

REP[]RT
LEADERSHIP
TOMORROW'S REPORTING TODAY

CORPORATE GOVERNANCE

Simple, practical proposals for
better reporting of corporate governance



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Report Leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP and Radley Yeldar.

You can shape the way that the Report Leadership project evolves by giving your comments, actively participating, or adopting the elements that appeal to you. Please provide any feedback, register your interest and keep up to date with developments at www.reportleadership.com

You can find a summary of what we have achieved to date by looking on page 24.



The Chartered Institute of Management Accountants is a leading membership body that offers an internationally recognised professional qualification in management accountancy, focused on accounting in business.



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We're a creative communications business, helping you tell your story simply, in one clear voice, by whatever means works best.

Good corporate governance is essential to create trust and engagement between companies and their investors, so contributing to the long-term success of the business.

And yet even where good corporate governance is in place governance reporting remains for the most part formulaic.

So we ask:

→ How can directors avoid 'boilerplate' governance reports?

→ How can reporting help create and strengthen the trust needed between companies, their investors and the wider community?

The Report Leadership group came together to develop simple, practical ways to improve corporate governance reporting. Drawing on input and feedback from a range of investors and other stakeholders, and adapting examples drawn from a number of forward-thinking companies, we aim to inspire companies to communicate – not just comply.

To answer the questions above, we offer suggestions on how companies can:

→ Adopt a new reporting structure that integrates key governance information with the rest of their business reporting.

→ Show how they implement, measure and communicate sound governance principles.

→ Tell their 'governance story' – while also ensuring compliance with relevant codes and legislation.

Our suggestions are designed to stimulate debate, rather than provide a one-size fits all solution. We are aiming for better rather than more disclosure, and disclosure that is adapted to the circumstances of the company.

THE GOVERNANCE CHALLENGE

Governance reporting is a challenge because...

→ It's in the spotlight

Demanding market conditions have focused attention on how companies explain their business models, the key relationships they rely on, and the way their remuneration structures influence corporate behaviour and risk-taking. Stakeholders are more ready to question the effectiveness of governance in these areas.

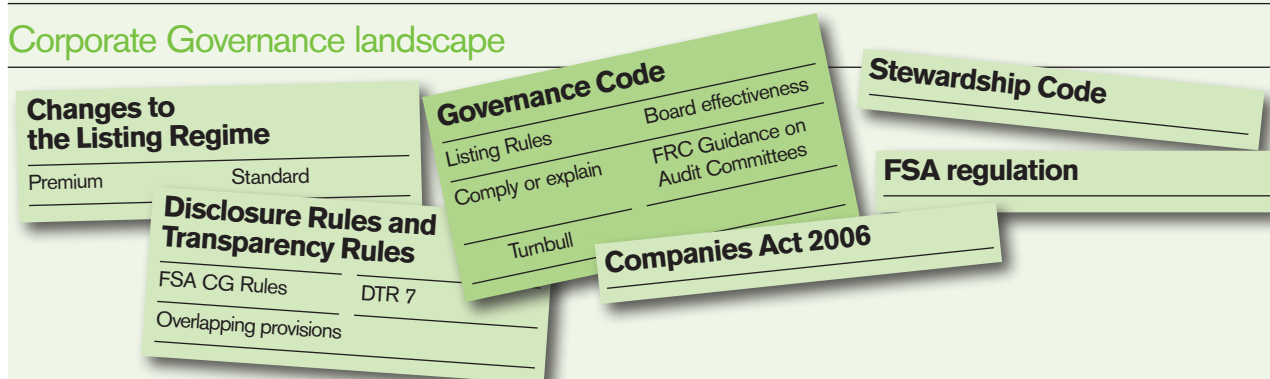
→ It's complex and touches on many areas of the annual report

Governance codes, rules and guidance have grown in quantity and complexity. In response, many companies have resorted to highly standardised boilerplate reporting.

→ It's a moving target

Meanwhile, regulators continue to change the regulatory landscape, and best practice will continue to evolve. Importantly, we don't believe anything currently envisaged by regulators conflicts with our ideas here.

Corporate Governance landscape



We've omitted remuneration here as it was addressed in a previous *Report Leadership* publication, but it is clearly one of the highest-profile aspects of corporate governance and touches on many of the areas addressed in this document.

→ It's a sensitive area

Governance is one of the most sensitive areas of reporting, focusing explicitly on the activities of the directors. And useful, transparent reporting may also be impeded by concerns about commercial sensitivity or personal liability for specific statements.

→ It has a diverse audience

The composition and influence of shareholders are changing. Ownership, portfolio strategy, stock selection, management and voting are increasingly separated – the so called agency problem. This growing diversity of audiences, and of their information needs, makes for more challenging communications between directors, shareholders and management.

As a result, governance statements are often...

→ Isolated from the story

Although it should touch on many areas, governance can seem disconnected from the rest of the narrative. Too often, major developments impacting the business during the year and major challenges for the future fail to rate even a mention in governance reporting.

→ Focused on process

The governance content can easily become a compliance exercise, merely describing process and procedure.

→ The last place investors refer to for key information

The quality and performance of the board and management are clearly critical to a company's success. Yet investors feel they rarely, if ever, get the information they need from governance reporting.

WHAT WE HAVE DONE TO RESPOND

Corporate governance is about how well the business is run. Investors, and other key stakeholders, such as employees, suppliers, customers, environmental groups, and regulators want to make fair and informed judgements about this: it is a core part of a company's investment story. But some disclosures are more relevant than others. It is important not to clutter the core narrative with details that amount to little more than compliance box-ticking.

So how should reporters square the circle? Can they tell a story that enlightens investors while also providing sufficient evidence of compliance? We believe they can.

In the following pages we suggest how companies can both tell the story and comply with the UK Corporate Governance Code, the Listing Rules and the Disclosure and Transparency Rules.

→ **CREATING A NEW REPORTING STRUCTURE**

We propose a new structure that is:

Consistent with the direction a number of leading companies have started to take.

Flexible enough to be adopted gradually.

Adaptable to future changes in requirements.

→ **TELLING THE GOVERNANCE STORY**

We show *how* the new reporting structure can be used to tell the governance story, focusing on areas that investors tell us they see as important.

→ **DEMONSTRATING COMPLIANCE**

As part of our new reporting structure we propose a compliance tracker that shows explicitly how governance requirements have been addressed.

[[The purpose of corporate governance is to facilitate effective entrepreneurial and prudent management that can deliver the long-term success of the company.]]

Financial Reporting Council
UK Corporate Governance Code, June 2010



CREATING A NEW REPORTING STRUCTURE

The elements of the structure

Our proposal makes a clear distinction between key messages on governance and compliance data. The key messages are no longer isolated from the narrative reporting that they belong with.

Elements of our new reporting structure

Chairman's message

The UK Corporate Governance Code encourages personal reporting by the chairman on how the principles of the Code dealing with leadership and effectiveness have been addressed. Either the main chairman's statement or a separate chairman's statement on governance can be used for this.

With some exceptions, the chairman's statement currently often contains nothing on governance beyond bland assurances about how seriously governance is taken. We think they should in future show how effectively leadership has been demonstrated in relation to the key corporate events, and in a way consistent with the organisation's culture and values. To avoid repetition, a small, but growing, number of companies are placing the chairman's statement at the start of the governance section thereby emphasising the importance placed on governance and the chairman's role.

Narrative reporting and governance reporting

An external user's view on the effectiveness of board governance and oversight often comes from the way management discusses and reports its market environment, business model, strategic priorities and risks. Yet much, if not all, of this information falls outside of the traditional corporate governance report.

As companies begin to explore ways to bring to life their governance procedures and improve their corporate governance reporting they will need to consider the potential interaction, overlap and inconsistencies that might arise with these other key areas of corporate reporting. As part of this process we believe there is an opportunity for companies to break down the barriers between governance and the rest of the narrative reporting by integrating them.

Compliance reporting

The new structure moves the compliance aspects of reporting away from where the governance story is told, whether that story is fully integrated with the main narrative or maintained as a separate governance report.

The compliance statement required by the Listing Rules and the key aspects of the board committee reports required by the Governance Code are likely to continue to have a higher profile than other aspects of compliance. The proposed new structure allows for this without cluttering the governance story.

Isolated versus integrated governance reporting

We recognise that what we're suggesting might take some time so we have also identified an interim solution. The diagram below explains what the new reporting structure would look like. It also shows how companies might progress from current practice through to fully integrated governance reporting.

Current practice: **Isolated governance reporting**

Chairman's message

Narrative reporting

Governance reporting including compliance reporting

An improvement: **Partially integrated governance reporting**

Chairman's message

Narrative reporting

Chairman's introduction – with key messages on governance

Governance reporting

Compliance reporting

A step change: **Fully integrated governance reporting**

Chairman's message – personal reporting on governance

Narrative reporting – showing governance activities in key areas

Compliance reporting

These proposals – either full integration or our interim solution – are not limited to larger organisations. In fact smaller companies with a less complex story to tell may find the full integration approach suits their annual report. A few first steps towards integration are included on page 7.

In due course companies may be allowed to publish at least the 'standing data' required for compliance online rather than in the annual report. Until then, we suggest providing the information as an appendix and encourage companies to consider how the website can support the governance story in the annual report.

*Text in bold on this page denotes sections of the annual report which include governance information.

CREATING A NEW REPORTING STRUCTURE INTEGRATING THE GOVERNANCE STORY...

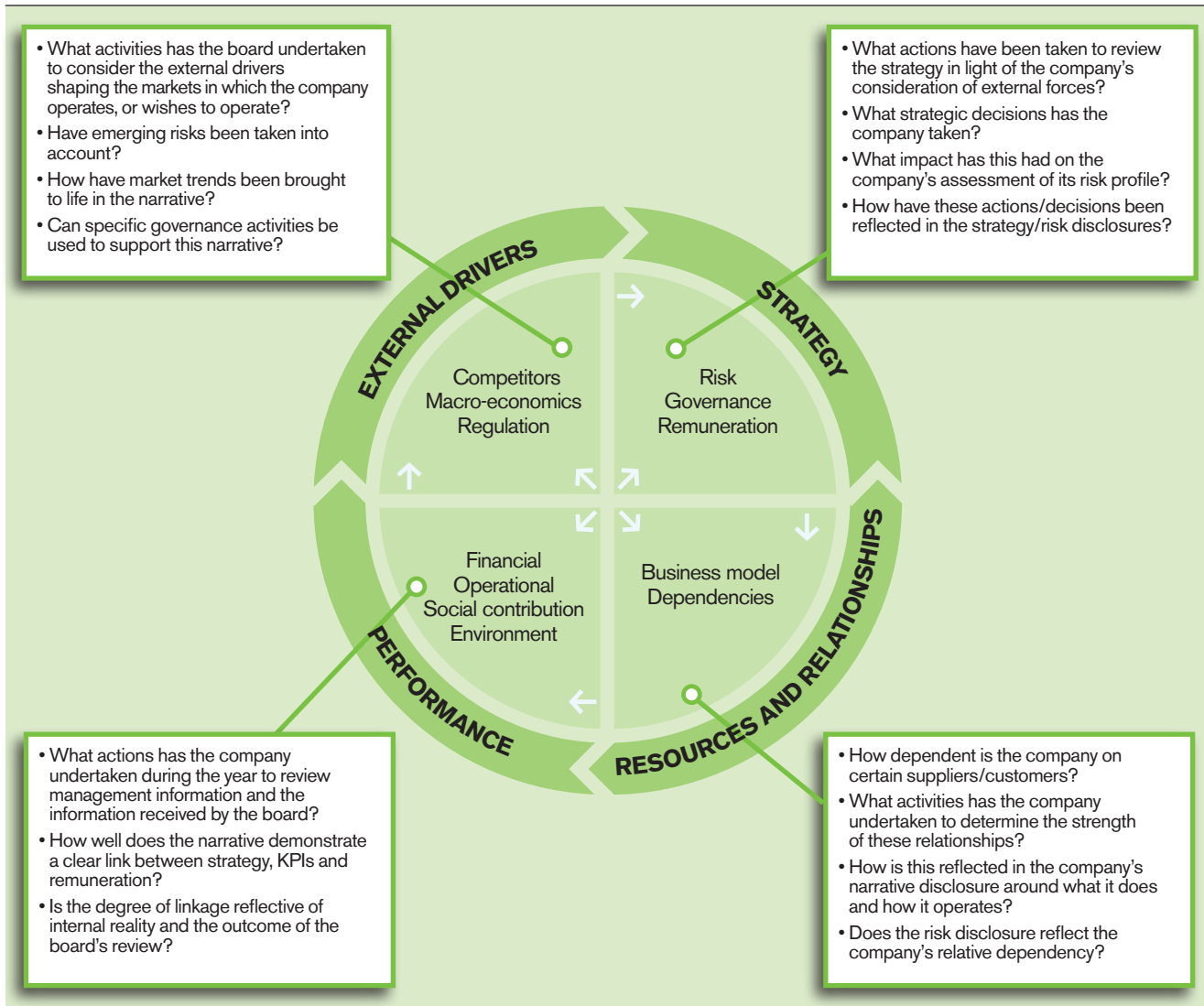
So there is growing demand to bring the reporting of governance processes, activities and performance to life and to integrate it better with the main narrative. But how?

As a starting point, it's worth considering the Integrated Reporting Framework set out below. Drawing on PwC's research and work with investors and companies, it identifies four broad categories of information that sum up the dynamics of modern business across all sectors. We believe companies need to address all of these to communicate the quality and sustainability of their performance, whether internally or externally.

...Into the performance story

A growing number of companies are using this framework to structure the way they report their strategy, activities and performance. The framework also poses a series of questions that can be used to review existing disclosures, question external perceptions and move towards a more integrated and robust governance story: Are we addressing the right issues? Are we reporting them clearly? Are we linking them coherently? What are we missing?

Integrated reporting framework and the governance story



Our proposals

We are not suggesting that one size will fit all. Companies have differing priorities, aims and resources. However, our proposals are flexible enough to be adapted to most situations and almost every company would benefit from a move towards the fully integrated solution.

Because governance touches on so many areas of reporting, presenting a more integrated story can seem a daunting task. But it needn't be one for the 'too difficult' drawer. There are some aspects of company reporting that naturally trigger off governance questions.

Consider how events described in the narrative might provide a cue for examples of effective governance in action. For instance, a passage on investment in manufacturing facilities overseas or the acquisition of a business might include reference to the board decision-making and/or site visits.

Places to start

Strategy, remuneration and performance

Only 35% of companies show clear links between their strategic priorities and KPIs, whilst even fewer (16%) clearly align their KPIs and remuneration policies ('Corporate Reporting: From compliance to competitive edge' – PricewaterhouseCoopers). What picture does this paint of the effectiveness of governance oversight in establishing remuneration policies that drive the right behaviours? An exercise to map strategic priorities against KPIs and remuneration policies will identify potential gaps.

→ In the annual report consider clearly identifying the KPIs that drive remuneration policies and cross-referring from the remuneration report to the KPIs disclosed in the business review.

Business model

Given the explicit reference to business models in the UK Governance Code this is an area of reporting that is currently getting a lot of attention. But what exactly is a business model? Opinions vary widely – that's all too evident in today's annual reports.

→ Consider consolidating existing report content into a business model section under simple headings: Who we are, What we do, Where and how we operate, How we add value. This will provide a basis for challenging existing content – do we have sufficient/appropriate content to fit under each heading? – and a single reference point to signpost from the governance report to demonstrate compliance.

Risk management*

Nowadays risk disclosure is dotted throughout most reports – disclosure of principal risks in the narrative, overview of risk management in the corporate governance report, reporting of financial risks in the financial review/notes. Result: it's not always easy to get the full picture.

→ To help readers understand your risks, consider putting the overview of risk management procedures alongside the disclosure of principal risks and explain how the assessment of risks has affected the risk profile during the year.

*Risk appetite and risk management are key areas that *Report Leadership* will return to in the future.

TELLING THE GOVERNANCE STORY

How can we bring the governance story to life?

In the following sections, we offer ideas and illustrations for improving the communication of key aspects of governance. These proposals relate to our new integrated reporting structure – but could equally be applied to existing governance reports.

1. TONE FROM THE TOP

See page 10 [→](#)

Communicating the chairman's views on good governance and the culture of the board.

2. HOW THE BOARD WORKS AS A TEAM

See page 12 [→](#)

Showing how the board 'fits together' with a complementary set of skills, experience and personal characteristics.

3. THE KEY ACTIONS OF THE BOARD AND ITS COMMITTEES

See page 14 [→](#)

Linking the activities of the board to the year's key corporate events.

4.

BOARD EFFECTIVENESS

See page 16 →

Using board evaluations to communicate board performance and priorities.

5.

COMMUNICATION AND ENGAGEMENT WITH SHAREHOLDERS

See page 18 →

Explaining how the information needs of shareholders have been met during the year.

In our earlier *Report Leadership* publications we used a fictitious company, Generico, for illustrative purposes. We occasionally do the same here, but this publication does not aim to provide a full or complete governance report for Generico.

1. TELLING THE GOVERNANCE STORY

1. TONE FROM THE TOP

The issue

Although the UK Corporate Governance Code encourages chairmen to report personally, the chairman's statement rarely provides insight into his [or her] views on good governance and the board's activities – the 'tone at the top'.*

What investors want to know

The chairman's view on what good governance means to him [or her] and his [or her] company.

How the chairman has met the challenge of leading the board and ensuring its effectiveness.

The culture of the board and whether it is open and welcoming to effective debate and contribution from all members, including non-executive directors.

Whether the governance culture is aligned with the company's policies and procedures, and reinforced by a measurement and incentive system.

A quick reference guide to governance activities during the year and where more information may be found.

*Tone at the top is built on understanding values, culture and what a company stands for. We believe it is well worth taking into account the thoughts of Tomorrow's Company Good Governance Forum on the 'Board Mandate', which is available from www.forceforgood.com

Our proposal

A personalised chairman's report which provides the 'tone from the top', introduces the governance section and acts as an executive summary and index to the supporting detail.

It should provide the chairman's perspective on the board, its culture and overall effectiveness – highlighting particular actions during the year to support this picture.

We've set out possible ideas for content below, including ideas which are developed further in the following sections. They're intended not as a template to be copied verbatim but simply as a source of ideas. A similar format can be applied for the committees.

A personal perspective beyond the chairman can also be introduced by including quotes from board members (executive or non-executive) which reflect their views on the board, its balance and how it operates.

The chairman's personalised statement on governance

Chairman's personal introduction

A short letter giving the chairman's personal perspective on what effective governance means to him [or her] and how it applies to the company. This may include:

- A summary of the company's governance principles and the chairman's view of how the board should act.
- Key board priorities for the current year and the year ahead.
- Actions taken which evidence good governance.

Statement on compliance

An explicit statement on compliance and any areas of non-compliance, with supporting explanation.

Key actions during the year (and cross references to more detail)

A brief overview of the board's focus areas during the year, the actions taken and the decisions made. Examples might include:

- Strategy (including acquisitions and disposals).
- Succession planning.
- Risk appetite and changes in the risk profile in the year.
- Board evaluation.

Provide clear cross-references to where more information may be found, including a link to the company's response to the Code (see the compliance checklist) online or at the back of the annual report.

2. TELLING THE GOVERNANCE STORY HOW THE BOARD WORKS AS A TEAM

The issue

How to ensure that the Governance report communicates the strength of the board as a whole, not just details of past careers.

What investors want to know

That the company's board is properly composed and balanced, with skill sets that complement one another.

That a range of views will be expressed in the spirit of constructive challenge, and that the boardroom environment allows for this.

Our proposal

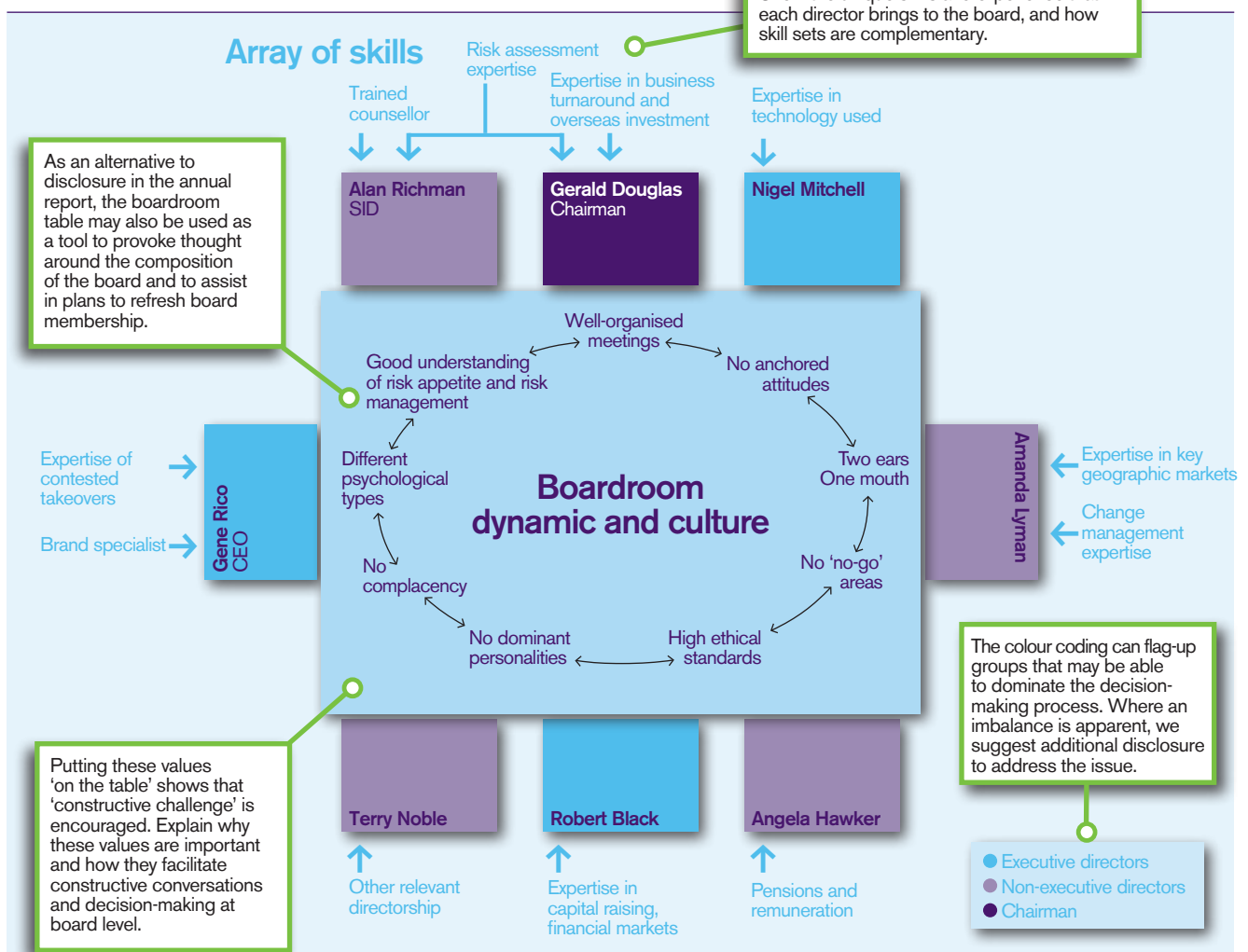
Show how the board 'fits together'. As an example, we have suggested doing this through a representation of the boardroom table illustrating:

- The balance of skills, experience and personal characteristics on the board;
 - The diversity of the directors, which may increase the range of views expressed; and
 - The key aspects of the boardroom culture that the chairman encourages.
-

Directors' biographies

A list of previous job titles does not enable readers to fully understand the skills of individual directors. Emphasise the relevant skills and experience that each director brings to the table. Forward thinking reporters describe each director's main contribution to the company's performance in the year.

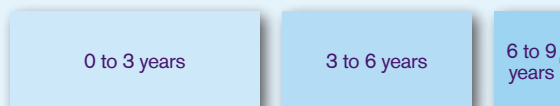
Boardroom table



Succession planning

Tenure of the board of directors

- 0 to 3 years – 4 directors
- 3 to 6 years – 3 directors
- 6 to 9 years – 1 director



Additional diagrams may be helpful to show the length of tenure. Use narrative to explain the board's succession plans, particularly for directors who are close to completing nine years' service.

Director's biography

Amanda Lyman

Key strengths and experience

Amanda has extensive experience in the North American market, having spent the past six years as Commercial Director of CDE Systems, a US-based marine communications system manufacturer. Her extensive knowledge of the US market will be of significant value to Generico as it focuses on US market share in the coming year.

Relevant industry experience

Whilst at CDE systems, Amanda led the company's expansion into marine radar systems, with the acquisition and integration of TBC Ltd, as well as overseeing the restructuring of its distribution network. Amanda spent 11 years at • Co, where her roles included US Sales & Marketing Director and European Regional Director. Previously, she worked for Typico for five years in a variety of commercial and financial roles.

External appointments

- Non-executive director of ADG Inc since June 2005.
- Non-executive director of Feather Inc, since May 2008.

Committee membership

- Audit Committee
- Nomination Committee
- Remuneration Committee

Relevant industry experience helps to explain how this individual can contribute.

Many directors have more than one board appointment. Explain why the Board feels that they have enough time to commit to this role.

3. TELLING THE GOVERNANCE STORY

THE KEY ACTIONS OF THE BOARD AND ITS COMMITTEES

The issue

Companies want to demonstrate that the board and its committees have an effective programme of oversight. How can they do this without churning out a list of responsibilities – a re-hash of the terms of reference?

What investors want to know

What issues the board has focused its attention on.

Whether the board has been focusing on the right things.

How the company's governance processes interact with the year's key corporate events and significant governance changes since the previous year.

Our proposal

Use graphics to show how the board spent its time and, in particular, a timeline noting how all key issues and events were dealt with.

Link the board's activities to the narrative description of the company's strategy.

Business review: Our strategy in action

3) Selective acquisitions in high-growth markets

During our review of market conditions in Singapore (see *Our markets* on p.●●) we identified significant opportunities in this region. In November, we acquired GPS Singapore, a Singapore-based seller of boat positioning devices. GPS Singapore is a small business, but has established a competitive position in the region with a 10% market share. The acquisition will allow us to take advantage of opportunities as they arise in this growing marketplace.

Governance reporting can be integrated within the business review, by aligning governance themes with key events during the year.

Governance in action

The board visited Singapore in December as part of the integration process of GPS Singapore. The visit included meetings with management and employees; presentations on the company's operations; and an update on market conditions.

How the board spent its time and actions arising

Strategy

During the year, Generico performed a strategic review of the business and identified a number of specific objectives for the coming year.

1) Re-build margins in US

The board reviewed the cost structure, including supplier contracts. Following the review, closure of factory in Miami was agreed, and announced, during the year, with final closure expected early next year. As a result of more streamlined operations, margins have started to improve.

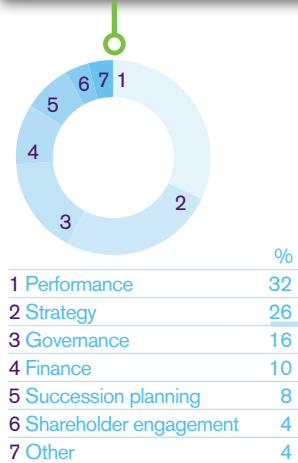
2) Retention and motivation of key employees in the face of the economic downturn

The board initiated a programme of employee surveys following the redundancies in the year. After considering the results of this survey, an employee communications programme, including a visit to the site in Miami, was undertaken. The board agreed with employees a new remuneration/incentive plan to be introduced next year, linked directly to the results of the company. More details can be found in the Remuneration Committee report.

3) Selective acquisitions in high-growth markets

Following a comprehensive review of market conditions in Singapore, the board approved the acquisition of GPS Singapore. As part of the integration process, the board subsequently visited GPS Singapore and met with management and employees.

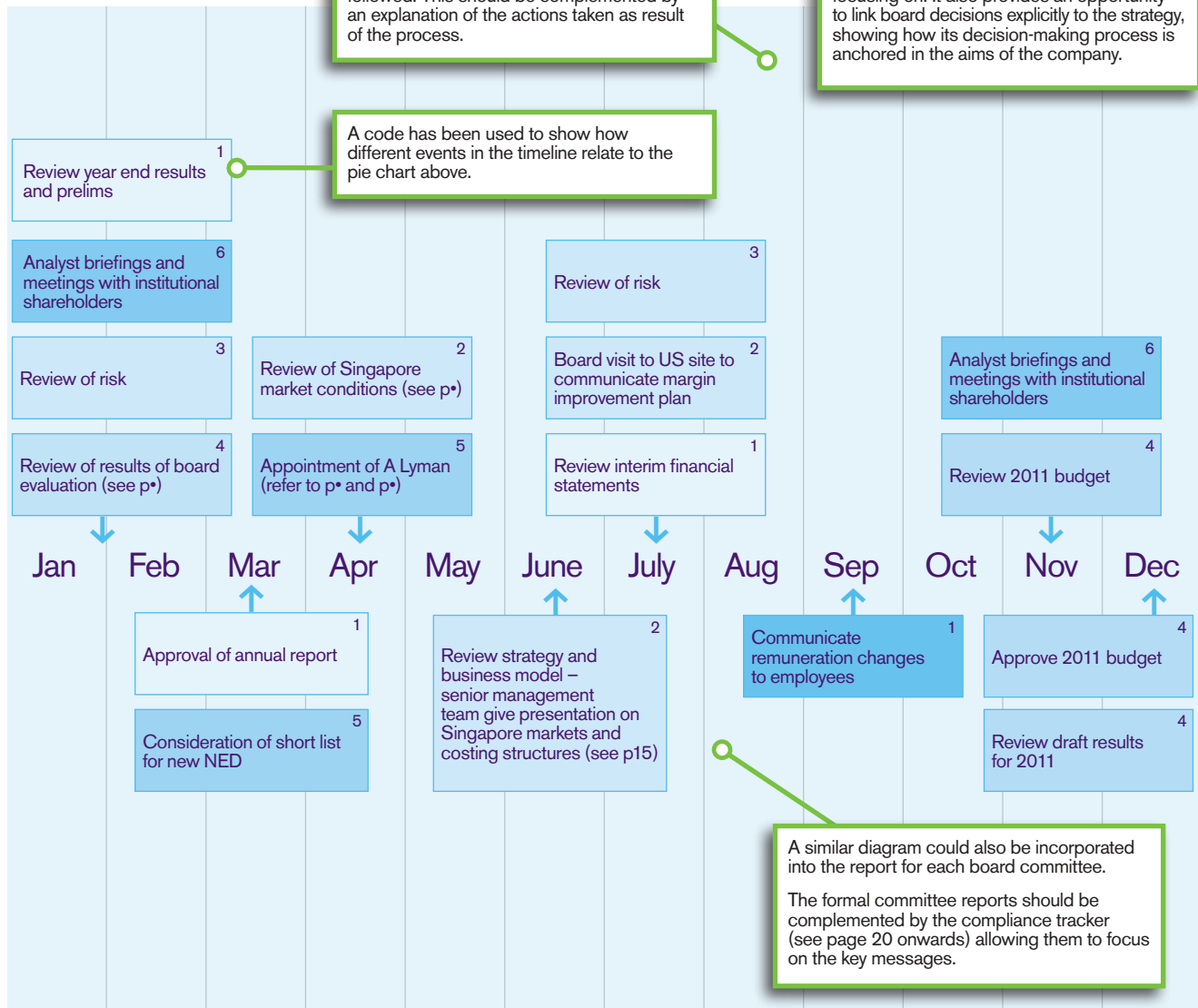
A pie chart of discussion themes could be linked to additional narrative on particularly important topics.



The timeline helps to summarise the process followed. This should be complemented by an explanation of the actions taken as result of the process.

This helps give insight into what the board is focusing on. It also provides an opportunity to link board decisions explicitly to the strategy, showing how its decision-making process is anchored in the aims of the company.

A code has been used to show how different events in the timeline relate to the pie chart above.



A similar diagram could also be incorporated into the report for each board committee. The formal committee reports should be complemented by the compliance tracker (see page 20 onwards) allowing them to focus on the key messages.

4. TELLING THE GOVERNANCE STORY

BOARD EFFECTIVENESS

The issue

How to use board evaluations effectively to increase understanding of the boards' priorities in areas of underperformance.

How to reconcile the reporting of board effectiveness with the company's corporate performance and remuneration packages.

What investors want to know

That there is a rigorous process in place to assess how effectively the board and its committees are working.

A balanced assessment of the effectiveness of the board and an understanding of the actions being taken to address any underperformance.

That the right issues are being discussed, and issues are kept on the agenda until resolved.

That the assessment of board and committee effectiveness is part of the linkage through from strategy and risk to performance and reward.

That matters are being addressed in a forward-looking way, so that effectiveness will improve in the future.

Our proposal

We suggest that a full explanation around board evaluation should be given. Graphics could be used to show:

→ How the evaluation process worked;

→ What the findings and actions were;

→ How the findings and actions from past and current years are being addressed (or will be addressed in the future) and why.

The board evaluation process

The Generico board discussed the process for how assessing board effectiveness could be achieved, and identified enhancements. Against a backdrop of tough trading conditions which may be unsettling for investors, the board felt it was appropriate to undertake a full externally facilitated evaluation, and to disclose the actions agreed.

Under the UK Corporate Governance Code, FTSE 350 companies are required to have an externally facilitated evaluation at least every three years. Companies may choose to use a third party more regularly or voluntarily in response to a particular issue. Setting out the reasons for an external evaluation provides an opportunity to comment on board actions in response to a disappointing performance.

How the evaluation process worked

Process followed:

1. Board discussion of how to achieve the process, type of evaluation to be conducted, by whom and desired deliverables.
2. Appointment of Board Effectiveness Limited, a third party board evaluation company who:
 - Conducted one-to-one reviews;
 - Attended committee meetings and a board meeting;
 - Presented an interim report to the board for discussion; and
 - Conducted a board workshop to assess the results.
3. Actions were agreed, together with a procedure for subsequent review.

Explaining the process followed shows that the board takes the process seriously.

Explaining the findings and actions

Matters considered

The effectiveness of the formal board and committee meetings.

The nature and extent of the board's interaction with the management of the group.

The timeliness, relevancy and accuracy of the information provided to the board and its committees.

Observations

The board's relationship with key North American markets could be strengthened by the appointment of an additional non-executive director with relevant expertise.

There is scope for greater interaction between board members and key executives and senior management.

The board's knowledge of the business would benefit from more information about customer sentiment and the competitive environment.

Actions taken/to be taken

Appointment of a new non-executive director, Amanda Lyman, who has extensive experience in the US market. For further information on her background and induction, see page 12.

Key executives continue to be invited to attend relevant board meetings to inform the board's discussion of strategic issues, such as US costing structures and the Singapore markets. There have also been more informal opportunities for board members to interact with key executives and senior management outside the boardroom, including a number of informal lunches and dinners.

A comprehensive review of market conditions in Singapore – including the competitive environment and trends in demand – was conducted in April. An increased focus in this area will include a series of presentations by relevant executives/members of senior management.

Setting out actions taken gives a clear understanding of the steps taken by the board. Linking these evaluation results and actions to the overall business strategy helps readers assess actions taken and remuneration decisions.

Ongoing evaluation of action points

Board evaluation Rolling update on progress

Principal matters arising from board evaluation process

2008 action

2009 action

2010 action

2008 evaluation (internal)

Create better linkage between Board and executive team

Presentations by executive team to board on rotating quarterly basis.

Ensure reports of committees are communicated in good time to full board.

Committee and board meetings are now held on separate days to allow reports and information of committee proceedings to be collated and read by board members.

2009 evaluation (internal)

Increase knowledge of board as a whole of committee activities.

Each committee of the board now has a director who is not a member of that committee as an observer.

2010 evaluation (external)

Need to improve board balance by appointing under new NED with specific experience of US market.

Appointment to board of Amanda Lyman. See biography under 'How do we know we have the right team?'

Action points should stay on the board's agenda until they're resolved. A graphic helps to explain how the board has tackled significant issues during the year, and how it intends to tackle them in the future.

5. TELLING THE GOVERNANCE STORY COMMUNICATION AND ENGAGEMENT WITH SHAREHOLDERS

The issue

How to create an effective investor communications strategy.

Meeting the information needs of diverse shareholders. It's hard to ensure that these different groups see company events and news in context.

How to ensure consistent engagement with investors helping their compliance with the Stewardship Code.

What investors want to know

The company's story needs to be told consistently to a broad audience. It must meet the needs of:

Fund managers, who need to understand the business model and its shorter term returns.

Ultimate owners such as pension funds and insurance companies, who need confidence in management, and a longer term perspective.

Those responsible for voting, in-house or outsourced, who need compliance data.

Our proposal

Companies should give a detailed analysis of the current owners by investment type, based on public data, and insights into the investor relations strategy for each group. They should also provide information on the key activities undertaken by the IR team, highlighting issues on which management and the IR team have engaged with investors during the year.

The Investor Relations team

The company believes the IR team is an important part of investor interaction, increasingly providing management's perspective on governance matters, as well as strategy, markets and results.

In the past year, this outreach has included a proactive investor programmes with site visits, roadshows and regular financial calendar-linked conference calls.



Shareholder engagement

The issues on which Generico engaged with investors during the prior year were the appointment of a new non-executive director, the acquisition of ABC Pty in Singapore, and the company's executive director succession planning.

Who did we tell?

	Institutional shareholders	Asset managers	Proxy voting agencies	Private shareholders
x1 Annual General Meeting				
x4 Quarterly calls				
x8 Investors roadshows/ meetings with NEDs and executive directors				
Website				
Presentations from calls				
Presentations from meetings				
Dedicated				

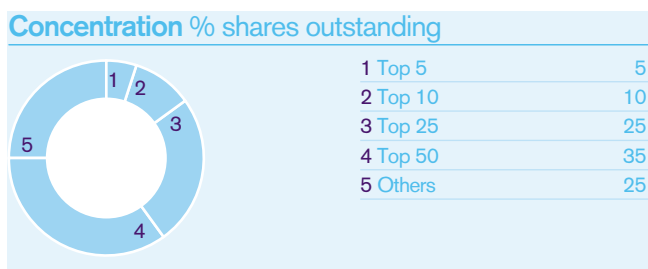
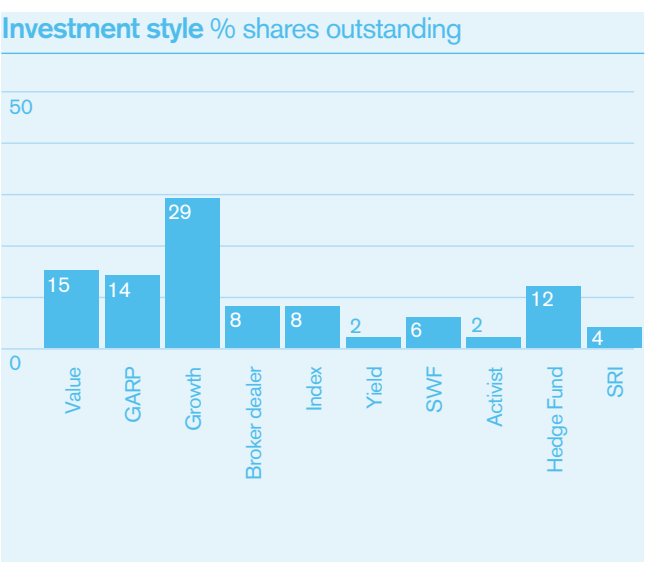
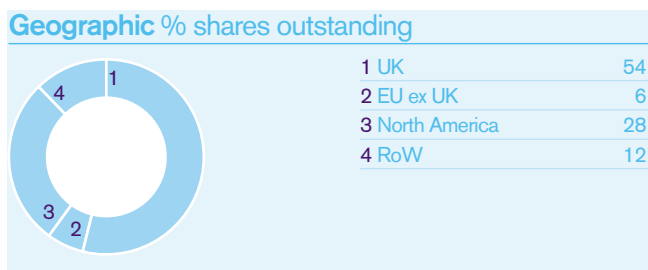
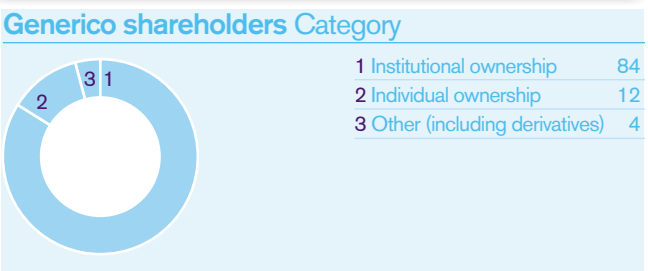
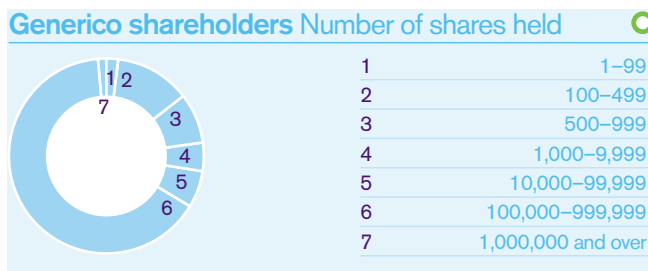
These diagrams help to summarise the process. They should be complemented by an explanation of the actions taken as a result of these procedures.

Shareholder analysis

The company continues to monitor the make-up of the share register. We believe that the balance in location and investment style is healthy. We note the interest in the company's shares among activist and hedge fund investors and continue to support their needs for information, and where appropriate, access to management.

The volume of shares traded indicates a liquid market for the company's shares. Given the continuing interest in the company's shares among non-domestic investors, we have added several overseas trips to our IR programme. The Investor Relations team continues to seek external views on how well it is supporting investors. The most recent perception study conducted among a selection of investors showed a favourable response.

Highlighting the shape of the existing shareholder base, using publicly available data, helps existing and potential investors understand the company's broad appeal and shareholder support.



DEMONSTRATING COMPLIANCE THE COMPLIANCE TRACKER

So far we have focused on how to bring corporate governance processes and activities to life and integrate it with the main narrative. But what about the wealth of supplementary information that's required for compliance with all the relevant rules, codes and guidance? We suggest that this necessary but non-core material should be presented separately from the 'compliance story' in a 'compliance tracker' to avoid cluttering the narrative and obscuring key messages.

Compliance tracker

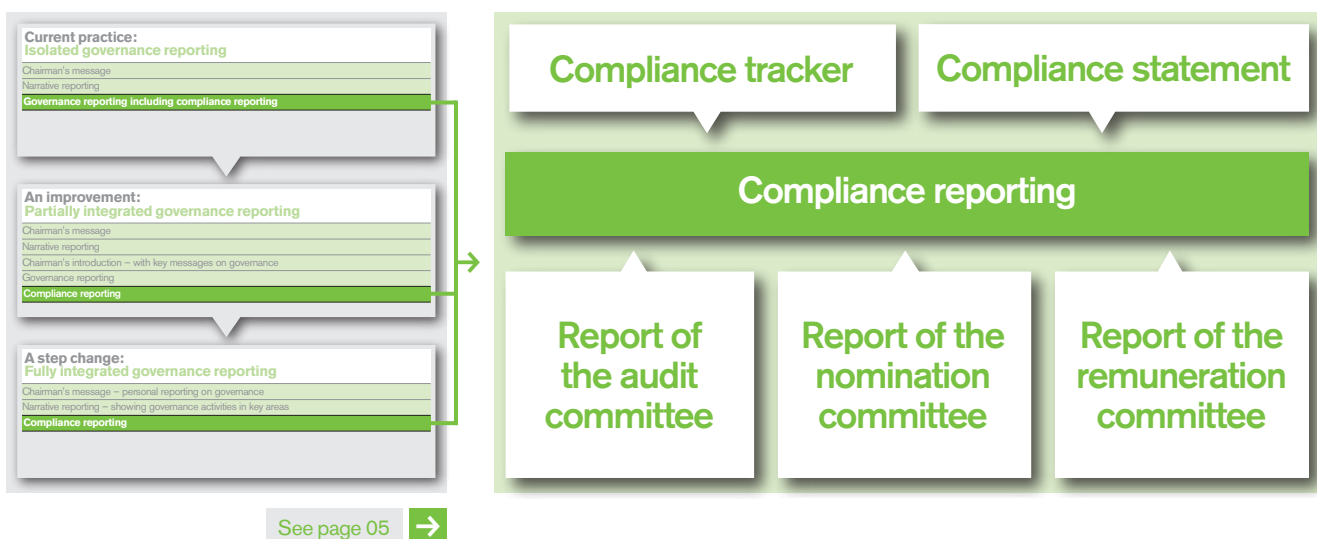
This is our key proposal for compliance reporting, and a number of companies are already starting to move in this direction. An example of what we envisage is set out on pages 22–23. As with our other proposals, the compliance tracker can be used flexibly: companies may choose to include all their governance information other than key messages relating to the year's events, or only the more procedural information and standing data.

The tracker should not be the only source of governance information. It should be used to 'top up' the high level governance messages given elsewhere in the annual report.

The compliance tracker is unlikely to make a compelling part of the main reporting narrative. We suggest that it might sit better towards the back of the document, almost as an appendix – available to be consulted by interested users but without interrupting the flow of the core story.

Compliance statement

If it is not incorporated into the chairman's statement, as we suggested on page 11, this could be presented alongside the compliance tracker. The tracker could be used as the basis for making the two-part compliance statement required by Listing Rule 9.8.6.



Use of the compliance tracker

For a copy of the compliance tracker please contact us via the *Report Leadership* website at www.reportleadership.com.

The benefits of tracking compliance are not limited to investors, regulators and other users of the annual report. We have therefore created a variant of the 'compliance tracker – reporting version' that we believe may also be useful for company secretaries and others preparing governance reports. This 'compliance tracker – checklist version' is also available at the *Report Leadership* website and provides guidance on areas to cover to satisfy the UK Corporate Governance Code's principles and provisions.

The compliance tracker should be completed in plain English. There should be no need to duplicate the wording of the Code as the principles and provisions are given in the tracker template. So everything that is recorded in the tracker should 'add value'.

Committee reports

The reports of the main board committees are not just a compliance requirement. Indeed, they are growing in prominence in corporate reporting. After all, the remuneration committee deals with one of the most sensitive and closely scrutinised areas of governance, and attention is now turning to the audit committee's risk-related responsibilities and its interaction with the external auditors.

We suggest using the compliance tracker to complement the formal committee reports, filling-in the compliance detail and allowing the reports themselves to focus on the key messages.

Standing data and websites

→ It is envisaged that companies using the compliance tracker would need to invest more time in Year 1 to illustrate compliance. Less time should be required in subsequent years as only an update would be needed to the existing tracker, as some standing data will remain consistent from year-to-year. Over time we expect that much of the content of the compliance tracker will simply be posted on companies' websites, when regulators permit this.

DEMONSTRATING COMPLIANCE ILLUSTRATIVE EXAMPLE

This example addresses a selection of provisions from the UK Corporate Governance Code; it is intended to illustrate the use of the compliance tracker and is not intended to represent best practice reporting in terms of the content.

Compliance statement

The directors consider that Generico has, throughout the year, complied with the provisions of the 2010 UK Corporate Governance Code (the Code), other than the exception explained below, and applied the main principles of the Code as described in pages X to Y of this Report. The company has not complied with provision B.7.1 of the Code, which requires all directors of FTSE 350 companies to be subject to annual election by shareholders. The board considered this provision at the start of the year and believes its adoption could create instability of the board at this time. The board has therefore agreed that all directors will continue to be subject to re-election at intervals of no more than three years, and will review this position each year.

The Code and associated guidance can be found on the Financial Reporting Council website at www.frc.org.uk

Both versions of the compliance tracker include a reminder of the relevant technical requirements.

Extract from the compliance tracker

Ref Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors
B.1.2 determined by the board to be independent. A smaller company should have at least two independent non-executive directors.

Disclosures:

As shown in the membership table below, the board comprises the chairman, three executive and four non-executive directors. The composition of the board is also discussed in more detail on page 13. The independence of each non-executive director has been assessed during the year, in line with the independence criteria contained within provision B.1.1 of the UK Corporate Governance Code ('the Code'). As noted in the table below, Terry Noble was appointed on 31 October [20X0] and therefore has been a non-executive director for more than nine years: he is not presumed to be independent under provision B.1.1 of the Code. The board has considered whether his ten year tenure as a non-executive director has compromised his independence. Following a review of the performance of each director, required by provision B.6.1, the board agreed that Mr Noble continues to be an effective member of the board and makes use of his vast experience of the industry by being robust in requesting additional information and analysis before key decisions are made. Following this evaluation, the board was unanimous in agreeing that Mr Noble continues to be independent.

Disclosures elsewhere:

How the board works as a team – boardroom table

Location of disclosures:

Page 13

Composition of the board

	Position	Appointment date	Independent
Chairman:			
Gerald Douglas	Chairman	14 July 20X4	n/a
Executive directors:			
Gene Rico	Chief Executive	12 September 19X8	No
Robert Black	Financial Director	5 May 20X2	No
Nigel Mitchell	Executive director	13 January 20X3	No
Non executive directors:			
Alan Richman	Senior independent director	12 April 20X4	Yes
Amanda Lyman	Non-executive director	1 February 20Y1	Yes
Angela Harker	Non-executive director	9 September 20X6	Yes
Terry Noble	Non-executive director	31 October 20X0	Yes

This kind of standing data can be given along with the compliance tracker in the annual report.

Ref **B.6.1** The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.

Disclosures:

The 'Board effectiveness' section of the Annual Report ['Telling the governance story'] includes an explanation of the evaluation process taken by the external facilitator. As part of this review, the facilitator also considered the effectiveness of the board's committees and individual directors. The results are summarised below:

Review of the audit committee – the process followed for the full board evaluation noted on page 17 was also followed for the review of this committee. The only action point arising from the prior year evaluation related to the process of ensuring that the discussions of the audit committee were communicated to the whole board. This has been resolved by the inclusion of audit committee minutes in the board pack and a short summary of the discussions and actions is presented by the committee chairman during board meetings. The current evaluation considered the remedial steps taken to address last year's action point and found that the new process adopted enabled appropriate communication of this information, allowing the board to understand the outcome of the committee's discussions. The evaluation process for the current year found that the committee was performing well and that the relationship with the external auditor was one of open and honest discussion. The audit committee members felt that they would like increased interaction with the scope of the internal auditor. We will be making appropriate changes to the process to address this in the coming year and report progress next year.

Review of individual directors – the performance of individual directors was reviewed as part of the evaluation process. The evaluation considered the level of interaction at both board and committee meetings, the steps taken by directors to keep themselves up to date on activities affecting the business...

Disclosures elsewhere:
'Board effectiveness'

Location of disclosures:
Page 17

Where a significant matter has been explained in more detail in 'Telling the governance story' this provides a link to where these disclosures can be found.

Provides space for other points which require additional explanation, but would clutter up the governance story if included in the main annual report disclosures.

Ref **B.7.1** All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election at intervals of no more than three years...

Disclosures:

As noted in the compliance statement, the company has not complied with the requirement for annual election of all directors as they felt that this could lead to instability of the board at this time. Given the significant level of change in the year, including the US and Singapore re-focus, it was agreed that all existing directors had a specific role to play in this transition period and therefore their combined experience of both Generico and the market in which it operates would be vital. All board directors will continue to be subject to re-election at intervals of no more than three years, and the board will review this decision each year.

Disclosures elsewhere:
'Board effectiveness'

Location of disclosures:
Page 22

Our example here is using the Compliance Tracker format for more procedural aspects of audit committee disclosure – we propose that there would also be a more insightful and dynamic audit committee summary report covering major activities and developments in the year. It is possible to present more aspects of the audit committee in the Compliance Tracker format – but companies may find that this does not give the report sufficient prominence, given the current level of interest in how the committee handles risk and its interaction with the external auditors.

Ref **C.3.1** The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience

Disclosures:

The member of the audit committee with recent and relevant financial experience is Angela Harker. Ms Harker, who is a chartered accountant, was previously Financial Director of ABC plc until last year. She has ensured that her knowledge of accounting standards and reporting requirements remains up to date through the attendance of regular training events.

Disclosures elsewhere:
[Link to Audit Committee Report]

Location of disclosures:
–

WHAT REPORT LEADERSHIP HAS DONE SO FAR

Report Leadership has added to the development of corporate reporting in the UK in several ways.

First we created a fictitious company, Generico, and its Annual Report.

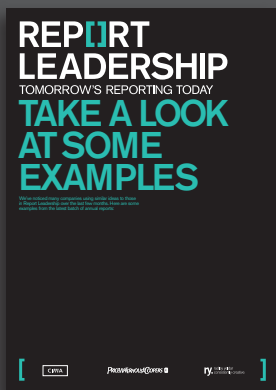
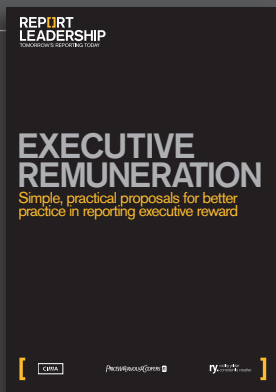
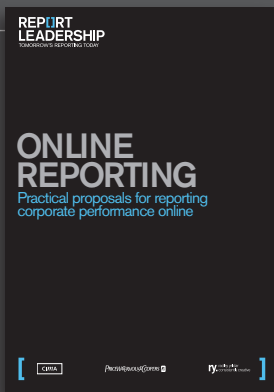
Through this report we illustrated our ideas on:

- Effective communication, through clear structure, messaging and navigation.
- How to model the future, by discussion of strategic priorities, resources, metrics and timeframe for measurement of success, and clear link between strategy, performance and executive remuneration.
- How to create context for the financials, greater granularity on revenue, costs, segmental information, pensions and debt.

Next we added views on:

- How companies can improve their online reporting.
- How to make the remuneration committee report more understandable.

And finally we showed examples of how our ideas have been adopted by companies:



Report Leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP and Radley Yeldar.
www.reportleadership.com