

15 February 2006

Rt. Hon. Alun Michael MP
Minister of State for Industry and the
Regions
Department of Trade and Industry
Response Centre
1 Victoria Street
London SW1H 0ET

Derek Scott
Chairman of NAPF Shareholders
Affairs Committee

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Dear Minister

Business Review

The NAPF strongly supported the statement of the purpose of the Operating and Financial Review statement which was to provide a discussion and analysis of the performance of a business and the main trends and factors underlying the results and the financial position of a company, both present and future and to facilitate an assessment of those factors by investors.

Now that the legal obligation to produce an OFR is being repealed and that legislation will focus on the requirement to produce a Business Review Statement in compliance with the minimum requirements of the EU Modernisation Directive, the NAPF supports the pragmatic use of the Directors' Report as a logical place for the Business Review Statement. A more general observation relating to the Company Law Reform Bill that is currently before Parliament is that whilst the Bill updates certain areas of company law, the opportunity to produce a "cleaner" and consolidated Companies Act still remains.

The NAPF believes that the nature of the language used in the Directors' Report has become increasingly akin to that used in the vast majority of compliance type statements which very often exhibit a mechanistic approach and a bland and boiler-plated language style. More substantive discussions on issues affecting the company now tend to appear in the Chairman's Statement or the CEO and CFO Review pages and these statements are, of course, outside of the auditors' obligation to ensure consistency with the underlying financial statements.

The NAPF would support a re-emphasis of the intention that the Business Review should be a meaningful discussion of the material issues that will influence the ongoing development of the company and should avoid a "boiler-plate" approach.

More generally, the NAPF still believes that there is merit in "safe harbour" reporting arrangements to encourage more open and meaningful disclosure. The NAPF supported the Company Law Review position that the provision of safe harbours to exempt parts of reporting had advantages. In particular, reporting of information of a forward-looking nature and also risk management (where auditors have shown a notable reluctance to opine on the effectiveness of internal controls) might be better facilitated by offering such protection. The NAPF is anxious to

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encourage better forward-looking disclosure and our view remains that safe harbours can have a role to play here. Consequently, we believe that the concept should not be shelved.

With regard to the specific consultation statement itself: we believe that the requirements of the proposed Section 234ZZB of the Companies Act 1985, which requires disclosure of information relating to “employee matters” and “environmental matters,” is too vague and requires further clarification in order to facilitate meaningful disclosure by companies to investors.

This point should not be regarded as a request for a prescriptive and detailed approach from Government. Instead, it should be understood as supporting the development of best practice guidelines for meaningful disclosure through the Business Review Statement. This objective may be better achieved by institutions and companies working together on a voluntary basis in order to develop a disclosure regime that has wide support across the industry.

The NAPF recognises the conversion of the ASB’s Reporting Standard 1: ‘The Operating and Financial Review’ into a statement of best practice, following the repeal of the legislative requirement to produce an OFR statement. The NAPF believes that there is a need to build an industry wide consensus around what best practice should constitute in order to deliver meaningful disclosure in accordance with the new legislative regime and the NAPF is willing to work with other stakeholders in order to develop such a code of practice.

Yours sincerely

Derek Scott
Chairman, NAPF Shareholder Affairs Committee.