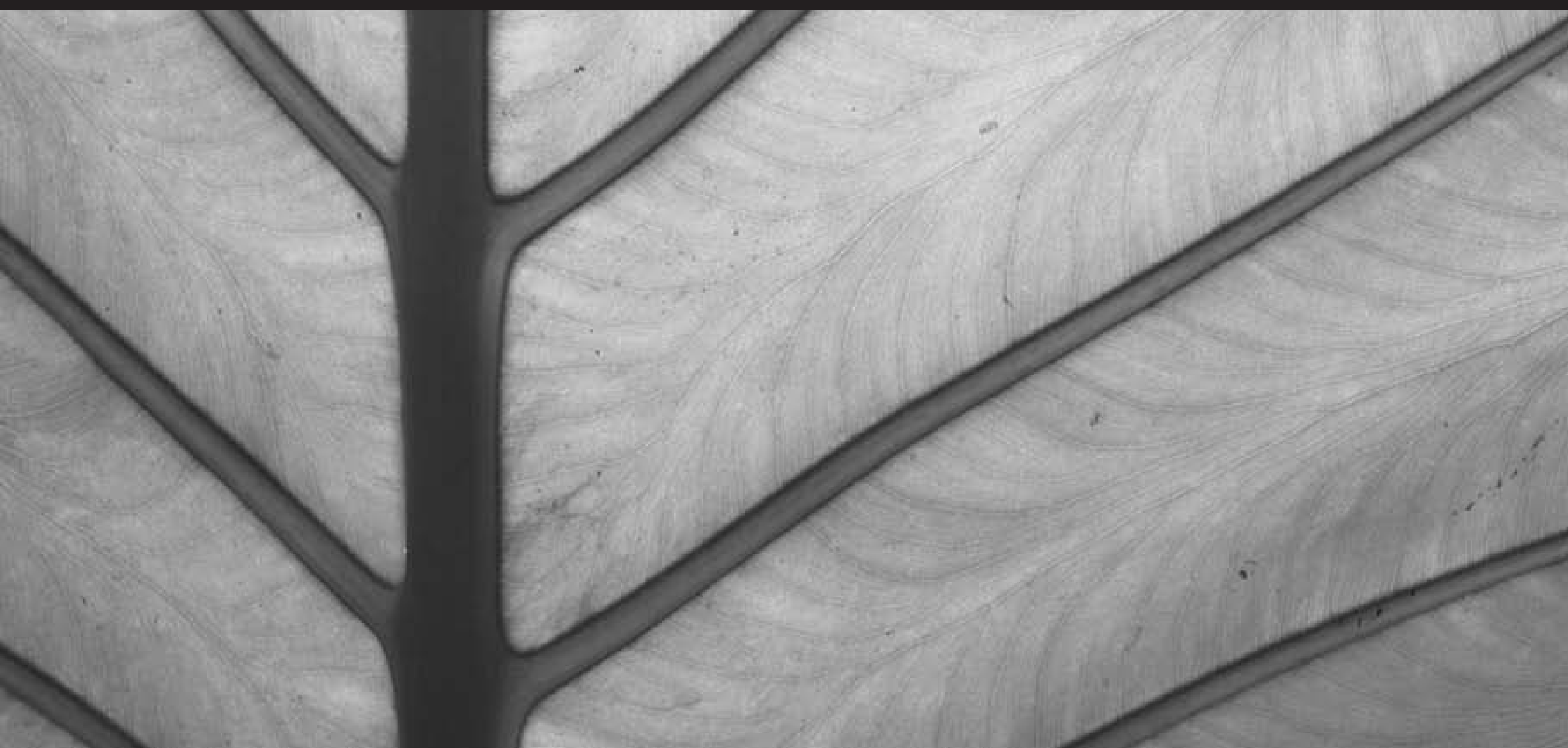
ACCOUNTANTS FOR BUSINESS

Understanding investors: the changing landscape



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This report is the first of a four-part project examining what investors want from corporate reporting and how organisations are responding to their needs.

It reviews recent developments, trends and emerging issues in the investor landscape since the global financial crisis. While it uses the UK and Ireland investor base for its analysis, the trends it identifies have a wide international resonance.

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Foreword

ACCA has consistently argued that the role and interests of investors need to be better understood and placed more centrally in policymaking processes by legislators and standard setters. The investors' voice is often not heard strongly enough, which is perhaps understandable given the range of organisations and interests that can fall under the heading of 'investors'.

In order to address this need for greater understanding of the investor landscape, ACCA, in collaboration with Longitude Research, has developed a four-stage project examining the changing investor universe, post-global financial crisis, and what investors want from corporate reporting. The project examines how pressure to respond to the needs of investors may change the approach taken by companies in reporting their activities and engaging investor groups.

Over the four stages, the project examines:

- recent developments in the investor landscape, trends and emerging issues since the global financial crisis
- the kind of information investors need to make their decisions, how they now like to receive that information (both the format and the communications channel), and their level of trust in what they receive
- the move towards 'real-time' reporting, and how companies are responding to calls to disclose certain information with much more immediacy, rather than at the end of a quarter or year
- how companies are already changing their investor engagement and reporting activities to reflect evolving investor demands, and what this means for the finance function and the CFO.

This report is the first stage of that process. While it uses the UK and Ireland investor base for its analysis, the trends it identifies have a much wider resonance, internationally.

Helen Brand
ACCA chief executive

1. Introduction

In different ways, the UK and Ireland are both important international centres for investment management. Despite the severe impact of the global financial crisis, financial services, and asset management in particular, remain key pillars of the UK economy. In terms of assets under management, the UK is the second largest market in the world after the US. Although far smaller, the Irish asset management industry plays a vital role as a domicile and distribution centre for investment funds. In recent years, a growing number of asset managers, hedge funds and money market funds have relocated to Ireland to take advantage of its efficient regulatory environment and open economy.

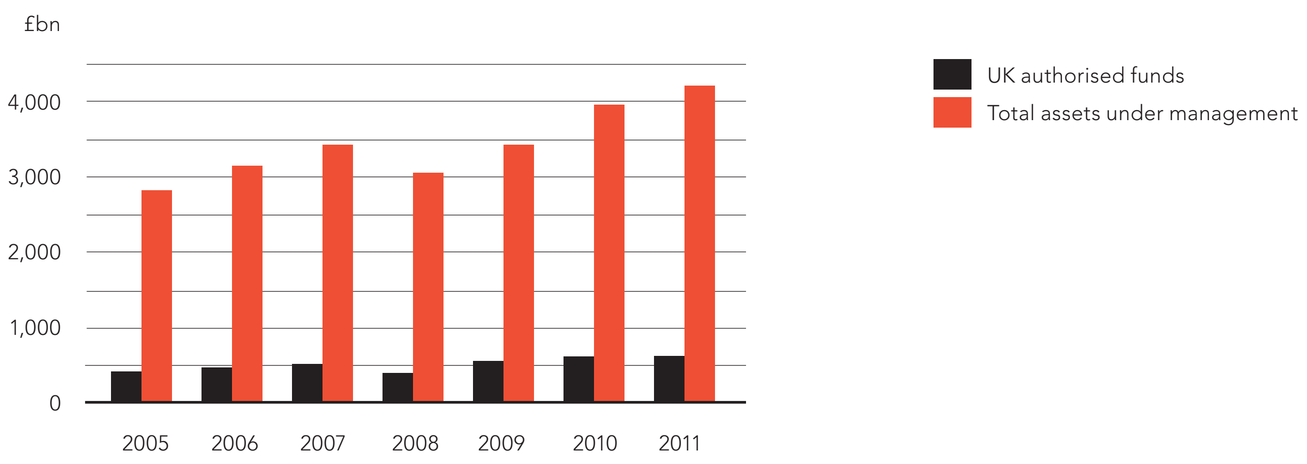
In both the UK and Ireland, the environment for investment management is changing rapidly. Challenging market conditions and a persistent 'new normal' of low growth, ultra-low interest rates and enhanced volatility are forcing a rethink of longstanding business models and strategies. Investors, rocked by the financial crisis and its aftermath, are changing their behaviour. In addition, fast-changing regulation creates new opportunities and risks in equal measure.

Against this challenging backdrop, asset management firms need frequent and transparent information about risks and opportunities across their investment portfolios. In particular, they need to have confidence in the reporting provided by companies to ensure that their investment decisions are made on the basis of an appropriate understanding of the true drivers of performance. This has been the driver for ACCA's efforts to explore the relationship between investors and corporates in greater depth.

It is hard to underestimate the impact of the financial crisis – and ensuing economic downturn – on the UK's investment sector. Pension funds, asset managers, insurance companies and retail investors have all been forced to ask fundamental questions about how they approach asset allocation and investment strategy. Even long-held assumptions about the way markets work, such as the efficient markets theory, have been called into question.

The period since 2011 has, however, seen some improvement for the UK asset management industry. Total assets managed in the UK amounted to £4.2 trillion at December 2011, an increase of 7% over the previous year, according to figures from the Investment Management Association (IMA) (IMA 2012) (see Figure 1.1). The most recent Confederation of British Industry (CBI) survey of attitudes in the British investment management industry suggests that a slight recovery has lifted industry profitability, and investment managers have become increasingly optimistic as business volumes and incomes have grown for the fourth successive quarter (CBI 2013).

Figure 1.1: Total assets under management in the UK and in UK authorised funds (2005–11)



Source: IMA (2012)

The investment management industry continues to play a vital role in the UK economy. Compared with other leading countries, in the UK assets held represent a very high percentage of GDP (see Figure 1.2). The industry is also a major employer, providing an estimated 25,000 jobs, compared with an overall 85,000 across Europe (EFAMA 2012).

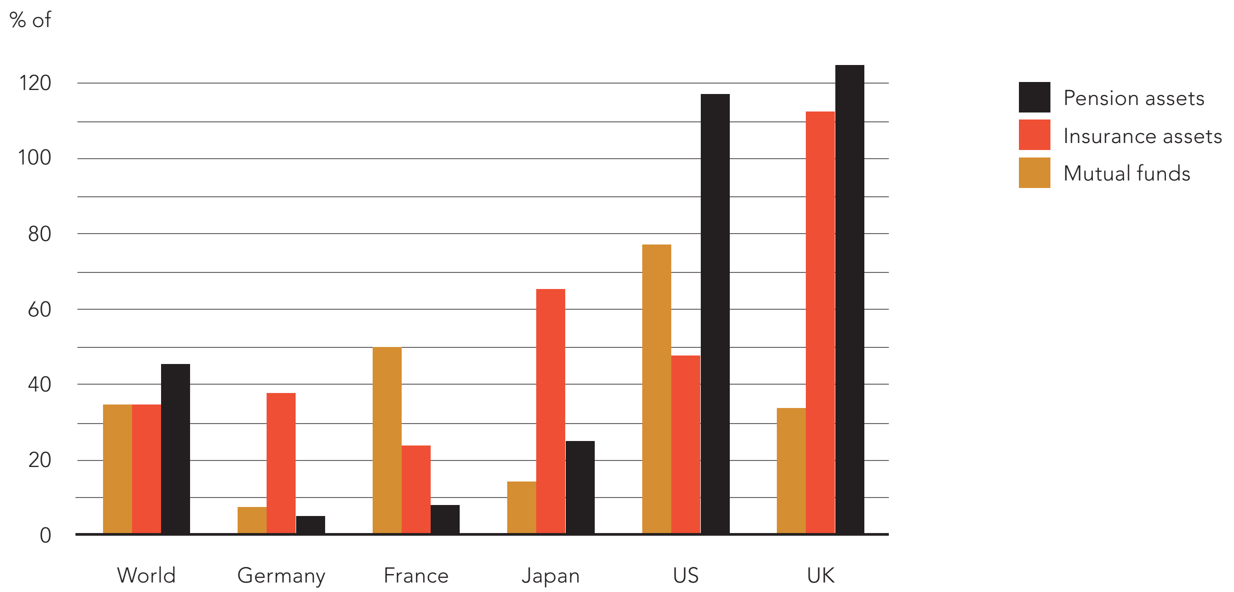
Uncertainty in the global economy and financial markets, new investor expectations, an increasingly far-reaching and complex regulatory landscape, rapid technological change: all are having an impact.

The Irish asset management industry is far smaller. An estimate from the Irish Central Bank puts assets under management by investment funds at €414.4bn as of September 2009 (Godfrey et al. 2010). Nonetheless, Ireland plays a very important role within Europe as a leading cross-border centre for fund administration and distribution. According to EFAMA, there were 431 asset management companies in Ireland at the end of 2011 – one of the highest numbers in Europe (EFAMA 2012). Along with Luxembourg, Ireland has been keen to position itself as an attractive domicile for non-UCITS funds, in particular, as it has a liberal regulatory regime and no minimum investment requirement.

Yet challenges abound for both countries. The industry is faced with a combination of economic, financial and regulatory changes. Uncertainty in the global economy and financial markets, new investor expectations, an increasingly far-reaching and complex regulatory landscape, rapid technological change: all are having an impact.

Also, with slow growth predicted for many years to come, investors are asking themselves where they can achieve yield in what seems to be a permanently low-interest rate environment. This report sheds light on the key trends and issues that are shaping the investment environment at the present time.

Figure 1.2: Funds as a percentage of GDP, by source of funds, 2011



Source: *TheCityUK* estimates based on UBS, OECD, SwissRe, Investment Company Institute data, <http://www.thecityuk.com>.

2. Equity markets are increasingly short term

‘We would prefer to move away from quarterly reporting.’

In recent years, the UK stock market has adopted an increasingly short-term outlook. The average holding period for shares on the London Stock Exchange has fallen dramatically, from between five and six years in the 1960s to a current time of roughly seven months, which it had reached by 2007 (see Figure 2.1). An estimated 40% of trades now come from algorithmic trading systems, according to a report by Tata Consultancy Services (Rao 2006). Meanwhile, fewer retail investors invest directly in corporates.

‘As an industry, we have become part of a trend towards shorter-term horizons, in line with other changes in society’, says Robert Talbut, CIO of Royal London Asset Management and chairman of the investment committee at the Association of British Insurers.

‘The news media is [sic] shorter term, politicians are shorter term, consumers are shorter term, and management and investors have become shorter term. One of the lessons from the financial crisis is that we should actually be thinking afresh about how to reverse these trends.’

This short-term focus is undermining long-term investment. In addition, an emphasis on higher short-term earnings and an excessive focus on earnings per share can result in fewer research and development projects (The Aspen Institute 2010).

Research (Della Croce, et al. 2011) suggests that capital allocations to less liquid, long-term assets, such as infrastructure and venture capital, have fallen in recent years, while those to hedge funds and other high-frequency traders have increased.

At the same time, this shorter-term outlook is helping to drive high portfolio turnover and higher transaction costs for investors.

There are many reasons for this increased short-termism. The increase in the number of hedge funds and private equity firms has certainly resulted in a shorter-term trading perspective. John Kay, author of a review into the effect of UK equity markets on the competitiveness of UK business, believes the principal causes of short-termism in the UK are the decline of trust and the misalignment of incentives throughout the equity-investment chain.

The increasing focus on quarterly earnings is also believed to encourage executives to manage for the short term. ‘We would prefer to move away from quarterly reporting’, says Iain Richards, head of governance and responsible investment at Threadneedle Investments. ‘The whole reporting framework seems to be heading towards feeding information to high-frequency traders, something we’re not keen on at all.’

Indeed, the rise of high-frequency trading, with stocks bought and sold in fractions of seconds, has been a big contributor to the trend towards short-termism. A record 187 algorithmic funds were launched in 2011, accounting for 12% of all hedge fund start-ups – another record, according to data-provider Preqin, which expects the figures for 2012 to be even higher (Preqin 2012).

‘As an industry, we have become part of a trend towards shorter-term horizons.’

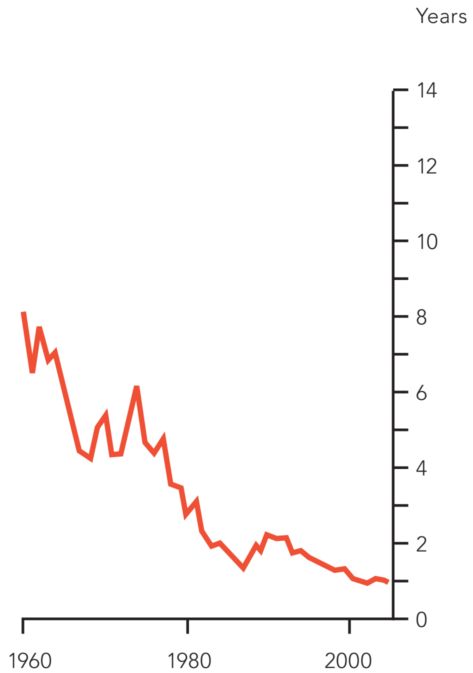
John Kay sees almost no value in this kind of trading activity. ‘Liquidity provision for long-term investors requires patient capital, which high-frequency traders don’t supply. Instead, what they do is chase each other’s tails’ he says. ‘They are making investment decisions not on the basis of what is happening in the company but [on that of] their perceptions of what other investors are thinking.’

High-frequency traders ‘chase each other’s tails’.

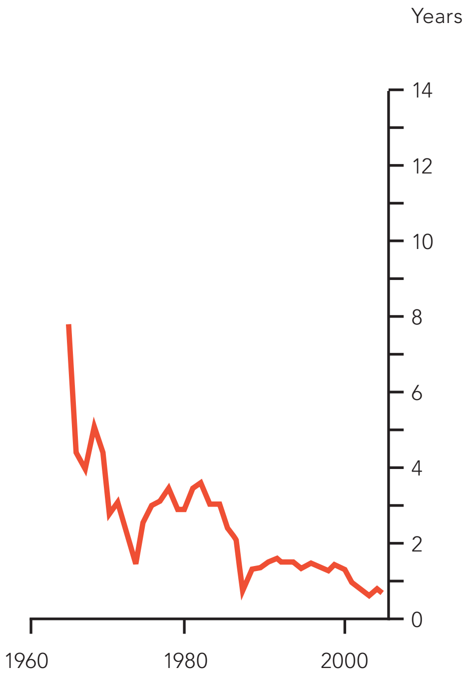
Policymakers are becoming increasingly concerned. The British government has now endorsed the recommendations of the Kay Report on developing a culture of long-term investing. The G20 finance ministers and central bank governors also agreed at their November meeting that ways of enhancing long-term finance deserved stronger political support. A proposal being considered in Brussels would provide loyal shareholders in European companies with additional voting rights and a larger share of dividends. Mr Talbut believes investors have an important role to play, too.

‘Shareholders like us, and others, are trying to encourage a fight-back to develop longer-term thinking for companies and their investors.’ The debate over an increased emphasis on short-term reporting continues to rage. Although many investors and commentators agree with Mr Richards, there is a large cadre that wants to see a closer focus on real-time reporting. This is a debate that will be considered later in this series of reports.

Figure 2.1: Average holding periods for the NYSE and FTSE, 1940–2005



Source: New York Stock Exchange



Source: London Stock Exchange

3. Ultra-low interest rates are affecting investor behaviour

In the past three years, the Bank of England has pursued an ultra-loose monetary policy in an effort to avoid the fallout from the global credit crisis. Strategies have included cutting interest rates, quantitative easing, and other decisions such as the Financial Services Authority (FSA) requirement in 2009 that UK banks hold more 'high quality' government securities. As a result, nominal interest rates in the UK have fallen to unusually low levels and returns from gilts have, in some cases, become negative.

In February 2013, Paul Tucker, deputy governor for financial stability at the Bank of England, raised the possibility of negative interest rates, which would mean that lenders would have to pay the central bank to place their money with it. The aim of this extraordinary initiative would be to encourage banks to lend more to both businesses and individuals. Yet this would also have the effect of reducing further the interest that banks pay on savings accounts. It would also affect the asset management industry and its customers.

Low interest rates affect pension funds and insurance companies by reducing re-investment returns on their fixed-income portfolio. So the fall in rates increases liabilities – the exact effect depending on the duration of assets and liabilities. The total deficit of FTSE 100 defined benefit (DB) pension schemes, for example, increased by £20bn during 2011, according to JLT Pension Capital Strategies' research (PensionsWorld.co.uk 2012). 'Falling rates have probably been the major factor towards increasing pension fund deficits over the last two years', says Jon Exley, partner in KPMG's investment advisory practice.

> 'Investors have sought out higher yields and have been moving into higher-risk choices.'

The continuing low-interest-rate scenario is also beginning to influence investor behaviour. Faced with low returns on government bonds, yield-hungry investors have sought out higher-yielding investments and have been moving into higher-risk choices.

A report by Allianz Global Investors suggests that investors will need to look for higher returns outside high-quality sovereign bond markets – via corporate bonds, investment and high yield, as well as emerging market bonds and real assets – as a protection against inflation (Allianz Global Investors 2012). Under these conditions, they also recommend more active asset and risk management. It will be essential for investors to be more aware of the risks they are taking.

Some experts are now worried about these extra risks being taken by investors. Sir Mervyn King, governor of the Bank of England, recently warned that he was worried that investors were taking higher risk bets to increase returns. He recently told MPs on the Treasury select committee: 'I think that one of the things we ought to be a bit concerned about is that rates have been so low for so long that some of the actions have reduced risk premia to levels where the search for yield appears to be beginning again. The combination of a weak recovery and yet at the same time people searching for yield in ways that suggest risk isn't fully priced is a disturbing position…'

4. Asset managers face a plethora of regulation

The investment management industry in the UK is facing an increasingly complex, multi-faceted and fast-changing regulatory environment.

According to a recent Ernst & Young report, there are more than 59 regulatory measures in the EU that are affecting asset managers, directly or indirectly. It is a complex and evolving mix of national and international initiatives that, in today's increasingly interconnected world, will inevitably have a significant impact on the UK investment management industry (Ernst & Young 2012).

Nor are the myriad regulatory bodies always coherent in their strategies. The latest IMA survey – Asset Management in the UK 2011–2012 – highlighted the fact that regulation on both sides of the Atlantic has, at times, been contradictory. This makes compliance even more challenging.

'The interplay of national, international and European regulation means you can have different regulators going at different speeds. This can create considerable uncertainty across the industry', says Jonathan Pitkanen, head of credit research at Threadneedle Investment.

'There's an opportunity for pension funds at the moment as they can invest in asset classes that other institutions can no longer hold due to liquidity or capital constraints.'

The stricter regulatory climate is having a major effect on investors' asset allocations. Europe's Solvency II regulations, for example, a fundamental review of the capital adequacy regime for the European insurance industry, encourage insurers to hold bonds. Hedge funds and private equity investors are also expected to benefit from the Solvency regime. Almost one-third of investors questioned in a recent BlackRock survey said they would increase their allocations to these asset classes (BlackRock 2012).

Regulation is also likely to have an impact on asset managers' business models and investment returns. According to PricewaterhouseCoopers (PwC), for example, the Retail Distribution Review (RDR), an FSA initiative which changes the way financial advice is provided to consumers, will introduce greater transparency and may well offer lower-priced products a competitive advantage (PWC 2012a). PwC expects the revised Markets in Financial Instruments Directive (MiFID) II to have a similar effect.

This changing regulatory framework is also giving rise to new business opportunities.

'There's an opportunity for pension funds at the moment as they can invest in asset classes that other institutions can no longer hold due to liquidity or capital constraints. This has definitely created opportunities for pensions to step in. Already there are signs that pensions are taking up investments that banks have pulled out of', said Jon Exley, partner in KPMG's investment advisory practice.

5. New demands for enhanced information reporting

New regulatory requirements, new tax legislation, changing investor expectations and increasingly complex products: together these are some of the forces that are driving demands for the greater transparency of asset managers.

Once again, regulation is a strong driver. Solvency II will have a big impact on data provision in the insurance industry. Under UCITS IV, the introduction of the Key Investor Information Document (KIID) – a mandatory one-page document that needs to be prepared in 14 different languages – is increasing the reporting burden for asset managers. Meanwhile, US FATCA proposals, which are designed to enhance the transparency of the income of US residents and have extraterritorial impact, will also place a much greater reporting burden on UK financial institutions.

The drive for greater transparency comes in the wake of a number of financial scandals. Trust has long been a problem for the investment management industry, and the Madoff swindle is only the highest-profile and most extreme example of an ever-current issue.

In February, an equity trader working at Schroders – the UK's largest listed asset manager – was arrested in connection with an insider-dealing investigation by the FSA.

Desire for better-quality information has also put pressure on companies to clarify what they supply. In a recent Institute of Credit Management (ICM) Research poll for SCM Private LLP's publication *Promoting Trust and Transparency in the UK Investment Industry*, more than four out of five people in a UK-wide sample agreed that fund managers should be required to disclose the full breakdown of fees charged for investing someone's money (SCM Private 2012). Of those who saved or invested, 70% wanted to be able to find out exactly where their money is going.

The trade-off is that firms with improved transparency should be able to win more business from investors, according to PwC. 'Asset managers that proactively provide a higher level of reporting, including third-party assurance reporting, and adopt policies and procedures to increase clarity, will be able to gain a competitive advantage', says PwC in its report, *Top Issues Facing Asset Managers*. Indeed, in the ICM survey *Promoting Trust and Transparency in the UK Investment Industry*, almost two-thirds of respondents said that they would be more likely to invest if investment products had clearer labelling, like that on food products, so they could see exactly what they were buying and how much it cost.

As demand for increased transparency continues, however, so also do asset managers need to make sure that their disclosure does not undermine the clarity and relevance of financial statements. This will be particularly true in the context of integrated reporting, which could require companies to provide more information about both financial and non-financial drivers of performance. It will be important to ensure that developments such as integrated reporting help investors to access the information they need, rather than simply burden them with even more data.

The drive for greater transparency comes in the wake of a number of financial scandals. Trust has long been a problem for the investment management industry.

6. Equity holdings continue to fall

'We have had situations recently where we would not invest because there was no reasonable transparency – we couldn't gauge the risks or quality of governance. The level of reporting simply wasn't of a sufficient standard.'

Traditionally strong holders of equities, UK investors have been reducing their equity holdings for many years. According to the latest figures by the end of 2011, just 41.8% of total equity holdings managed in the UK by IMA members were allocated to UK equities, down from a figure of 60% at end-2006.

The fall in equity holdings by pension funds is particularly noticeable. UK pension funds are holding more bonds than equities for the first time in many decades, according to research by JLT Pension Capital Strategies. At the end of 2011, the average fund portfolio was 43% invested in equities – the lowest level since 1974, and a fall of 7 percentage points on the previous year, according to Pension Fund Indicators 2012 (UBS Global Asset Management 2012) (see Figure 6.1).

A number of factors have played a role in equities' fall from favour. The dotcom crash was an important signal, together with major corporate problems in the US such as the Enron scandal.

More recently, the financial meltdown in 2008 left investors understandably cautious about investing in companies that had previously been seen as completely safe.

While UK investors may have reduced their overall holdings of equities they have, however, become increasingly engaged as investors. The UK Financial Reporting Council's (FRC) *Stewardship Code*, which sets out key principles for investor engagement with UK equities, has played an important role. A 2012 FRC report points out that investors have been consulting each other informally about concerns with companies: investor bodies, for example, held collective meetings with banks ahead of the 2012 bonus round. The report also identified a number of cases where shareholder engagement has had an impact on boardroom changes (FRC 2012).

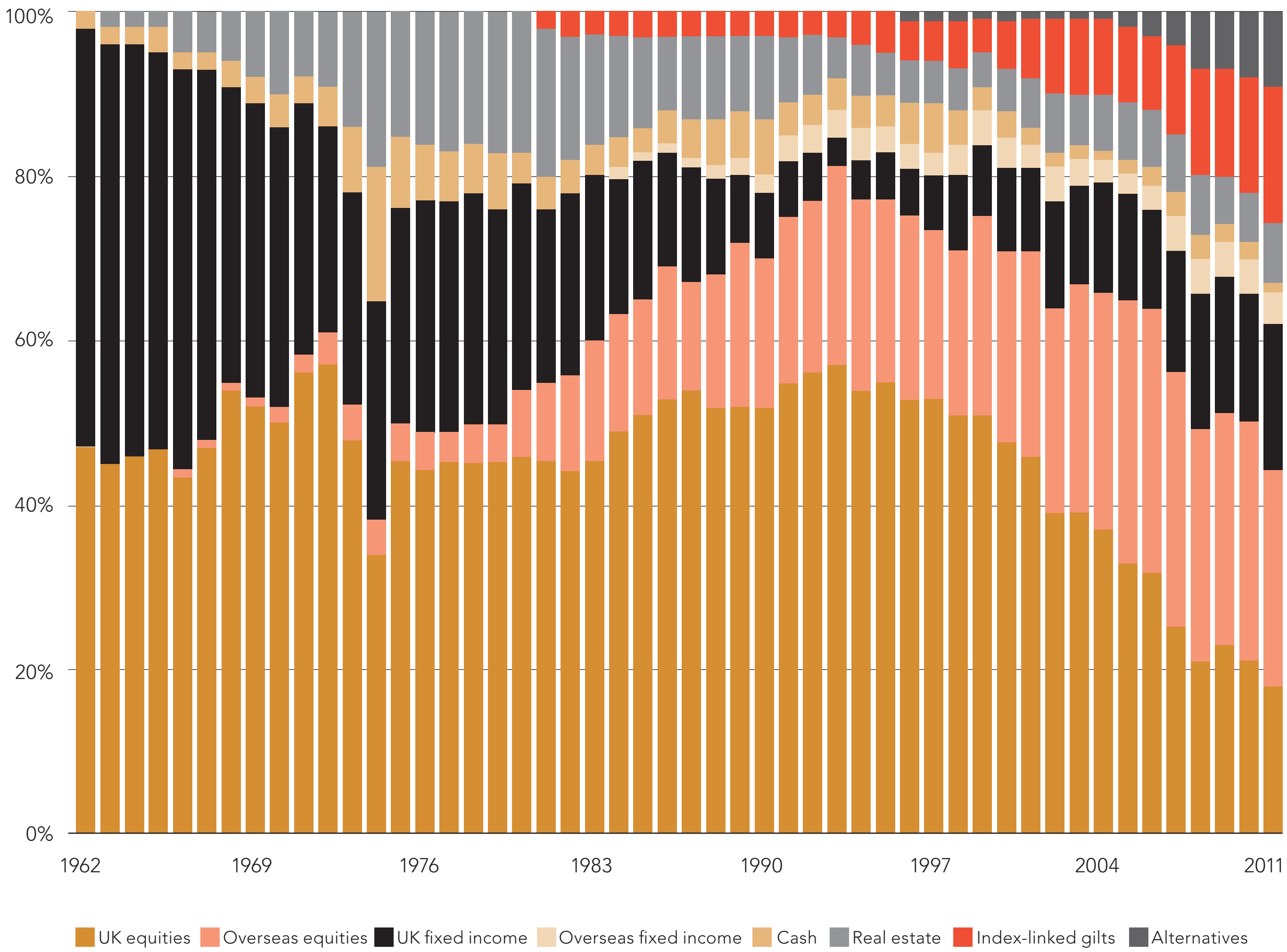
New technologies are creating additional ways for shareholders to become engaged. In the past few years, investors have increasingly used social media platforms to build support for proposals and discuss companies' performance.

'There's certainly more engagement activity', says Threadneedle's Richards. 'Some of that is driven by the pressure both on companies and shareholders to engage, some by real need. You saw both last year, around the slightly misnamed 'shareholders' spring'. That saw some very high-profile cases linked to issues around strategy and performance – even though many of them played out publicly in the context of pay. Generally the dialogue with good quality companies is much richer.'

While domestic equities have been falling, international equity holdings, particularly in emerging markets, have seen relative increases, with overseas equity holdings now accounting for some three-fifths of overall equity holdings. Concerns about governance are even stronger here. 'There is a large difference between developed and developing markets', says Richards. 'We have had situations recently where we would not invest because there was no reasonable transparency – we couldn't gauge the risks or quality of governance. The level of reporting simply wasn't of a sufficient standard.'

Social media is increasing shareholder engagement.

Figure 6.1: Asset allocation for average pension funds 1962–2011



Source: UBS Global Asset Management (2012).

7. Risk management remains a key area of focus

> 'Nine out of ten companies may produce a risk report, but only one or two provide any real assessment of the risk.'

The financial crisis provoked asset managers of all kinds and sizes to reflect on the effectiveness of their existing risk-management frameworks.

Today's increasingly complex regulatory environment and changes in investors' risk appetite are also driving increased demands for risk oversight. Having a strong risk-management framework is no longer simply a matter of regulatory compliance. Understanding, identifying and managing risk is now a key success factor for fund managers.

The regulatory impact is substantial. Under the Alternative Investment Fund Manager Directive (AIFMD), for example, the UK's hedge fund, private equity and real-estate managers will now need to create risk-management functions that are independent of portfolio management, and need to describe how they manage all the risks to which they could be exposed. Meanwhile, Solvency II will impose strict new capital requirements across the insurance industry, leading to a more risk-focused approach – including more formal risk committees with deeper involvement in the business. At the same time, risk-management efforts have become more complex owing to overlapping regulatory initiatives and a lack of harmonisation of regulatory bodies, according to Ernst & Young's (2012) Risk Management for Asset Management Survey.

The financial crisis drew attention to the way many risks become correlated during periods of market stress, and has led to increased focus on dealing with what might be considered improbable or extreme scenarios (so-called 'black swans'). Although a majority of firms surveyed by Ernst & Young (2012) have modelled extreme-event scenarios, Jean-Bernard Tanqueray, CIO at Single Private Family Office, suggests that most asset firms still have more work to do. 'Companies are doing less well when it comes to dealing with systemic risks – how to structure a portfolio to minimise losses when faced with a black swan', he says. 'I think we are all operating in grey areas here.'

As tax risks have become more mainstream, asset managers also increasingly need to think about tax as an integrated part of the firm's risk management function – a new direction for many tax functions. PwC's report, *Top Issues Facing Asset Managers*, highlights the challenge of requests for tax information, often at short notice (PwC 2012b). Failure to provide the necessary information accurately and speedily can expose the company to tax risk, and at the same time potentially undermine investor faith in the company's risk-management procedures.

The risk-management function has become more influential among asset managers. Not only has the chief compliance officer been formally recognised, but the chief risk officer (CRO) has a 'pivotal role' and more attention is being paid to risk management at board level, according to the Ernst & Young Survey (2012). Iain Richards at Threadneedle Investments believes more work is needed in reporting of risks. 'Nine out of ten companies may produce a risk report, but only one or two out of ten provide any real assessment of the risk', he says.

8. Asset managers seek more information

'Much of the data that flashes across screens is simply noise.'

A proliferation of new technologies, including social and mobile media, has helped transform the corporate information landscape, creating a flood of financial data for investors, much of which is available on a real-time basis. Investors can find information on company performance via press releases, online news, quarterly reports, and social media websites, as well as from an array of consultants and specialised ratings agencies.

Some investors value these additional sources of information, which compensate for perceived shortcomings in the information available in the company report.

'When you can't find the information you need in the corporate report, you have to find other ways of trying to get that information', says Royal London's Robert Talbut.

Yet many investors worry that too much information blurs insight – it becomes harder to see the wood for the trees. 'Much of the data that flashes across screens is simply noise, although commentators constantly endeavour to attach significance to it', says John Kay.

The opportunities created by modern information technology have led many people to overestimate the value of this flow of data. As Clifford Stoll, the US astronomer put it: Data is not information, information is not knowledge, knowledge is not understanding, understanding is not wisdom.

Nonetheless, it seems many investors would value more real-time information. A recent survey conducted on behalf of ACCA suggests that investors have an increasing demand for real-time information: two-thirds said that real-time information reporting would improve their understanding of corporate performance, and a similar number thought companies that report in real time have an advantage over those that do not in attracting investors. This is a theme that will be explored in detail in a later report in this series.

Indeed, when asked their views on various aspects of financial information provided in the annual report, investors were most disappointed with the timeliness of information – more than 25% of investors surveyed were dissatisfied with this.

As the US-based Center for Audit Quality stated: 'By the time the annual report is issued, the information contained is too dated to drive investment decisions; it is more often used as a baseline, supplemented with additional analysis based on more current information such as quarterly reports and press releases' (Center for Audit Quality 2011).

'When you can't find the information you need in the corporate report, you have to find other ways of trying to get that information.'

9. Conclusion

The changing composition of the international investor landscape has led to a significant shortening of investment horizons.

This report has explored some of the key trends affecting investors in the post-global financial crisis era to which regulators, policymakers and corporates must respond. While much of the analysis has focused on issues facing UK and Irish investors, many of the themes will resonate far more widely.

Recent years have seen significant change in the investor landscape. The traditional domination of markets by pension funds and insurance companies has been eroded both by greater international ownership of companies, and by the emergence of other players such as hedge funds and private equity firms.

This changing composition has led to a significant shortening of investment horizons.

The computerised trades that take place in microseconds have also raised questions about the identity of the owners of companies and how corporates can address this 'ownership vacuum'. We have already seen international policymakers, such as the G20 and EU, responding with measures to enhance long-term shareholding.

Related to this, quarterly reporting is a source of much controversy. While there is a constant demand by investors for more information and transparency, the existence of quarterly reporting is also regarded as contributing to the sense of short-termism in market activity.

Central bank activism, leading to loose monetary policy, historically low interest rates and currency wars throughout Europe and the US, has been a major response by the authorities to the global financial crisis. This has had a clear effect on investors, making them search for yields in riskier investments. There may also be more regulation as a response to the crisis, and a focus on asset managers could be next.

There are challenges here for corporate governance, regulation, accounting and other areas. ACCA will be looking at all these subjects, and specifically examining the issue of what the changed investor environment outlined in this report means for the future of corporate reporting. That will be the second stage of this four-part study.

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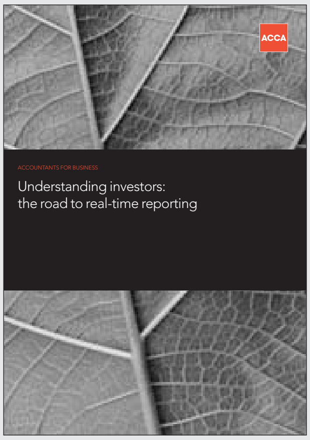
Understanding the investor landscape

ACCA, in collaboration with Longitude Research, has developed a four-stage project examining the changing investor universe, post-global financial crisis, and what investors want from corporate reporting. The project examines how pressure to respond to the needs of investors may change the approach taken by companies in reporting their activities and engaging investor groups.

Recent developments, trends and emerging issues in the investor landscape since the global financial crisis. While it uses the UK and Ireland investor base for its analysis, the trends it identifies have a wide international resonance.

The information investors need to make their decisions, how they now like to receive that information (both the format and the communications channel), and their level of trust in what they receive.



The move towards 'real-time' reporting, and how companies are responding to calls to disclose certain information with much more immediacy, rather than at the end of a quarter or year.

How companies are already changing their investor engagement and reporting activities to reflect evolving investor demands, and what this means for the finance function and the CFO.

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