

PAUFFLEY & CO

cc Sir Adrian -

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Nigel Peace Esq
Secretary
Committee on the Financial Aspects of Corporate Governance
PO Box 433
Moorgate Place
LONDON
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Dear Mr Peace

You may be aware that we carried out a survey of the top 300 companies in August of this year. The intention was to find out how the recent recommendations made by both yourselves and the ASB had been received by those people who would be responsible for their implementation.

I am pleased to say that we received a positive response from most people and the completed questionnaires have been compiled into the attached report which makes interesting reading. As you will see there seems to be overwhelming support for your preliminary proposal.

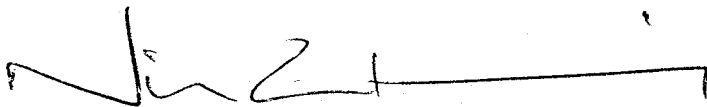
It is our intention to use this and further surveys we have planned to assist, in whatever way we can, your efforts in reshaping company reporting.

Please let me know if you have any feedback or questions resulting from the survey.

I look forward to hearing from you.

Kind regards

Yours sincerely



Nick Glanvill
Managing Director

Enc

FINDING A CONSENSUS

Results of the survey carried
out amongst Britain's top 300
companies in August 1992

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INTRODUCTION

Maxwell, Polly Peck, British & Commonwealth: the way companies report to their shareholders is now under close scrutiny. Annual reports are being reconsidered from every quarter. Survey after survey is carried out and the results can seem damning. "The City disregards annual reports" and "small shareholders don't understand them", claims the financial press. Some say annual reports don't provide enough information, while others say they provide too much.

In an attempt to correct the most obvious deficiencies, a number of advisory bodies have made recommendations that could radically alter the traditional annual report. The 'Cadbury Committee' seeks to improve corporate governance, the Accounting Standards Board recommends fuller disclosure and more helpful analysis, The Hundred Group of Finance Directors proposes standards for environmental reporting.....

Meanwhile, many companies are waiting for a consensus to emerge before incorporating these proposals, in whole or in part, into their own reporting. But until now, there has been no clear route through which a consensus might emerge.

In an attempt to consolidate a clear view we carried out a survey of Britain's top 300 companies during August and September 1992. We asked questions about their reactions to recent recommendations made by the Accounting Standards Board, the 'Cadbury Committee' and the 100 Group of Finance Directors. In addition, we asked them to prioritise the audiences of their annual reports and to consider how well these are addressed by their companies.

With the co-operation of the many leading companies that responded we are now able to demonstrate that *a clear consensus exists*.

ANALYSIS

1.0 Accounting Standards Board

Without doubt, most companies see the recommendation to include a full Operating and Financial review as a positive move. Over 85% are in favour of the proposals and most of those will be incorporating an OFR into their annual report this year. The implications for the investor are most interesting.

One of the principal features of the OFR is that it should achieve a balance between past performance and future expectations, showing trends and highlighting any anticipated change in these trends. All of this is to be provided in order that an investor may form his own impression of the company's prospects. In essence that requires an account of the company's vision of the future and in our experience companies have shied away from discussing this for fear of conveying a forecast of performance which they would then have to meet. One wonders how many companies will find themselves unable to follow the ASB's recommendations in the light of continued recession and the inevitable consequences for financial performance.

2.0 Cadbury Committee

90% of respondents have read the 'Cadbury' document and a vast majority of these - 84% - are in favour and will be taking the Committee's document into account when preparing their next annual report.

This has broader implications since the only proposal that is specific to the annual report is the inclusion of a statement of compliance with the Committee's other suggestions. Thus, this response, if taken in a broader context, is a loud shout of approval for all the Committee's recommendations.

Hopefully those companies intending to follow the proposals will have noted the passage relating to reports sent to shareholders during the course of the year. As such they will need to give more attention to their interim and quarterly reports since these have nearly always been conceived, written and prepared to a standard far below that now taken for granted at the year end.

3.0 The Hundred Group's Environmental Proposals

The results of the survey show that most companies do not intend to use their annual report to make a public statement on the environment. Under 30% of respondents had not read the Hundred Group's proposals and this would suggest that there was little interest in the first place.

4.0 Summary Reports

The Summary Report legislation introduced in 1989 was designed to make life easier for both companies and their investors. For companies it should have meant significant cost savings as a result of preparing a shorter, less weighty document for a vast majority of their private shareholders. For investors, there would be a choice: those that felt the need could wade through sixty or seventy pages of text, graphs, photographs, tables, financial statements and notes - those who did not would receive a simple, short document telling them everything they needed to know.

Why then do less than ten per cent of those companies in the top 300 go to the trouble of preparing a Summary Report? Cost or an unsuitable shareholder list seem to be the cause. But this is difficult to believe when cost studies undertaken suggest that there is barely a public company in existence that does not have a very high proportion of its shareholders in the 'private' category. Furthermore, cost models produced for a number of companies have proved beyond doubt that savings of over 25% are perfectly possible for most FTSE companies.

The results beg the question as to whether the extra effort required to communicate more effectively with small shareholders is seen by companies as a waste of valuable time?

5.0 Disclosure

Under 20% of the companies in our survey produce an American 20F filing document. For a majority of those that do it means an increased level of disclosure. If those companies who have no requirement to file in the USA actually did produce an SEC regulated document it would mean greater levels of disclosure for over 70%.

These facts establish beyond doubt that the American authorities are more stringent and one has to ask why. As the ASB, Cadbury Committee and other interested parties review proposals related to annual reports they would be well advised to identify where the regulations differ. The global equity market is a fact of today and differences in reporting standards between the two most important financial centres in the world can only have a negative long-term effect on the investment community.

6.0 Audiences

The fact that institutions and analysts were rated as the most important audiences comes as no surprise. However, to note that management was third and private shareholders were rated as the fourth most important audience was a little more interesting. Beyond the fact that head office sees the annual report as a valuable means of communicating with its management, this would also suggest that the Government's promotion of wider share ownership has failed to rub off on the corporate world. This, of course, would endorse the view that small shareholders are not a high priority for companies.

COMMENT

- o The proposals made by both the ASB and the Cadbury Committee have, in general, been well received and a vast majority will be following them when preparing their next report. As such our survey has been successful in *establishing a consensus*.

- o There is still some debate over which audiences the annual report serves and how the obvious dichotomies can be resolved. Further research amongst audience groups is being carried out by Pauffley & Co and the results will be published shortly.

- o Summary reports are seen as unnecessary work and extra cost. This is not true. More accurate targeting of audiences would result in lower cost and better communication.

- o The attitude to environmental issues would seem to run contrary to popular opinion and corporate reputations will suffer unless companies are seen to address this important issue.

- o Disclosure levels and effective corporate governance are inseparable issues. Greater transparency would make it easier for investors to see how well their company is being run.

- o The global equity market is a reality and uniformity of accounting and reporting standards is vital. Companies will need the authorities to address the discrepancies with some urgency.

CONCLUSION

The ASB, Cadbury Committee and other interested parties must work hard to extol the virtues of two tier reporting. They must also consider the apparent differences of disclosure required around the financial centres of the world and act to reduce these disparities. A positive response to sensible improvements in reporting standards has clearly emerged through this survey and this should give the authorities encouragement to continue in their efforts in reforming company reporting.

THE RESULTS

The following questions were asked of all respondents. The results are given as rounded percentages; "in favour" questions have been calculated by aggregating the number of respondents giving points.

1.0 Accounting Standards Board

- 1.1 Have you read the Discussion Paper (OFR) prepared by the Accounting Standards Board in April 1992?

Yes 70% - No 30%

- 1.2 How much are you in favour of these proposals.

85% in favour

- 1.3 Will any of the recommendations be incorporated into your next annual report?

Yes 73% - No 17%

2.0 Cadbury Committee

- 2.1 Have you read the recommendations made by the "Cadbury Committee"?

Yes 90% - No 10%

- 2.2 How much are you in favour of these proposals?

84% in favour

2.3 Will any of the recommendations be incorporated into your next annual report?

Yes 86% - No 14%

3.0 Environmental Proposals

3.1 Have you read the environmental proposals prepared by the 100 Group of Finance Directors?

Yes 30% - No 70%

3.2 How much are you in favour of these proposals?

69% in favour

3.3 Will their recommendations be incorporated into your next annual report?

Yes 34% - No 66%

4.0 Summary Reports

4.1 Are you familiar with the current legislation introduced in 1989 regarding summary reporting?

Yes 93% - No 7%

4.2 Do you currently prepare a summary report?

Yes 8% - No 92%

4.3 If you do not, is that because of:-

unsuitable shareholder list?	Yes 85% - No 15%
cost?	Yes 90% - No 10%
effort required versus available resources?	Yes 70% - No 30%

5.0 Disclosure

5.1 Are you familiar with the American 20F type of report?

Yes 63% - No 37%

5.2 Do you currently prepare a 20F?

Yes 18% - No 82%

5.3 If you prepare one does it affect the content of your annual report?

Yes 50% - No 50%

5.4 Do you think this format is workable in the UK?

Yes 42% - No 58%

5.5 Would preparing a 20F report increase your current level of disclosure?

Yes 73% - No 27%

6.0 Audiences And User Groups

6.1 The respondents listed the audiences for their annual reports in the following order:

Institutional Shareholders 182 points = 1st

Analysts 178 points = 2nd

Management 154 points = 3rd

Private Shareholders	139 points = 4th
Other employees	132 points = 5th
Suppliers	125 points = 6th
Customers	122 points = 7th
Press	117 points = 8th
Other companies (peer group)	95 points = 9th
Government	91 points = 10th

6.2 Do you believe your current annual report addresses the 5 highest scoring categories in question 6.1?

Yes 89% - No 11%

6.3 Do you think a two tier system using a highly technical report for professionals (similar in content to an 20F) and a shortform, summary report for others would work if cost or "convention" were not obstacles?

Yes 63% - No 11%

6.4 Do you think the annual report should stay in its current format?

Yes 64% - No 36%

APPENDIX ONE

Circulation/response profile

300 companies, selected from the Times top 1,000, were canvassed during August and September 1992. Over 70 companies returned questionnaires representing 24% of the total sample. This compares favourably with other surveys on similar subjects carried out in the last year.

The survey was conducted at arms length in order that replies were anonymous. This, we believe, has ensured that we have honest answers and views represented in the results.

APPENDIX TWO

Summary report cost profile

The following is a costing model based on a 'typical' FTSE company. It provides a profile of the budgets involved in preparing a Summary Report package.

1991 One 72 page document printed in full colour. Cost inclusive of design, photography and print, 80,000 copies produced at a total cost of **£205,000**.

1992 Split documents are produced - comprising 28 page, full colour, Summary Report and 48 page two colour Directors' Report and Accounts both produced to 80,000 copies. Total estimated cost **£165,000**.

1993 As the quantity of the Directors' Report and Accounts reduces to approximately 10% of the shareholder register (as is probable) - further savings of around £30,000 will be possible.

The costs given are based on probable design and project management fees added to estimates provided by reputable printing and typesetting companies. No allowance has been made for distribution. Authors correction costs and photographic charges have been worked out as an average of our own records on similar projects.

APPENDIX THREE

Pauffley & Co

Pauffley & Co is a London-based corporate design consultancy that unites the talents of designers, strategists, project managers and production experts. The consultancy delivers highly creative, persuasive and superbly produced work, specialising in annual reports, corporate literature and corporate identity.

It employs strong, imaginative design to help companies communicate more effectively, project their corporate cultures and differentiate themselves from their competitors. Because clear objectives produce the most effective design solutions, all projects begin with a detailed analysis of the client's business situation.

The best available logistical and production expertise ensures that the end product is of the highest quality that can be achieved within available resources, while experienced project managers make sure that the project is properly implemented on time and on budget.

Equal care and attention is given to every assignment, whether the client relationship is new or well-established. The consultancy currently produces over twenty annual reports per annum, most of which are for well known multi-nationals such as Ciba-Geigy, Allied-Lyons and Credit Suisse. In the eight years since it was formed, Pauffley & Co has built long-standing relationships with many major international companies such as The BOC Group, B.A.T Industries, Tarmac and Pilkington. This continuity is the real evidence of effective design allied to the highest levels of service.