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Dear David

UK Sustainable Investment and Finance Association (UKSIF) response to Proposals to reform the Financial Reporting Council: A joint BIS and FRC consultation

Thank you for the opportunity to respond to this consultation.

This response specifically addresses the continued appropriateness of the FRC's mission statement and proposes that it should be reviewed and revised as part of the reform process.

It also comments on the impact assessment.

Why UKSIF has responded to this consultation

UKSIF's mission is, in summary, to advance sustainable development through investment and other financial services. We believe that this requires effectiveness in:

- corporate governance and reporting
- the operation of the investment industry, including clients of the investment chain and their advisers
- the regulatory, policy and civil society framework around investment and corporate activities

We believe also that the responsibilities given to the FRC require it to facilitate effectiveness within all three of these areas in its oversight of companies and the investment chain. We use the term "governance" to mean "the proper use of entrusted power".

In our view, the issue of greatest concern in the reorganisation proposals is that the FRC has not reviewed and consulted on whether its mission statement, which underpins its reorganisation, remains fit for purpose. We would urge it to consider this as part of its reorganisation process.

UKSIF believe that an accurate and appropriate mission statement is essential for good organisational governance and management.

The FRC Mission Statement

The consultation questions most relevant to this issue are probably Questions 1, 3 and 9.

In our view, the FRC mission statement 'to promote high quality corporate governance and reporting to foster investment' does not give an effective description of its proper responsibilities following the 2006 Companies Act, the Walker Review and the Morris Review

or, more generally, society's emerging expectations of capital market participants and other financial actors following the financial crisis. This aspect is not considered within the analysis of the evolution of the FRC's responsibilities included within the impact assessment published with the consultation document. We would strongly encourage the FRC to review and revise its mission statement to take due account of these developments as part of the process of reform.

Without a revised mission statement, it is not possible to judge effectively the completeness and coherence of the measures proposed in this consultation document. In principle, we agree that a more streamlined structure is to be welcomed but we believe that the changes proposed will not make the FRC "easier to understand, focused and clear in its purpose" without a more appropriate description of that purpose, ie. a revised mission statement.

Today, the FRC provides regulatory support in the public interest to three types of entities:

- Companies
- Selected actors in the investment chain
- Selected advisors who provide financially-related professional services to companies and to bodies such as pension funds and insurers with financial responsibilities to current and future beneficiaries.

We agree that good governance, transparent reporting, ethical behaviour and professional standards are at the heart of the FRC's role. However, we believe that its mission should reflect the fact that its scope today goes beyond corporate entities and beyond fostering investment.

In our view, the FRC's public interest role today must encompass a number of aspects:

- Facilitating the effective allocation of capital to value creating economic activities through the capital markets, together with the responsible management of that capital during value creation
- Ensuring high standards in the assessment, pricing and pooling of risks
- Reducing market failures by enabling civil society and policy maker oversight of and influence on corporate and financial activities

This could perhaps be addressed by revising the mission statement from "prompting high quality corporate governance and reporting to foster investment" to "promoting high quality governance, reporting and asset and risk management within the private sector in the public interest". However, this is just one example of how the mission statement might be revised.

This response does not comment on the consultation proposal that the FRC should limit its focus on companies to quoted and larger entities. We have also not commented on the consultation proposals about the specifics of the FRC's relationships with the accountancy and actuarial professions. However, we believe that our comments are compatible with support for these proposals.

Consultation Impact Assessment

Impact Assessment Question 1: Do you have any general comments on this consultation stage impact assessment?

We note that the impact assessment states on Page 34 that the reorganisation is expected to have no impact on sustainable development overall or on aspects of sustainable development such as:

- Environmental Issues
- Health and Well-being
- Human Rights

Given the increasing importance of these issues to investors and the increasing recognition of the role of investment in addressing them, we would be concerned if the proposed FRC reorganisation was indeed to have no such impact. Indeed, this would raise significant

questions about how well the FRC had achieved its success criterion of "contributing to the efficiency of the capital markets".

Background: Consultation Document text

One example of a statement of concern to us in the consultation document is:

"the FRC should set or promulgate standards for governance, accounting, audit and actuarial work in the interests of investors in the corporate sector"

Executive Summary on P4

This phrasing:

- may be taken to mean the interests of the investment chain rather than of end investors or beneficiaries
- potentially runs counter to or undermines directors legal duties under the Companies Act 2006
- is clearly inappropriate for much actuarial work. Indeed, it could be interpreted to mean that the FRC will aim to regulate in future to give the interests of investors in plan sponsors precedence over those of pension fund beneficiaries or to encourage pension fund investment in companies in preference to investment in gilts or other instruments.

Another statement raising such issues is:

"with a clear focus on the issues of greatest concern to investors and users of the capital markets"

Section 1.2 on P8

Background: Companies Act, Walker Review and Morris Review

The **Companies Act 2006** introduced an explicit duty on directors to promote the success of the company, taking account of a range of factors that go beyond the short term interests of current shareholders. This approach suggests that the FRC's remit should naturally go beyond the concerns of fostering investment to supporting companies to act in a way that enables synergy between companies and civil society.

Recommendation 16 of the **Walker Revie**w of Corporate Governance of the UK Banking Industry, published on 26 November 2009, stated: *The remit of the FRC should be explicitly extended to cover the development and encouragement of adherence to principles of best practice in stewardship by institutional investors and fund managers. This new role should be clarified by separating the content of the present Combined Code, which might be described as the Corporate Governance Code, from what might most appropriately be described as the Stewardship Code.*

The current FRC mission does not appear to address its role in relation to the actuarial profession following the **Morris Review**. This suggests that this role does not form part of its primary purpose. A redrafting would enable this to be clarified. This might be achieved, for example, by expanding the mission to address professional support to the assessment, pricing and pooling of risks associated with the delivery of commitments to beneficiaries.

UK Sustainable Investment and Finance Association (UKSIF)

The UK Sustainable Investment and Finance Association (UKSIF) 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 MBE

Penny Shepherd

Chief Executive

UK Sustainable Investment and Finance Association