
Editorial

The Directors' Report

The Employment Act 1982 contains a provision (added following a Government defeat in the Lords) extending the contents of the Companies Acts directors' report to include information on "employee involvement". This new requirement applies to companies having more than 250 employees. A statement will have to be included in the report describing the action taken during the year (ie not just the company's general policy) to introduce, maintain or develop arrangements aimed at: providing employees systematically with information on matters of concern to them as employees; consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests; encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means; and achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.

There was wide opposition to the new requirement from the commercial and professional organisations consulted by the Government. The CBI and other bodies expressed the view that the directors' report should not be used for the provision of information other than that which is directly relevant to shareholders' interests and that the increasing number of items of information required in the report has imposed a considerable and unwarranted financial and administrative burden on companies without producing any advantages. The proposal was also criticised for its emphasis on action taken during the year — progressive companies having already established satisfactory arrangements might not have needed to take any further action during the year and reporting this absence of action might be misconstrued by any reader of the report not having detailed knowledge of the company's affairs.

The proposed clause was amended by the Government to remove wording which made divisive distinctions between "employees" and "managers and super-

visors" and to replace reference to consulting employees "before" certain decisions were made affecting their interests, with a reference to consulting them "in making" such decisions (concern had been expressed regarding advance disclosure of commercially sensitive information which might involve infringement of the stock exchange listing agreement).

There is an urgent need for consideration at the highest level of the long-term policy implications resulting from the EEC proposed fifth Directive and the "Vredeling" Directive; these proposals will contain alternative courses for companies and detailed study of the options may show that the obvious choice (eg establishment of an employee representative institution) may not in fact work for the particular company.

Self-regulation under Fire

Self-regulation of the securities and financial markets has recently had a bad press. The regulation of the Lloyds insurance market has now been brought into question with the commencement of DOT enquiries into two major broking groups. This is most unfortunate since the preparation of the final Gower report on the regulation of city markets is in its crucial final stages.

In one area, however, the DOT has gone too far in challenging the present system. In its consultative document containing the new draft Licensed Dealers Rules and related instruments the Department indicates that a wider range of persons who advise on investments will need to obtain licences under the Prevention of Fraud (Investments) Act. This could apply even to accountants advising clients on personal investments (including building society investments). If this interpretation is correct we would urge that the Department devise a means of group licensing or seek to have the legislation altered to avoid this unforeseen and undesirable effect which would run counter to Professor Gower's proposals for self-regulation within a statutory framework.