

with Bernadette Barber



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Less is more



The FRC is loudly screaming 'STOP!' at the world of corporate reporting.

Anyone involved in the preparation of a company's annual report and accounts will sympathise with the Financial Reporting Council (FRC)'s view that the documents have become almost unreadable, encumbered as they are with a multitude of reporting requirements. Two years on from its discussion paper, *Louder than Words*, which explored how corporate reporting could be made simpler and more relevant, the FRC has recently issued a new report, *Cutting Clutter*, which offers some ideas on the causes of clutter and how the apparently elusive goal of simplification might be achieved in practice.

For many company secretaries, year-end can often seem a demoralising time, spending hours drafting, checking and double-checking narrative which might never be read. *Cutting Clutter* identifies the sufferer of this potentially soul-destroying experience as the 'despairing preparer'.

Under pressure (whether perceived or actual) from regulators, auditors, investors and others, the long-suffering despairing preparer caves in, replicating statements from previous years,

including information regardless of materiality, incorporating what everyone else does 'just in case', diligently ticking the box for every possible disclosure and then probably adding in a few more for good measure. The result is a vicious circle of ever-expanding reporting.

The FRC is loudly screaming 'STOP!' at the world of corporate reporting, a world which appears to have gone completely bonkers and lost all sight of why they are reporting in the first place.

Fair enough, you might think. But for those charged with preparing reports, it takes a certain kind of courage to abandon the safety of covering everything so that you cannot be criticised for leaving things out, or to make a stand against a disclosure, which your company's auditor (with his proforma checklist in hand) is arguing should be included. In this world of transparency and openness it is comforting to think that when questioned about any particular point of disclosure you will be able to point to paragraph X on page Y and say 'it is there, you just didn't look hard enough.'

Behaviour, not just of the poor 'despairing preparer' but of all participants in the corporate reporting chain, is therefore rightly identified in the report as one of the key drivers for so-called 'kitchen sink' reporting. The obvious conclusion is drawn that behaviours must change if clutter is really to be cut. But behaviour is not the only issue. Language is also branded as a key reason for the development of clutter.

The report identifies no less than ten different descriptors (words such as 'critical' and 'major') which are used to trigger disclosures but which are open to interpretation. When the interpreters of those words are erring on the side of caution, in order to avoid censure for non-disclosure, it is not difficult to see how borderline disclosures creep in and the overall volume of reporting expands accordingly. The report challenges everyone – from standard setters to the end-user – to be much clearer about what disclosures are really needed and to take a firmer stance against over-reporting. The FRC's key message is really nothing other than that old truism 'less is more'.

To achieve this, perhaps we need to go back to first principles and recall the purpose of reporting and why it is important. It is called narrative reporting, which seems to have been construed by some as meaning 'wordy'. In fact, the word 'narrative' should remind us that the reporting should tell the reader a story about the company so that he or she can understand more about it, its leadership and governance, its culture and values, its people, its challenges and its business. Endless detail leaves the reader overwhelmed and under-informed. It obscures the real picture and in so doing endangers the very reason for providing the reports – stakeholder scrutiny.

Those involved in preparing reports may be despairing more now than ever in the wake of the idea that they need to go back to the drawing board and re-write the reports which they have been churning out in a similar vein for years. But with their background and comprehensive understanding of the rationale behind the numerous narrative reporting requirements, who better to take up this challenge than Chartered Secretaries?

» About the author

Bernadette Barber is the author of ICSA's *Corporate Governance Handbook*, published by ICSA Publishing. Order your copy at www.icsa-bookshop.co.uk.