December 05

the inside track #07

Highlighting CSR Issues of the moment

A Christmas Carol

Dickens's favourite Christmas story features grumpy old Scrooge, whose temperament and attitudes are toned down by a series of ghostly apparitions (including that of Marley, his old partner, long gone) that make him realise all is not quite as he imagined.

Perhaps this has some modern day analogies with regard to the events surrounding the OFR, as the Chancellor is also beginning to have outcomes he might not have anticipated.

First, at the end of November, the Chancellor announced the death of the OFR – to the great acclaim of the CBI and the British Retail Consortium, two bodies that may have been expected to relish the thought of Government regulations being relaxed or, even better, abolished.

Then came a series of apparitions that meant the OFR's requirement for additional reporting, like Marley, might not be totally dead and buried. The impact of Friends of the Earth describing the Chancellor's action as being "Brown's Big Green Failure" may well have been the equivalent of "Christmas Past", and, not unnaturally, may have invoked a "Bah Humbug" response from our Chancellor.

Comments then came from other unexpected and uninvited critics such as the Financial Reporting Council (a body set up by the Government as an independent regulator, and funded equally by the Government, the Accountancy Professions and business) and the Association of British Insurers. These comments, along with those of the major accountancy professional institutes, suggested that far from being "A Good Thing", the abolition was retrograde. This response was perhaps unexpected from those that the Chancellor may consider amongst his allies. Definitely, a scene of "Christmas Present", where Mrs Cratchitt's comment about Scrooge, in response to her husband's toast to his employer, "I wish I had him here. I'd give him a piece of my mind to feast upon", was a little too painful to endure.

And then came the apparition of the Ghost of "Christmas Yet to Come", with its forebodings of dark and unpleasant things. And what transpired in our modern day analogy? Well, Friends of the Earth indicated they were determined to use the powers of the Establishment against the establishment itself. They announced they were planning to seek a judicial review to overturn the Chancellor's decision.

And within this mayhem of ghosts, poor Tiny Tim, otherwise known as British Business, was suffering all sorts of uncertainties. Had the OFR been abolished? What was this gift of "Christmas Yet-to-Come" – the simplified Business Review? Would investors be able to introduce the OFR through their own measures? What will happen to the Accounting Standards Board RS1 (which defined the mandatory form of reporting)? For British Business, would Christmas ever be the same again and will there be a happy ending?

TVC comment overleaf >

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the virtuous circle comment: #07

A Christmas Carol – the explanation

Since the Chancellor's speech, we have been in contact with professional bodies, the Government, reporting authorities and clients, voicing their concerns and questions.

To ensure you have fewer worries over the festive season, we offer our explanation of likely impacts for your company.

1. What did the Chancellor mean? Like all political statements, it is important to read what was said and what was **not** said. The Chancellor abolished **the requirement** on listed companies to report according to the OFR Statutory Instrument (SI) – but the OFR came into being in 1993, when the Accounting Standards Board issued its Best Practice Guidance. The OFR itself has not been abolished. Associated with it is the European Accounts Modernisation Directive (EAMD), driven by conformity to International Accounting Standards. As a binding EU Directive, the Government had to implement it. The Directive was ratified as part of the SI, taking effect from 1st April 2005. The Chancellor **did not (and could not) abolish** the EAMD.

2. Timing? Perhaps surprisingly, the Chancellor does not own a magic wand – abolition requires Parliamentary time, rescinding the current SI and introducing one to ratify the EAMD. Before this can happen, the DTI (the responsible Department), has to consult relevant stakeholders. This consultation has a completion deadline of 31st January 2006. The new SI has to be drafted, laid for approval before a Select Committee, and passed into law. Until then, the existing SI, and the ASB's RS1, remain in force. Any delays formulating the new SI may require companies with financial years starting on or closely after 1st April **2005** to issue an OFR under the current regulations.

3. Who is affected? Talking to clients and potential clients, their focus has been upon the OFR. The EAMD has been of lower relevance. However, the EAMD is similar to the OFR, requiring KPIs on non financial information, featured in an enhanced Directors' Report (the DTI's new Business Review). It does not require forward looking statements (the gold-plating of EU legislation criticised by the Chancellor). But the scope of the EAMD is far wider than the 1,200 companies affected by the OFR. Under the EAMD, all large enterprises (defined as meeting two out of three criteria of turnover, balance sheet total or employee numbers) have to produce a Business Review. The definition for "large" is not demanding – under the employee number criteria, nearly 10,000 companies are **large** enterprises These go beyond the listed companies under the OFR – involving quoted and unquoted, public and private, UK and foreign-owned, subsidiaries, as well as parents.

4. What issues surround the EAMD? The challenge remains determining which performance indicators are key to business strategy and require reporting upon, and collating non financial information not currently reported. A further need is to ensure consistent non-financial reporting across subsidiaries and the parent company. The amount of information to be made public from their EU subsidiaries is of a totally new order and should be of concern to all parent companies

5. Will the OFR return? Regardless of the OFR, all companies will be bound by EAMD requirements. But listed companies should consider the possible return of the OFR. The ABI has suggested bringing an OFR into the Combined Code. The FRC may turn its currently mandatory RS1 into Best Practice Guidance for any companies wishing to produce voluntary OFR's. The most likely scenario is leading companies producing voluntary OFR's, encouraging corporate governance authorities to require an OFR for listed companies, with reporting standard authorities providing best practice guidance for an OFR.

Yet, nothing is settled until the DTI presents the first draft of the new SI. Until that point, we cannot be wholly certain of the new reporting regime. And then, as Tiny Tim observed, "God Bless Us All, Every One".

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