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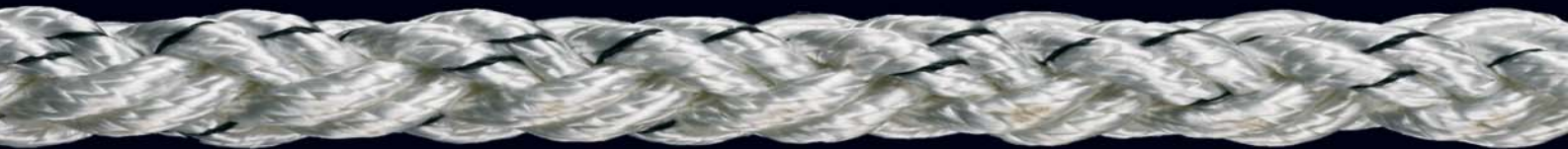
RNS and the new Transparency Directive



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Introduction

- The Transparency Directive takes effect in the UK from 20 January 2007.
- This guide from RNS is intended to help companies and their advisers understand more about the Directive and its impact on them.
- We explain what the Transparency Directive is and the inspiration behind it.
- We describe how the Directive will be applied in the UK and we explain the part RNS has played – and will play – in its implementation.
- We also explain the way in which the Transparency Directive dovetails with other EU Directives, all of which are intended to make European capital markets work more seamlessly and effectively.

“The test for the Directive is how far it succeeds in raising standards of company reporting in jurisdictions where they have not been very high, without damaging practice in jurisdictions with higher standards, such as the UK. I think we can be relatively optimistic on both counts”

Peter Montagnon, Director of Investment Affairs, Association of British Insurers

1 Pulling together: The Transparency Directive overview

1.1 The Transparency Directive overview

The Transparency Directive will create a framework for companies across Europe to adopt similar standards around information disclosure.

The Directive has evolved over several years and has been influenced by consultation with a number of interested parties, both in the UK and overseas.

The impact of the Directive will be greater in jurisdictions where there is a less well developed disclosure regime, so the impact for UK companies will be limited.

The Directive requires companies to disclose information at regular intervals through specific channels and, in that way, it bears many similarities to the existing UK regime. But there are certain areas in which the Directive will place new demands on companies and their directors, particularly with respect to forward-looking statements.

Generally speaking, the Transparency Directive will not apply to AIM companies; however, the requirements concerning disclosure of voting rights will apply to UK AIM companies. This requirement is explained in more detail later in Chapter 3.

1.2 The rationale

The brainchild of the European Commission, the Transparency Directive is part of a broader project – the Financial Services Action Plan (FSAP) – designed to create a single European capital market. The Transparency Directive works alongside other pieces of FSAP legislation, in particular the Market Abuse Directive (MAD).

Both cover disclosure but while the MAD focuses on the need to disseminate inside information as soon as possible in order to avoid market abuse, the Transparency Directive focuses on the information that needs to be disclosed on a periodic basis, as well as shareholder disclosures and the way in which disclosure should take place.

Until now, each country in Europe has operated independently, imposing its own legislation and guidelines on companies and investors. Some countries have been more lax than others, both in terms of the amount of information to be disclosed by companies and the amount of information disclosed by investors.

This unlevel playing field has disadvantaged companies and shareholders. And in recent years, the need for a harmonised European capital market has intensified, reflecting a growing desire among global investors for dynamic disclosure – that is, immediate disclosure when there is something important to say.

In most instances, the UK is already there. Much of the content within the Transparency Directive has been based on London best practice and regulators and interested parties in London, including RNS, have been widely consulted.

1.3 The benefits

The Transparency Directive should benefit companies and investors. In the past, investors have found it hard to compare information on companies from different countries in Europe and this has, at times, made them more cautious about investing. Greater transparency will make comparative analysis easier for investors and this is expected to boost shareholder confidence. The cost of capital should also be reduced, for at least some companies, as investors show their preference for corporate transparency.



1.4 The key points

In essence, the Transparency Directive covers the content and regularity with which companies should report financial information and the way in which that information should be relayed to the market. The Directive also obliges investors to disclose key shareholdings:

- For companies, the Directive requires them to produce annual and half-yearly (formerly interim) financial reports. In addition, the Directive obliges companies to produce an “interim management statement” for the first and third quarters of their financial year. This is a new requirement for companies that do not already report quarterly and the specific nature of these statements is an ongoing topic for debate between companies and regulatory authorities.
- Companies are also obliged to disclose regulated information¹ on a fast and pan-European basis. For UK-listed companies, this is, broadly-speaking, business as usual. They already use Regulatory Information Services, such as RNS, to disseminate information widely and speedily. In Europe, however, different methods have predominated – such as dissemination via print media or company websites.
- The Transparency Directive places demands on investors too as they are obliged to notify companies once they have built up certain share stakes.
- Finally, the Directive requires member states to ensure there is at least one Officially Appointed Mechanism (OAM) for the central storage of regulated information. The precise nature of these OAMs is subject to continuing discussion and will involve a further phase of consultation and implementation.

1.5 The Transparency Directive in the UK

In all four areas listed above, the Transparency Directive has been informed by the UK model and recognition has been given that this model works, and works well.

The legislation is, however, a “minimum harmonisation directive”, which means that EU member states, such as the UK, can impose additional requirements (known as super-equivalence) on companies and investors.

In the UK, the Financial Services Authority (FSA) is tasked with implementing the Transparency Directive but it has sought the views of various representative bodies and interested parties, including the London Stock Exchange.

While some aspects of implementation are yet to be finalised and best practice interpretation will evolve, the Directive will become a fact of European company life in early 2007. The final rules² for initial implementation (excluding OAMs) were published in October 2006 and markets will be expected to implement the Directive from 20 January 2007.

¹ Regulated information is all the information that is required to be disclosed under the Transparency Directive, inside information and any other information requirements required in the home member state.

² Subject to European Commission finalisation of implementation measures and Royal Assent to the UK Companies Bill.



2 Strength in numbers: How to disseminate information effectively

2.1 RNS is the leading service provider for disclosure of regulated information in the UK market:

- eight out of ten UK companies use RNS
- nine out of ten UK companies use RNS for price-sensitive announcements
- over 90% of the FTSE100 companies use RNS
- RNS releases over 650 announcements a day on average.

Since 1990 RNS has been the foremost regulatory news distribution service in the UK and works alongside other leading financial news distributors across the world.

With more expertise in distributing regulatory announcements than any other organisation, RNS allows issuers to have confidence their information will be disseminated efficiently, securely and in accordance with local regulatory regimes. RNS distribution channels use the London Stock Exchange's trading infrastructure, which is known for its performance and resilience. Our clients are assured their needs are met even when under pressure.

2.2 RNS and the Transparency Directive

RNS already meets the requirements of the Transparency Directive in that it achieves pan-European and global disclosure.

This means RNS customers can continue to disseminate information in exactly the same way as they have traditionally done, once the Transparency Directive takes effect.

RNS meets the Financial Services Authority's (FSA) requirements for UK dissemination, which authorises Primary Information Providers (including RNS) to act as Regulatory Information Services. The FSA will retain this system after implementation of the Transparency Directive.

Strict guidelines apply to these authorised providers of information so users of RNS can feel comfortable about submitting regulated information and can be sure that announcements will be handled speedily, efficiently and securely. However, RNS sees these as minimum standards and makes sure its service and performance levels exceed what is required in the FSA's approval criteria.

Customers appreciate, for example, the extended support hours offered by RNS and the wide-ranging technical and regulatory knowledge of its support teams. A recent survey revealed, in fact, that almost 100% of queries are swiftly answered to customers' satisfaction.

2.3 Pan-European disclosure

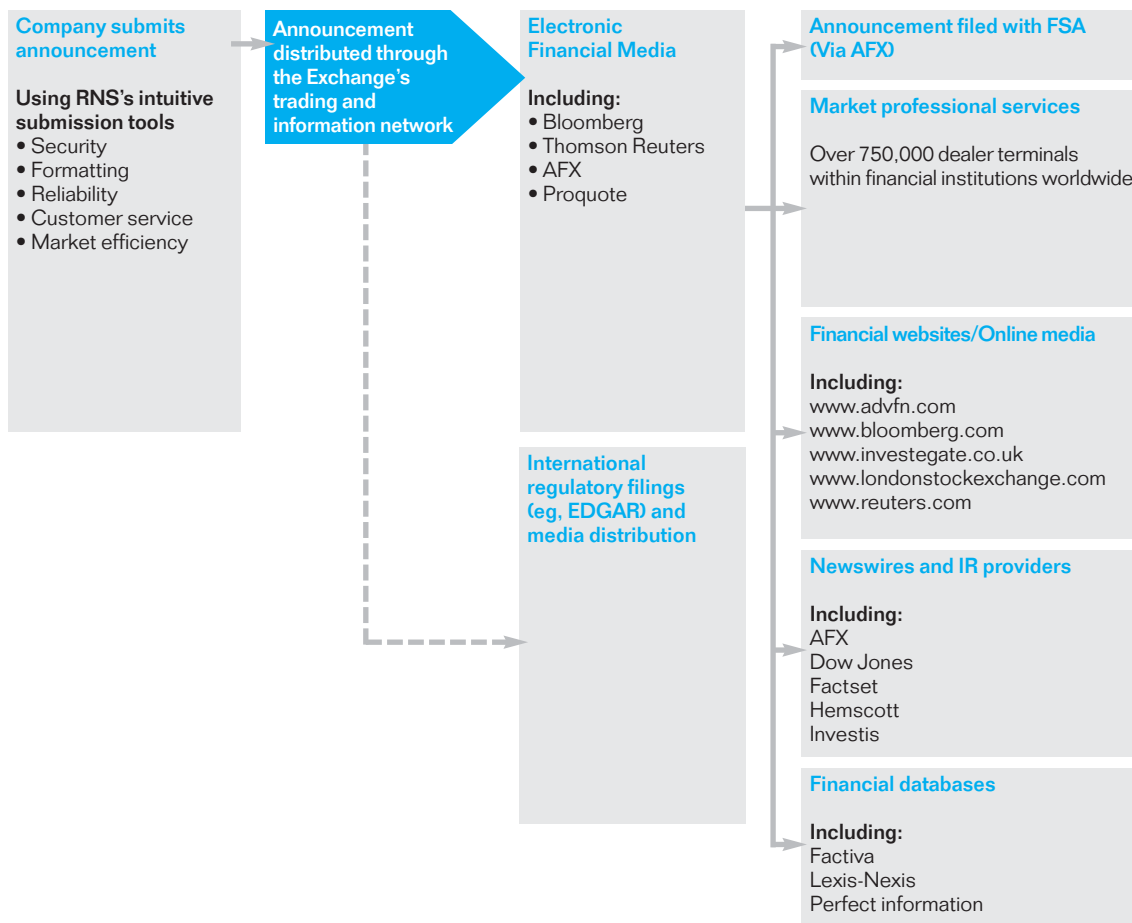
The Transparency Directive requires companies to disseminate information on a pan-European basis providing rapid disclosure and equality of access to investors. RNS satisfies this requirement by distributing information to electronic financial media firms such as Reuters, Bloomberg, Dow Jones and AFX.

These media services disseminate the full text of all regulated information and information is available via financial websites too so it can be easily accessed by hundreds of thousands of retail investors, investment professionals and global stakeholders. News disseminated by RNS is highly regarded and trusted worldwide, helping RNS's clients' announcements gain maximum exposure.

“I think the RNS team is fantastic. They have gone above and beyond the call of duty when it comes to submitting our very technically challenging 23-page earnings press release”

IR Project Co-ordinator, Sony Corporation

RNS process flow diagram





3 Clarity and transparency: What the Transparency Directive means for you

This section of our guide addresses the most commonly asked questions about the Transparency Directive and related EU Directives.

3.1 What are the main differences between the Transparency Directive and existing UK requirements?

There are three key differences:

- First, all companies will be required to publish financial statements four times a year – an annual report, a half-yearly report and two interim management statements or quarterly reports.
- Second, the half-yearly report will need to include the principal risks and uncertainties to a company's business for the remaining six months of the year.
- Third, the annual report will need to be published within four months of the year-end rather than six months. Companies will no longer be obliged to publish a preliminary statement of annual results, although they can still do so.

3.2 What will companies have to include in the annual report?

The annual report will have to include audited financial statements, a management report and responsibility statements. The management report must include a fair review of the business and a description of the principal risks and uncertainties of the business going forward. Among the requirements on content, the review must include key performance indicators, financial and non-financial. Environmental and human capital KPIs must therefore be included. These requirements are not broadly different from those already applicable to most UK-incorporated companies.

3.3 What will companies have to include in the half-yearly report?

The half-yearly report (previously referred to as "interim results") will have to include a condensed set of financial statements as currently required for UK-listed companies, a management report and responsibility statements. Among the requirements, the report will also have to include, for the first time, a statement of the principal risks and uncertainties that may affect the business over the following six months.

3.4 What are interim management statements and what will companies have to include in them?

Interim management statements are published reports that will be issued between the annual report and the half-yearly report and again between the half-yearly report and the annual report. The Transparency Directive has deliberately refrained from calling them quarterly reports because they are intended to be qualitatively different from US quarterly earnings statements.

Interim management statements will give a general description of a company's financial position and performance and describe any material events or transactions that have taken place during the reporting period. They will be more detailed than UK-style trading statements but less prescriptive than US quarterly earnings reports. The Financial Services Authority (FSA) will provide guidance on what does not need to be included in interim management statements. This will be published in a special edition of *List!* the newsletter from the UK Listing Authority. The FSA has introduced a new announcement headline for these disclosures, "Interim management statements." Those companies that already publish quarterly reports may continue doing so and will not have to publish interim management statements as well.



3.4 Will preliminary statements still be necessary?

Most companies will probably continue to issue preliminary statements, even though the Transparency Directive does not oblige them to do so. First, investors are very much in favour of them. Second, companies are used to publishing them and their systems are geared up to do so. Third, if they are preparing their annual results and discover a material piece of information, they will have to make an announcement without delay. Companies that do choose to publish preliminary statements will be required to meet the existing content standards.

3.5 Should companies be worried about increased liability?

The Transparency Directive requires companies to make more forward-looking statements than before and to make reports public throughout the EU (regardless of whether companies have shareholders or a listing in every member state). There is some understandable concern about this but lawyers suggest that, for UK companies, the normal high standards of care with which information is produced should be sufficient to prevent them from being sued by investors. The Companies Bill contains "safe harbour" provisions for Transparency Directive periodic reporting, effectively stating that directors are only liable to investors if they are being dishonest or reckless. There is discussion about extending this to include preliminary statements of results.

3.6 When will the changes take effect?

The Transparency Directive will apply to financial years that begin on or after 20 January 2007. This means that companies whose year end is 31 March will be required to publish their first interim management statement in June to August 2007. Thereafter, their half-yearly and annual reports will have to be Transparency Directive-compliant. Companies with a 31 December year-end will not have to publish their first interim management statement until March to May 2008. And their first Transparency Directive-compliant annual report will not be produced until 2009.

3.7 How will the annual cycle work in practice?

The Directive states that interim management statements must be made at least ten weeks after the start of each half-year and six weeks before the end of the period. Broadly speaking, this equates to the first and third quarters of the financial year. Companies with a 31 December year-end, for example, will publish their first interim management statement no earlier than mid-March and no later than mid-May. Their second interim management statement will be published no earlier than the mid-September and no later than mid-November.

3.8 How will the changes take effect?

The Transparency Directive will be implemented in the UK by 20 January 2007. The FSA will incorporate the new transparency rules into its Disclosure Rules Sourcebook and rename it the Disclosure and Transparency Rules Sourcebook. If a company or company director breaches these rules, they can be sanctioned or fined. Some parts of the Directive also require primary legislation and these will be incorporated into the new Companies Act.

“The Transparency Directive is sometimes portrayed as the end of the known world. It isn’t by any means. For UK companies that are competitive, successful and have strong prospects, making these more transparent to a wider class of investors quicker and electronically is a good thing and a potential competitive advantage”

Charles Mayo, Partner, Simmons & Simmons

3 Clarity and transparency (cont.): What the Transparency Directive means for you

3.9 How will companies disseminate the information they are now required to disclose?

The Directive requires Member States to ensure regulated information is disseminated throughout Europe to ensure that investors have fast access on a non-discriminatory basis. Companies are ultimately responsible for meeting this standard. In practice, UK companies will be able to comply with this by sending financial information to an RIS, such as RNS. The role of the RIS is to ensure that the information is transmitted to media services like Reuters and Bloomberg rapidly and securely. There is no longer a requirement for companies to publish half-yearly reports in newspapers or send them to every holder of their securities.

3.10 How will information be filed?

The Directive requires companies to file information with the competent authority of its home member state. In the UK, companies satisfy this requirement by using an RIS.

3.11 What are the requirements for storage of regulated information?

Under the Transparency Directive, all regulated information must be filed for five years after it has been disseminated to provide a comprehensive resource for investors. Rather than a centralised repository such as the SEC’s EDGAR system, a decentralised model is envisaged with one or more OAM appointed in each member state. These will then be networked across Europe. How this will work in practice is still being defined and will not be in place for January 2007. As a transitional measure in the meantime, the FSA is enhancing the RIS section of its website to provide more accessible links to information providers.

3.12 Will the Transparency Directive impact investors too?

The Directive will require investors to issue a notification when they have reached, exceeded or fallen below 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of the voting rights in a company. At present, investors in UK companies typically have to issue a notification when they have built up a shareholding of 3% and at 1% intervals thereafter. The present thresholds will continue to be applied to both Main Market¹ and UK AIM companies. The FSA is requiring disclosure to be made by using a standard form and is also retaining the current deadlines for notifications by investors to companies and by companies to an RIS. The requirements for notification are triggered by reference to the percentage of voting rights held, rather than the percentage of the nominal value of share capital in which a shareholder is interested.

3.13 Do companies need to disclose details of voting rights?

To provide a reference point for major shareholder notifications, companies must disclose details of the total number of voting rights in respect of each class of share which it has issued and admitted to trading. Companies must also distinguish the number of voting rights attached to any shares held in Treasury.

3.14 When must companies disclose details of their voting rights?

Companies must make this disclosure to the market via an RIS by 31 December 2006. Companies will also have to disclose any change which occurs between the date on which the disclosure is made and 20 January 2007. Any subsequent changes will need to be disclosed on a monthly basis. The FSA has introduced a new announcement headline type for these disclosures, “Total Voting Rights”.

¹ Companies incorporated outside the EU may use their home jurisdiction’s shareholder notification regime if it is equivalent to that required by the Transparency Directive.



3.15 Will other Directives, linked to the Transparency Directive, have an impact on companies and investors?

Another key element of the FSAP is the Market Abuse Directive (MAD). As its name suggests, this includes a series of preventative measures aimed at reducing the incidence of market abuse. The measures cover the way companies handle and disclose inside information and it obliges companies and their advisers to maintain “insider lists”.

3.16 What constitutes inside information?

Inside information is information that is precise, not generally available and price sensitive. The rules on how to identify inside information, when to disclose it and communication with third parties are set out in the FSA’s Disclosure and Transparency Rules Sourcebook. Issue nine of *List!* provides further advice on good practice with respect to inside information.

3.17 What are the requirements for handling inside information?

Companies need to have appropriate systems and controls in place to identify inside information and ensure its timely disclosure. Companies must also notify a RIS as soon as possible of any inside information that directly concerns them, except in specific circumstances where disclosure would prejudice their legitimate interests.

3.18 What are the requirements for publishing inside information on the company’s website?

If companies announce any inside information via an RIS, they must make that information available on their website by the close of the next business day. The information may not be published on the website before it is announced via an RIS and it must be available on the website for at least a year.

3.19 What are PDMRs?

PDMRs are defined as “Persons Discharging Managerial Responsibility”. In practice, this means main board directors, both executive and non-executive, as well as senior managers with the authority to make strategic decisions.

3.20 What are Annual Information Updates?

Annual Information Updates are a requirement of the Prospectus Directive, which also forms part of the Financial Services Action Plan. These updates are a compilation of all the disclosures a company has made in the UK and abroad over the past 12 months. Most companies comply with the requirement by publishing a digest of announcement headlines and the dates on which they appeared.

3.21 Does the Transparency Directive have an impact on AIM companies?

Generally speaking, the Transparency Directive does not apply to AIM companies. But they will need to disclose voting rights, alongside Main Market companies, and AIM companies may be affected by some parts of the new Companies Act. The MAD also applies to AIM companies, although certain disclosure obligations (such as insider lists) do not. Generally speaking, the Prospectus Directive will not apply to AIM companies unless they make an offer to the public which falls within scope.

4 The missing link: Looking to the future

As this guide makes clear, the world of financial disclosure is evolving. At RNS, our aim is to help companies adapt to the new environment with minimum disruption.

Over the past few years, customers will have already seen several significant changes to our service. Whereas previously our expertise lay in UK regulatory news distribution, we have now diversified to deliver a more comprehensive suite of communication services to our customers. We transmit information not only through regulatory channels but also through the financial media – and we distribute not just in the UK but to jurisdictions across the globe.

RNS Reach

This provides companies with an ideal platform to deliver important news, such as product launches and contract wins to the key financial audience via the same distribution channel.

Worldwide media distribution

We distribute announcements to key financial media and best-practice disclosure points in Europe and the US, including those recommended by the New York Stock Exchange and NASDAQ.

Worldwide regulatory distribution

We can distribute your announcements to fulfil German, Swiss and Austrian disclosure obligations in Europe, and we can file announcements in the US via the SEC's EDGAR system. All disclosure is seamless through the RNS user interface. And it is often much cheaper than our competitors.

FT Company Announcement Service

This new service allows companies to publish their announcements in the world's leading business newspaper. RNS clients can do this through the client interface.

The Financial Services Action Plan (FSAP) and the advent of new interactive technologies will have a profound impact on the European disclosure landscape. But the London Stock Exchange and RNS are committed to staying at the forefront of new developments.

We have already influenced the way in which the FSAP will be implemented in the UK and we are also monitoring interactive technology developments closely.

Our systems will evolve so that we stay ahead of change as it occurs. In fact, we have already started work on a project to transform the RNS user interface and greatly improve the service we offer our customers.

In the next few years, we expect developments, such as interactive data, to gain momentum. This will not happen overnight however and needs widespread support for adoption. As these developments take shape we will make sure our customers are kept fully informed.



“We will continue to track and be involved with international developments on the disclosure landscape and we will adapt our systems in the most sympathetic way for customers, communicating with them on every step of the journey”

Paul Rennison, Head of RNS



For further information

If you have any questions about the contents of this guide, we would be happy to talk to you. Contact us on 020 7797 4400 or ms@londonstockexchange.com

Glossary of terms

Prospectus Directive

Sets out the initial disclosure obligations for issuers of securities that are offered to the public or admitted to trading on a regulated market in the EU. It enables companies to raise capital across the EU on the basis of a single prospectus.

Regulated information

Information that companies are required to disclose under the Transparency Directive, Market Abuse Directive and Prospectus Directive. Includes periodic reporting, shareholder disclosures, inside information and any other information requirements made by the home Member State.

Regulated Information Service (RIS)

A Primary Information Provider that has been authorised by the FSA.

Transparency Directive

Part of the FSAP and designed to establish minimum standards for periodic reporting, major shareholding notifications and the dissemination and storage of regulated information.

Glossary of terms

Extend this flap while reading through this guide if you wish.

Annual Information Updates

Annual Information Updates (a requirement of the Prospectus Directive) need to contain or refer to all the information that has been published or made available to the public over the preceding 12 months.

Companies Act 2000

This gave the Financial Services Authority (FSA) statutory powers to become the regulator of the financial services industry in the UK.

Disclosure and Transparency Rules Sourcebook

Produced by the FSA, this will incorporate the new Transparency Directive rules. Previously called the Disclosure Rules Sourcebook.

Electronic data gathering, analysis and retrieval system (EDGAR)

System set up by the US Securities and Exchange Commission for receiving and disseminating corporate filings electronically.

The Financial Services Action Plan (FSAP)

The EU initiative to improve the single market in financial services. The Transparency Directive is part of the FSAP.

Inside information

Information that is precise, not generally available and price sensitive in accordance with the Market Abuse Directive.

Insider lists

Companies are required to keep a list of everyone who has access to insider information, including directors, other employees and external advisers.

Interim management statements

Published reports that will be issued by listed companies between the annual report and the half-yearly report and again between the half-yearly report and the annual report.

List!

A newsletter from the UK Listing Authority, which provides information and guidance of interest to listed companies. It is available from the FSA's website (www.fsa.gov.uk).

The Market Abuse Directive (MAD)

Part of the FSAP and aimed at reducing the incidence of market abuse. It covers the way companies handle and disclose inside information and obliges companies and their advisers to maintain "insider lists".

Officially Appointed Mechanism (OAM)

A mechanism for the central storage of regulated information. Each EU member state is required to have at least one of these, appointed by the local regulator – in the UK's case, the FSA.

Persons Discharging Managerial Responsibility (PDMR)

Relating to main board directors, both executive and non-executive, as well as senior managers with the authority to make strategic decisions.

Primary Information Provider (PIP)

Corporate news distribution services which may be approved by the FSA to act as Regulatory Information Services (RIS) for the distribution of regulatory information on behalf of listed companies.



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