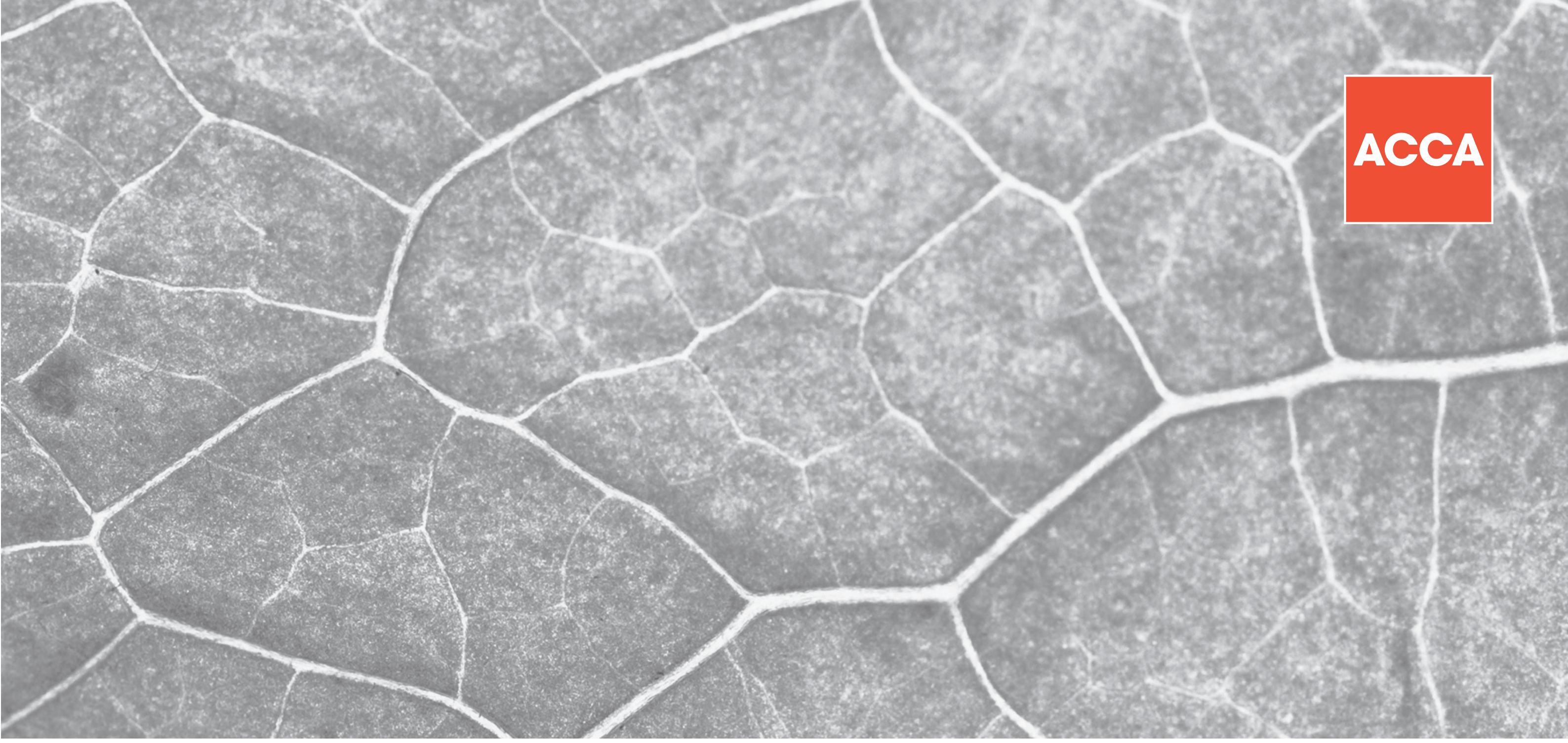
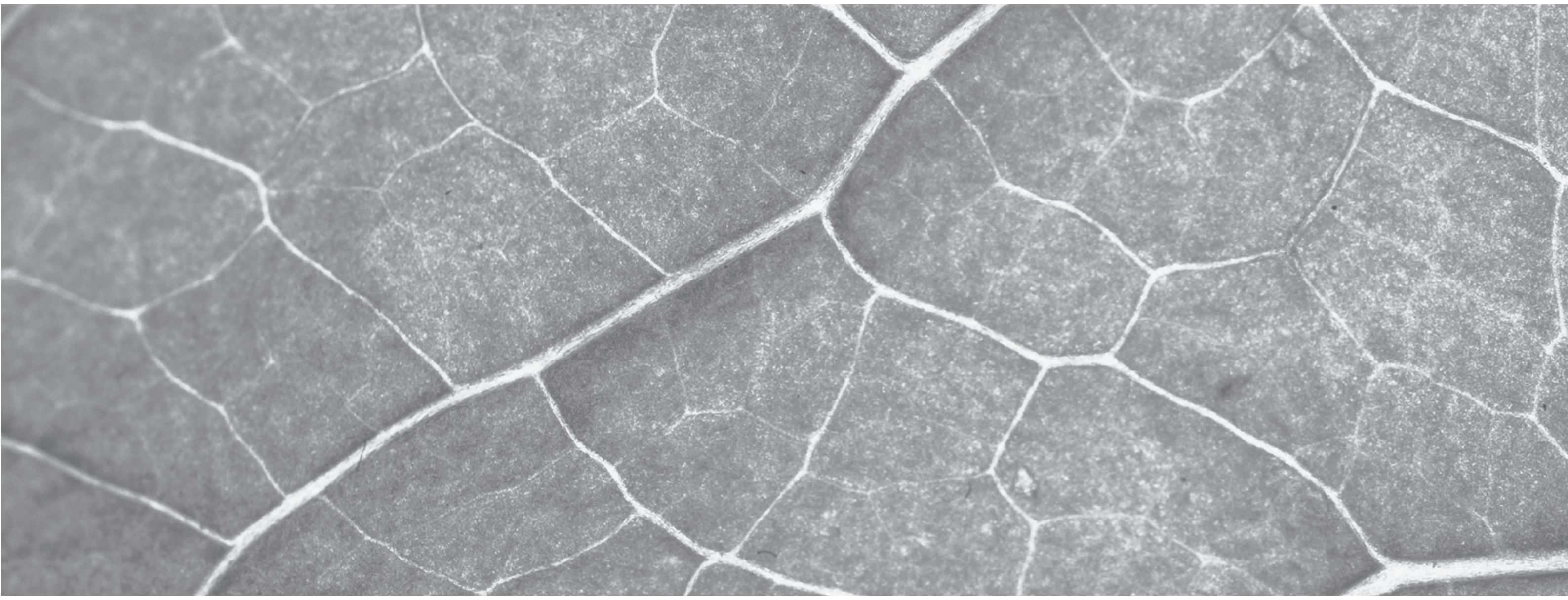


ACCOUNTANCY FUTURES

Hitting the notes, but what's the tune?

AN INTERNATIONAL SURVEY OF CFOs' VIEWS ON NARRATIVE REPORTING



A report from ACCA in partnership with Deloitte

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 at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of 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 seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

About Deloitte

“Deloitte” is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTTL does not itself provide services to clients. DTTL and each DTTL member firm are separate and distinct legal entities, which cannot obligate each other. DTTL and each DTTL member firm are liable only for their own acts or omissions and not those of each other. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and/or other entities.

Contents

Hitting the notes – A foreword from ACCA

Last year, ACCA established its Accountancy Futures programme of insights and research, exploring the critical issues for tomorrow's profession. The future of narrative reporting and how it illuminates the performance and direction of organisations is one such issue that is being debated across the business world.

This survey report presents the views of CFOs in leading listed and 'public interest' companies across nine markets on the challenges around narrative reporting, specifically in annual reports. It shows how central the CFO is in this area, with 53% saying that they, or their departments, drive the narrative reporting process. It also highlights some of the barriers to creating meaningful reporting which tells the story of the business.

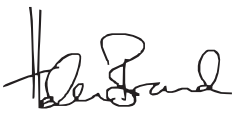
Even before the international financial crisis, questions were being raised about the validity of current corporate reporting for our global, technology-enabled environment. As a result of recent global economic conditions, these questions have become more insistent. When it comes to the root causes of the financial markets near-collapse, not explaining the risks inherent in business models of complex institutions must be near the top of the list. Limitations in the ability of conventional reporting to address this is just one area of concern.

Looking more widely, much has been made of the need for reform in audit and assurance in the past couple of years – and ACCA has lent its voice to the global debate on this key issue. We continue to believe there are opportunities for the audit to add greater value: responses to our survey show that this view is substantially supported by companies themselves. But we must remember that the auditor's role is circumscribed by the corporate report. It is clear to ACCA that a new role for the auditor requires us to establish the appropriate scope for the financial and narrative report – taking into account issues of usefulness, completeness and transparency.

Our survey provides support for the view that, if narrative reporting is to fulfil its potential, it is vital to address the growing complexity of laws, standards and compliance and to introduce more flexibility and discretion for companies to explain in their own ways how they have performed and how they expect to cope with future challenges. Investors want to understand, above all, how a business has fared and the direction in which it is heading. Regulation should serve to underpin this. The question for regulators is: does more compliance and complexity enhance reporting for its intended core audience – or is it leading to just more, not better, disclosure?

We also need to ask: can the same report really satisfy both regulators and investors? The answer, from this survey, appears to be yes, in theory. However, the price being paid for this is reporting of increasing volume and complexity, where the story of business performance is obscured by a mountain of detail.

Today's reporting certainly does hit almost all the notes – but, in doing so, creates a cacophony which is deafening its audience. Greater clarity and simplicity would be welcomed by CFOs – not least because they believe it would benefit the users they serve.



Helen Brand
Chief executive, ACCA

What's the tune? – A foreword from Deloitte

At the World Congress of Accountants held in Tokyo in 1987, the participants had the privilege of listening to Akio Morita, the co-founder and chairman of Sony Corporation.

One of his points, which had a considerable impact on at least one participant, was: 'No customer had asked for the Walkman'. His message was clear: those in business must take responsibility for innovation and for developing their products.

But in the world of corporate reporting, there appears to be an almost exclusive focus on seeking investors' views on what should be in corporate reports, with preparers relegated to providing information on the practicalities of the proposals. Yet it is the preparers who understand best what is happening in the business and are therefore presumably in the best position to determine what should be communicated to shareholders.

Preparers' views are often dismissed as vested self-interest, with a bias to communicating less or only the good news. Yet preparers typically want the best for their businesses. They want to engage fully with investors and other stakeholders. For those in listed companies they want to meet the legal requirements to ensure that the market is informed of any significant developments as soon as possible. In this context, this joint project to seek internationally preparers' views on narrative reporting should be particularly welcomed.

In financial statements, there appears to be a battle between giving a true and fair view (that is, standing back and ensuring that the big picture is clear for all to see) and complying with all the detailed rules. To some, the battle seems all but lost. Detailed box-ticking rules ok.

That said, in the last year or so the box-tickers' side appears to be slightly in retreat as reports on the global financial crisis have highlighted the need for more emphasis on giving a true and fair view. The risk now is that narrative reporting may be going the same way as financial statements. In certain jurisdictions, there are so many rules from different regulators. As this survey demonstrates, the majority of preparers would welcome more discretion on what to include in their narrative reports.

The current position is a bit like the great conductor and pianist André Previn meeting the comedian Eric Morecambe. Previn played the classical piece beautifully. Morecambe then attempted the same piece but could not play the piano. When challenged by Previn that he was not hitting the right notes, he replied that he was playing all the right notes, but not necessarily in the right order. So there was no tune, just noise.

For companies complying with large volumes of rules, the result may be the same. There are lots of narrative notes in the annual report. For listed companies, the narrative section typically occupies the majority of the annual report. But can the real story of the company's performance and position be clearly told and understood? The results from this survey provide considerable points for future study and debate. But there is also an overall big story.

The time has come for regulators and standard setters to give more discretion.

Isobel N Sharp

Professor Isobel Sharp CBE
Partner, Deloitte

About this report

ACCA, the global body for professional accountants, and Deloitte, a leading professional services firm, have worked together on this joint report, exploring the current and anticipated future challenges in narrative reporting within annual reports.

The report is based on telephone interviews with 231 CFOs, group finance directors or equivalent within publicly accountable entities (preparers of annual reports) in Australia, China, Kenya, Malaysia, Singapore, Switzerland, the UAE, the UK and the US, conducted from April to June 2010.

The survey asked these preparers for their thoughts on the current challenges in preparing narrative reports and the future shape of narrative reporting. It defined narrative reporting as everything contained in a company's annual report and accounts (except for the audited financial statements and the audit report).

In-depth interviews, principally to explore the main findings from the telephone interviews, were also conducted with CFOs, group finance directors and their equivalents at the following companies:

- Centum Investments Company Ltd (Kenya)
- Dubai Insurance Company (UAE)
- Exco Resources (Australia)
- Kellogg Company (US)
- Straco Corporation (Singapore)
- Spirent Communications plc (UK)
- Time dotCom (Malaysia).

Institutional investor perspectives on narrative reporting were obtained through interviews with experts from the Association of British Insurers (ABI), the Council of Institutional Investors (CII) and the National Association of Pension Funds (NAPF).

The in-depth interviews are reported exclusively on pages 14 to 19 of this report.

ACCA and Deloitte would like to thank all the respondents who took the time to share their views with the researchers.

Executive summary

Despite the expansion of narrative disclosures within annual reports in recent years, the role and scope of narrative reports remains hotly debated. Narrative reporting was initiated to bridge the gap between providing only financial statements which are historic in nature and in a format not readily understandable by all on the one hand and the broader information needs of users on the other. But ironically, narrative reporting is now being associated with information overload, making annual reports more complex and costly and thus obscuring the story of the company's performance and position.

The future of narrative reporting depends not only on realistic appraisal of the perceptions and reservations of the users but also, and very importantly, on understanding the perspective and perceptions of preparers of narrative reports.

The current economic slowdown provides an opportunity to reflect on the development of an effective narrative reporting model. Is narrative reporting being used as a strategic communication tool to develop trust and build corporate reputation? Does it give an objective retrospective and prospective overview of the business model and of business performance, risks, relationships, resources, products and processes, thus responding to primary users' preferences? What are the challenges inhibiting it from achieving its potential for effectively bridging the information gap?

Against this background, this survey-based report presents a multi-jurisdiction snapshot of the critical challenges, principally for chief financial officers and finance directors of publicly accountable entities, in preparing a narrative report that users will perceive as decision-useful, balanced and reliable.

To do this, ACCA and Deloitte surveyed finance leaders in nine jurisdictions, covering both established capital and more developing markets. These markets were selected to provide both a wide geographical spread and to encompass countries which are on different points on the continuum of global narrative reporting development.

By ascertaining likely future trends in narrative reporting across these diverse markets – which include Australia, China, Kenya, Malaysia, Singapore, Switzerland, the UAE, the UK and the US – the report is designed to help inform an international road map for the future of narrative reporting.

KEY FINDINGS

The key findings from the survey are as follows.

The organisational significance of preparing narrative reports

The importance of narrative reporting preparation can be gauged from the strong strategic and operational areas that are driving it, with 82% of respondents saying that the preparation of narrative reports is driven by the chairman (9%), CEO (20%) or CFO/finance department (53%).

A mixed response to the single most important characteristic of narrative reports

There is far from a clear consensus as to the most important characteristic of narrative reports. The International Accounting Standards Board (IASB) considers the provision of decision-useful information to existing and potential providers of capital to be the main characteristic of narrative reports, as in the management commentary[1]. But only 29% of the survey participants consider that providing users with information relevant for decision-making is the most important characteristic of narrative reports.

'REGULATION IS BAD SOMETIMES BUT IF THINGS ARE LEFT TO DISCRETION YOU MAY ACTUALLY DISCLOSE TOO MUCH INFORMATION SOMETIMES.'

CFO, UK

'NARRATIVE REPORTING NEEDS TO BE SIMPLIFIED AND THE REGULATORY PROBLEMS NEED TO BE RESOLVED.'

FD, US

'I WOULD PREFER AS FEW REQUIREMENTS AS POSSIBLE. HOW MANY PEOPLE ACTUALLY READ THROUGH THE WHOLE THING? SOME OF THE NEW REQUIREMENTS ARE GOOD TO HAVE; HOWEVER, THEY OFTEN RESULT IN HUGE AMOUNTS OF EXTRA, DIFFICULT WORK FOR THE PERSON PREPARING IT, AND THAT REALLY KILLS US.'

CFO, SINGAPORE

'THE MAIN POINT IS THAT WE ARE ASKED TOO MANY DETAILS AND WE ARE MISSING THE BIG PICTURE.'

CFO, SWITZERLAND

'RECENTLY, THERE HAS BEEN A REQUIREMENT FOR MORE DISCLOSURE. I DON'T REALLY LIKE IT BUT WE HAVE TO ABIDE BY IT BECAUSE IT IS A REGULATION.'

CFO, MALAYSIA

1 *Management Commentary Exposure Draft*, International Accounting Standards Board, 2009

'THE AMOUNT OF CHANGE OF REGULATION, AND THE REGULATION ITSELF, IS PLACING A CONSIDERABLE BURDEN ON COMPANIES IN TERMS OF COST AND TIME.'

CFO, UK

'ANNUAL REPORTS VARY VERY MUCH FROM ONE ENTITY TO ANOTHER. SOME ARE VERY BARE, ESPECIALLY IN MALAYSIA. THE COMPANY TRIES TO DISCLOSE AS LITTLE AS POSSIBLE BUT THE SHAREHOLDERS WOULD LIKE TO HAVE AS MUCH INFORMATION AS POSSIBLE. ALSO IN MALAYSIA, IT IS VERY COSTLY TO PUBLISH VOLUMINOUS ANNUAL REPORTS. I THINK THERE SHOULD BE SOME GUIDELINES ON DEALING WITH THE CONTENT, VOLUME AND THE SIZE OF THE ANNUAL REPORT.'

CFO, MALAYSIA

'I WOULD LIKE TO SEE A GREATER EMPHASIS ON FORWARD-LOOKING REPORTING TO COUNTER THE TRADITIONAL HISTORICAL INFORMATION CONTAINED IN AN ANNUAL REPORT.'

CFO, UK

'I THINK IN THE CURRENT ENVIRONMENT, THE REQUIREMENT FOR NARRATIVE REPORTING HAS INCREASED. AFTER THE FINANCIAL CRISIS, INVESTORS/STAKEHOLDERS WANT TO LEARN MORE ABOUT THE COMPANY THEY INVEST IN, IN A MORE EASILY UNDERSTANDABLE MANNER. THE NARRATIVE REPORTING WILL HAVE TO ADAPT TO KEEP UP WITH THE CHANGING REQUIREMENT. THERE CANNOT BE A PRESCRIBED STANDARD OF REPORTING. HOWEVER, CERTAIN AGENCIES LIKE IASB OR REGULATORY AUTHORITIES OF THE COUNTRY COULD PROVIDE GUIDANCE TO THIS END.'

CFO, UAE

'HAVING REGULATION IS GOOD, BUT IT SHOULD BE CLEARER.'

CFO, CHINA

A diverse set of requirements/needs is driving narrative reporting

Even though 88% of the respondents considers shareholders to be the most important audience, legal and regulatory requirements are considered equally important drivers of narrative reporting. As this report shows, these requirements may not be compatible with each other. The future of narrative reports may therefore depend on resolving the preparers' predicament in trying to fulfil the different needs of the primary users, ie shareholders and regulators.

Risk, future, business model and KPI disclosures are highly important for shareholders

Respondents state that the disclosures considered significant by shareholders are the explanation of the financial results and financial position (87%), the most important risks and their management (67%), future plans and prospects (64%), a description of the business model (60%) and KPIs (58%).

Regulations determining narrative disclosures

Most respondents disclose an explanation of their company's financial results and financial positions (97%), corporate governance policies and procedures (87%) and directors' remuneration report (87%). The report findings indicate that the form and shape of narrative reporting, like that of the financial statements, is being determined by legal and regulatory requirements, rather than the needs of its main audiences.

Post-financial crisis: risk and future prospect disclosures are becoming a priority

Seventy-eight per cent of the survey participants are disclosing important risks and their management. 72% include forward-looking planning. The report findings illustrate that since the financial crisis there is increased interest in the disclosure of important risks and their management (78%) and future plans and prospects (66%).

Integrated corporate reports: an evolving concept

With limited environmental and social performance disclosure, it appears that the case for annual reports presenting an integrated overview of a business's performance still has to find supporters among finance leaders and possibly among shareholders.

Number of requirements and cost and time involved: critical challenges

Most (71%) of the survey participants consider the main challenges in producing a narrative report to be the number of requirements placed on it and the cost and time involved in preparing it. The perception of finance leaders that the legal and regulatory requirements are a critical challenge ought to prompt reflection by policymakers and regulators. This may be essential for a conclusive end to the current debate on how useful narrative reporting could be. Legal and regulatory compliance may not only incur significant cost and time but may also result in reports that 'tick the boxes' but do not necessarily contribute to the spirit of valuable corporate reporting.

Future of narrative reports: finance leaders want more discretion and less regulation

Even though respondents identify a number of means for improving the usefulness of narrative reporting – inclusion of external auditor opinion (58%), more emphasis on forward-looking information (57%), IASB guidance (51%) and third-party verification statements (33%), a majority (65%) would like a reporting environment where there is more discretion and less regulation. For regulators, the prevention of another global financial crisis may appear to lie in increased disclosure. For preparers, enhanced disclosures may result in significant extra time and cost, while adding to the length and complexity of annual reports. Critical evaluation of existing requirements, rather than their unending evolution, may be the way forward. It would need to be combined with an enabling discretionary environment that facilitates excellence through preparers' creative innovation and orientation towards shareholders' needs.

The economic slow-down may well be a time for mapping the future shape of narrative reporting. It offers the opportunity for introspection and the evaluation of narrative reporting's aims and objectives in the light of users' preferences and of any changes since the economic downturn began.

Survey introduction

NARRATIVE REPORTING IN THE GLOBAL MARKETPLACE

The development of capital markets and the increasing sophistication of investors and stakeholders within them have driven progress in narrative reporting. Markets develop at different speeds and have different needs. Regulators have also taken varied approaches to responding to investors' information needs. So it is inevitable that narrative reporting is at different stages of evolution around the world.

The objectives of this international survey have been:

- to identify international differences
- to uncover the challenges faced by senior finance professionals, as preparers of annual reports; and
- to obtain comments on the future direction for narrative reporting.

The recent financial markets crisis and its impact on the global economy have inevitably led to a much greater focus on what and how listed companies report in different markets to satisfy the needs of the users of annual reports.

With a lack of information or understanding blamed as a root cause of the global markets' downturn, there are myriad pleas for enhanced clarity, relevance and transparency in annual reports. This has included calls for simplification, the inclusion of customised, industry-relevant KPIs, and an increased focus on value-relevant disclosures of risk, future prospects and business models. A growing emphasis on corporate responsibility has also led to demands for greater transparency in how sustainability issues are linked to corporate strategy and how they affect earnings and comparative performance.

As a result, there have been, and continue to be, wide-ranging debates on how to create annual reports that users find balanced, reliable, understandable, comparable and relevant. The aim is to encompass information that is financial and non-financial, historical and future-oriented, and explains the main trends and factors underlying the development, performance and position of the entity concerned. Some suggest that these goals could best be achieved by extending the narrative reporting within annual reports.

Narrative reports appear in various guises such as management commentary, management discussion and analysis, extended business review, operating and financial review, chairman's statement, corporate governance statement, environmental statement, remuneration report and health and safety statement. Whatever form they take, as organisations have striven to enhance the value and relevance of their corporate reporting, the narrative report is an increasingly important part of the annual report.

Despite the volumetric expansion of narrative reports, concerns have persisted that they are merely a compliance exercise. There are also doubts about their cost/benefit balance, the neutrality of disclosures, information overload, value relevance and information-usefulness. Preparers have struggled to develop narrative reports beyond boilerplate, generic disclosures to meet the demands of regulators/legislators. Intended to give users a better understanding of a business, narrative reporting paradoxically may now lead to a less clear and more confused picture.

For example, the UK's Financial Reporting Council (FRC) review of the narrative reporting of 50 UK-listed companies in 2008 and 2009, *Rising to the Challenge*[2], states that, even though the quality of narrative disclosure has improved since the first review in 2006, significant opportunities remain for enhanced disclosures of principal risks, business models and non-financial KPIs. Reports would benefit from preparers showing a clear understanding of the spirit of requirements, avoiding information clutter and including comparable quantitative information rather than bland statements.

'I THINK THERE SHOULD BE MORE STATEMENTS ABOUT FORWARD STRATEGY, IE REFERRING TO THE FINANCIALS FOR THE YEAR AHEAD.'
CFO, AUSTRALIA

'ANNUAL REPORTS THESE DAYS JUST FOLLOW THE RULES AND REGULATIONS AND THERE IS NO EVIDENCE OF ENGAGEMENT WITH STAKEHOLDERS. I FIND THAT MOST ANNUAL REPORTS ARE HISTORICALLY ORIENTED AND PROVIDE A LENGTHY BUT VAGUE HISTORICAL OVERALL VIEW OF THE COMPANY. BUT SHAREHOLDERS ARE LOOKING FOR MORE INFORMATION ABOUT THE FUTURE AND THE PROSPECTS OF THE COMPANY.'
CFO, MALAYSIA

'I THINK THERE IS TOO MUCH REGULATION; IT IS TOO RESTRICTIVE. IT IS HARD TO KEEP CONFIDENTIALITY. THIS GIVES AN ADVANTAGE TO UNLISTED COMPETITORS BECAUSE THEY KNOW SO MUCH ABOUT OUR BUSINESS BUT THEY ARE NOT OBLIGED TO TELL US ANYTHING.'
CFO, AUSTRALIA

'I THINK THE WHOLE ANNUAL REPORT HAS BECOME A REGULATORY REQUIREMENT AS OPPOSED TO AN INFORMATIVE DOCUMENT; AND HAVING MORE NARRATIVES IS NOT GOING TO HELP. THEY ARE COMPLEX AND AT TIMES DIFFICULT TO UNDERSTAND.'
CFO, AUSTRALIA

2 *Rising to the Challenge – A Review of Narrative Reporting by UK Listed Companies,* Financial Reporting Council, 2009

FRC's discussion paper *Louder than Words*[3] contends that the complexity of corporate reports, their perception as compliance exercises and their attempt to please too many users all work to inhibit the effective communication of an overall picture of business performance. It calls for a return to the principle that the main purpose of a corporate report is to provide decision-useful information to its primary users – the investors in the company. *Louder than Words* implies the need for a period of reflection for all the stakeholders (including the users and preparers of corporate reports and regulators). This would lead to a critical review of the narrative reporting model with the aim of setting a principles-based approach to regulation and the production of corporate reports which users, including investors, find relevant.

NARRATIVE REPORTING – ACROSS THE BOUNDARIES

The evolution of corporate reporting has been largely driven by local legislation and local market requirements. In recent years, the globalisation of business has led to calls for greater consistency in the information provided to stakeholders.

In June 2009, the International Accounting Standards Board (IASB) issued for public comment a proposed non-mandatory framework for narrative reporting. The framework provides guidance to improve the consistency and comparability of reporting across jurisdictions. It identifies the Management Commentary as the primary component of an annual report, alongside the financial statements and accompanying notes. The International Federation of Accountants (IFAC) is also taking a keen interest in the development of an updated series of best practices for improving narrative reporting globally.

Narrative reporting practice is well developed in the US, where the Securities and Exchange Commission requires inclusion of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in the annual reports. MD&A addresses the 'reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems'. It should also address 'significant events, conditions, trends and contingencies that may affect future operations'[4].

The requirements for management commentary-type of reporting are set out in various legal instruments adopted by the European Union, in particular the Fourth and Seventh Company Law Directives. In the UK, Accounting Standard Board (ASB) Reporting Statement 1 outlines guidelines for the preparation of the Operating and Financial Review, while under the Companies Act 2006, listed companies are required to include an extended business review in the directors' report, that should identify the main trends and factors likely to affect the future development, performance and position of the company.

In Kenya, Switzerland and the UAE companies voluntarily include the chairman's statement, the chief executive statement and activity reports.

In China, the listing rules[5] require the annual report to include not only financial statements but also discussion and analyses of the management section and directors' report.

The Corporations Act of Australia[6] includes the requirement to prepare a directors' report for each financial year. This report should include an overview of the entity's operations, results and activities, including any significant changes, as well as the entity's state of affairs and key developments expected in future financial years.

In Malaysia, enterprises are encouraged to present, outside the financial statements, a financial review by management describing and explaining the main features of the enterprise's financial performance and financial position, and the principal uncertainties it faces. Outside the financial statements, additional statements such as environmental reports and value-added statements may be included if management believes they will assist users in making investment decisions[7].

In Singapore, under the Companies Act, companies are obliged to include a directors' report in their annual financial statement. The report must give a fair review of the company's financial and operational results and conditions[8].

Given the global nature of modern business, it is essential that the debate around the future shape of narrative reporting considers the perspectives of preparers across multiple jurisdictions.

By focusing on nine varied international markets, this research report provides an insight into the perspectives of senior finance executives on the current and future shape and value of relevant narrative reports and the challenges in preparing them. Its aim is to further the debate on the development of corporate reports that tell, effectively and transparently, a meaningful story of the business to their main users.

3 *Louder than Words – A discussion paper,* UK Financial Reporting Council, 2009
4 *Statement of Recommended Accounting Standards Number 15, Management Discussion and Analysis*, the Federal Accounting Standards Advisory Board (FASB), April 1999
5 *China Securities Regulatory Commission Order Number 40* (Management Method for Listing Company's Disclosure)
6 Section 299 of the Corporations Act of Australia
7 *Financial Reporting Standard 101 – Presentation of Financial Statements*, Malaysian Accounting Standards Board, 1 January 2010
8 Section 201 of the Companies Act of Singapore

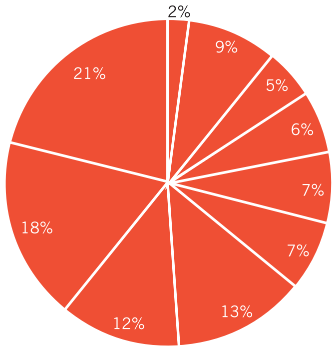
Study methodology

The report is based on telephone interviews with 231 CFOs, group finance directors or equivalent within publicly accountable entities (preparers of annual reports) in Australia, China, Kenya, Malaysia, Singapore, Switzerland, the UAE, the UK and the US, conducted from April to June 2010.

The three charts below give further information on the respondents and their companies.

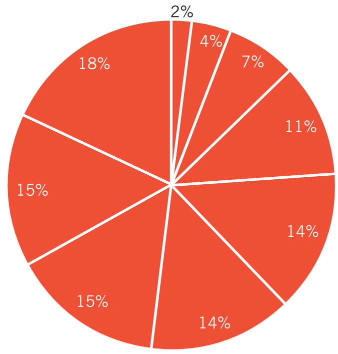
INDUSTRY

2% Professional services and consulting
9% Energy and natural resources
5% Leisure, media and entertainment
6% Pharmaceuticals and healthcare
7% Manufacturing and industrial and automotive products
7% Other
13% Consumer products and retail
12% IT and telecommunications
18% Building, engineering and infrastructure
21% Banking and finance

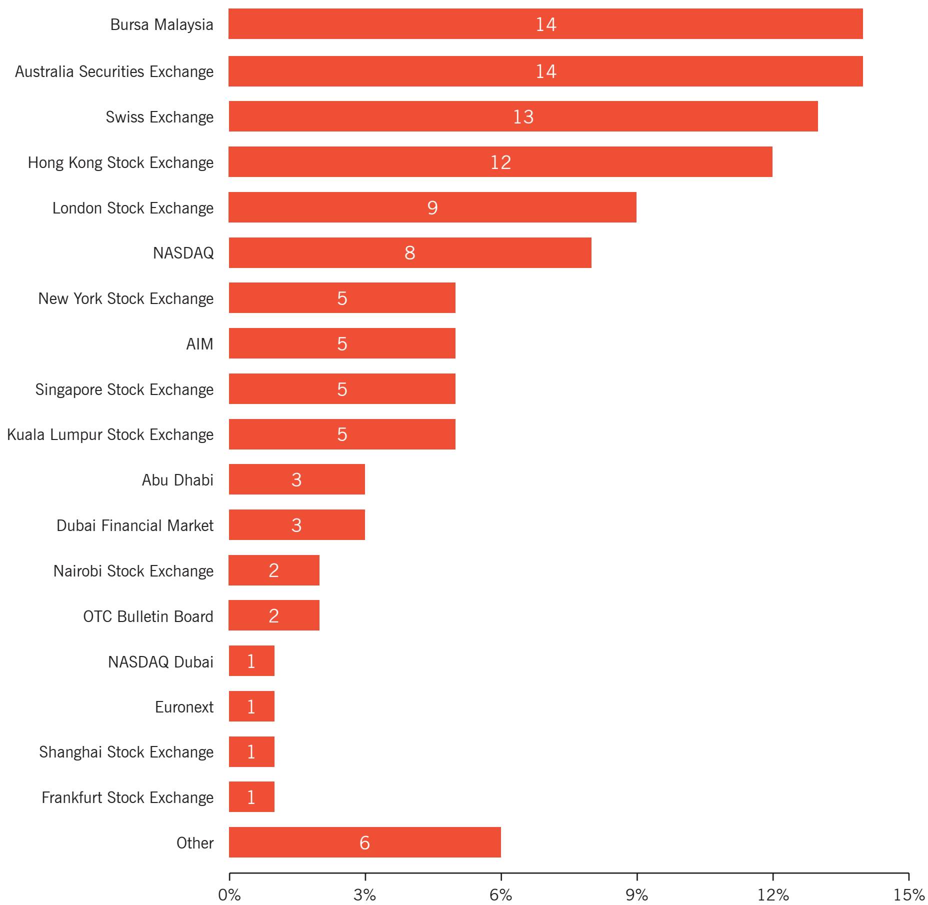


LOCATION

2% Kenya
4% Singapore
7% UAE
11% China
14% Australia
14% US
15% Switzerland
15% UK
18% Malaysia



STOCK EXCHANGE LISTING[9]



9 The survey respondents had the option of selecting multiple options for the stock exchanges on which the company was listed

Survey findings

FINANCE FUNCTION LEADING NARRATIVE REPORTING

The majority of those surveyed believe that their organisation's finance function steers its narrative reporting. According to 53% of respondents, either the finance department or the CFO drives the majority of the preparation of narrative reporting within the annual reports. As reporting has moved beyond historically focused, number-driven content, a significant number of organisations appear to have widened the scope of the finance remit rather than allocating the preparation of narrative disclosures to other parts of the business. With 20% of respondents saying the chief executive drives the majority of disclosure, there is a strong bias among those surveyed towards placing narrative disclosure under firm strategic and operational control.

The importance of narrative disclosure within annual reports is underlined by the fact that 82% of the respondents said that the business leadership or functional strategic areas – the chairman/CEO/finance department – drive the majority of narrative disclosures within the annual reports. The question of how this influences content presentation is an interesting one. Does it reinforce the practice of compliance-driven and boilerplate reporting? Does the relative lack of leadership by marketing and investor relations departments (only 9% of respondents claim that these departments drive the process) mean that the ability of the report to tell a meaningful story about financial and non-financial performance is being given prominence?

CHARACTERISTICS OF A GOOD NARRATIVE REPORT

IASB considers the provision of decision-useful information to current and potential investors to be the principal characteristic of narrative reporting. While relevance to the decision-making needs of users may be the most important characteristic of narrative disclosures, there is no clear-cut consensus among respondents.

CHART 1: DRIVING THE PREPARATION OF NARRATIVE DISCLOSURE

WHO DRIVES THE MAJORITY OF YOUR NARRATIVE?

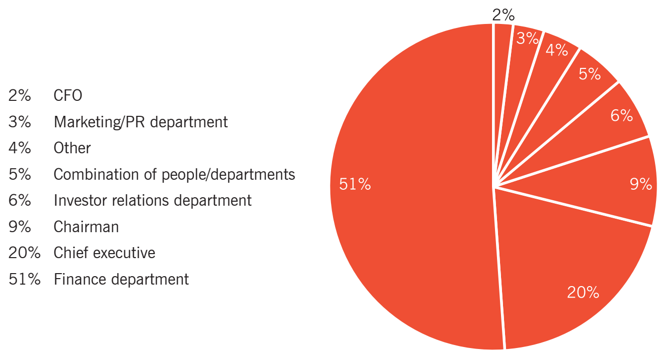
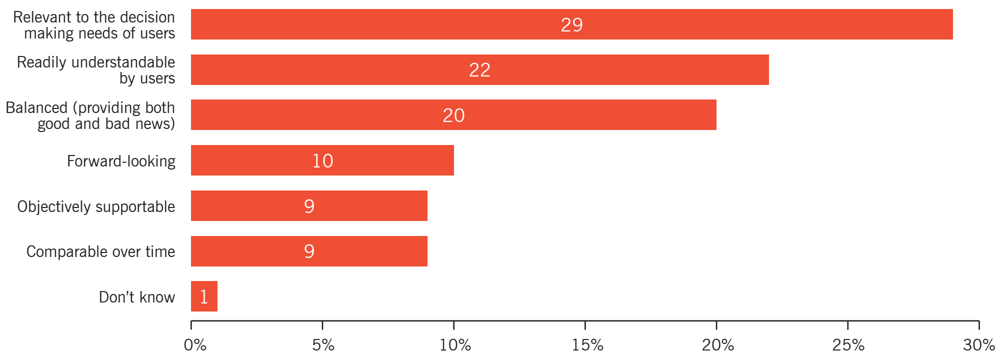


CHART 2: NARRATIVE DISCLOSURES – MOST IMPORTANT CHARACTERISTICS

WHICH CHARACTERISTICS OF NARRATIVE DISCLOSURE ARE CONSIDERED TO BE THE MOST IMPORTANT?



Only 29% of respondents believe that the relevance to users is the most important characteristic. While this was the most popular answer, the majority of respondents chose other characteristics as the most important. So, is narrative reporting achieving its main aim, or is the preparer's task being blurred by legal and regulatory compliance or other features?

DRIVING NARRATIVE DISCLOSURE: SHAREHOLDERS OR REGULATORS?

Narrative reporting has developed both as a result of preparers' desire to communicate continuously evolving regulatory requirements and meet user expectations. How do preparers prioritise the needs of these and other audiences?

The survey findings show that preparers of narrative reports consider legal and regulatory compliance (83%) to be marginally more important than shareholders' requirements (82%), followed by the demonstration of stewardship, ie accountability to stakeholders (71%). The equally high importance with which the needs of regulators and shareholders are treated goes to the heart of one of the dilemmas facing narrative reporting. How do preparers balance the need to meet legal and other requirements with the desire to tell the story of the period under review and the possible consequences for the future?

Most respondents (57%) consider building reputation to be a highly important driver for narrative reporting disclosures. This suggests that, since the global economic downturn and in recognition of the increasing attention paid to corporate social and environmental reporting, preparers now see narrative reports as an opportunity to build corporate reputation by illustrating their reputational risk management.

While only 29% of respondents consider relevance to the decision-making needs of users to be the most important characteristic of narrative reports (see chart 2), 53% see providing useful information for decision-making as a highly important driver for narrative reporting.

AUDIENCES FOR NARRATIVE REPORTING

The challenges of narrative reporting can be simplified when preparers have a clear view about its main users. The survey findings (see chart 4) show that shareholders are considered by far the most significant audience (cited as of high importance by 88% of respondents), with 67% of respondents also seeing regulators as of high importance. Analysts are considered the third most important set of users (56% of respondents assigned them high importance). Even though 71% of respondents say that stakeholder accountability is a highly important driver for narrative reporting disclosures (see chart 3), wider stakeholders (such as customers, general public, employees, media and suppliers) are considered of only moderate or low importance by the large majority of respondents.

SHAREHOLDERS AND REGULATORS – REQUIREMENTS FROM NARRATIVE REPORTING

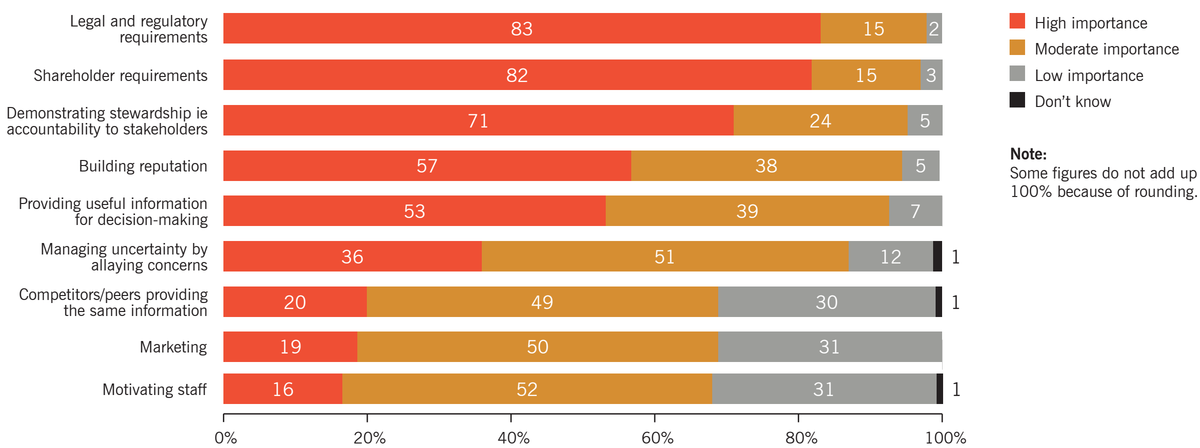
Regulators may not be the most important perceived audience but their requirements and those of shareholders are seen as almost equally important by respondents. But if the requirements of both the shareholders and regulators are of equal importance, what is the main reason for preparing narrative reports? Is it to comply with legal/regulatory requirements or to fulfil the requirements of the main users of narrative reports (ie shareholders)? Are these requirements mutually incompatible?

SHAREHOLDERS' NEEDS: FINANCE LEADERS' PERCEPTIONS

Preparers perceive the five most important disclosures for shareholders to be: explanation of the financial results and financial position (87%), most important risks and their management (67%), future plans and prospects (64%), description of the business model (60%), and key performance indicators (58%).

CHART 3: NARRATIVE DISCLOSURES – IMPORTANT DRIVERS

HOW IMPORTANT ARE THE FOLLOWING DRIVERS FOR INCLUDING NARRATIVE DISCLOSURES IN ANNUAL REPORTS?



Note:
Some figures do not add up to 100% because of rounding.

US

RON DISSINGER, CHIEF FINANCIAL OFFICER, KELLOGG COMPANY

Keep it simple
As CFO of Kellogg, the food giant based in Battle Creek, Michigan, Ron Dissinger believes his narrative reporting task is arguably more straightforward than those of finance leaders in some other business sectors.

Setting out how the Kellogg business has performed is, Dissinger feels, the main thing investors look for from the narrative within the company's annual reports.

'They want to know about the state of the business,' he says. 'They can read and interpret our financial statements. What they want set out in the narrative are clear statements on the state of the business and drivers of performance.'

While Dissinger sees compliance and communicating with users as of equal importance and value, he is not convinced that investors have deep interest in some of the disclosures that are mandated by regulators.

'We find that, from a regulatory standpoint, our disclosures can be exhaustive. But when we talk to investors, rarely do we get questions on some of the more technical components of our 10-Ks and 10-Qs [the annual and quarterly reports that summarise a public company's performance, as required by the US Securities and Exchange Commission]. They may comment that we've done a good job and that they're very thorough and easy to understand, but we don't get a lot of people calling us and asking specific questions, especially on the more technical disclosures.

'The fact is that they are far more interested in the commercial aspects of our business. However, we recognise that many of the technical disclosures and notes provide investors with relevant information on the financial health of the business.'

For this reason, Dissinger believes that the text which sets out the business performance is the most valuable part of the narrative reporting section. But he also points out that it is far from the only source of information on which investors rely and that there will be valuable opportunities for investor questions in conference calls, industry conferences and investor meetings.

Summing up, Dissinger says that 'regulators should be sensitive to investor needs' and consider these when deciding what is mandated within narrative reporting.

UK

ERIC HUTCHINSON FCCA, CHIEF FINANCIAL OFFICER, SPIRENT COMMUNICATIONS PLC

A marriage of equals
For Eric Hutchinson, FCCA, chief financial officer of Spirent Communications plc (a FTSE 250 communications and systems company), the twin drivers of communication to shareholders and compliance for regulators are mutually supportive.

'I would say that the compliance aspects are a necessary safeguard, underpinning the tone and content of the communication,' he explains. 'So I see the regulatory requirements of narrative reporting moderating or enforcing certain things which need to be communicated and generally imposing a balance that would not otherwise be there.

'From the CFO's perspective, communicating to shareholders, investors and the wider market is your number one priority. But you find that, if you get the communication right, you usually tick all the compliance boxes on the way.'

Nor does he see the numbers as subservient to the narrative or vice versa. 'Both have got weight,' he says. 'The financial numbers clearly have to represent the true view of the financial position and the performance of the company. But alone, they don't mean very much. Without the narrative explanation, you might as well publish bank statements. And, equally, the narrative reporting can't just stand alone without locking back to something that people feel has been scrutinised by the auditor.'

However, Hutchinson concedes that corporate reporting in annual reports does have weaknesses, not least because of a tendency to adopt what is generally accepted practice and the reluctance of companies to strike out from the herd and do things differently.

He also believes in the need for greater clarity in explaining companies' business models.

'The most valuable part of the narrative report for users is the business review,' he points out. 'They want to know what the company does, how it generates income and who its customers are – plus, are those customers going to come back next year, and are they going to buy more or less? With all the complexities of language that tend to sit around the business review and reporting, it can be quite difficult to penetrate.

'I think that a lot of readers of accounts do find it very difficult, with any company, to really understand what its business is. I would like to see, in the annual reporting at least, a clear statement of what the company does in plain English, followed by a clear explanation of how it generates income.'

And while many companies have increasingly complex business models, he believes that the overall rationale for a company's existence can always be conveyed concisely and clearly.

'If you can't set this out on one side of paper, in fairly large type, then there's something wrong.'

AUSTRALIA

EAMON BYRNE FCCA, CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY, EXCO RESOURCES

The industry matters
Eamon Byrne is CFO and company secretary of Exco Resources, a mining and exploration company, headquartered in West Perth, Australia. Having worked for a number of resources companies during his career, Byrne stresses the importance and value of sector-specific reporting. The contents of what he describes as the marketing section of Exco's annual report have a very particular focus, given that much of the commercial value of the business may not be reflected on the balance sheet.

'The marketing section contains the narrative on all our projects, including how they are progressing and how we see them developing in the future,' he says. 'For that reason, it is a really important part of the annual report for users.'

Byrne makes the point that the rules around continuous disclosure mean that the annual report is unlikely to reveal anything operationally material of which the market was previously unaware. 'The rules around continuous disclosure in Australia for listed companies, especially for mining and exploration companies, are understandably strict, so the market learns about new projects and developments as they come on-stream,' he says. 'Nevertheless, the overview of our operations provided in our annual report is valuable to investors because of the comprehensive picture it paints.'

Byrne also highlights how important the ability to fund projects is to investors in his particular industry and how this influences what they look for from reporting. 'We produce a quarterly report for the Australian Securities Exchange and one of the main focuses of that report is how much money you have at the end of the period,' he explains. 'In the mining business, cash is king. People want to know if you have the funds to continue your projects. So at the exploration stage, the profit and loss and, to a certain extent, the balance sheet are not the focus of attention – it's cash and what you're going to do with that cash in the future. Future investors or shareholders will home it on that, along with information describing projects you're looking to fund in the future.'

As for shortcomings in reporting, Byrne points to issues of comparability: 'This can be a problem, as companies have different approaches to things like the capitalisation of exploration expenditures, KPIs and unit costs. Here in Australia, there is a history of standards for the extractive industry, which certainly helps, but there is nevertheless a range of matters of judgment around how costs are treated and measured, even in statutory reporting.'

Characterising the ideal balance between discretion and regulation in narrative reporting, Byrne feels it is important to have the freedom to tell the unique story of the business within the annual report, which at the same time has some comparability with how others are reporting. 'It is difficult,' he admits. 'You want the necessary discretion to say what you can to create good, meaningful information for your stakeholders, and you also want some standard structure to work to, if only for comfort.'

MALAYSIA

FAIZATUL AKMAR FCCA, CHIEF FINANCIAL OFFICER, TIME DOTCOM

Disclosing the future – balancing needs and reactions
Time dotCom, Malaysia's leading alternative fixed-line telecommunication solution provider, is listed on the main market of the Malaysian Stock Exchange (Bursa Malaysia).

Faizatul Akmar, the company's CFO, considers narrative reporting to be more important than financial statements. 'There is a link between financial statements and narrative reporting,' she says. 'In our company, narrative reporting is the joint effort of a number of departments. I ensure that there is no contradiction between financial statements and narrative sections, but the numbers have limited significance. You look at the numbers and they tell you about the profitability of a company. What you want to know is how was the profit made. It is the story around the profits, around the numbers, that is more usefully meaningful.'

Akmar believes that this story should be told in simple terms: 'Reports should not be complex. If they are, they will not be useful. At times, shareholders do not understand the annual reports. They are supported by analysts for interpretation of annual reports.'

As analysts ask a lot of questions about the contents of narrative reports, Akmar believes that narrative reports are a useful source of information for analysts. 'Analysts consider narrative reports very useful,' she says. 'They go through the reports and ask a number of questions. They want to know about future prospects, market share, new developments, about what we are trying to do. Analysts know that we cannot disclose everything in the narrative reports, but we do answer their queries.'

There is a recognition that narrative reporting could be more consequential to analysts and shareholders if more information was disclosed. However, apprehensions about shareholders' adverse reactions to the accuracy of disclosures, especially those involving future projections, are compelling preparers to limit narrative reports to regulatory compliance.

Akmar says: 'As preparers of narrative reports, our focus is on complying with regulatory requirements. We try not to disclose everything but if shareholders ask, we give the information. In my experience, at the annual general meeting shareholders ask questions about future prospects. They want information about future prospects, but if we disclose it in the annual reports and the future does not turn out to be as the disclosures in the annual reports, we would be held responsible for the disclosures. So the usefulness increases with more information, but if we disclose more information, we run the risk of being held accountable for the information disclosed. We thus disclose only what is required by regulations.'

Looking ahead, Akmar says: 'We need more information in the narrative reports. Reports are becoming thin because, due to cost-cutting measures, companies are limiting themselves to regulatory requirements. Going forward, we need to balance the shareholders' requirements and perception about their reaction to disclosures. A balance between regulatory requirements and giving information to shareholders for making decisions will be good, but how do we do it?'

UAE

RAMANATHAN NARAYANA, FINANCIAL CONTROLLER, DUBAI INSURANCE COMPANY

Narrative reporting – an exercise in compliance
Dubai Insurance Company is the UAE's foremost insurance company, supported by leading reinsurers. The company underwrites all types of risks in general, life and health insurance.

Ramanathan Narayana, its financial controller, contends that the main purpose of narrative reports is compliance with legal requirements. 'What narrative reporting does is to achieve compliance to a larger extent,' he says. 'Users are interested in some part of the narrative reporting, which is essential to understand the financial statements.'

In his opinion, shareholders in emerging economies tend to rely mostly on financial statements. Shareholders' interest in annual reports is therefore mainly confined to learning about a company's financial performance and position, and to know through the narrative reporting that the company is complying with the local regulatory framework and international standards.

One of the main features of narrative reporting is corporate governance and risk management. The regulations make it compulsory for all listed companies to adhere to corporate governance guidelines and it becomes all the more important for users of financial statements that the company is fulfilling the legal requirements and following best practice in corporate governance and risk management.

Complexity of narrative reporting is a major concern for Narayana. 'Annual reports have become complex,' he says. 'Because of the sheer size of the narrative reports, it becomes difficult for an ordinary shareholder to fully understand the significance of the same.'

As to the future shape of narrative reporting, Narayana says: 'The annual reports are getting thicker. In order to protect the policyholder and the stakeholders, the regulatory authorities in most of the countries want more disclosures for enabling the ordinary man and the shareholder to understand the company better.'

SINGAPORE

AMOS NG FCCA, CHIEF FINANCIAL OFFICER, STRACO CORPORATION

Regulators: lending credibility
As chief financial officer of Straco Corporation, a leading developer of Chinese tourist and leisure attractions, Amos Ng is very clear about what is expected from finance leaders in the field of narrative reporting. 'First and foremost, we need to ensure that the annual report is informative, comprehensive and user-friendly,' he says.

In terms of what is most valuable to users, Ng highlights those areas of the report where management speaks directly to readers about the business. 'The reports from the managing director or the chairman to the shareholders are what really provide insight into the performance of the reporting entity and the challenges and opportunities within the industry,' he says. 'The Operating and Financial Review is also highly valuable as it provides more explanation to supplement and continue the second part of the annual report.'

Ng makes the point that the annual report is not the only form of corporate information on which investors rely. 'You have to put things in perspective because, for a listed company, the annual report is only one means of communicating with the shareholders,' he says. 'There is also quarterly reporting and other announcements that we need to make, as and when things happen. But, essentially, the annual report provides a comprehensive summary of the state of affairs of the company.

'If I put myself in the position of an investor, I would like to look at not only what the chairman has to say and how the company has done in the past financial year, but where the challenges and the opportunities for the company will be, going forward.'

However, talking about future prospects comes with inherent challenges. 'Most companies will be understandably wary of talking too openly about their individual strategies for capitalising on opportunities,' Ng says. 'But there is certainly no issue in talking about the challenges facing an industry per se, as a means of giving users greater insight.'

He also highlights the contrast between annual reporting and more continuous disclosures: 'In quarterly reporting, there is a section which looks at performance and major issues that may impact the industry and the company in the short term. In comparison, annual reports are very historical in nature.'

Ng suggests that one area of improvement would be to try and capture this more forward-looking view in annual reporting. 'Adding in sections about the outlook for the business and what shareholders can expect from the company in the future would be beneficial,' he says. 'Obviously, it can't be hugely specific but it can provide that more macroeconomic view of what may impact the industry.'

Compliance has not been set up in opposition to users' needs, says Ng, but to reinforce them: 'Things like the code of corporate governance and directors' remuneration are pretty important disclosures, whether you are shareholder or staff. At the end of day, regulators are there to serve the needs of stakeholders and this is the perspective from which they start.

'Achieving compliance with the laws and rules governing narrative reporting lends credibility and reliability to your annual reports. If things were left entirely to the preparer, this would lead to varying standards.'

KENYA

**RISPER ALARO MUKOTO FCCA,
FINANCE AND HUMAN RESOURCE MANAGER,
CENTUM INVESTMENT COMPANY LTD**

Beyond regulation – telling the story
Centum Investment Company Limited (Centum) is the largest quoted investment company in East Africa. Founded in 1967, Centum is both a provider and manager of funds, and positions itself as an investment channel through which other investors are able to access diversified investments and management expertise for a superior return. Centum has a pan-African investment focus, and as at 31 March 2010, had a portfolio of assets under management valued at over $110m. The portfolio consists broadly of investment in private equity, listed equity and real estate.

As Centum's finance leader, Risper Mukoto is very conscious of the value narrative reporting delivers to Centum's various stakeholders, who include providers of capital and consumers of capital as well as the stock market investing public.

'Narrative reporting enables our stakeholders to make sense of the financial performance of the company and keep track of the strategic direction of the company. Stakeholders also get a better sense of the company's operating environment, corporate governance structures and so on. This allows them to make informed partnership decisions.'

While the regulator demands specific disclosures which focus on corporate governance and the timely submission of information, Mukoto points out that user needs may go significantly beyond what Centum is currently required to report.

'When you are communicating to stakeholders, the questions they are asking themselves are: is this a company I want to partner with? Is this a company I want to invest in? Is this a responsible company?' says Mukoto. 'This will certainly include issues of corporate governance, which is a requirement by the regulator, but also information on the company's strategic direction and social responsibility.'

As the finance leader working for a closed-ended investment fund, Mukoto is also conscious of the industry-specific complexities with which stakeholders have to contend. She highlights issues around accounting for financial instruments and how difficult this can be for a user to decipher.

'Any layman looking at a statement of comprehensive income may think that this is the 'cash' made by the company during the period, whereas – under IFRS – that's not essentially it. Issues around fair valuation are also still not widely understood. Narrative therefore needs to demystify IFRS reporting and guide users on how to interpret the statements and value creation in the period. That has been a big challenge for us.'

For this reason, Mukoto sees the narrative part of the annual report and the audited financial statements as working very much together: 'One should really explain the other. So if you were in a hurry and you picked up the financial statements and you just wanted to look at two pages – the financial position and the income statement – you would really just need to look at one other narrative report (the Board statement) to explain the environment behind performance. The statements complement each other.'

UK

THE NATIONAL ASSOCIATION OF PENSION FUNDS

More, in fewer words
The National Association of Pension Funds (NAPF) is the leading UK body providing representation and other services for those involved in designing, operating, advising and investing in all aspects of pensions and other retirement provision. Speaking for the wide range of investors NAPF represents, David Paterson, head of corporate governance, believes that the ideal narrative reporting within annual reports should present them with a clear, strategic view of the business.

'It's important that narrative reporting should effectively present a description of the company's business, starting from very high-level principles and working through the detail. So, ideally, a narrative report should make a clear statement as to what the company's objectives are, how it plans to achieve them, the key risks associated with the strategy and the extent to which it's been successful over the preceding year, and over the longer term. Following on, there should be details provided by the chairman and senior management, looking at the areas they have responsibility for: the chairman looking particularly at the operation of the Board in supporting strategic delivery; the CEO talking about how the strategy has evolved and how the business has performed in the current business environment; and the CFO looking at the financial outcome in more detail, including the effective use of capital and the company's approach to funding.'

In considering whether narrative reporting in annual reports is giving investors the decision-useful information they need, Paterson points out that these reports are only one element of what is a complex reporting structure, with much valuable information being provided throughout the year, at meetings and presentations. He nevertheless stresses that the annual report provides a valuable function. 'The role of the annual report is to take a step back and look at the business in a more considered way. It allows a company to take stock of where it is in terms of building the business towards its long-term goals.'

In thinking about some of the challenges around narrative disclosure, Paterson highlights three main areas. 'There can be a tendency to slip into boilerplating. Where there are lists of requirements the preparer has to meet, the result can be a document which is driven by the regulations and less by the needs of the users. Escaping from this is very important.'

The size and scope of some current reporting is also a concern. 'There are some very good reports, but many are simply too big. One of the challenges for companies is to create something that meets all the necessary regulatory requirements and that really informs shareholders of all shapes and sizes. What we should be aiming for is better quality reporting, which says more in fewer words.'

'Talking about environmental and social matters may be the biggest challenge. There is a problem in how to incorporate better information on these issues in such a way that they enhance investors' understanding of the dynamics of the business. The point of improved disclosures in this area is to enable investors to understand better what the risks around such matters are and how the company has addressed them from the point of view of creating a long-term successful business.'

The final comment Paterson makes is that 'the annual report is not a marketing document. It should be a report on the progress of the business during the previous 12 months, but also looking longer term, so users can see the continuum. In doing this, there is always a danger of turning reports into just a list of successful achievements. The annual report should cover what didn't go well, in addition to what did, and how the Board and senior management have responded to challenges.'

'It's difficult' Paterson concedes, 'because no one wants to talk about things that have not gone to plan. But nothing goes in a straight line – that is the way life is.'

UK

THE ASSOCIATION OF BRITISH INSURERS

Focus on the material
In relation to the challenges facing preparers, Marc Jobling, assistant director – investment affairs at the Association of British Insurers (ABI), highlights the diversity of expectations within the investor community.

'There isn't just one type of investor, so what they are looking for from narrative reporting within annual reports will vary,' he explains. 'For example, institutional investors will be very interested in a company's strategy and look at the reporting on this to combine with their fundamental analysis. There will be other investors who rely more on management information and trading statements, rather than the annual report. Then there are retail investors who see themselves as being owners and a sense of almost brand loyalty. They are interested in how the company has done, what the activities are during the year, how it's performed, new product lines, and so on.'

For this reason, Jobling points out that it is hard to say whether investors, as a group, are getting what they want from narrative reporting. 'From our point of view, what we can say is that there are some issues with annual reports, but the solutions to these are not straightforward. Reports are better at informing now than they used to be, but the general concern – which reflects our members' views, as portfolio investors – is lack of comparability across different companies. But standardisation – which would be a solution to delivering more comparability – could endanger the flexibility to present information according to a company's individual circumstances.'

Another issue Jobling raises is the lack of cohesion between the narrative and the financial statements that persists in some annual reports. 'I think this is still a problem,' he says, 'this sense that different parts of the report are written by different people and there's not a connection between them. In these cases, the narrative reporting doesn't necessarily provide an explanation of the company's performance that is reflected in the numbers.'

While investors would not expect to see information that surrenders competitive advantage, or is problematic to disclose for legal reasons, Jobling feels that there could still be more transparency. 'You generally find that if the chairman's statement begins with "we've had a challenging year", the numbers will certainly bear this out. But there's not always a willingness to bring things to the fore and say "look: this is how it is, and this is the way we're going to get out of it."'

Looking ahead, Jobling believes what is most needed in narrative reporting within annual reports is greater brevity and clarity: 'In the UK context, what we probably want to see is a more strategic and succinct approach.'

It is accepted, however, that balancing brevity with providing valuable information remains a challenge. 'You don't want the narrative reporting to be so brief that you feel you're being underinformed, but neither should it be so lengthy that it becomes impossible to digest. Those writing the report need to think about what is really important and material, and bring this out.'

US

THE COUNCIL OF INSTITUTIONAL INVESTORS

A model of discretion
The Council of Institutional Investors (CII) is a non-profit association of public, union and corporate pension funds with combined assets of more than $US3 trillion. Its member funds are major long-term shareowners with a duty to protect the retirement assets of millions of American workers. In terms of making decisions that safeguard and maximise these investments, CII sees clear value in narrative reporting – provided it fulfils certain key expectations.

Glenn Davis, CII's senior research associate, points to a positive trend in the US towards a more descriptive approach to highlighting core information. It is an approach that benefits from the discretion encouraged by the management discussion and analysis (MD&A). He says: 'There is a flexibility within the MD&A that enables reporting to guide the investor towards key material factors, meaning that preparers don't need to cover every single trend and occurrence.' He adds that blanket disclosure is actively discouraged in the guidance provided to preparers by the Securities and Exchange Commission (SEC).

Davis believes that this ability to shape the report to the company's individual circumstances, helps guard against boilerplating and allows preparers to tell a meaningful story. 'The last thing the investor community wants is a template that everyone fills out in the same way' he says. That's not fulfilling the true spirit of narrative reporting.'

He points to the MD&A of Berkshire Hathaway as an example of the sort of disclosure investors would most like to see because it is 'selective in terms of what it discusses, but it gives a holistic picture of what's happening at the company.' It is this attention to the context of the company's unique position that delivers real advantage, according to Davis.

The difficulties around disclosing and explaining risk are also appreciated by investors, but Davis argues that this should not prevent attempting fuller and more enlightening disclosure, especially in the wake of the global economic crisis. 'Exposure to risk is so broad, that it can understandably be a daunting task for preparers to address' he says. Post-financial crisis, there has been a greater interest in seeing sensitivity analysis that addresses the various outcomes in simple terms. A lot of the traction behind narrative reporting seems to have been rooted in the concept that it would provide a platform for discussing and explaining sensitivity analysis.'

While the exercise of discretion is leading to better narrative reporting, investors would welcome more detail on where companies are deriving most of their value. Davis suggests that reporting on how individual divisions are performing would give investors a better picture of companies' operations and help reveal future trends. This more detailed reporting would, he argues, give investors better insight into the factors that are driving a business forward.

Fundamentally, avoiding complexity is key. 'An average investor should be able to read an MD&A without an advanced degree in finance and have a good understanding of what management is facing, the company's primary challenges and where it's heading.'

As shown in chart 6, for regulators and legislators, the most important disclosures across markets are corporate governance policies and procedures disclosures, remuneration reports and an explanation of the financial results and financial position. This shows instances of clear divergence between regulatory requirements and shareholders' requirements.

Even though, as shown in chart 6, the disclosure requirements across these jurisdictions appear similar, the nature and extent of disclosures required can vary considerably across jurisdictions. For example, the Code of Corporate Governance in the UK has wide-ranging disclosure requirements, including disclosures of internal controls, risk management and 'comply or explain' requirements for the application of the Code of Corporate Governance.[10]

CHART 4: AUDIENCES FOR NARRATIVE DISCLOSURES

HOW IMPORTANT ARE THE FOLLOWING AUDIENCES WHEN PREPARING NARRATIVE DISCLOSURES IN THE ANNUAL REPORT?

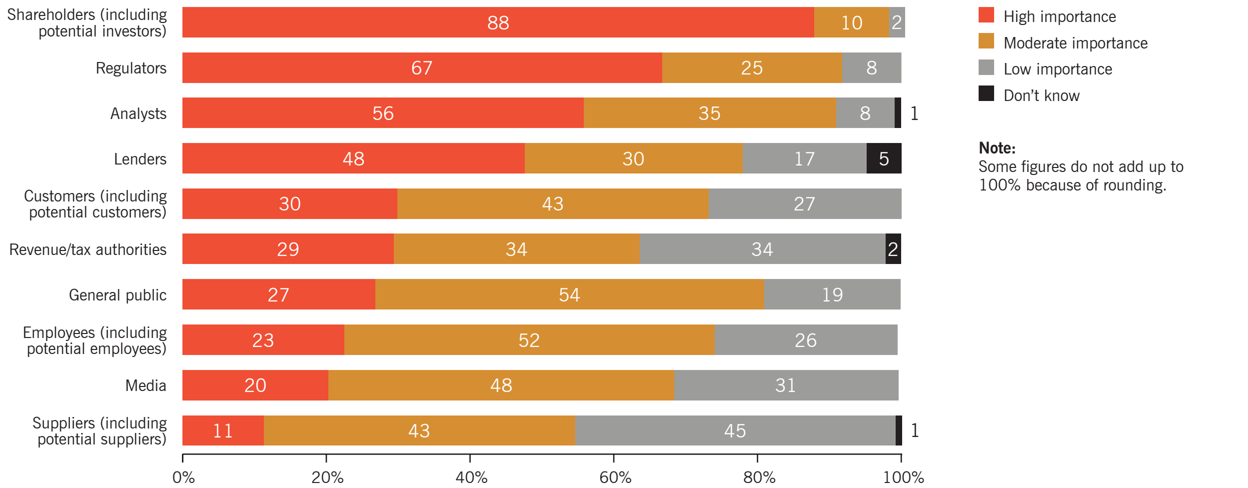
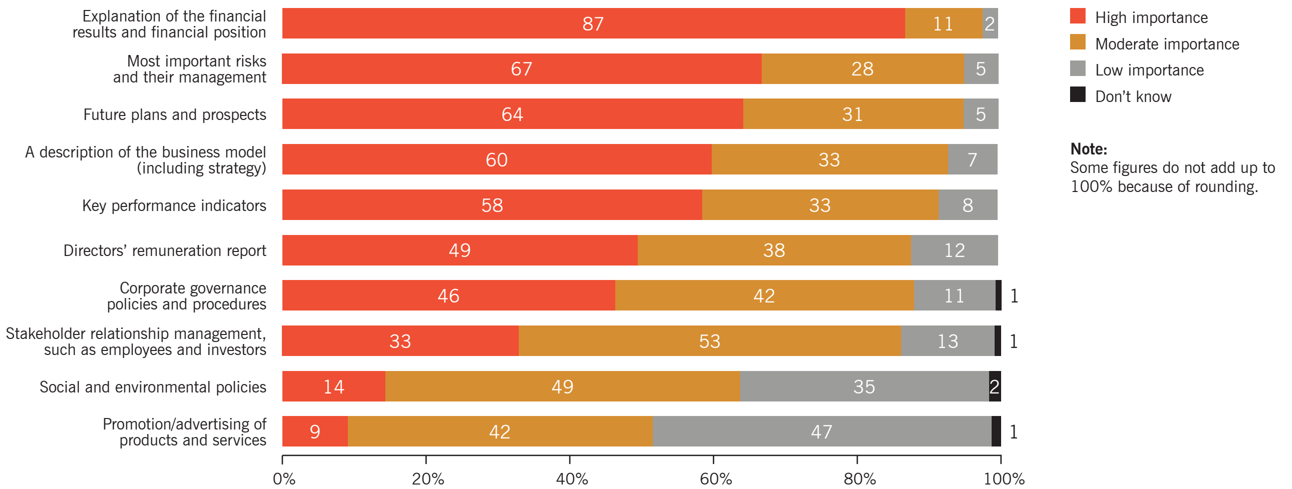


CHART 5: SHAREHOLDERS' NEEDS AND PREPARERS' PERCEPTIONS

FROM A COMPANY PERSPECTIVE HOW IMPORTANT ARE THE FOLLOWING NARRATIVE DISCLOSURES CONSIDERED BY SHAREHOLDERS?



10 *The UK Corporate Governance Code*, Financial Reporting Council, June 2010
www.frc.org.uk/documents/pagemanager/Corporate_Governance/UK%20Corp%20Gov%20Code%20June%202010.pdf

The UAE Code of Corporate Governance enacted recently requires only disclosures of risk management and internal controls[11]. The Malaysian Code of Corporate Governance requires companies to include a narrative account of how they apply the broad principles of corporate governance.[12] Another example is the disclosure of key risks and their management. In the US, companies are required to 'provide insight into material opportunities, challenges and risks, such as those presented by known material trends and uncertainties, on which the company's executives are most focused for both the short and long term, as well as the actions they are taking to address these opportunities, challenges and risks'[13]. In Australia, 'companies are required to establish policies for the oversight and management of material business risks and disclose a summary of these policies'[14]. In Singapore and UAE, key financial risks are required to be disclosed similar to IFRS 7, *Financial Instruments – Disclosures*[15] requirements.

Whereas corporate governance and remuneration disclosures are important legal/regulatory requirements across the surveyed markets, preparers believe they are not particularly high priority for shareholders (see chart 5). Although legislation and regulation do not require the inclusion of a description of the business model, business forecasting disclosures and key performance indicators in the annual report, preparers believe these disclosures are important to shareholders.

'I JUST THINK THAT REGULATORS ARE TRYING TO MAKE EVERY COMPANY FIT THE SAME BOX AND FIT THE SAME CRITERIA, WHICH DOESN'T WORK. NARRATIVE REPORTING CAN WORK BUT IT CAN'T BE REGULATED. LESS REGULATION WILL MAKE NARRATIVE REPORTING MORE IMPORTANT BECAUSE IT WILL COMPLEMENT THE STANDARDISED REGULATED FINANCIAL ACCOUNTING, WHICH SHOULD MAKE THE ANNUAL REPORT READILY UNDERSTANDABLE BY THE PUBLIC.'

CFO, AUSTRALIA

CHART 6: COMMON THEMES IN LEGISLATIVE/REGULATORY REQUIREMENTS ACROSS MARKETS

	Australia	China	Kenya	Malaysia	Singapore	Switzerland	UAE	UK	US
Remuneration report	■	■	■	■	■	■	■	■	■
Explanation of the financial results and financial position	■	■	■	■	■	■	■	■	■
Disclosure of compliance with environmental laws, environmental management policies and performance	■							■	■
Disclosure of key risks and their management policies	■	■		■	■	■	■	■	■
Statement of compliance with corporate governance codes/listing requirements	■	■	■	■	■	■	■	■	■

11 *Ministerial Resolution No (518) of 2009 Concerning Governance Rules and Corporate Discipline Standards,* United Arab Emirates – Ministry of Economy www.sca.ae/English/legalaffairs/LegalLaws/2009-518.doc
12 Malaysian Code on Corporate Governance, revised in 2007 www.sc.com.y/eng/html/cg/cg2007.pdf
13 *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations,* US Securities and Exchange Commission, 2003 www.sec.gov/rules/interp/33-8350.htm#P24_4940
14 www.galaxyresources.com.au/documents/ASXCorporateGovernancePrinciples_000.pdf
15 IFRS 7, *Financial Instruments: Disclosures* www.iasb.org/NR/rdonlyres/8177F9A2-EB2F-45A3-BBF3-3DE7DCB13E1A/0/IFRS7.pdf

NARRATIVE REPORTS: THE CURRENT SITUATION

As in the case of financial statements, legal and regulatory requirements appear to be driving narrative disclosures. The top three disclosures in the annual reports of those companies surveyed are mandatory – an explanation of the financial results and financial positions (97%), directors' remuneration report (87%) and corporate governance policies and procedures (87%).

Interestingly, and conversely, preparers do not perceive corporate governance policies and procedures and the directors' remuneration report to be a high priority with shareholders (see chart 5). With an overwhelmingly significant majority disclosing corporate governance and remuneration, it appears that even though preparers consider shareholders to be the main audience, it is compliance that dictates the content of narrative reporting within annual reports.

Seventy-two per cent include forward-looking planning and two-thirds (66%) include KPIs, even though these are not legally required in most of the jurisdictions covered by this survey. These disclosures are considered high priority by shareholders and their inclusion in the annual report signals that, even though regulatory compliance is the top priority, shareholders' requirements are accorded importance.

Other stakeholders are not generally considered to be of high importance. As a result, only a comparatively small proportion of narrative disclosures have stakeholder-oriented information, such as environmental and social policies (44%) and stakeholder relationship management (55%).

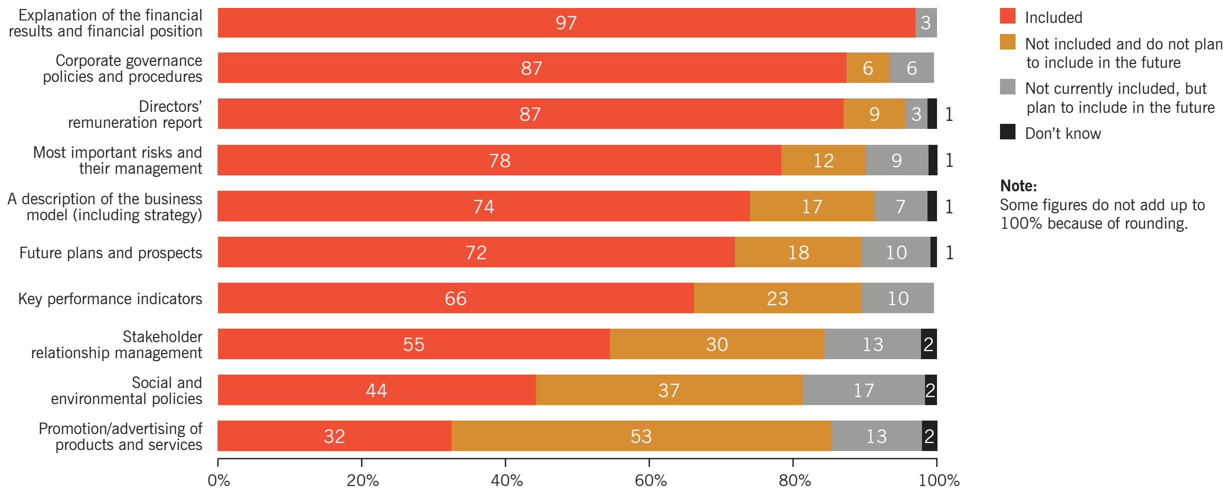
Over the past two decades, community, environmental and social responsibility has climbed up the corporate agenda. A growing number of international authorities, including IFAC, consider sustainability-related information to be useful in providing investors with material information highlighting sustainability impacts, risks and opportunities.[16]

The comparatively low proportion of respondents that include environmental and social policies in their annual reports may be due to an absence of requirements for such types of disclosure in a majority of markets and/or perceived lesser interest of shareholders in such disclosure. Only 14% of the respondents (see chart 5) believe that shareholders consider environmental and social policy disclosure to be highly important. It may also be that shareholders consider standalone environmental/social/sustainability reports to be the primary forum for disclosing environmental and social policies.

The very high incidence of disclosure of corporate governance, directors' remuneration report and explanations of financial results and position indicates that legal and regulatory compliance remains important for preparers of annual reports that include both financial statements and narrative reports.

CHART 7: NARRATIVE DISCLOSURES IN ANNUAL REPORTS

ARE THE FOLLOWING NARRATIVE DISCLOSURES INCLUDED IN THE COMPANY'S ANNUAL REPORT?



Note: Some figures do not add up to 100% because of rounding.

16 IFAC Sustainability Framework http://web.ifac.org/sustainability-framework

MAPPING FUTURE NARRATIVE REPORTS – POST-FINANCIAL CRISIS: EVOLUTION OF SHAREHOLDERS' INTERESTS

Since the financial crisis, preparers perceive increased interest in important risks and their management disclosure (78%), explanation of the financial results and financial position (71%), future plans and prospects (66%), corporate governance policies and procedures (56%), description of the business model (54%) and key performance indicators (52%).

Interestingly, requirements for the statement of compliance with corporate governance codes and laws, and explanations of financial results and positions have existed for almost a decade. Is the increased interest in disclosures of corporate governance policies and procedures and in explanations of financial results and positions an expression of preparer perceptions that shareholders desire disclosures beyond the boilerplate statement of corporate governance compliances[17] and the statement of financial positions and results? Is the increased interest in risks and their management, KPIs, business model description and future plans and prospects indicative of the post-financial-crisis spotlight on enhanced transparency in corporate reporting?[18]

Since the financial crisis, there has been a debate about the need to explore the potential of narrative reporting as an efficient and effective communicator of current and future relationships, resources, risks, processes and products. That debate has focused on the evaluation of the challenges to creating corporate reports considered useful by their users.

'SHAREHOLDERS SHOULD BE ABLE TO ASSESS THE VALUE OF THE RISKS OF A COMPANY.'
CFO, SWITZERLAND

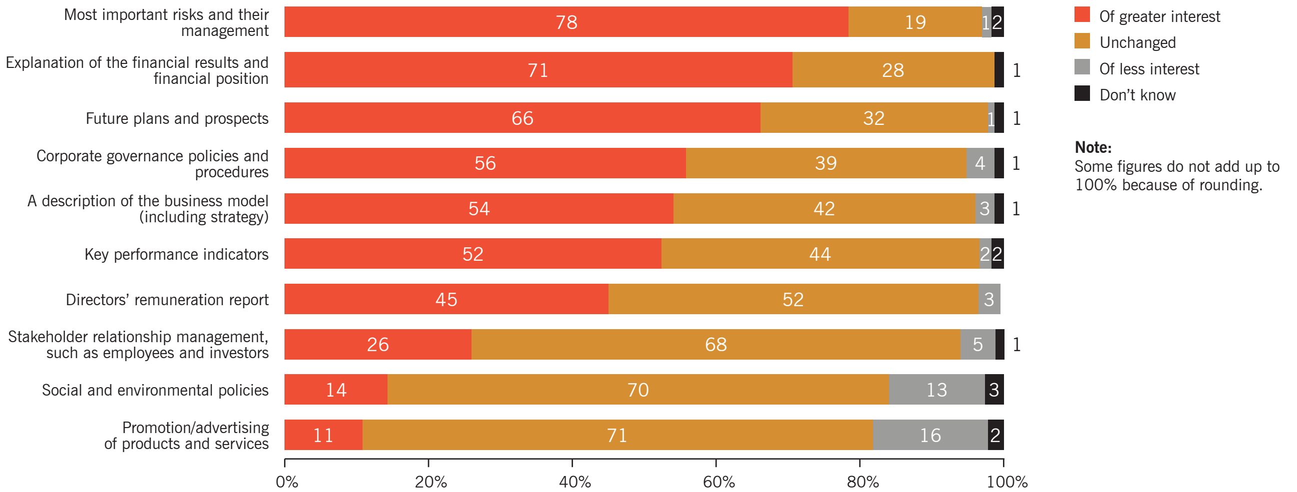
'IT IS TOTALLY OVER-REGULATED. THE TREND SHOULD BE THE OPPOSITE DIRECTION.'
CFO, SWITZERLAND

'WE SHOULD AVOID INFORMATION OVERLOAD.'
CFO, UAE

'THE DISCLOSURE IN THE REPORT SHOULD BE ADEQUATE, ACCURATE AND SUBSTANTIAL, ESPECIALLY WHEN DISCLOSING ASSOCIATED RISKS.'
CFO, CHINA

CHART 8: POST-FINANCIAL CRISIS: EVOLUTION OF SHAREHOLDERS' INTERESTS

HOW HAVE SHAREHOLDERS INTERESTS IN THE FOLLOWING ASPECTS OF NARRATIVE REPORTING CHANGED IN THE AFTERMATH OF THE GLOBAL FINANCIAL CRISIS?



17 *Corporate governance and the credit crunch*, ACCA, 2008
www.accaglobal.com/pubs/general/activities/library/governance/cg_pubs/cg_cc.pdf
18 *Climbing out of the credit crunch*, ACCA, 2008
www.accaglobal.com/pubs/general/activities/library/governance/cg_pubs/credit_crunch.pdf

'NARRATIVE DISCLOSURES ARE GENERALLY IMPROVING IN QUALITY, BUT TOO MUCH VOLUME AND REGULATION ARE MAKING DOCUMENTS BULKIER, MAKING IT HARDER FOR THE READER TO SEE THE WOOD FOR THE TREES. I WOULD ENCOURAGE A REDUCTION IN THE AMOUNT OF INFORMATION AND REQUIRED DISCLOSURES. THIS WOULD MAKE THE REPORT USEFUL.'

CFO, UK

'I WOULD LIKE NARRATIVE REPORTING TO BE MORE BALANCED AND TO FOCUS ON SIGNIFICANT ITEMS. NARRATIVE REPORTING SHOULD NOT BE SPREAD OVER 50 PAGES AS THE ATTENTION IS LOST AND THERE IS NO WAY TO FIND THE IMPORTANT INFORMATION.'

CFO, UAE

'DO NOT KEEP CHANGING THE REQUIREMENTS. WHAT WAS ALLOWED YESTERDAY IS NOT ALLOWED TODAY, WHICH DOES NOT MAKE SENSE.'

CFO, UAE

NARRATIVE REPORTING: THE KEY CHALLENGES

The top five challenges highlighted by respondents are: the number of requirements (71%), the cost and time involved (71%), the need to forecast prospects (64%), too diverse an audience (61%), and commercial confidentiality (61%).

The number of requirements and the cost and time involved are seen as the main challenges. In the future, 65% of respondents would like less regulation and more discretion. Only 38% of preparers see the free-form nature of narrative reporting as a challenge. Only 19% would like more regulation and less discretion.

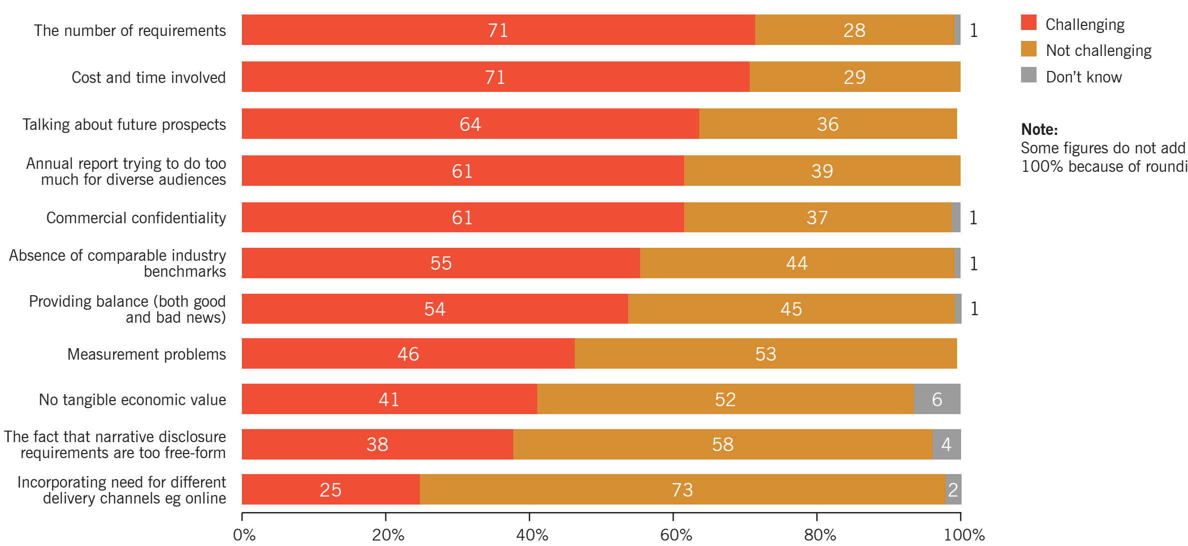
The number of requirements appears to be the main challenge to narrative reports achieving their potential as communicators of information in the form desired by their primary users (ie shareholders). Narrative disclosures are seen as a vital element in contemporary corporate reporting, but narrative reporting remains challenging. In reacting to the financial crisis, regulators have burdened preparers with increased disclosure requirements.

With 61% of respondents (see chart 9) saying that annual reports are required to do too much for diverse audiences and that this is their main challenge, it can be concluded that the preparers struggle to balance the needs of shareholders, regulators and other users. The preparers' predicament is accentuated by their perception that shareholders are the main audience for narrative reports. While they consider shareholders to be the main audience they are compelled to comply with legal and regulatory requirements – which may not correspond with the shareholders' preferences. The form of disclosures is also determined by legal and regulatory requirements, which again may not be the same as those of shareholders.

The need to discuss future prospects is also considered a major challenge. This may be a consequence of having to prepare financial statements with a retrospective rather than a prospective orientation.

CHART 9: CHALLENGES OF PRODUCING NARRATIVE DISCLOSURES

HOW CHALLENGING ARE THE FOLLOWING ISSUES IN PRODUCING NARRATIVE DISCLOSURES?



Note:
Some figures do not add up to 100% because of rounding.

USEFUL NARRATIVE REPORTS: THE WAY FORWARD

As outlined in chart 10, nearly two-thirds of finance leaders would like more discretion and less regulation. They would also like to improve the usefulness of narrative disclosures by a number of means, such as inclusion of external auditor opinion (58%), more emphasis on forward-looking information (57%), IASB guidance (51%) and third-party verification statements (33%).

With 57% of the respondents saying that more emphasis on forward-looking information would increase the usefulness of narrative reporting, there is evidence of acceptance of the value of its inclusion in annual reports. Does this demonstrate that finance executives accept that the way forward for annual reports is an account of business performance that is a combination of historical and future-oriented?

For 58% of respondents, external auditor opinion would enhance the usefulness of narrative reports. Thirty-three percent supported third-party verification or assurance statements. These results were surprising. They perhaps highlight the current oddity in corporate reporting that the financial statements are audited but that the narrative reports are typically subject to little or no external assurance requirements. This survey's results suggest this area should be considered further.

'ANNUAL REPORTS ARE GETTING FAR TOO LONG BECAUSE THEY HAVE TO DEAL WITH AN INCREASING NUMBER OF REGULATIONS AND DISCLOSURE REQUIREMENTS. THE LENGTH OF THE ANNUAL REPORTS CAN DISTRACT THE USER'S ATTENTION AWAY FROM CRITICAL INFORMATION IN THE ANNUAL REPORTS. I WOULD LIKE TO SEE A SENSE OF PROPORTION BROUGHT TO CRITICAL NARRATIVE REPORTING DISCLOSURES.'

CFO, UK

CHART 10: FUTURE OF NARRATIVE REPORTING – CFO/FD PREFERENCES

AS A CFO/FD DEALING WITH NARRATIVE DISCLOSURES, ARE YOU LOOKING FOR ...?

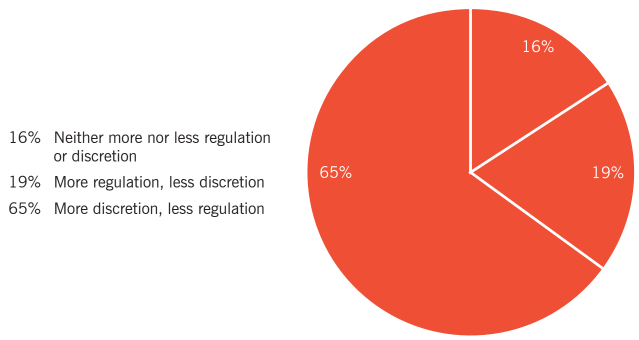
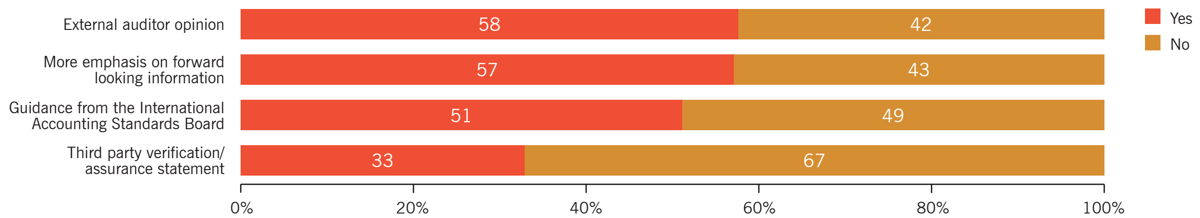


CHART 11: NARRATIVE REPORTING – IMPROVING USEFULNESS

WOULD THE FOLLOWING IMPROVE THE USEFULNESS OF NARRATIVE REPORTING DISCLOSURES?



NARRATIVE REPORTING: THE STORY BY MARKET [19]

Australia

A large majority of respondents (91%) consider shareholders to be a very important audience for narrative reporting, while 52% also consider regulators an important audience. Shareholders' requirements and legal and regulatory requirements are considered drivers of equal importance for narrative reporting. Even though all the respondents include corporate governance disclosures in annual reports, only 27% consider this disclosure to be of high importance to shareholders. Among the survey respondents, 97% include a directors' remuneration report even though only 64% consider such disclosure to be of high importance to shareholders.

Since the financial crisis, for more than three-quarters of the respondents (76%) disclosure of important risks and their management has become more important. Just over half of respondents (52%) believe that shareholder interest in the disclosure of future plans and prospects has become greater since the financial crisis. The number of requirements, the cost and time involved in satisfying them, and commercial confidentiality are considered (by 76% of the respondents in each case) to be major challenges when producing useful narrative disclosures. Going forward, for 36% of respondents, external auditor opinion would increase the usefulness of narrative reports and 12% favoured third-party verification/ assurance statements. In the future, 82% of respondents would like more discretion and less regulation, 9% would like more regulation and less discretion and 9% would like neither more nor less regulation and discretion in the preparation of narrative reports.

Malaysia

Most respondents (79%) consider shareholders to be a very important audience for narrative reporting, while 72% think that regulators are also highly important. Both shareholders' requirements and legal and regulatory requirements are considered major drivers for narrative disclosures. Explanation of the financial results and financial position (98%) is the most commonly included narrative disclosure in the annual reports.

In compliance with legal/listing requirements, 95% of the respondents disclose corporate governance policies and procedures, but only 65% consider that such disclosure to be of high importance to shareholders. A directors' remuneration report is included by 93% of the survey participants, although only 58% of the respondents consider it of significant importance to shareholders. Only 19% of the respondents consider environmental and social disclosure to be of significant importance to shareholders, but 72% disclose this information.

Since the financial crisis, 72% of respondents believe shareholder interest in disclosure of important risks and their management has increased. 70% believe that interest in future plans and prospects has also increased. For the majority of respondents, the main challenges of producing useful narrative reports include the need to discuss future prospects (74%), too many requirements (72%) and concerns about commercial confidentiality (72%). For more than three-quarters of respondents (77%), IASB guidance would help enhance the usefulness of disclosure. 70% of respondents consider the inclusion of external auditor opinion as useful for increasing the usefulness of narrative reports and 47% favour third-party verification/assurance statement. In the future in the preparation of narrative reports, 54% of respondents would like more discretion and less regulation, 40% would like more regulation and less discretion and 6% would like neither more nor less regulation and discretion.

China

A very high percentage of respondents (96%) consider both shareholders and regulators to be the main audience for narrative reporting. All respondents see legal and regulatory requirements as the main driver for narrative disclosures, while 85% also see shareholders' requirements as an important driver.

The top three disclosures included in narrative reports are the directors' remuneration report (100%), an explanation of financial results and financial positions (100%), and an explanation of business model (96%).

Only 31% of respondents consider directors' remuneration a matter of high importance for shareholders, but 100% include this disclosure. Only 46% of respondents state that corporate governance disclosure is of high importance to shareholders, although 89% include this in their reports to comply with legal and regulatory requirements.

Since the financial crisis, respondents consider that shareholders' interest in explanations of financial results and position (73%), in the disclosure of important risks and their management (73%), and in future plans and prospects (69%) has increased. For the future, 73% of respondents would prefer more discretion and less regulation, 15% would prefer more regulation and less discretion and 12% would like neither more nor less regulation and discretion in preparing narrative reports. The main challenges are the cost and time involved (77%) and the need to forecast prospects (73%). Nonetheless, 65% of the respondents believe more emphasis on forward-looking information would enhance the usefulness of narrative reporting disclosures. 58% supported external auditor opinion and 39% supported third-party verification/ assurance statement.

Switzerland

A significant majority of respondents (85%) see shareholders as the most important audience for narrative reports, with 79% considering shareholders' requirements to be the main driver for narrative disclosures. Nearly half (47%) also consider regulators as an important audience of narrative reports and 68% consider legal and regulatory requirements as the main driver for narrative disclosures.

A large majority of respondents include in their annual reports an explanation of the financial results and financial position (94%), corporate governance

19 Country results are reported for markets with 5% or more of the overall international response. Response rates by market are not necessarily indicative of the sample universe available in all markets.

policies and procedures (94%), and risks and their management (91%). Only 53% believe that shareholders regard corporate governance policies and procedures as highly important disclosures, but 94% make such disclosures to comply with legal and regulatory requirements.

Since the financial crisis, 79% of survey participants believe that shareholders' interest in the disclosure of important risks and their management has increased.

For 77% of respondents, the number of requirements is the most important challenge when making useful narrative reports. For 59% of respondents, inclusion of external auditor opinion was considered useful while 32% of respondents said third-party verification/assurance statements would enhance the usefulness of narrative reporting disclosures.

A majority (71%) of respondents see more discretion and less regulation as the way forward for narrative disclosures. 15% of respondents would like to see more regulation and less discretion and 14% of respondents would like neither more nor less regulation and discretion.

UAE

An equal number of survey respondents (88%) consider shareholders and regulators to be highly important audiences for narrative reports. While 94% of the survey participants see legal and regulatory requirements as the main driver for narrative reporting, 81% also see shareholders' requirements as a main driver.

The most common narrative disclosures include the directors' remuneration report (88%), an explanation of the financial results and financial position (88%), and the most important risks and their management (88%). Since the financial crisis, respondents have seen an increase in shareholders' interest in explanations of financial results and position (94%), in disclosures of important risks and their management (88%), and in future plans and prospects (88%).

A large majority (81%) of respondents consider the absence of comparable industry benchmarks to be the main challenge when producing useful narrative reports. Going forward, respondent said the usefulness of narrative reports would be improved by the inclusion of external auditor opinion (82%) and third party verification/assurance statements (50%). In the future, 44% of respondents would like more discretion and less regulation in the preparation of narrative reports, 25% of respondents would like more regulation and less discretion and 31% would like neither more nor less regulation and discretion.

UK

A large majority (91%) of respondents see shareholders as an important audience of narrative reports and 77% consider shareholders' requirements to be the main driver for including narrative disclosure in the annual reports. Regulators are also considered an important audience by 56% of survey participants. Seventy-nine per cent of them also see legal and regulatory requirements as the main driver for including narrative disclosures.

Explanations of financial results and financial positions (100%), future plans and prospects (94%), important risks and their management (88%) and descriptions of the business model (88%) are the most common narrative disclosures included in the annual reports by the survey respondents.

While only 35% of respondents consider disclosures of corporate governance policies and procedures to be of high importance to shareholders, 85% include such disclosures to comply with legal and regulatory requirements. Since the financial crisis, respondents believe that disclosure of important risks and their management (85%), and future plans and prospects (74%) has assumed greater interest for shareholders. The number of requirements is considered (by 82%) the main challenge when producing useful narrative reports. A majority (71%) of respondents believe more emphasis on forward-looking information would enhance the usefulness of narrative reports. 44% consider the inclusion of external auditor opinion as increasing usefulness, with 21% saying third-party verification/assurance statements would aid use. In the future, 74% of respondents would like less regulation and more discretion in the preparation of narrative reports. 3% of respondents support more regulation and less discretion and 23% support neither more nor less regulation and discretion

US

A large majority (91%) of respondents consider shareholders to be a highly important audience for narrative reports but 72% also consider regulators an audience of high importance. 88% of respondents consider legal and regulatory requirements and 91% of respondents consider shareholders' requirements as important drivers for narrative disclosures.

A majority of respondents include an explanation of the financial results and financial position (100%), most important risks and their management (97%), and a description of the business model (88%) in their annual reports. While only 34% of respondents believe that shareholders consider corporate governance policies and procedures to be disclosures of high importance, 72% include this disclosure. Since the financial crisis, most respondents claim that the disclosure of important risks and their management (81%) and explanations of financial results and positions (84%) have become of greater interest for shareholders.

The cost and time involved are considered (by 81%) to be the main challenge when producing useful narrative reports. Sixty-three per cent consider external auditor opinion as increasing the usefulness of narrative reports, with 19% saying the same about third-party verification/assurance statements.

In the future, 59% of respondents would like more discretion and less regulation in the preparation of narrative reports. 16% of respondents would favour more regulation and less discretion and 25% would favour neither more nor less regulation and discretion.

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