

Statement on the Operating and Financial Review

The Chancellor announced on 28 November that the Government had decided no longer to require quoted companies to prepare an Operating and Financial Review, in addition to the requirements of the EU Accounts Modernisation Directive.

I am today laying regulations which repeal the requirement on quoted companies to prepare an Operating and Financial Review for financial years starting on or after 1 April 2005. They will need to include a Business Review as part of the Directors' Report, in compliance with the EU Accounts Modernisation Directive requirements. This is in line with the Government's general policy not to impose regulatory requirements on UK businesses over and above relevant EU Directive requirements. I am today publishing guidance on the regulations.

We are committed to improving strategic, forward-looking narrative reporting by companies, and to enhanced dialogue with shareholders based on such reporting. We believe it is important for companies to report on non-financial issues relevant to the development and performance of the business, including, for example, environmental matters and human capital management, and they will need to do so under the Business Review requirements. The Business Review will need to cover principal risks and uncertainties as well as giving a balanced and comprehensive analysis of the business.

The contents of the Business Review cover much of the ground covered in the Operating and Financial Review, but in less prescriptive form. The depth of analysis required is proportionate to the size and complexity of the business. A small company (namely one which satisfies two of the following: turnover of not more than £5.6m; balance sheet total of not more than £2.8m; not more than 50 employees) need provide no such review. Also, the Business Review does not have the additional audit requirement specified for the OFR.

Companies that have been preparing to produce an OFR will be able to use that work to produce their Business Review. In addition, many companies have been producing a voluntary OFR for some years, and may wish to continue doing so using work that they have done toward the mandatory OFR. Or they may use that work to improve the quality and depth of their Business Review.

The Government also believes that disclosures – both mandatory and voluntary – are only part of the picture. On their own, disclosures are insufficient to generate responses by businesses to the legitimate concerns of civil society. Dialogue with and pressure from

stakeholders, including the public, NGOs, shareholders and Government, is vital for achieving this outcome.

In order to have the maximum impact, it is important that the requirements for narrative reporting are properly calibrated, and neither impose an excessive compliance burden, nor push companies into a 'tick box' or 'boilerplate' approach to disclosure.

As regards enforcement of the Business Review requirements, the Financial Reporting and Review Panel has the legal authority to review a company's Directors' Report, for financial years beginning on or after 1st April 2006 and, if necessary, go to the court to compel a company to revise its report.

The Company Law Reform Bill contains provisions relating to the Operating and Financial Review. We intend to bring forward amendments to remove the need for a quoted company to produce an Operating and Financial Review. In future such a company will have to produce a Business Review. I am today inviting views from interested parties by 15th February before we bring forward appropriate amendments to the Bill.