The future of narrative reporting: consulting on a new reporting framework. Response form

Please send your response by: 25 Nov 2011

About You	
Name: Lord Sharman – Chairman, Aviva plc	Organisation (if applicable): **Aviva** is the world's sixth largest insurance group. It provides 44.5 million customers with insurance, savings and investment products with total worldwide sales in 2010 of £47.1 billion. Aviva is the UK's largest insurer with over 14 million customers. Our combination of life, health and general insurance is unique in its scale and breadth in the UK market. Aviva is in the top 10% of socially responsible companies globally in the Dow Jones Sustainability World Index. **Aviva Investors** is the global asset management business of Aviva plc. The business delivers investment management solutions, services and client-driven performance to clients worldwide. Aviva Investors operates in 14 countries in Asia Pacific, Europe, North America and the United Kingdom with assets under management of £269 billion at 30 June 2011.
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X	**Yourself : Quoted company**
	Other company
X	**Investor or investment manager**
	Business representative organisation
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<u>Introduction:</u>

We believe that this review is timely and welcome. We agree that Annual Report & Accounts have become so lengthy and congested with information that readers can often no longer see the wood for the trees. As investors we are aware that this has resulted in many readers only looking at one section of the document e.g. on remuneration, without linking this to other parts of the Accounts e.g. on strategy or on corporate governance. This situation is not optimal in terms of the way a company looks at its own business or in the way investors assess the quality of the company and its future prospects.

We see these proposed changes as a real opportunity to enable confident companies to tell their stories and present it in a joined up way enabling shareholders and other stakeholders to better understand their business, their culture, and how they manage the current and future risks and opportunities. This should lead to more effective long term valuations of companies who are able to link the financials to the very important non financial influences of a company's future such as its management, its people and its approach to the longer term sustainability issues.

We do also continue to caution against over prescription. It is important companies are given the required flexibility to allow them to tell their own unique story while also providing the consistent, comparable information and data that investors require.

This particular consultation has received very little focus in the media and we have heard very little comment on its potential impact. It may be that people think it will have very little impact. We do not agree. We believe that, if the changes are right, its impact could potentially be far reaching, changing the way companies and shareholders review and assess companies and evaluate the way they are run and, therefore, re-assessing the company's valuation.

The Strategic Report, in telling the story, will allow shareholders and analysts to hold boards to account on strategy, performance, board composition, remuneration, environmental and social practices in a more rounded and meaningful way that is material to the business. We hope this will encourage more sell side analysts to take non financial issues into account, more fully integrating governance into their assessment of companies.

We are pleased that the UK is taking the lead on the company reporting agenda and do believe that UK companies are already among the best in the world in the quality of their narrative reporting. One strand of this agenda we believe the UK has the potential to really drive the agenda on at a global level is in relation to corporate reporting of material sustainability issues. At present, there is no accepted rule requiring reporting of Environmental, Social and Governance performance. We would therefore welcome the UK government supporting the Aviva convened Corporate Sustainability Reporting Coalition's call for a Convention on corporate sustainability reporting to be agreed at the Earth Summit in Rio next year.

As an aside, we think it might also be helpful for companies to disclose the results of votes (votes against, abstentions, and votes in favour) at their shareholder meetings which is a good indicator of shareholder sentiment over pay and other governance issues. The Dodd-Frank Act already requires this of Russell 3000 index companies.

We are aware that in answering the questions we have said "yes" to nearly all the additional disclosures suggested – although often with caveats. This does not help in reducing the overall size of Report & Accounts. However, we do believe that ongoing discussion needs to continue on the relevance of specific disclosures and whether or not to remove them. The focus should remain on ensuring that company reports are clear, relevant and continue to evolve and improve.

Our responses to the questions are as follows:

Questions

Question 1

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

Yes	No
X	

Comments
We recognise the challenges of the detail and volume given in companies Report and Accounts which is often the product of regulatory and best practice. Currently, Annual Report and Accounts can be dense and often not very user friendly as our introduction to this paper explains, we therefore welcome the proposed restructuring of the document. We have previously advocated the introduction of a separate strategic report, which would be broadly similar to that proposed in this consultation document. We believe it is important that the disclosures are able to link all key elements of running a business into one "story"; shareholders can then decide whether they like the whole story or not and will be able to engage on a more rounded basis. It is of course important to ensure that changes to narrative reporting do not place additional and undue pressure on companies during what is currently a difficult economic environment.

Question 2

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,
- key information on executive remuneration and its link to performance?

Yes	No
X	

Comments
We agree that this information is appropriate for quoted companies. However, from an investor's perspective, one clear omission is that of the role and composition of the board which should also be explicitly referred to in this list. This would be a critical omission if this is not included. Knowledge on who runs the company, the experience and skills represented on the board and why those skills are appropriate is essential if we are to be able to fully assess the prospects a company succeeding in its objectives. At the end of the day it is the quality of the people running the business that is likely to have the biggest impact on its future performance. We do support the need to include social and environmental information as we believe this will shift mindsets to the longer term. The consultation needs to be clear about exactly what is expected in the Strategic Report and how it links with the Annual Directors' Statement. We believe that a statement on social and environmental issues should be mandatory in the Strategic Report but that further information and detail should be voluntary within the Annual Directors Statement. Markets are driven by information. If companies do not provide an assessment of the broader environmental, social and governance – or ESG – risks and opportunities to which their business model is exposed then how can the market assess the sustainability of that company's growth? Currently information they receive is, in the main, short term and thin so it is no wonder that these characteristics define our markets. Only when investors have access to high quality, business relevant information will they be able to properly assess one company relative to its peers and allocate capital accordingly. In addition, we believe that short term and less well informed markets will be less stable, more volatile and, ultimately, less valuable. As a long term asset manager and a long term asset owner, this is of strategic concern. We are therefore very supportive of companies having to report comprehensively on the material impact of these issues on their business. If companies are not able to disclose material sustainability issues, they should explain to the market why they cannot do this in the Strategic Report. We further agree that a key goal is to ensure that companies are clear-sighted and focused on the issues which matter to their long term success and therefore to investors. Therefore, we agree that it is important that there is a clear link between the company's strategic objectives and the criteria for payments to directors.

Question 3

Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?

Yes	No
X	

Comments
We believe this would align company law with developing market practice by changing the emphasis of high-level company communication from historical financial performance to forward looking strategy and governance. This is the document that most shareholders will read. We believe that both individual and institutional shareholders will find a joined up Strategic Report much more useful in helping them understand the businesses they are invested in. It will help individuals understand the purpose of having KPIs, good boards and management and appropriately structured remuneration and how they work together towards achieving goals. Hopefully it will also encourage sell side analysts to report on non financial matters thereby making these issues much more relevant to fund managers when they value companies. It will help shareholders understand why they are invested in the business – or whether they should sell. It is important that the Strategic Report is not too lengthy and is written in simple English without too many legalistic and technical financial references.

Question 4

Do you agree that the Strategic Report should be signed off by each director individually?

Yes	No
	X
Comments	
Currently at Aviva, the Directors report is discussed and approved by the full Board before being signed by the CEO on behalf of the Board. The financial statements are likewise signed by the CFO on behalf of the Board. While, we have no objections in principle to this proposal, we do have concerns about the practicalities of such a reform, given the potential for hold ups if one director is not available to sign off the Report on the required day. There is also scope for individual directors to use this veto point as leverage for individual agendas.. However, as investors, we do see the merit in looking at ways to make directors more accountable for the information presented in the Report and Accounts. We therefore suggest that other solutions could perhaps be to revise the wording to highlight each director's responsibilities more clearly. For example, the statement could say that the board is satisfied that they have made all reasonable effort to receive relevant and timely information and that, as far as they are aware, the information in the Report & Accounts is complete and accurately reflects the board's view. The wording should state that all directors have read the Report & Accounts and have agreed the changes made.	

Question 5

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement
- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

Yes	No
X	

Comments

We believe that all the above elements should be included within the Annual Directors' Statement for quoted companies. However, we also believe that a summary of the board, its role and composition should be in the Strategic Report with the detailed information in the Annual Directors' Statement.

We would urge that the format allow for adequate flexibility so there is room for constant improvement in reporting standards and ensuring that the spirit of narrative reporting is kept to; allowing individual companies or industries to provide the information in a format which would be most useful to shareholders.

On the voluntary nature of reporting on environmental and social disclosures, this should be accompanied by a mandatory disclosure in the Strategic Report on what, if anything, a company does in this area. Where the company says it does take these matters into account then they should go on to explain in more detail, in the Annual Directors' Statement, what they actually do.

It is important that ongoing efforts are made to shorten content and remove non material information or information that is not used by shareholders. If there is nervousness or lack of consensus about what to leave out, there could be a discrete section, online, that would act as an "archive" for information no longer included in Report & Accounts so that shareholders could still have access to such information.

Question 6

Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

Yes	No

X	

Comments
We would welcome both from the perspective of a company and as an investor greater freedom to utilise technological advancements and avoid repetition. Currently, Report and Accounts can be dense and often not very user friendly; the ability to more easily search and find with the aid of 'click throughs' on websites should assist interaction with these documents.

Question 7

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

Yes	No
X	

Comments
We agree that it would be right and proper that companies should confirm that they have reviewed the information provided within the Annual Directors' Statement. We believe it would be very unlikely that any company would publish information within their Annual Directors' Statement – whether in the report or by cross reference – that had not been reviewed in the production of the Report and Accounts. It would be very helpful for investors to note material changes from previous disclosures. As information will be spread out more widely, it will be more difficult for readers to note what has changed from one year to the next. Investors may miss significant changes of stance on issues from the previous year which can potentially provide useful insight into its thinking. It will allow investors to question boards and management about why things have changed. However, we acknowledge that the practical arrangements would need to be considered so that companies are not overly burdened and that investors are not flooded with unnecessary information. We note that it is not clear as to who would define 'significant changes'. Please see our answer to question 5 where we recommend that there should be an "archive" section, on-line, where all information that has been removed from previous editions of Report & Accounts are stored so readers can track the changes made. Companies should still highlight significant changes they have made to the report.

Question 8

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

Yes	No
X	

Comments
We are in favour of this proposal and it is something the company already does. We'd anticipate the same could apply with the Strategic Report. Even now, Aviva Investors do not receive any hard copies of Summary Reports or Report & Accounts unless specifically requested. Therefore, our view is that both the Strategic Report and the Annual Directors' Statement should only be available online unless otherwise requested. Companies should ensure that it is easy for shareholders to receive the hard copies, if requested, particularly individual shareholders.

Question 9

Do you support removal of the disclosure requirements, arising from company law, identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs.

Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

Yes	No
	X

Comments
We do see value in maintaining most of the disclosure requirements identified within Table 1 as they provide some useful information for investors. As a company, we currently disclose what we believe to be relevant and appropriate to shareholders and have no concerns with the current disclosure requirements. • On market value of land, so long as there is a requirement to disclose this information somewhere in the Report & Accounts, then removing the Companies Act disclosure requirements is acceptable. • On own shares, we are supportive of removing Companies Act disclosure requirements for private companies. • On charitable donations, investors would continue to find it interesting to note charitable donations, not least to ensure that any conflicts of interest are able to be identified. As investors we sometimes see companies supporting charities that are favourites of the CEO or Chairman. Whilst we may not always act upon this, it gives us an insight into the culture of the board and may, in extreme cases, cause us concern. However, the threshold could be raised, say to £10,000.

- On employee involvement, we believe it helps companies to focus on these issues if they have to tell shareholders what they do to ensure employees' concerns are addressed. It adds to shareholder understanding of the culture of the company.

- Lastly on payment of creditors, we believe there is evidence that the average late payment of creditors is a useful pointer on the creditworthiness of the company. It may be appropriate to question companies on their payment records if there are concerns. We believe this is material information.

Therefore, in conclusion, we would like most of this information retained.

Question 10

Are there areas where the Listing Rules, IFRS, company law and the Corporate Governance Code are inconsistent or require similar disclosures? If so, how could these best be resolved?

Yes	No
	X
Comments	
We have no significant concerns with the inconsistent requirements of the Listing Rules, IFRS, company law and the corporate governance code. Where there are similar disclosure requirements, we produce a single unified response that meets all requirements.	

Question 11

Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the Strategic Report?

Yes	No
X	
Comments	
We believe this is best practice and should be followed by all companies as human rights can significantly impact a company's reputation. As society becomes more aware and demanding of responsible practices, this is one area of vulnerability for companies as they expand globally. We believe that all issues material to the sustainability of a company should be	

disclosed, this includes information about human rights issues where material. Aviva states its public commitment to Human Rights on its website (http://www.aviva.com/library/pdfs/cr/csr_policy.pdf). It is guided in the conduct of its business by the provisions of the United Nations Universal Declaration of Human Rights (UNUDHR) and the International Labour Organisation (ILO) core labour standards. Aviva also supports the UN Global Compact Principles. The UNUDHR articles of greater relevance include 2 (which deals with discrimination), 23 (which deals with terms of employment), 24 (which deals with work life balance) and 25 (which deals with adequacy of standard of living).

Question 12

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

Yes	No
X	
Comments	
At Aviva, we have long believed that good governance of listed companies is critical to creating long term shareholder value and diversity bring a broader, more rounded perspective to decision making and risk management by the board. As identified by the Davies review, there is a challenge in the lack of women progressing internally within companies. At Aviva we are attempting progress our balanced leadership programme – for example actively encouraging senior female employees to take on Non-Executive Director roles and considering the development opportunities that could be realised by appointing senior female employees to the boards of Aviva subsidiary companies. While we are proud of the progress we have made we do recognise that we still have some way to go. We support the disclosure recommendations made by the Davies Report and are supporting the Financial Reporting Council's recommended amendments to the UK Corporate Governance Code. The increase in appointment of women to FTSE boards since the Davies review is an encouraging sign that companies are responding.	

Question 13

Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements? If you believe that there are issues with the current regime, do these relate to:

- companies listing in the US as well as in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes.

- other concerns?

Yes	No
X	

Comments
Aviva has a secondary listing in the United States; we have not found that this prevents us from producing meaningful forward looking statements. Aviva Investors has found in reviewing other company statements, there are often caveats attached to forward looking statements.

Question 14

Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements? Are there other activities or changes that the UK Government could make that you believe may be necessary?

Yes	No
X	

Comments
Section 417 of the UK Companies Act which currently covers the business review has made a major contribution to the availability of useful and relevant narrative reporting. However, in aggregate, business reviews still have considerable room for improvement, not least generating the forward looking strategic/material sustainability information that investors want. To that end, we would welcome increased understanding and awareness of the UK liability regime to encourage more meaningful statements.

Question 15

Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

Yes	No
X	

Comments
Yes, we believe that key information should be included within the new Strategic

Report. It would be helpful to have a standard set of disclosure requirements but companies should be given sufficient flexibility to present it as they feel appropriate. This will facilitate ongoing improvement in reporting but, at the same time, enable shareholders to receive the information they require. A set of guidelines may also be helpful e.g. simplicity, transparency (not length), and a list of what should be disclosed.

Question 16

Which elements of the current disclosure requirements could be moved to the Annual Director's Statement, or removed entirely?

Yes	No
N/A	**N/A**
Comments	
The Strategic Report should describe simply how previous arrangements have aligned with strategy (that is, the criteria and targets, how much was paid out for the performance achieved). In addition, for the forward looking aspects of pay, the Strategic Report should describe future strategy, what the conditions and targets are and how much (total pay, including pensions) will be paid out for reaching below, target and above target performance. Everything else should be in the Annual Director's Statement. We agree that disclosure on remuneration could be improved but as investors, we would not support removing entirely the current disclosure requirements until a new set is in place. There needs to be further discussion on this.	

Question 17

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?

If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

Yes	No
X	
Comments	
In principle we agree with this proposal, however, recgonise that significant work would need to be undertaken before progressing the idea further, in order to find	

agreement upon a prescribed methodology for reaching such a single cumulative figure.

While as investors it is currently possible to deduce such a figure from the Report and Accounts, we do have to look at different parts of the Report for different elements of remuneration and so believe it is difficult to assess the total value of the package.

We do as investors, believe that a single figure is the most useful figure for shareholders. If disclosure excludes any element of pay then it's not transparent and provides a loophole for companies that do not want to be totally open.

Our view is that there should be standard forms of measurement and standard assumptions that should be used to put a value on each of the pay elements (i.e. a prescribed methodology). This prescribed methodology will not only need to take into account salary and bonuses, but those areas of reward packages which are more difficult to compare such as pensions and LTIPs; this is especially difficult where some directors may be on DB pensions schemes and others on DC schemes.

Companies should also be free to explain why the standard assumptions do not correctly value their incentives and allow them to put in additional values that they believe are more appropriate.

Question 18

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?

Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

Yes	No
	X
Comments	

We can see an argument for this to be disclosed in the case of banks. In the insurance sector, along with many other sectors, individuals who earn similar sums to board members is significantly fewer than in other parts of the financial sector.

For most companies, we believe that such a disclosure could potentially lead to a ratcheting-up effect of the reward packages of those executive officers below board level but without serving any useful purpose.

We are also not sure how, as investors, we would use this information; to make it useful, companies would have to provide significantly more information. We also believe the provision of banded disclosure could also have this effect as it would not be too difficult to infer individuals from the bands.

As the point of this exercise is to make reporting more concise and material, we

believe that this information would add length and, in our opinion, not add any material information in the majority of cases, except perhaps at banks. However, remuneration committees should be aware of pay below board level where these are significant and may present a risk to the business. In these companies, it may be appropriate for the remuneration committee to disclose how they have dealt with these individuals/teams.

Question 19

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?

Yes	No
X	
Comments	
We agree that remuneration should be measured against the company's strategic objectives which should be integrated into bonuses and LTIPs. If it is disclosed this way, then companies will be more likely to always focus their executives against strategic objectives. As investors, it is currently difficult to relate the pay awarded to the relevant timescale, we would therefore welcome moves to ensure that all future disclosures relate pay achieved to the performance achieved. One potential change that would aid this understanding is if the 5 year TSR chart currently required is replaced with a more relevant illustration which aligns pay and performance over the same period. At the end of the day however, all investors and commentators will eventually measure performance against share price and dividends (TSR). So we would prefer to retain a TSR chart but over the relevant period for which payment is being made. It is important to ensure that disclosure requirements avoid issues which are commercially sensitive – for example the disclosure of specific KPI's which companies would be rightly loathed to publish. However, where targets are commercially sensitive, graphs could be used to illustrate what was achieved against target. Forward looking bonus conditions should include sufficient information for shareholders to be comfortable that these are not too easy e.g. in line with broker expectations, in similar range to last year etc. LTIP targets should always be disclosed.	

Question 20

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?

If so, which performance measure would be the most appropriate?

Yes	No
X	
Comments	
As investors, we believe that seeing how pay builds up each year (for the most recent five years) against performance will reveal how closely pay is being linked to performance. Companies should be able to illustrate this against appropriate market data and provide accompanying commentary. If there are big changes that skew the information such as a change of CEO, then this ought to be explained and justified against performance. It may well also bring the issue further into remuneration committees' deliberations.	

Question 21

Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

Yes	No
X	
Comments	
While this information is already contained within the Remuneration Report, as investors we believe that it is essential that this is moved to the new Strategic Report if we are to be able to see how executives are being incentivised to meet KPIs and strategic objectives. Without this information, the story is not complete. Currently, we note from experience that there is often poor explanation on this linkage so a very specific requirement for companies to explain this is welcome. While the actual targets in bonus plans may, on some occasions, be more difficult to disclose there may be ways around this such as utilising a range of acceptable targets, and allowing statements such as: "the targets are within consensus broker ranges." It is important that if these targets are not disclosed for the year ahead that, where not commercially sensitive, these are disclosed retrospectively. Again, if the actual target is sensitive, as investors we may still find graphs showing what was achieved against target helpful. These graphs should allow shareholders to judge (1) if targets are sufficiently challenging and (2) if performance against targets is acceptable. Where companies are not able to do this then the bonus arrangements should not comprise more than, say, for example, 100% of base salary. If it is felt essential that incentives should amount to more than, for example, 100% of salary	

then these should be awarded in the LTIP where targets need to be disclosed. Where targets are commercially sensitive, as investors, we would welcome companies explaining to shareholders the nature of such targets and how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives. As shareholders we are concerned if the multiple of pay under incentive plans is high and we are asked to support plans without knowing what the targets are. At Aviva Investors we have a policy of voting against such arrangements unless we have sufficient reassurance that the targets are sufficiently challenging.

Question 22

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

Yes	No
X	
Comments	
Without this information shareholders are less equipped to take a view on the appropriateness of pay vs performance. Shareholders should know what is expected of the executive directors and how much they will be paid if they meet the targets, not meet them or exceed them. Shareholders should also have an estimated maximum amount that can be vested. If actual vesting significantly exceeds the estimated amount, then companies should explain why this has happened and whether this is still fair in the circumstances or whether remuneration committees should impose a cap or clawback some of the reward.	

Question 23

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

Yes	No
X	
Comments	
The level of bonuses has significantly increased over recent years, and Aviva Investors believe this is partly because there is no requirement to disclose performance targets. Aviva Investors would welcome a requirement whereby any	

bonus that is, say, for example, more than 100% of salary be measured against disclosed performance criteria. At present, significant amounts are paid under bonus arrangements and we feel that shareholders do not have sufficient sight on how this has been measured. If companies want to reward executives more, then the additional potential for reward should be placed under the LTIP or option schemes where disclosure of performance targets is required. Again as a provider, we would be nervous however, about publishing any commercially sensitive criteria. Even if a 2 year delay were allowed, clear patterns would be able to be inferred.

Question 24

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

Yes	No
X but	
Comments	
We agree that the relationship between median pay at the top and bottom of a company is one that should be considered by Remuneration Committees and shareholders. From a corporate perspective, there are many difficulties with the disclosure of the ratio between the pay of the company's Chief Executive and the median earnings of the workforce. The nature and business of companies vary immensely. Some have thousands of staff paid different levels of remuneration from very low to very high, whilst others have relatively few staff all of whom receive high levels of remuneration, therefore what useful comparison will such a ratio provide. It could be that a company is only required to publish a ratio for those employed within its headquartered nation, but of course many companies have very few staff in their headquartered nation. As indicated in the consultation document, another factor that would need to be worked through is the difficulty in working out an agreed and consistent definition of "median" pay. This would need to be carefully calculated and explained as otherwise it could lead to misunderstanding and misreporting. As investors, we acknowledge that it will be difficult to assess what is a good relationship, except over time when shareholders are able to see how the disparity has widened or narrowed. It will take some years before this information becomes a useful tool for shareholder engagement. However, we also believe that in time, this information may be useful as a way to encourage directors to consider the reputational and societal impact of increasing disparity between their pay and those of the employees. While it does increase the possibility of reputational risk it will, at the same time, focus boards' views on whether further disparity is warranted. One option would be for such a ratio to be published within companies' Corporate	

Responsibility Reports, this would reflect the broader public policy objective of publishing such a ratio and that in itself it is not something that Remuneration Committees would utilise. In conclusion, we believe there are many factors that would need to be worked through and are happy to engage with the Department in this process.

Question 25

Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

Yes	No
	X but…
Comments	
Currently, form 20-F of the Annual Report already requires the publication of the total executive remuneration. We see many complications with this additional proposal, not least the definition of remuneration itself and therefore what consistent comparable figure companies will be expected to be disclosed. We do as investors however, see merit in the disclosure of the total spend on directors' remuneration as a proportion of the total spend on remuneration, however, "profit" may not be the right measure as not all companies make a profit and for many FTSE 100 companies, the percentage of profit spent on remuneration may appear to be negligible. A "share of the pie" approach may be more appropriate (effectively this will divide up the share of the "costs"). Companies could explain the % going towards employee costs (split between board and other employees), together with, for example, dividends and share buy backs, tax costs, and R&D. Each year, companies could then explain how these percentages have moved. It is the movement of the percentages over time that would be most illuminating to shareholders. At Aviva, we will next year be publishing a 'value-added' statement which will disclose in one table the amount of pre-tax profit, spend on employee benefits, tax paid, community spend and dividends paid to outline our economic distribution to society. It may be possible to use such a model to disclose total directors' remuneration also.	

Question 26

Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

Yes	No
X	
Comments	
We believe disclosure should be strengthened to ensure that any potential conflicts of interest are addressed or exposed in the same way that fees for the provision of non audit services by auditors need to be disclosed. So any other role played by the remuneration consultant and how much has been paid to them should be disclosed.	

Question 27

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

Yes	No
X	
Comments	
We believe that there should be consistency between Listing Rules and company law.	

Question 28

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

Yes	No
X	
Comments	
We have some concern that the position has not been made clear in respect of additional listing rule requirements and what would happen to these should a change occur. Further clarification is sought.	

Question 29

Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?

If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

Yes	No
	x
Comments	
At Aviva we believe that as a matter of best practice, reporting of non financial issues should be reported to a similar standard to that of reporting of financial data. With a movement towards integrated reporting it will become increasingly necessary for company information, financial and non-financial, to be provided to high professional standards. The benefits of this include improving trust in the organisation and providing challenge to the organisation to include material information that is reliable and inclusive. However, we are concerned that a mandatory audit of all non-financial information would be costly and require a significantly longer audit time. There is currently no market consistency in the non-financial information provided in the Report and Accounts, even within the same industry. There is merit in allowing companies to determine those non-financial disclosures to be subject to assurance.	

Question 30

Are there any actions that the Government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?

Yes	No
	X
Comments	
As indicated above, we believe that as the direction of travels continues towards that of integrated reporting, costs will come down as it becomes increasingly necessary for companies to receive assurance on both their financial and non-financial reporting. However, we would not favour moves towards mandatory audit of all non-financial information at this time.	

Question 31

Do you agree that the Audit Committee Report should contain, in addition to existing requirements:

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

Yes	No
X	
Comments	
We have no concerns with the proposed publication of either of these requirements. At a time when there is much discussion about auditor rotation and partner rotation, and the importance of having impartial auditors, it would seem sensible to provide information on which shareholders can form a view or engage upon. As investors, we also believe that companies should also give reasons on why they have changed auditors and information should be provided on auditor resignations.	

Question 32

The Government would also welcome views on the impact of these proposals, both on the cost of preparation of the Audit Committee Report, and of the benefits to investors of having access to this information.

Yes	No
N/A	N/A
Comments	
We believe it is right that the profile of auditors in the governance process is clear and prominent. As investors, we believe there has been insufficient attention to auditors and too few questions raised even when there are question marks over aggressive accounting. This additional information together with concerns over accounting could persuade more shareholders to engage with companies on accounting issues.	

Question 33

What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

Yes	No
X	

Comments
We agree that a revised supporting guidance based on the Accounting Standards Board voluntary reporting statement (RS1) would be appropriate. We favour principles based guidance allowing each company the required flexibility to tell their own unique story while also providing consistent, comparable information and data that investors require.

Question 34

Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

Yes	No
X	

Comments
We agree that the reporting statement and supporting guidance should remain voluntary. This gives shareholders yet another way to assess the propensity for companies to be open and transparent and identify those that are not. This in turn helps investors assess the personality of the company and its board.

Question 35

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

Yes	No
X	

Comments
We are of the view that the role of the FRRP should be revisited and re-energized. Indeed, until recently, we understand that many were not aware that the FRC operated a service to investors having problems engaging with companies in the furtherance of good business reviews. The function needs far greater publicity as well as more resources.

We welcome the current consultation on the Future of Financial Reporting Council where we trust this issue among others will be addressed.

As a corporate, we are also concerned that our Report & Accounts can be misinterpreted by shareholders which could have a significant effect on voting outcomes at shareholder meetings. We would very much like the voting agencies to allow companies time to respond to their interpretation of our disclosures.

One possible way is a mechanism whereby companies inform shareholders that a report on the company is available and at the same time open a private “forum” which would allow shareholders to communicate with the company specifically on AGM/voting issues. This would facilitate engagement to the mutual benefit of both the company and concerned shareholders.

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