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Directorate General Internal Market and Services /
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UKSIF response to Green Paper on the EU Corporate Governance Framework

Thank you for the opportunity to respond to this green paper.

UKSIF, the sustainable investment and finance association, supports the UK finance sector to advance sustainable development through financial services.

UKSIF welcomes the EU's focus on corporate governance and responsible ownership. We believe that effective European regulation must enable and encourage sustainable capital markets and long-term responsible investment and ownership in the UK, across Europe and internationally.

UKSIF strongly supports transparency by companies, the investment industry and asset owners, and strong client demand for responsible ownership practices as key drivers of change.

In general, UKSIF believes that principles-based approaches, backed up by strong industry and government commitment, can deliver deeper change than more prescriptive rules which may be insufficiently flexible, have unforeseen consequences and encourage a focus on compliance rather than effectiveness. We therefore strongly support the initial use of "comply or explain" mechanisms. Where such mechanisms fail to deliver change, a move to compulsion may be needed. In such cases, it is essential to consult fully on effective implementation approaches.

UKSIF broadly endorses the response of the European Sustainable Investment Forum (Eurosif)¹ to this green paper, which will be made public at www.eurosif.org. UKSIF is a founder member of Eurosif.

This UKSIF response therefore focuses on only a subset of questions where we wish to make additional points. It is based on consultation with UKSIF members undertaken in partnership with Eurosif, together with our policy proposals to recent UK government and regulator consultations. These include 2011 responses to consultations on:

- "A Long-term Focus for Corporate Britain" (Department for Business, Innovation and Skills)
- "Effective Company Stewardship: Enhancing Corporate Reporting and Audit" (Financial Reporting Council)

These past policy responses are available at www.uksif.org/projects/policy.

¹ Register ID Number: 70659452143-78

Question 6: Should listed companies be required to ensure a better gender balance on boards? If so, how?

In our view, board diversity is an important contributor, alongside other good corporate governance practices, to effective board operation. We believe that there is currently considerable scope for a voluntary “comply or explain” approach to deliver measurable improvements to board diversity at UK companies. UKSIF has been impressed by the recent work of the 30% Club (www.30percentclub.org.uk) to encourage effective voluntary action on board diversity.

Question 11: Do you agree that the board should approve and take responsibility for the company’s risk appetite and report it meaningfully to shareholders? Should these disclosure arrangements also include relevant key societal risks?

Yes.

In response to the UK government’s “Consultation on the Future of Narrative Reporting” in Autumn 2010, UKSIF said:

“Most Business Reviews are not generating the data, reassurance or forward looking strategic and material information that investors want, including on sustainability issues that are material to company performance.

Indeed, at a recent roundtable that UKSIF convened, the consensus view amongst the participating institutional investors was that:

- *Most narrative report is not forward looking enough*
- *There is varying quality in companies’ reporting, with a large number of laggards*
- *The tendency towards “boiler-plate” reporting is a concern as investors are seeking more tailored reporting by companies that better focuses on their principal risks and opportunities*
- *There is a general lack of data and Key Performance Indicators included in Business Reviews”*

In response to the Financial Reporting Council’s recent consultation on “Effective Company Stewardship: Enhancing Corporate Reporting and Audit”, UKSIF said:

“Directors should take full responsibility for ensuring that an Annual Report, viewed as a whole, provides a fair and balanced report on their stewardship of the business.

Directors should describe in more detail the steps that they take to ensure:

- *the reliability of the information on which the management of a company, and therefore directors’ stewardship of the company, is based; and*
- *transparency about the activities of the business and any associated risks.*

We believe that this stewardship reporting should be undertaken in a way that supports and encourages good board governance and adds value for investors and, in particular, that use of “boilerplate” declarations should be minimised.”

Question 13: Please point to any existing EU legal rules which, in your view, may contribute to inappropriate short-termism among investors and suggest how these rules could be changed to prevent such behavior.

UKSIF shares the concerns expressed by others that the EU Solvency II directive will encourage the insurance industry towards short-term investment instruments and discourage long-term responsible investment approaches.

UKSIF is also concerned about future EU approaches to pensions solvency. It is vital that these do not result, in practice, in incentivising short-termism in investment and discouraging long-term responsible investment approaches.

Liquidity-related provisions within the MiFID directive have enabled and arguably encouraged a greater focus on short-term trading within financial markets. However, an UKSIF roundtable held in January

2011 highlighted a need to exercise caution in considering interventions to reduce the number or frequency of transactions. Those present felt that tax or other incentives for long-term holding might offer a way forward that introduced less risk of disadvantaging European capital markets compared with those in other jurisdictions. The roundtable was held in partnership with the Aldersgate Group and Forum for the Future to inform UKSIF's submission to the UK government consultation on "A Long-term Focus for Corporate Britain".

While outside the direct control of the EU, taxation policies and international accounting rules are also regularly cited as a cause for concern

UKSIF – the Sustainable Investment and Finance Association

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. We aim to support the UK finance sector to lead the world in advancing sustainable development through financial services.

UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 250+ members and affiliates include pension funds, institutional and retail investment managers, banks, financial advisers, research providers, consultants and non-governmental organisations. For more information about UKSIF, please visit www.uksif.org.

With best wishes

A handwritten signature in black ink that reads "Penny Shepherd". The signature is written in a cursive style with a long horizontal line under the first 'P'.

Penny Shepherd MBE

Chief Executive

UKSIF – the sustainable investment and finance association