



The UK Society of Investment Professionals

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Dear Philip,

Thank you for giving us additional time to fill in the PAAinE questionnaire on the usefulness of the financial statements. This enabled us to consult UKSIP members and we are pleased to say that 137 of them responded despite the short notice and the holiday period.

The UK Society of Investment Professionals represents the interests of 7,000 leading members of the investment industry. As analysts and portfolio managers, many of our members are regular users of companies' financial statements. The society, which was founded in 1955, is a leading member society of the CFA Institute and is committed to leading the development of the investment industry through the promotion of the highest ethical standards and through the provision of education, professional development, advocacy, information and career support on behalf of its members.

As you can see from the results of the survey (attached) we amended the questions slightly. One of the reasons we simplified the questionnaire was to make it easy for members to fill in the form in a short time. We also felt that some of the questions were ambiguous. Another reason was that we intend to respond to such questionnaires sparingly because we believe, as one of the few decisive answers bears out, that stability is very important in terms of the disclosures companies are required to give. This allows analysts to build a consistent picture, with like-for-like figures, over time. We also recognise the burden placed on companies by constant demands for more information and we are not in favour of adding to that unless there is loud and clear demand for it.

Some of the questions that we left out, for example, under Q2 are leading ones in that they assume improvements must be made. Other questions such as Q4 would depend very much on the role and/or industry specialisation of the respondent. And to Q5 and Q6 the answer is simply that they are all useful: in valuing shares or debt, the market looks at a very wide information set. The whole picture is relevant.

The answers to your three main questions, as set out in the guidance, are as follows:

(a) How users rate the usefulness of financial statements as compared to other forms of financial information?

84% find the annual financial statements very useful ie answers 4-5. Although less important, a majority of respondents (55%) also valued management commentary with those statements. Users attach less importance to information from press releases or information from external sources.

(b) Which improvements users require to make financial statements and other forms of financial information more useful in their decision process?

The two most popular answers, with 67% and 69% respectively, are stability - see the reasons above - and potential obligations which may *or may not* be disclosed. Obviously they would like to learn about anything that would otherwise be a nasty surprise. Less than half (42%, 48% and 47% respectively) attach much importance to the following suggested "improvements": simplification, prospective information or management commentary. With regard to the management commentary, it should be noted that respondents are based in the UK where strong guidance already exists for best practice in this area which may explain why improvements in this area were not thought to be necessary.

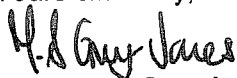
It is perhaps worth noting that there is a contradiction in this question: those who vote for stability are then invited to suggest that changes should be made.

(c) Is an entity's cash generating capacity the key information for making most important user decisions including the evaluation of management?

78% say cash generating capacity is the key to making an investment decision; and the majority (57%) say there is sufficient useful information in the financial statements. However, a sizeable minority (43%) are of the view that more information would be beneficial perhaps suggesting that this may be an area for future consideration.

I hope that you find our contribution useful, even though it cannot be used to back calls for any particular changes.

Yours sincerely,



Miss Mary Guy-Jones
Advocacy Adviser

Questionnaire on the Needs of Users of Financial Information

UKSIP survey results

Question 1: Which kind of financial information do you find most useful? This question aims to determine how you rate the usefulness of financial statements as opposed to management commentary and other forms of financial information. Please rate the financial information from 1 to 5, where 5 is the most useful.

1. (1a) The annual financial statements including the balance sheet, income statement, cash flow statements, statement of changes in equity and the notes.

	1	4	3%
	2	7	5%
	3	12	9%
	4	35	26%
	5	79	58%
Total		137	100%
Average			4.3

2. (1b) Management commentary surrounding the financial statements

	1	7	5%
	2	18	13%
	3	36	26%
	4	43	31%
	5	33	24%
Total		137	100%
Average			3.6

3. (1c) Management commentary during the year for example, press releases

	1	7	5%
	2	21	15%
	3	47	34%
	4	39	28%
	5	23	17%
Total		137	100%
Average			3.4

4. (1d) External reports for example, press coverage, industry reports and economic surveys

	1	7	5%
	2	27	20%
	3	39	28%
	4	47	34%
	5	17	12%
Total		137	100%
Average			3.3

Question 2: Which improvements would make financial statements more useful to you? This question seeks to understand the most important improvements to make the financial statements more useful. Please rate from 1 to 5, where 5 is the most useful

5. (2a) Greater stability of reporting standards

	1	4	3%
	2	15	11%
	3	27	20%
	4	42	31%
	5	49	36%
Total		137	100%
Average			3.6

6. (2b) Simplified presentation highlighting key data and disclosures

	1	20	15%
	2	24	18%
	3	35	26%
	4	39	28%
	5	19	14%
Total		137	100%
Average			3.1

7. (2c) Prospective financial information

	1	14	10%
	2	18	13%
	3	39	28%
	4	39	28%

	5	27	20%
Total		137	100%
Average			3.3

8. (2d) Increased disclosure of potential obligations which may or may not be recognised by the entity

	1	1	1%
	2	7	5%
	3	34	25%
	4	39	28%
	5	56	41%
Total		137	100%
Average			4.0

9. (2e) Management commentary surrounding the financial results.

	1	10	7%
	2	17	12%
	3	45	33%
	4	37	27%
	5	28	20%
Total		137	100%
Average			3.4

Question 3: Cash flow information This question sets out to determine the importance of cashflow and whether or not sufficient cashflow information can be derived from financial statements.

10. (3a) Is information on an entity's cashflow generating capacity the key to making an investment decision?

Yes	107	78%
No	30	22%
Total	137	100%

11. (3b) Can sufficient useful information on an entity's cashflow generating capacity be derived from financial statements?

Yes	78	57%
No	59	43%

Total

137

100%
