

## Mandatory Reporting on Environmental, Social, and Community Issues in the United Kingdom

### *The New Operating and Financial Review (OFR)*

Over the last ten years, reporting on environmental performance has become almost commonplace for large international companies. Leading companies are also increasingly publishing reports on a broader range of social, economic, and environmental issues—often referred to as sustainable development reports, corporate citizenship reports, or corporate responsibility reports. Whatever they are called, they are part of the movement toward greater corporate transparency, and toward making available to shareholders and other stakeholders the information they need to make informed decisions.

To date, these reports have been voluntary and based on pressures coming from the marketplace. The result is that, while leading companies tend to report, the overall number of companies reporting is still relatively small. The good performers tend to report. The poor performers do not. And they are the ones who should be reporting. Since reporting is voluntary, it often provides incomplete information that is not comparable. And for some, the value of the information is diluted because it comes, in the most part, as non-verified, self declarations.

The organizations that develop the guides and systems to support voluntary reporting are aware of these issues. The Global Reporting Initiative (GRI) is working tirelessly to develop and promulgate standardized global reporting systems. Organizations like AccountAbility have developed complementary assurance systems for the verification of reports. However, without mandatory reporting, there is no way to compel organizations to report.



This is about to change. The United Kingdom will soon have in place amendments to company law that will require all UK listed companies, of which there are about 1300, to file an Operating and Financial Review (OFR) in 2006 for the period beginning January 1, 2005. The UK

Department of Trade and Industry (DTI) released the draft regulations for consultation in May of this year, with submissions to be made by the end of the first week of August, 2004. It is expected that the final regulation will be introduced before Parliament before the end of the year.

The purpose of the OFR is to provide members (shareholders) with the information they need to make informed decisions by showing the main trends and factors underlying the development, performance, and position of a company now and in the future. This includes employee issues, environmental matters, and social and community issues as well as showing the objectives and strategies in place to manage them, the resources available, the principle risks and uncertainties faced, and the capital structure. Similar to the Sarbanes-Oxley law in the United States, the OFR must include an analysis of both past and future issues and performance.

The OFR will not replace voluntary reporting but may rely on it and reference it, as long as it meets the criteria of the new regulation. An important thing to understand about the new OFR is that it is principles-based, not rules-based. That is, it does not prescribe what must be reported.

# Perspectives

It is made very clear that a company does not have to report on everything. This places an onus on the company to select what is 'relevant' to report. It also places the onus on the company to then be able to demonstrate the validity of process for selection. The Directors of a company must sign-off on the selection and the selection process and are held accountable for the report. The whole process also will be subject to external audit.

There are currently no standards in place for the OFR; however, the UK government has decided that the Accounting Standards Board (ASB) should develop some. The ASB has appointed an advisory committee, and intends to issue an exposure draft of OFR standards in the second half of 2004, to be finalized in 2005.

While the proposed OFR has had some mixed reviews, many see it as a means to improve relations among companies, their shareholders, and other stakeholders. It will also provide investment managers with consistent and comparable information for making decisions. Some also are suggesting that it will bring much needed rigor to the management of environmental and social issues.

The OFR represents a significant challenge to those companies that must now comply with its reporting requirements. Very quickly, companies will need to fully understand what the OFR means for them. They will have to establish or update their internal systems and processes to manage compliance—as well as internal and external audit procedures. Many companies may not be currently equipped to do this. ICF Consulting has followed the development of the OFR closely and can provide up-to-date briefings. The firm has developed a system to select and evaluate the 'relevant' or material trends and factors that must be managed and reported on, and can help to develop or update appropriate systems for managing the delivery of the OFR.

There is little time to prepare for this new regulation. Companies, especially those that have never published environmental or corporate responsibility reports, may find it onerous. ICF Consulting can help make compliance more efficient, cost effective, and beneficial to these organizations.

For more information on ICF Consulting's environmental management capabilities, please visit [www.icfconsulting.com/environment](http://www.icfconsulting.com/environment).