

Raj Thamotheram
Senior Adviser, Responsible Investment
Universities Superannuation Scheme
13th Floor
99 Bishopsgate
London
EC2M 3XD

John Elkington
Founder & Chief Entrepreneur, SustainAbility
20-22 Bedford Row
London
WC1R 4EB

20 January 2006

Rt. Hon. Alan Johnson MP
Secretary of State for Trade and Industry
1 Victoria Street
London
SW1E 6RB

Dear Mr Johnson

Company Law Reform – Business Review comments

The Chancellor's decision to abolish the mandatory OFR has left a policy vacuum which is likely to destabilise companies' reporting efforts. This letter proposes early, provisional action the Government can take to restore much-needed clarity in the reporting framework.

In November's statements concerning the abolition of the mandatory OFR, the Government confirmed it was committed to improving strategic, forward-looking narrative reporting by companies. At the same time, the Financial Reporting Council stated that it considered Reporting Standard 1 (RS1) the most authoritative good source of reporting guidance. As we understand the situation, the Accounting Standards Board (ASB) is now converting RS1 into a statement of best practice, but does not intend to tailor the document to address the requirements of the Accounts Modernisation Directive. Implementation of the latter resulted in the UK statutory reporting obligations which companies must meet in the Business Review in the directors' report.

This situation creates a significant stumbling block – it is now more difficult for companies to judge the necessary standard of reporting to meet their statutory obligations, and avoid the risk of criminal penalties (and of a tarnished reputation) associated with non-compliance. The problem is particularly acute for companies with a financial year-end of 31st March, whose reporting season is imminent.

We, the undersigned, believe it critically important that the Government gives an early indication:-

- as to which provisions of the ASB's statement of best practice it considers key for satisfying the statutory reporting obligations for a Business Review;
- that reporting in accordance with these key provisions will, consistent with existing Government policy on improving strategic, forward-looking narrative reporting, be required to an equivalent standard to that envisaged in the mandatory OFR;
- that it is minded to introduce measures in the Company Law Reform Bill to clarify this legal position; and
- that it will explore, with the assistance of long-term investors, how companies wishing to meet existing Government policy on improving strategic, forward-looking narrative reporting by delivering the higher level of reporting set out in the ASB's statement of best practice, can be encouraged to do this.

As matters stand, the current, extremely limited, guidance may quickly undermine the significant progress made by investors and companies in preparing for more robust levels of reporting. This will lead to further uncertainty, risks of non-compliance from companies, and criticism of Government.

We write as users and observers of reporting, some in our personal capacities. Consultation through our various networks—including a roundtable meeting of 20 interested parties convened on 16th December 2005—confirms widespread support for Government action as set out above.

We are copying this letter to the Chancellor of the Exchequer, Rt. Hon. Gordon Brown MP.

Yours sincerely,

- Chartered Institute of Public Relations (CIPR) - Francis Ingham, Head of Public Affairs
- Co-operative Insurance Society (CIS) - Paul Sharman, Director of Investments
- Domini Social Investments - Steve Lydenberg, Chief Investment Officer
- Ethical Investment Research Service (EIRiS) - Peter Webster, Executive Director
- Fortis Investments - Florian Sommer, Senior SRI Analyst
- Generation Investment Management - David Blood, Managing Partner
- Glenfern - Seamus Gillen, Partner
- Henderson Global Investors - Rob Lake, Head of Corporate Engagement
- Investor Relations Society Policy Committee - Mark Hynes, Chairman
- Jupiter Asset Management - Emma Howard Boyd, Head of Socially Responsible Investment and Governance Director
- London Pension Fund Authority - Peter Scales, Chief Executive
- RCM, a Company of Allianz Global Investors - Neil Dwane, European CIO
- SustainAbility - John Elkington, Founder & Chief Entrepreneur

- The Ethical Funds Company - Robert Walker, Vice President Sustainability
- Trades Union Congress (TUC) – Brendan Barber, General Secretary
- Tomorrow's Company - Mark Goyder, Director
- UniSuper Limited - Ann Byrne, Chief Executive Officer
- Universities Superannuation Scheme (USS) - Peter Moon, Chief Investment Officer
- UK Social Investment Forum (UKSIF) - Penny Shepherd, Chief Executive
- UK Society of Investment Professionals (UKSIP) - John Rogers, Secretary/Chief Executive