

Western Selection P.L.C.'s response to the FRC's consultation: Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies

Key concerns:

The FRC should make it clear that good governance normally requires that the company secretary is not the FD, and that accounts preparation can only benefit from having a separation of these roles and a second qualified person involved in the preparation of accounts.

Companies need feedback to improve. The best form of feedback is direct from shareholders. Despite protests from some shareholders that they invest in too many companies to provide feedback, we see such feedback as being an essential part of the investment manager's role. Through such feedback investors can help improve the quality of reporting, and thus indirectly influence the valuation of the companies in which they are invested. Such feedback should come from investment managers as part of their normal interactions with management, and influence their assessment of the quality of management. Feedback from the corporate governance department of an institutional investor does not carry nearly the same weight as feedback from the individual making the buy/sell decision. Feedback from a proxy adviser, especially if it is only 24 hours before an AGM, or if it does not identify the shareholders that the advice is being provided to, carries virtually no weight at all.

To be effective, where feedback is indirect, or not company specific, it needs to be clear that such feedback originates from shareholders, as opposed to shareholders endorsing a list of "nice to haves" prepared by a regulatory body or industry grouping.

The flip side of identifying areas of the accounts that are important to shareholders, and require more focus, is that other areas are less important, and require relatively less focus. The FRC, as well as looking at how improvement can be achieved in areas of importance to shareholders, needs to investigate how the regulatory burden can be eased in areas of lower importance. A particular topical bug bear of ours is the attribution of values to a plethora of intangibles on acquisitions, resulting in mathematically correct numbers based on complex DCF calculations, but without any real world verification.

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