

REMOVING NEED FOR STATEMENT MAY AFFECT INVESTOR TRUST

The Scotsman: Getting Technical by Jim Lee

In March 2005, the Commons amended the 1985 Companies Act by extending the reporting requirements: the legislation now requires an Operating and Financial Review (OFR), with the applicability varying by company size and status. Gordon Brown, the Chancellor, withdrew the requirement for implementation in his statement to the CBI Conference in November 2005. However, the surprise at Brown's statement may be short lived because all that has been removed is a requirement to make forward looking statements. This is significant since there was no safe harbour for directors. What remains is the requirement, from an EU Directive, for an Enhanced Directors' Report (EDR). This is required to cover matters "to the extent necessary for an understanding of the development, performance or position of the business".

While the OFR requirements were for the benefit of share-holders, the EDR requires reporting to a broader public interest. The EU directive for the EDR has been translated into 26 Key Performance Indicators (KPIs). Guidance indicates a maximum of 17 of these is applicable to any one company and the vast majority of companies will require fewer than ten.

This boilerplate reporting information will mostly be collated by IT. Since there is no forward-looking statement, the data will be audited and reported in annual accounts in template form with directors' signatures and audit statements. Environmental and employee issues will be better monitored because these must be reported. But investor interests in risk management are lost.

If we rely on IT without control, audit and security compliance tests, our investment market is in jeopardy of being left behind in terms of trust. The OFR regulation required directors to make statements and take responsibility that could not have been delegated. The Current position lacks that control.

Jim Lee is managing director of Campbell Lee plc.

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