

Rt Hon Kwasi Kwarteng MP  
Secretary of State for Business, Energy and Industrial  
Strategy  
Department for Business, Energy and Industrial Strategy  
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Dear Secretary of State

We are pleased to respond to the Department for Business, Energy and Industrial Strategy's White Paper on 'Restoring trust in audit and corporate governance: proposals on reforms.' UKSIF and our members see this consultation playing a very prominent role in cementing the UK's attractiveness as a business destination for investors, world-leading reputation for strong stewardship and corporate governance, as well as promoting the future success of the UK's sustainable finance industry.

UKSIF is the membership organisation for the UK's sustainable finance community, representing more than 260 members with over £10 trillion of AUM, including investment managers, pension funds, banks, financial advisers, data providers, NGOs, among others, committed to promoting a more sustainable and inclusive financial system that works for the benefit of society and the environment.

We are proud of the progress the UK has achieved over recent years to promote the growth of sustainable and responsible finance at home and to demonstrate global leadership. UKSIF and our members have looked to play a key role in this respect by working closely with policymakers and others to find new ways to overcome the barriers to the growth of sustainability in the UK.

For example, recently UKSIF successfully campaigned for pension schemes to report against the Task Force on Climate-related Financial Disclosures ('TCFD') framework as part of the Pension Schemes Act, and for a number of years we called on policymakers to introduce mandatory climate-related disclosure across the economy, which we are heartened to see now taking place in the UK.

We know there is much further still to go to ensure the UK can meet its ambitions. A critical part of this will be to make sure we consider ways to build on the UK's existing leadership on stewardship and corporate governance, and reforms to the UK's legal framework for companies and the way they are audited will make a vital contribution in this respect. Below are UKSIF's views on some of the main issues raised in the White Paper.

**1. Should large private companies be included within the definition of a Public Interest Entity (PIE)? Please give your reasons.**

UKSIF and our members strongly support broadening the scope of a Public Interest Entity (PIE) to include large private companies, particularly in light of the high-profile corporate governance failures in private markets in recent years, such as Patisserie Valerie, BHS, among others.

With a number of the government's policy reforms on closely linked areas, such as climate-related financial disclosures, also now being rolled out to large private companies, it is a natural step for this group to be included under the definition of a PIE, helping ensure greater alignment with related policy changes from government.

**2. What large private companies would you include in the PIE definition: Option 1, Option 2 or another? Please give your reasons.**

We are supportive of Option 1 for defining large private companies within the scope of a PIE, and believe a more expanded definition will be key to the success of BEIS's reform package. It is a more appropriate threshold, being in line with those private companies reporting against the Wates corporate governance principles.

The number of employees and turnover will be important metrics to determine whether an entity should be classified as a PIE, though other factors could also be taken into account by BEIS in determining large private companies within scope, such as the extent of their supply chains, their footprint and impact on the local communities in which they operate, their impact on the environment, and structural importance to the wider economy. These factors could be considered by BEIS to determine whether the scope for a PIE should be extended further to other private companies in time.

**12. Is there a case for strengthening the internal control framework for UK companies? What would you see as the principal benefits and disbenefits of stronger regulation of internal controls?**

We see a case for strengthening the internal control framework for UK companies, and would support the proposed 'Option C' outlined in the White Paper, requiring auditors to express a formal opinion on directors' annual assessment of the effectiveness of the internal control systems.

There is a danger that in pursuing 'Option B,' that investors and other stakeholders are not fully assured of what has been assured by auditors, particularly if no formal attestation is not required, and if auditors' views here are not published or form part of the audit report.

**23. Should the Audit and Assurance Policy be published annually and subject to an annual advisory shareholder vote, or should it be published and voted on at least once every three years?**

USKIF and our members support a more prominent role for investors in scrutinising companies' audit and assurance policies, and we think advisory shareholder votes would help ensure a clearer accountability mechanism for investors. We agree with the original recommendation by the Brydon Review for an annual advisory shareholder vote.

As part of this, audit committees and investors will need to carefully consider their engagement, while boards will need to make sure the role of investors does not serve as a primary 'backstop' to poor decision-making on audit and assurance policies. Furthermore, we believe a PIE's audit and assurance policy should include an explanation of whether, and how, shareholder and employee views have been taken into account in the formulation of the policy and note whether it intends to obtain independent assurance over its Resilience Statement.

Separately, we welcome the proposal for audit committees to formally invite shareholders to express any requests they have regarding the areas of emphasis they wish auditors to incorporate in the audit policies. We hope that companies publishing and implementing an audit and assurance policy can provide investors and stakeholders with a deeper understanding of their material risks, and build greater confidence in the assurance activities undertaken to help mitigate these.

More broadly, UKSIF and our members see a role for government to signal its support publicly for investor stewardship in holding companies to account on their quality of their disclosures, both financial and non-financial. UKSIF supports the principle of advisory shareholder votes on companies' TCFD disclosures at their Annual General Meetings, and we would request government to signal its support for this ahead of COP26 to encourage positive change in company boardrooms. This step would help create a robust accountability mechanism for companies' TCFD disclosures, and think the frequency of shareholder votes should be driven by investors in dialogue with company management. We know the critical role that investors can play, and are keen for investors to continue to scrutinise how company boards oversee and engage with their disclosures.

19. Do you agree that the above matters should be included by all companies in the Resilience Statement? If so, should they be addressed in the short or medium term sections of the Statement, or both? Should any other matters be addressed by all companies in the short and medium term sections of the Resilience Statement?

UKSIF and investors see huge value in requiring all PIEs to publish an annual Resilience Statement, as recommended by the Brydon Review, to build on the current ongoing concern and viability statements. The proposal for a Resilience Statement outlining how directors are evaluating companies' prospects and addressing the main challenges to the business model, including the risks posed by climate change, is well considered.

We agree with the government's intention for the Resilience Statement to address business resilience over the short, medium and long term, as an evaluation of risks over all these periods are of immense interest to investors and the wider public. Climate change and sustainability risks more broadly could be included under each of these different timeframes, as the nature and impact of these risks will differ depending on the timeframe.

We expect the Resilience Statement to be a far more useful tool for providing useful disclosures than viability reporting, and would request consideration to be given by BEIS to apply this requirement beyond Premium Listed companies to all listed companies from the outset, and then all PIEs in time, due to the material uncertainty of certain economic sectors, especially those operating in high carbon-intensive sectors.

#### Other comments

It is critical for government to outline, as soon as possible, a specific timeframe for the implementation of the proposed changes in order to signal the UK's ambition to strengthen its reputation for good corporate governance and disclosure.

This step would help companies move forward with implementing the various policy changes outlined in the White Paper and provide investors with greater certainty. UKSIF would like to see BEIS set out a timetable as soon as possible for introducing legislation in Parliament that will put the new regulator on a statutory footing, and we would request clarity by the end of this year.

This is particularly critical following various delays to legislation, and further delays would send a very damaging signal to investors that the UK is not committed to strengthening standards for audit and governance, putting at risk the UK's attractiveness as a leading destination for investment, and the confidence of savers invested in companies at home. We have concerns the Covid-19 pandemic could be used to postpone action and dilute reforms, but the pandemic has in fact made reform more pressing than ever. Now more than ever, investors and savers rely on accurate and trusted corporate information and there has never been more demand for this as stakeholders seek to increasingly assess the impact of the pandemic and other issues, such as climate change, on business strategies.

Urgent action is also needed as it may take several years for many of BEIS's proposals to take effect, particularly if these are applied to a wider scope of companies in public and private markets in future. Alongside a quicker timetable, government could consider encouraging PIEs to get ahead of the implementation of some rules in 2023, such as the publication of Resilience Statements voluntarily by 2021/22 for example; this could help demonstrate 'best practice' in some areas and encourage improvement by companies over time.

Related to this will be the capacity of the new regulator to carry out the package of reforms, and monitoring their effectiveness, with ARGAs needing to be sufficiently resourced. We welcome Sir Jon Thompson's recent clarity on the increased resources for the regulator, though this will need to continue to be considered by government going forward; the new statutory levy will be important to give it the necessary funding and 'teeth' to be an active regulator.

As the UK emerges from the economic recession caused by the pandemic, the proposed measures will play a vital role in promoting the recovery and we see an opportune moment now for reform. We would like government to reflect the approach it is taking to audit reform to other policy changes it is considering, such as its approach to the UK's listings regime. As part of this, we continue to call for strong sustainability

standards to be in place for companies seeking to list in the UK, in particular for those seeking entry onto the premium listing segment.

I hope you will think of UKSIF and our members as a constructive partner as you progress this important work, and I look forward to working with you and your team in this area.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'James Alexander', with a stylized initial 'J' and a horizontal line extending to the right.

**James Alexander**  
Chief Executive