

**EXPLANATORY MEMORANDUM TO THE REPORTING STANDARDS  
(SPECIFIED BODY) ORDER 2005**

**2005 No. 692**

1. This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

**2. Description**

2.1 The order authorises the Accounting Standards Board as a body able to issue reporting standards in respect of reports prepared by directors under Part 7 of the Companies Act 1985 (including the Operating and Financial Review (“OFR”). The Board is an operating body of the Financial Reporting Council.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 None.

**4. Legislative Background**

4.1 Section 257 of the Companies Act 1985 gives the Secretary of State the power to amend the Act’s accounting and audit provisions. This power was amended by section 13 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 to give the Secretary of State the power to specify a body to issue standards relating to reports which directors are required to prepare. This power was primarily intended as a paving device to allow a specified body to issue a standard in relation to a new report, the OFR.

4.2 Draft affirmative regulations introducing a requirement for quoted companies to prepare an OFR (the Companies Act 1985 (Operating and Financial Review and Directors Report etc) Regulations 2005 are currently being considered by Parliament. The requirement to prepare an OFR will apply as respects companies’ financial years beginning on or after 1 April 2005.

**5. Extent**

5.1 This instrument applies to Great Britain.

**6. European Convention on Human Rights**

6.1 The Minister for Industry and the Regions and Deputy Minister for Women & Equality, Jacqui Smith has made the following statement regarding Human Rights:

In my view, the provisions of the Reporting Standards (Specified Body) Order 2005 are compatible with the Convention rights.

## **7. Policy Background**

7.1 The Explanatory Memorandum submitted with the Companies Act 1985 (Operating and Financial Review and Directors' Report etc) Regulations 2005 set out the policy background for the OFR.

7.2 Those Regulations require quoted companies to prepare an OFR. Essentially, the OFR is a balanced and comprehensive analysis of the development and performance of the company's business. It includes the main trends and factors underlying the performance and financial position of the business during the year, and those which are likely to affect its performance in future years.

7.3 The purpose of an OFR standard is to support and build on the requirements of the Regulations as to the content of the OFR. The Regulations provide (in regulation 11) that to the extent that directors comply with the reporting standard they will be presumed (unless the contrary is proved) to have complied with the legislative requirements concerning the content of the OFR.

7.4 The Order authorises the Accounting Standards Board as a body able to set reporting standards in respect of the OFR. The Board is an operating body of the Financial Reporting Council whose aim is to promote confidence in corporate reporting and governance. The role of the Board is to issue accounting and reporting standards.

## **8. Impact**

8.1 A Regulatory Impact Assessment (RIA) has not been prepared for this instrument. The costs of the OFR standard were included in the RIA for the Companies Act 1985 (Operating and Financial Review and Directors Report etc) Regulations 2005.

## **9. Contact**

Rob Cottam at the Department of Trade and Industry, tel: 020 7215 0169 or e-mail: [Rob.Cottam@dti.gsi.gov.uk](mailto:Rob.Cottam@dti.gsi.gov.uk) can answer any queries regarding the instrument.