

*Institutional investors, the political
economy of corporate disclosure, and the
market for CSR
:implications from the UK Companies Act
2006*

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Key Events leading to *UK Companies Act 2006*

1999	European Commission's Financial Services Action Plan
2000	Lisbon Strategy
2003	<i>Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 (EU Modernisation Directive)</i>
2004	UK White Paper on Company Law Reform
May 2005	<i>The Companies Act 1985 (Operating and Financial Review and Directors' Report etc) Regulations 2005</i>
November 2005	UK Chancellor Gordon Brown scraps OFR provisions
January 2006	London's business community reacts
2006	Company Law Reform Bill
2006	<i>UK Companies Act 2006</i>

1. Duty to Promote Success of the Company

“A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a. the likely consequences of any decision in the long term,
 - b. the interest of the company’s employees,
 - c. the need to foster the company’s business relationships with suppliers, customers and others,
 - d. the impact of the company’s operation on the community and the environment,
 - e. the desirability of the company maintaining a reputation for high standards of business conduct
- ...”

Companies Act 2006, s 172 (1)

2. Contents of directors' report: business review

(1) Unless the company is subject to the small companies' regime, the directors' report must contain a business review"

...

(3) The business review must contain –

(a) a fair review of the company's business, and

(b) a description of the principal risks and uncertainties facing the company.

...

(5) In the case of a quoted company the business review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include –

(a) the main trends and factors likely to affect the future development, performance and position of the company's business; and

(b) information about –

(i) environmental matters (including the impact of the company's business on the environment),

(ii) the company's employees, and

(iii) social and community issues,

including information about any policies of the company in relation to those matters and the effectiveness of those policies; and

(c) information about persons with whom the company has contractual or other arrangements which are essential to the business of the company

...

- (6) The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include –
 - (a) analysis using financial key performance indicators, and
 - (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters

- (7) Where a company qualifies as medium-sized in relation to a financial year, the directors' report for the year need not completely with the requirements of subsection (6) so far as they relate to non-financial information.
...

- (10) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.

Companies Act 2006, s417

3. Standard of directors' reporting

S418(2)

“The directors’ report must contain a statement to the effect that, in the case of each of the persons who are directors at the time the report is approved –

- (a) so far as the director is aware, there is no relevant audit information of which the company’s auditor is unaware; and
- (b) he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company’s auditor is aware of that information.

S463(2)

“A director of a company is liable to compensate the company for any loss suffered by it as a result of –

- (a) any untrue or misleading statement in a report to which this section applies, or
- (b) the omission from a report to which this section applies of anything required to be included in it”