

# THE VIEW FROM THE FORUM

## The Future of the Operating and Financial Review (OFR)

### The LAPFF deplores Government U-Turn

**B**ack in 2002, in its White Paper 'Modernising Company Law', the Government announced its intention to implement a recommendation from the Company Law Review (CLR) requiring certain companies to prepare and publish an Operating and Financial Review (OFR) as part of their annual report and accounts.

Then, in May 2004, the Department of Trade and Industry (DTI) published a consultation document setting out proposals for a new statutory OFR to be prepared and published by listed companies. This proposed statutory requirement for an OFR, reaffirmed by the Secretary of State for Trade and Industry on 25 November 2004, was to be supported by standards, prepared by the Accounting Standards Board (ASB). The Forum strongly supported and welcomed these initiatives.

**Consequently, the Chancellor's announcement on 28 November 2005 that the Government had decided no longer to require listed companies to prepare a statutory OFR came as a shock to the Forum and many other interested parties. This was particularly so in view of the extensive consultations that had taken place. Companies will, however, still be required to include a Business Review as part of the enhanced**

*Directors' Report, required by the EC Accounts Modernisation Directive.*

**In response to this announcement, the LAPFF has written to the Government arguing for enhancements to the Business Review requirement, particularly in relation to its forward-looking aspects and to CSR issues. Additionally, a letter is being sent by the Forum to all listed company chairmen inviting them to commit to an OFR and/or Business Review based on the Accounting Standards Board OFR Reporting Statement.**

The LAPFF will also provide input to the DTI consultation paper, which contains a comparison on the main similarities and differences between the statutory OFR and the Business Review, and is in dialogue with other investor bodies to further this initiative.

#### Essential elements of an OFR

- reflect the directors' view of the business;
- focus on matters relevant to the interests of investors;
- have a forward-looking orientation;
- complement and also supplement the financial statements;
- be comprehensive and understandable;
- be balanced and neutral;
- be comparable over time.

#### Key elements of disclosure to be applied by directors in preparing an OFR:

- market and competitive environment;
- regulatory environment;
- technological change *and to the extent necessary*
- persons with whom the company has relations, e.g. customers and suppliers;
- employees;
- environmental matters;
- social and community issues;
- receipts from, and returns to, shareholders; and
- all other relevant matters

*The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 39 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.*

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612. Alternatively, you can email [postmaster@keithbray.plus.com](mailto:postmaster@keithbray.plus.com) or visit our website [www.lapfforum.org](http://www.lapfforum.org)

## Impact of Mergers and Acquisitions

The Forum is conducting a study to examine the corporate governance (CG) and corporate social responsibility (CSR) aspects of takeovers and mergers, especially in the light of evidence that, from the investors' point of view, many such takeovers and mergers do not yield the benefits originally expected. The study has moved from the planning stage and the proposed project stages are:

- 1) **To develop a disclosure benchmark** – to include
  - strategic synergy assessment;
  - health and safety, social and environmental due diligence;
  - cultural integration, and
  - stakeholder communication (with employees, customers, communities).
- 2) **To develop an Investor Guide** – based on the disclosure benchmark, with the guide specifying or making recommendations on circumstances that should lead to intervention by local authority pension funds;
- 3) **A pilot study** – which will apply the Investor Guide to completed and/or current examples of agreed and hostile takeovers and possibly private equity acquisitions as well.

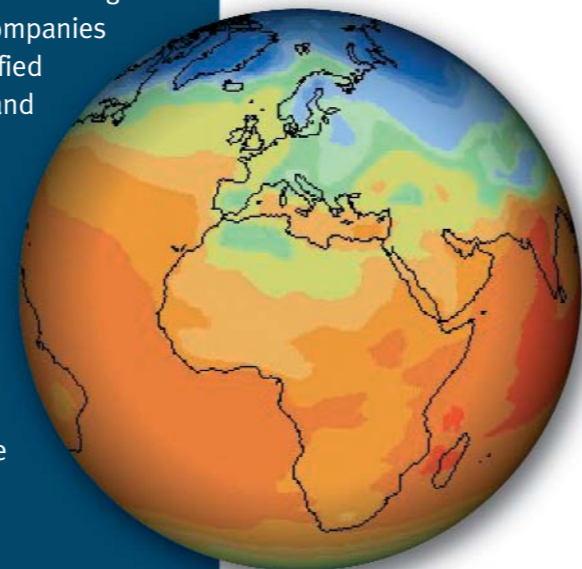
The study has enlisted academic support from Nancy Hubbard, Associate Fellow at the University of Oxford (Templeton College).



## Company Workforce Practices

The next stage of the Company Workforce Practices project is underway, based on the Forum's investor guide to best practice in reporting on Human Capital Management. Additional companies are being reviewed in the leisure and food producers sectors to develop engagement with relatively underperforming companies. The results of this next stage will contribute to developing and updating the investor guide in the light of the outcome of the engagement strategy.

Five company underperformers have been identified in these two sectors.



## Climate Change and Greenhouse Gas Emissions

At its meeting in April 2005, LAPFF agreed to engage with FTSE 350 companies in the oil and gas sector on the basis of a report commissioned from Enviro to assess the likely impacts of climate change (and consequent risk to shareholder value) on companies with long-term research and development programmes. Eleven companies in the oil and gas sector were sent their climate change disclosure profile and they were invited to comment on highlighted questions (with the exception of one company whose disclosure we consider to be excellent).

Once responses from all targeted companies are available, particularly from those companies that have been identified as poor performers, three companies will be selected for

detailed engagement within the oil and gas sector.

The mining, food and beverages, and chemicals sectors have also been identified for engagement on climate change and greenhouse gas emission issues in 2006/07. The process for these new target sectors will again involve questioning companies about issues as identified in the Enviro report and selecting target companies for further engagement. Forum members are currently being surveyed to establish the companies in which they have invested as part of the engagement work.

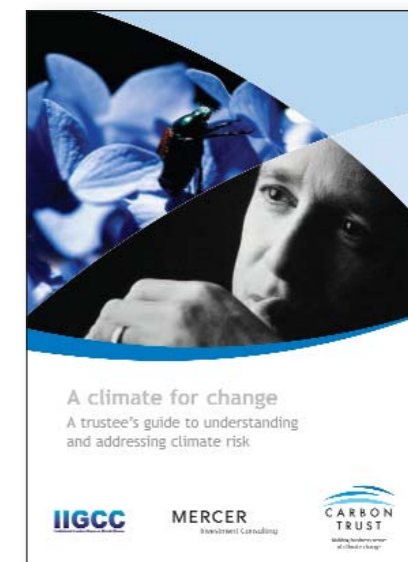
## Forum Receives Presentations on Climate Risk and Carbon Exposure

In line with the new format for Forum meetings, at the January meeting presentations were received from **Emma Hunt and Nick Sykes of Mercer Investment Consulting** and **Nick Robins, Head of SRI funds at Henderson Global Investors**.

Introducing **A Climate for Change: A Trustee's Guide to Understanding and Addressing Climate Risk** prepared by Mercer's for the Carbon Trust and IIGCC, Emma and Nick gave a presentation on how climate change can affect pension assets and the investment community, and they provided a perspective on how trustees should address climate change and climate risk. Reference was also made to the launch in April 2006 of 'Principles for Responsible Investment', the development of which the United Nations had engaged Mercer's to facilitate.

A copy of the guide has been circulated to LAPFF members.

**Nick Robins of Henderson Global Investors** gave a presentation on carbon trends and carbon governance. In particular, Nick stressed the need to integrate the subject into investment policy and strategy and to provide transparency on carbon performance to investors, with the long-term aim of integrating climate change into market frameworks.



## OTHER NEWS IN BRIEF

### Audit Quality Forum (AQF)

As part of the Forum's concerns about the value and future shape of the company statutory audit, representatives have been attending the regular meetings of the Audit Quality Forum. Following the most recent meetings a report on the approach of stakeholder participation is being considered. The Forum noted the report of an AQF plenary session held on 30 November 2005 and an Audit Purpose Working Group held on 15 December 2005.

### DEFRA Consultation Workshop

The report of the workshop held on 8 November 2005 has been noted as part of the DEFRA consultation process on a draft National Adaptation Policy Framework. The Forum is considering its response.

### Association of Chartered Certified Accountants (ACCA) Event on OFR

Further to our lead story in this newsletter, on 15th November

Forum representatives attended the launch of the ACCA research report on the views of senior FTSE 350 executives on future OFR disclosures; and an ACCA opinion paper about reporting on strategy, risk and reputation under the OFR.

### Institutional Shareholders' Committee (ISC) – Statement of Principles

At its last meeting the Forum received a report on the publication of the ISC review of its Statement of Investment Principles on the 'Responsibilities of Institutional Shareholders and Agents'. A proposal was made that the Forum should seek membership of the ISC. It was felt that the ISC would benefit from the constructive and effective role that the Forum has played in shareholder engagement on the corporate governance and corporate social responsibility agenda over the last 15 years.

## 2005 Annual Conference Hailed as Great Success

Our 2006 Annual Conference held at the Bournemouth Highcliff Marriott Hotel was attended by more than 120 delegates and was once again hailed as a great success. As usual our thanks go to Janice Hayward, and her colleagues at our engagement partners PIRC, for their efforts in making this one of the key events in the calendar for all those involved with local government pension funds.

The conference was also the occasion of the launch of a history of the Forum, entitled 'Pioneering Shareholder Engagement'. It is available free of charge from the LAPFF Forum website [www.lapfforum.org](http://www.lapfforum.org)

The 2006 Conference is scheduled to be held in Bournemouth on 29/30 November & 1 December.

# LAPFF Membership Approaches 40, as Forum Raises its Profile

**T**hree more London pension funds have joined us. The Boroughs of Harrow and Hillingdon joined in December, followed by the Borough of Hounslow in February.

This takes our membership to 39 funds - an increase of more than 60% since 2003 - with total assets of more than £60 billion representing management of about two thirds of LGPS funds (by value) and approaching a half (by number). Several other funds are actively considering membership.

**We have raised our profile significantly over the past few years, as evidenced by our recent collaboration with the CIPFA Pensions Panel in producing a guidance paper regarding issues surrounding the Freedom of Information Act to assist funds in dealing with this new challenge. Our work on environmental issues continues to attract a lot of attention and all of this, of course, is alongside our regular monitoring of corporate governance issues.**

## New Members for LAPFF Executive



**Councillor Ian Greenwood**  
(West Yorkshire)



**Councillor Adrian Hardman**  
(Worcestershire)

**Councillor Ian Greenwood** of the West Yorkshire Fund, and **Councillor Adrian Hardman** of the Worcestershire Fund have been elected to the LAPFF Executive. Ian will serve as a second Deputy Chairman in support of Chairman John Saunders, alongside Councillor Darrell Pulk of Nottinghamshire. As a result, we now have an Executive of 11 members to manage the details of the Forum's activities during 2006.

<b>Chair</b>	Councillor John Saunders (LB Newham)
<b>Deputy Chair</b>	Councillor Darrell Pulk (Nottinghamshire)
<b>Deputy Chair</b>	Councillor Ian Greenwood (West Yorkshire)
<b>Members</b>	Councillor Don Yates (Lancashire) Councillor Maureen Child (Lothian - Edinburgh) Councillor Munir Malik (LB Bexley) Councillor Sue Brown (Merseyside) Councillor Adrian Hardman (Worcestershire) Councillor Marlene Thomas (Greater Gwent)
<b>Hon Secretary</b>	Stuart Imeson (West Yorkshire)
<b>Hon Treasurer</b>	Brian Bailey (West Midlands)

### LAPFF membership as at 1 March 2006

- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire CC
- Devon CC
- Dyfed Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- LB Bexley
- LB Brent
- LB Camden
- LB Croydon
- LB Hackney
- LB Hammersmith & Fulham
- LB Harrow
- LB Hillingdon
- LB Hounslow
- LB Islington
- LB Newham
- LB Southwark
- Lincolnshire CC
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire CC
- North Yorkshire CC
- Nottinghamshire CC
- Shropshire CC
- Somerset CC
- South Yorkshire Pension Fund
- South Yorkshire PTE Pension Fund
- Teeside Pension Fund
- Tyne and Wear Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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