25 November 2011

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Dear Mark Jackson

UK Sustainable Investment and Finance Association (UKSIF) response to The Future of Narrative Reporting: Consulting on a new reporting framework

Thank you for the opportunity to respond to your consultation. Our response addresses your questions 1-2, 4-6, 9, 11-12, 15, 19, 21, 24-25, 29 and 33-35.

As the UK's membership association for long-term responsible investment, the UK Sustainable Investment and Finance Association (UKSIF) warmly welcomes the government's support[1] for companies to act as responsible corporate citizens and to focus on delivering long-term sustainable value for their investors. We believe that these two requirements are entirely compatible and, indeed, that achieving the second is only possible in today's networked world combined with the first.

This response has been developed with a sub-committee of the UKSIF Board and draws on comments made at an UKSIF member consultation seminar about this autumn's BIS consultations. It also draws on our past policy submissions on narrative reporting and related topics.

Please classify UKSIF as an "Investor representative organisation" in your analysis of consultation responses.

Question 1
Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

To achieve the government's aims, it is important that any restructuring of the current reporting framework is focused on the information needs of long-term investors rather than those of short-term traders.

While a range of UKSIF members support the government's proposal to restructure the current reporting framework, others are concerned that these proposals are insufficiently focused towards such long-term requirements.

[1]Paragraph 3.17 in the consultation document.

Question 2
Do you agree that the Strategic Report should include information on:

- **company performance**
- **principal risks and uncertainties**
- **key performance indicators**
- **key financial information (similar to that currently required for the Summary Financial Statements)**

and for quoted companies should include:

- **strategy**
- **business model**
- **environmental and social information,**
- **key information on executive remuneration and its link to performance?**

We welcome the government's intentions to require key information and analysis as outlined in paragraphs 3.16-3.18. However, we are concerned that Appendix B makes insufficient connection between social and environmental disclosure on the one hand and future business strategy and key opportunities and risks facing the business on the other. As a result, there is a real danger that these proposals will not achieve the government's intentions. Instead, the proposed approach may perpetuate reporting that

1. On the one hand, fails to provide an adequate description of the directors' forward-looking business strategy for addressing key risks and opportunities for their business model from factors like climate change, resource scarcity and social change.
2. On the other, reports environmental, social and community information in a way that does not identify the material factors and key metrics needed for it to deliver value for investors.

We support the inclusion within the annual report of information valued by other stakeholder groups. However, we believe that anecdotal and similar information should be clearly distinguished from those environmental and social disclosures which are potentially material for investment decision-making. Otherwise, there is a danger that potentially material environmental and social information may receive insufficient focus from the investment community.

We remain of the view[2] that it would be helpful to establish a principle that directors should explain what their forward looking time period is. This would help recognition that different companies have materially different time horizons.

Question 4
Do you agree that the Strategic Report should be signed off by each director individually?

Yes. We remain strongly supportive of the statement in the FRC consultation paper "Effective Company Stewardship: Enhancing Corporate Reporting and Audit" that "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". We believe that a requirement for individual signatures is an appropriate implementation of this principle.

[2] Included in our response in October 2010 to the government's previous consultation on narrative reporting.

Question 5
Do you agree that the Annual Directors' Statement for quoted companies should include:

- **disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.**
- **the Corporate Governance Statement**
- **the Directors Remuneration Report**
- **financial information (for example, post-balance sheet events etc)**
- **information provided voluntarily by companies (for example, additional environmental and social disclosures)?**

Yes. We support this proposal.

Question 6
Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

Yes, so long as "published elsewhere" means "freely available in the public domain" and not merely "available to selected audiences" or "available on request". Sufficient version control and associated assurance will, of course, be needed.

Question 9
Do you support removal of the disclosure requirements, arising from company law, identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs. Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

We do not support the removal of the requirement to disclose charitable donations as such disclosure both assists management of conflicts of interest and demonstrates how a company is contributing to society. It is therefore potentially material for the exercise of responsible ownership and other investment decision making. It is are also complementary to the requirement to disclose political donations. We would support the introduction of simplified data gathering requirements and/or a higher reporting threshold in preference to removal of the requirement to disclose. In addition, the "cross-reference" reporting proposed in Question 6 would be appropriate for charitable donation disclosures.

We have no comments to make on the other issues addressed by this question.

Question 11
Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the Strategic Report?

Yes. However, it is important that this information is expressed in terms of key metrics, with guidance on the relationship between the information published and the risks and opportunities facing the particular business, rather than taking the form of anecdote or "boilerplate" text.

Question 12
Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

Yes. We believe that this proposal fully complements the recent amendments to the Corporate Governance Code which will come into effect from October 2012. We note that this view is shared by the 30% Club, a group of Chairmen and organisations committed to bringing more women on to UK Corporate boards, in their response to this consultation.

Our support for this proposal builds on our response to the earlier Financial Reporting Council consultation on 'Gender Diversity on Boards', where we supported strengthening of the Corporate Governance Code to address the recommendations in Lord Davies' report on women on boards.

Question 15
Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

We support the inclusion of key information on remuneration. However, we remain of the view that introducing too prescriptive a methodology on remuneration and how it is reported may lead to unintended consequences and may not provide the information required by shareholders to better assess the company's remuneration approach and the performance of the remuneration committee. We highlighted this concern in our response in October 2010 to the government's previous consultation on narrative reporting.

We remain of the view, also expressed then, that the Government may wish to consider the relevant sections of the ABI Guidelines on Responsible Investment Disclosure (www.ivis.co.uk/ResponsibleInvestmentDisclosure.aspx) as a good practice guide in this area.

Question 19
Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?
and Question 21
Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

We agree that quoted companies should be required to disclose how remuneration awarded relates to the company's strategic objectives. The relationship to performance over longer time timescales than the current financial year and the year ahead should also be disclosed. Quoted companies should be encouraged also to disclose, on a comply or explain basis, the relationship to management of the business's key environmental, social and governance opportunities, risks and metrics. Reporting should be use clear metrics rather than "boilerplate" declarations.

Please see also our response to Question 15.

Question 24
Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?
If so, how should the ratio be calculated?

Yes. Pay ratios can be valuable metrics for long-term investors assessing both the future of industries and company performance within industry sectors. For example, they are potentially material when considering both human capital management and reputational risk.

Factors to take into account in considering how best to calculate the ratio should include:
- Investors may seek to make international comparisons. Ease of comparability with requirements in other jurisdictions is therefore important.
- Some long-term investors are interested in ratios based on average earnings of lower waged employees and on-site contractors in addition to those for the workforce as a whole.

Question 25
Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

No. We are opposed to this proposal. Given the strategic nature of directors' responsibilities, there are more appropriate metrics. Where necessary, boards should be willing to forgo short-term profit to implement a strategy to generate "long-term sustainable value for their investors" (Consultation document paragraph 3.17 on Page 17). This metric would discourage such long-term thinking.

Question 29
Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs? If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

No. The current legislative regime for audit and assurance for narrative reporting does not adequately meet the needs of long-term responsible investors. A more robust approach to assurance of environmental, social and governance information is needed. Such assurance should be implemented on a "comply or explain" basis.

Question 33
What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

Guidance should be principles-based and include examples of best practice. The FRC's financial reporting lab could usefully take the lead on this topic within the UK. However, guidance should draw fully on the work of international initiatives in the field, which have already developed a considerable body of valuable material. These initiatives include:
- Climate Disclosure Standards Board (CDSB)
- Global Reporting Initiative (GRI)

- International Corporate Governance Network (CGN)
- International Integrated Reporting Committee (IIRC)

Wherever possible, UK companies should be encouraged to use existing examples of good practice from such initiatives.

Question 34
Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

We continue to support mandatory carbon reporting. Its benefits have been described in publications from the Aldersgate Group and others.

Question 35
Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

Yes. UKSIF has valued its past contact with the Financial Reporting Review Panel (FRRP). We have found its work on issues like effective company stewardship to be highly valuable. However, we have observed that it is not sufficiently well-known within the investment community. We therefore welcome the proposal to raise its profile and deepen understanding of its working practices.

UK Sustainable Investment and Finance Association (UKSIF)

UKSIF, the UK sustainable investment and finance association, supports the UK finance sector to be a global leader in advancing sustainable development through financial services. We promote and support responsible investment and other forms of finance that advance 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.

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 260+ members and affiliates include pension funds, institutional and retail fund managers, investment banks, financial advisers, research providers, consultants, banks and non-governmental organisations. For more information about UKSIF, please visit www.uksif.org. UKSIF supports long-term responsible investment and ownership. It focuses its corporate governance support on the interface between governance on the one hand and social, environmental and ethical issues on the other.

Yours sincerely

Penny Shepherd

Penny Shepherd MBE
Chief Executive
UK Sustainable Investment and Finance Association