reporting if you are to achieve your stated objectives.

- 18) Furthermore, in order to minimise regulatory burdens, we recommend that you consider how existing practices and provisions can be used to satisfy requirements for some or all of the content elements specified. For example, consider whether the requirement to deliver environmental information could be satisfied by following Defra’s guidance on KPIs, Defra’s guidance on GHG reporting, and/or the proposed work referenced in paragraph 7.8 on the Natural Environment. Similarly, we expect that there are corporate governance rules that could be referenced as a means of compliance with governance requirements (eg: the UK Corporate Governance Code).

**System for delivery & analysis**

- 19) We note that there will be no change to the existing requirement to provide hard copies of the Strategic Report (3.8) and that reports will continue to be delivered to Companies House (3.9). We very much support your proposals for the Annual Directors Statement to be prepared in an online format (3.7) designed for digital access (3.8) and refer you again to CDP and CDSB’s work in this area (see paragraph 8 above) if it is of assistance.
- 20) As you will see from paragraph 9 above, assurance and review of reports are the final elements successful for reporting. We have not addressed those in detail here as both are dependent on development of the preceding elements, on which we believe there is further work to do as explained above.

**Part III – Responses to selected consultation questions**

**Question 1 – Do you agree in principle with restructuring the current reporting framework?**

Yes	No
√	

- 21) We agree with the objectives behind the proposed restructuring. However, for the reasons described in Part II above, we are not convinced that the current proposals will fully achieve those objectives. We encourage BIS to undertake a detailed review of existing provisions and practices on corporate reporting and to use CDSB’s database of international reporting developments to consider whether the proposals in the consultation document could be refined or developed to achieve the intended streamlining and focus.

**Question 2– Do you agree that the Strategic Report should include information on company performance, principal risks and uncertainties, key performance indicators and key financial information?**

Yes	No
√	

22) Yes, but with some modifications to Annex B of the consultation document. Please see paragraphs 14 and 15 above.

**Question 3 – Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?**

Yes	No
	√ (not necessarily)

23) Not necessarily. There is a trend in existing corporate practice to provide summary financial statements and we do not think this should be disturbed unless absolutely necessary. As an alternative, why not consider providing that compliance with the requirement to deliver financial information can be satisfied by cross reference to summary financial statements?

**Question 5 – Do you agree that the Annual Directors’ Statement should contain the information listed?**

Yes	No
	√ (not necessarily)

24) See paragraph 16 above. We do not think it is necessary for the statement to contain all the information you list. A cross reference to those reports might suffice where they reinforce or support high level statements made in the Strategic Report.

**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
√	

25) Yes, we strongly agree that this is an efficient way of reporting. See paragraph 2.33 of the CCRF for an example of how cross-referencing may be addressed.

**Question 7 – If companies are able to include material in the Annual Directors’ Statement by cross reference, do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?**

Yes	No
√	

26) Yes, we recommend a general statement of conformance with the requirements on narrative reporting along the lines of paragraphs 2.22 – 2.23 of the CCRF.

**Question 8 – Do you agree that the Annual Directors’ Statement should be presented online with a hard copy available to shareholders only on request?**

Yes	No
√	

27) In the long term yes. Meanwhile, we suggest a transitional arrangement whereby the Annual Directors’ Statement should be available as a hard copy on request for a period of say three years, after which it will be available online only except if preparers choose otherwise.

**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 that best be resolved?**

Yes	No
√	

28) Yes. We suggest that a detailed review is conducted in order to identify inconsistencies and overlaps in disclosure requirements. Disclosure practices that are already working for purposes other than the Companies Act (for example through CDP in the case of climate disclosures) should be referenced as a means of complying with narrative reporting requirements in order to avoid duplication.

**Questions 29 and 30 – Assurance**

29) In the long term, we support some form of assurance over the Strategic Report but we do not agree that the current legislative regime for audit and assurance of narrative reporting is adequate for this purpose. We recommend that BIS focuses in the first instance on ensuring that the narrative reporting requirements represent suitable subject matter and criteria for assurance purposes. In other words, once the reporting requirements (including requirements for compliance) are agreed, it will be easier to move on to the development of assurance standards.

**Question 33- Guidance**

30) Please refer to paragraphs 17 and 18 above. We support the development of guidance that covers why, what and how to report. We favour the development of online guidance along the lines of HMRC’s Manuals as they can be regularly and easily updated.

**Question 24 – Voluntary vs mandatory reporting**

31) Please refer to paragraph 13 above. Paragraph 3.8 of the consultation document states that delivery of the Strategic Report and Annual Directors’ Statement will form part of the requirement to provide company reports to shareholders, presumably under Part 15 of the Companies Act 2006. We do not see how the requirement can be interpreted as being voluntary if you are contemplating introducing it under the Companies Act. We support mandatory narrative reporting. However, we recommend a transitional period during which narrative reporting practices can be tested.

**Question 35 – The role of the FRRP**

32) We strongly support a formal review process of narrative reporting by FRRP or any other suitable body. However, we caution against deciding on what form that review should take or by which one or more body it should be conducted until the reporting requirements are established.



## Part IV – Conclusions

- 33) We congratulate BIS on the instigation of this project but strongly recommend that further work is conducted before proceeding, In particular:
- a) A review of international developments on reporting so as to ensure international consistency of approach as far as possible, including a review of the updated OECD guidelines for multinational companies, the IASB’s Management Commentary Guidance, the EU’s work on disclosure of non-financial information and corporate governance, the International Integrated Reporting Committee’s discussion paper and various other relevant developments;
  - b) Consideration of how the seven elements of reporting “work” in the context of narrative reporting.
- 34) As you are aware, there are several organizations undertaking complementary work, including the International Integrated Reporting Committee and the EU. We strongly suggest that you work closely with them before making any decisions on how to proceed. Finally, we repeat our offer of assistance and resources to develop your narrative reporting work.

Yours faithfully,

Lois Guthrie  
Executive Director  
The Climate Disclosure Standard Board

### Attachments

- CDP and CDSB response to BIS consultation on the future of narrative reporting October 2010
- CDSB’s Climate Change Reporting Framework, Edition 1.0, September 2010
- Consistency Project – Summary