5 February 2021

The Impact Investing Institute's response to the FRC's Discussion Paper on the Future of Corporate Reporting

Summary

<u>About the Impact Investing Institute</u>

The UK Impact Investing Institute ('the Institute') is an independent non-profit organisation, which aims to accelerate the growth and improve the effectiveness of the impact investing market. We play a role in shaping policy to support and enable impact investing in the UK and globally.

The Institute was formed in 2019 from the merger of two UK government-backed initiatives - the UK National Advisory Board on Impact Investing and the Taskforce on Growing a Culture of Social Impact Investing in the UK. The Institute is the UK member of the Global Steering Group for Impact Investment.

We have strong ties with key UK government departments, the City of London Corporation and stakeholders across sectors and around the world – including investors, businesses and NGOs. Our core funders are the Department for Digital, Culture, Media, and Sport, the Foreign Commonwealth and Development Office and the City of London Corporation. We also receive financial support from firms within the financial sector and in-kind support from a panel of leading law firms.

<u>Our key recommendations</u>

The Institute welcomes the FRC's Future of Corporate Reporting paper for its thought-provoking contribution to the sphere of corporate reporting.

We recognise that the FRC's thinking in this area is at an early stage and believe the development and introduction of a Public Interest Report would benefit from a preceding trial initiative that tested the concept and illustrated what 'good practice' public interest reporting looked like. This could be delivered through convening reporting practitioners, potential users of the information and thought leaders (particularly within the sustainability reporting field), and jointly developing, testing and adopting 'good practice' public interest reporting. The Institute would be very pleased to provide further information about how such an initiative could be run and who, in addition to the Institute, might be well placed to help design and drive it.

In summary, the Institute is supportive of the following concepts outlined in the paper (further elaboration on these points are provided in answer to Q1 of the annexed response):

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1. **One common set of corporate reporting principles – accessibility, consistency, connectivity and transparency.** The Institute agrees that underpinning the corporate reporting system with a common set of principles would be very helpful in improving the quality of reporting information and ensuring cohesiveness across the system. We agree with the four system-level attributes proposed, and in particular welcome the emphasis on the 'connectivity' and 'transparency' of the proposed networked approach. The FRC should ensure these principles are consolidated with detailed information about the mechanisms, processes, procedures and controls in place to ensure information disclosed in the system is assured to a high standard.
2. **The mandatory reporting of all environmental, social and economic outcomes which enable users to understand how a company creates long term value in accordance with its stated purpose (in the 'Core Business Report').** The Institute understands this to mean that organisations would include in the Core Business Report all 'nonfinancial' disclosures that are material to their stated organisational purpose. Organisations that embed impact in their statement of purpose would, therefore, disclose in the Core Business Report the full range of environmental, social and economic outcomes relevant to their stated purpose (i.e., both outcomes that are material to enterprise value creation as well as other, wider outcomes that are material to their stakeholders). The Institute believes that organisations should embed impact in their core business strategy and stated purpose[1], and we commend the FRC's proposed purpose-centred approach to corporate reporting for its elasticity and ability to cater to companies at different stages of their consideration of impact. We also believe this approach would reinforce transparency in sustainability reporting. However, we note that the wording in the consultation document (6.12) is ambiguous on this point and urge the FRC to clarify it, to avoid misinterpretation. As we outline in greater detail below (see point 7, Q2 and Q9), we are also concerned that such a flexible approach to materiality risks undermining consistency and comparability of 'nonfinancial', or sustainability reporting, as the 'level' and breadth of disclosure in the Core Business Report is likely to vary considerably between organisations, even within sectors.
3. **Impact and outcomes reporting for 'non-financial' information.** The Institute commends the FRC for its proposed focus on reporting impact and outcomes, rather than outputs, particularly with regards to 'nonfinancial', or sustainability information.
4. **Introduction of a Public Interest Report.** The Institute believes that organisations should measure, manage and report their positive and negative, intended and unintended outcomes which impact on people, planet, and the economy. This is critical both to the organisation's business strategy and also wider public interest, and it enables stakeholders to hold boards, asset owners and their investment managers accountable. We therefore support the introduction of a Public Interest Report. However, for the reasons outlined below in points 7-10 and in our full response, we believe there are also risks in the proposed model. As such, we recommend that the approach is tested via a preceding

[1] Technology enabled impact reporting practice across the investment chain, Impact Investing Institute (January 2020)

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'good practice' trial initiative. The Institute would be very pleased to provide further information about how such an initiative could be run and who, in addition to the Institute, might be well placed to help design and drive it.

5. **Flexibility of the proposed networked system, and interoperability of the proposed Core Business Report and Public Interest Report.** The Institute commends the networked approach for its emphasis on connectivity between the Core Business Report and Public Interest Report. As detailed in answer to Q1 of the annexed response, we feel the approach has the potential to accommodate the dynamic nature of materiality boundaries, which will prove increasingly important.

6. **The centrality of technology in the proposed approach.** The Institute supports the FRC's move towards a technology-enabled corporate reporting system, as we believe digitisation and optimisation of data will play an increasingly vital role in reporting. We believe that publicly available depositories – properly governed, accessible by and distributable to all – of data, KPs, metrics, benchmarks, tools and approaches will be key, reducing the reporting burden on organisations and increasing the interoperability of different types of information. We urge the FRC to consider aligning its approach with exciting developments taking place in this sphere.

However, we believe the proposed approach is not without risks. In particular, we voice specific concerns regarding the following (further elaboration on each point raised can be found in our annexed response):

7. **The proposed approach to materiality risks undermining transparency, consistency and comparability of sustainability reporting**. The Institute is concerned that the proposed non-singular approach to materiality risks allowing organisations to present the reporting framework in the way that best serves their objectives at the expense of consistency and comparability with other organisations (even within the same sector). Clear guidance is needed for reporting organisations on processes and judgements for materiality disclosure; this is especially the case for environmental, social and economic disclosures, for which a plethora of competing standard setters exist.

8. **Divergence of approach from the global direction of travel of sustainability reporting.** The Institute is concerned that elements of the approach – such as to materiality and the network of reports (see Q1) – are not sufficiently aligned with global developments in sustainability reporting.[2]

[2] As indicated by the recent IFRS Foundation consultation on sustainability reporting, and the recent 'Statement of Intent to Work Together Towards Comprehensive Corporate Reporting' published by the five global accounting and standard setters (CDP, CDSB, GRI, IIRC and SASB).

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9. **A separate Public Interest Report could result in wider sustainability disclosures being perceived as less important than information contained in the Core Business Report.** Whilst we commend the FRC for encouraging disclosure of all material environmental, social and governance impacts, we remain concerned that including wider sustainability disclosures in the Public Interest Report, rather than the Core Business Report, risks presenting this information as less important.

10. **Increased reporting burden on organisations.** An increased reporting burden on organisations is, to an extent, to be expected given the proposed integration of environmental, social and economic outcomes relevant to enterprise value, and eventually to wider stakeholders. However, there is a risk that the non-singular approach to materiality and introduction of multiple reports risks placing undue and unnecessary burden on organisations. To mitigate this, and to align better with the global direction of travel, the Institute would urge the FRC to work with practitioners to develop processes and guidance which integrate and align with global processes and standards, to support organisations in assessing the materiality of outcomes and producing their reports.

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Annex: Full consultation response

Question	Comments
Question 1: What are your views on our proposals as a whole? Are there elements that you prefer over others?	In particular, we support the following key components of the proposed approach: 1. **Mandatory reporting of environmental, social and economic outcomes which enables users to understand how companies create long term value in accordance with their stated purpose (in the 'Core Business Report').** • The paper states that 'nonfinancial' information would be included in the Core Business Report 'where it is material to meeting the report's objective, which is to prove information that enables users to understand how the company creates long-term value in accordance with its stated purpose' (6.12). • The Institute understands this to mean that an organisation's stated purpose would determine which environmental, social and economic impacts would be disclosed in the Core Business Report. In practice, we envisage this meaning that most organisations would disclose the subset of their environmental, social and economic impacts that are relevant to enterprise value, in the short-, medium- and long-term. Organisations that embed impact in their statement of purpose would disclose a wider set of environmental, social and economic outcomes in the Core Business Report (i.e., outcomes that are material to their stakeholders). • For companies, sustainability issues are critical components of a business model with implications for strategy, influencing both near- and long-term prospects. For example, Apple has faced intense criticism following reports of human rights abuses in its supply chain, including revelations that 13 workers committed suicide within 6 months linked to poor working conditions at the factory of its principal manufacturing supplier of iPads, Foxconn.[3] This failure to ensure good health and well-being (SDG 3) amongst employees resulted in calls for consumers to boycott Apple's products[4], driving the company to implement new human rights policies, including joining the Fair Labour Association (FLA), disclosing 97% of its supply chain and implementing a 'Supply Code of Conduct' and 'Supplier Responsibility Report'. More recently, a group of 176 international investors representing over $4.5 trillion in assets under management have come together to call out 95 of the worst performing companies on human rights due diligence (as

[3] 'Companies no longer have an excuse to ignore human rights in their supply chains,' Reuters Events: Sustainable Business, by Richard Karmel (December 2017)
[4] 'Apple hit by boycott call over worker abuses in China', Guardian, by Paul Harris (January 2012)

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	indicated by the 2019 Corporate Human Rights Benchmark) and urge them to take decisive action before the next assessment.[5] • These two examples illustrate how failure to identify and respond to human rights issues can lead to costly and disruptive legal action, investor divestment, negative publicity, reputational damage and significant financial loss. Human rights issues therefore must be recognised as affecting the value of a company,[6] as well as being an important driver of justice and global equality.[7] • Moreover, an increasing body of evidence shows that organisations which embed consideration of sustainability issues into their business models derive benefits that deliver outperformance for investors.[8] Conversely, organisations that do not sufficiently consider sustainability issues can find their commercial success hindered and their brand value eroded; e.g., the automotive sector and emission concerns; technology companies and their perceived responsibility for data misuse; and multi-nationals and supply chain or local tax issues.[9] • Presenting sustainability information alongside financial information in the Core Business Report builds robustness and transparency into the overall corporate reporting process, which is an important input for informed decision-making by investors and other stakeholders. • The Institute supports this purpose-centred approach to corporate reporting for its elasticity and ability to cater to companies at different stages of their consideration of impact. We agree that reporting should be adaptable to the different needs, purposes and ambitions of organisations and we recognise that 'matching' disclosures to a company's stated purpose is both an efficient method for streamlining disclosures and addresses growing issues of 'green- or impact-washing'. • However, we believe that the wording on this point in the FRC's consultation document is ambiguous and we urge them to clarify it, to avoid misinterpretation. Additionally, as we outline in greater detail below (see Q2 and Q9), we are also concerned that such a flexible approach to materiality risks undermining consistency and comparability of nonfinancial, or sustainability information, as the depth and breadth of

[5] Investor Statement Calling on Companies to Improve Performance on the Corporate Human Rights Benchmark, Investor Alliance for Human Rights (January 2021)
[6] Why it's time to talk about corporate tax avoidance, Schroder's Perspective, by Anastasia Petraki (June 2020)
[7] Topic Standard Project for Tax, GRI
[8] Digging Deeper into the ESG-Corporate Financial-Performance-Relationship, DWS (2018)
[9] Stock Performance Study Shows Companies Should Take Environmental and Social Factors Seriously, Pippa Stevens, CNBC (Feb 7)

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	nonfinancial disclosure in the Core Business Report may vary considerably between organisations, even within sectors. 2. **Reporting on environmental, social and economic outcomes and impact.** • The Institute welcomes the proposed focus on the measurement and reporting of outcomes (the result of an organisation's activities) and impacts (the changes, positive or negative, intended or unintended, caused directly or indirectly, wholly or partially, in social, environmental or economic outcomes) – rather than outputs – particularly with regards to nonfinancial, or sustainability information. • Reporting on sustainability outcomes provides organisations with a more effective form of measurement for uncovering risks and opportunities than traditional sustainability reporting, which has focused on an organisation's activities or outputs (rather than changes in outcomes) and how it can manage issues to avoid harm, mitigate financial risk and manage its reputation. Outcomes and impact reporting (i.e., measuring the changes experienced, rather than activities performed to cause these) paints a more complete picture of an organisation, especially in relation to many social issues, where local contextual factors influence outcomes. For example, paying employees the local minimum wage could be reported as a positive output and an indicator of fair treatment; however, when contextualised, this may actually be considerably less than the accepted 'living wage', serving as a poor indicator of positive employee wellbeing (a social outcome). • Stakeholders (consumers, investors, civil society, policy makers) increasingly expect organisations to report transparently on their impacts. Reporting on outcomes enables users of the information to be able to interpret the extent to which organisations enable sustainable development. By comparing outcomes to relevant evidence-based thresholds as well as context-specific development priorities (for example, as articulated in the SDGs), users of sustainability reporting can determine the extent to which different organisations are contributing positively and negatively to the global goals.[10] • The Institute recognises that the FRC's approach to distinguishing between 'internal' and 'external' outcomes provides a useful framework for explaining how reporting organisations would 'filter' (6.21) nonfinancial impacts according to their materiality (i.e., assessing whether the information in question is

[10] Sustainable Development Goals Disclosure (SDGD) Recommendations, by Carol A Adams with Paul Druckman and Russell C Picot (January 2020)

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	relevant to enterprise value, or to the public interest) and identify where (i.e., in which report) disclosures should feature in the proposed networked corporate reporting system. • However, to align better with global developments in sustainability reporting, we recommend the FRC uses language consistent with other major standard setting organisations. For example, the recent 'Statement of Intent to work together towards comprehensive corporate reporting', published by five leading global framework and standard setting institutions (CDP, CDSB, GRI, IIRC and SASB), terms environmental, social and economic information disclosed with the objective of economic decision making (what the FRC labels 'internal outcomes or impacts') *'sustainability topics that are material for enterprise value* creation'; and terms wider impacts on the economy, environment and people (what the FRC labels 'external outcomes or impacts') *'sustainability reporting'.* 3. Public Interest Reporting • The Institute strongly supports the inclusion of environmental, social and economic outcomes that are material to sustainable development, even if they are not yet material to enterprise value creation, in the proposed approach to corporate reporting. We support the inclusion of this information (termed 'external outcomes or impacts' by the FRC) in the Public Interest Report. • Better reporting of environmental, social and economic outcomes, designed for and accessible to a wider group of stakeholders, will help to anchor impact in organisational purpose, strategy, culture and operations, and facilitate transparency, consistency and comparability. • However, it is our belief that introducing a separate Public Interest Report (rather than reporting all sustainability related disclosures in one place) is not without risks (see Qs 2 and 14). The Institute acknowledges that the FRC's thinking behind the Public Interest Report is at an early stage and in order to test its viability, we recommend launching a 'good practice' initiative. This could be delivered through convening reporting practitioners, potential users of the information and thought leaders (particularly within the sustainability reporting field), and jointly developing, testing and adopting public interest reporting approaches. • The Institute would be pleased to provide further information about how such an initiative could be run and who, in addition to the Institute, might be well placed to help design and drive such an initiative.

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	4. **Flexibility and interoperability of the proposed Core Business Report, Public Interest Report and Financial Statements.** • A key strength of the proposed networked approach is the scope for a flexible relationship/interoperability between nonfinancial information reported in the Core Business Report, the Public Interest Report and the Financial Statements. • Materiality is a dynamic concept and the extent to which a company's significant impacts on people, the planet or the economy drive creation of enterprise value can change – gradually or very quickly. As we are seeing in today's rapidly evolving economic landscape, what appears financially immaterial today can prove to be business critical tomorrow.[11] For example, when it was uncovered that Boohoo had failed to pay its employees a minimum wage, £1bn was quickly wiped from its enterprise value. It is therefore important that non-financial, or sustainability information is included in the Core Business Report. • As impacts can and do shift between materiality realms, a company's understanding of all of its significant impacts on people, the planet and the economy is a necessary precursor to its ability to identify and report upon those sustainability outcomes that also drive creation of enterprise value. • Connectivity between public interest disclosures and enterprise value disclosures is therefore vital and should be a foundational component of the approach. This will facilitate sufficient flexibility in the networked system to accommodate for shifting materiality boundaries.
Question 2: Implementation: What do you see as the key practical challenges of implementing our proposals?	Whilst the Institute supports many of the concepts underpinning the FRC's paper, we would express caution/concern with regards to the following: 1. **The proposed approach to materiality risks undermining transparency, consistency and comparability of sustainability reporting**. • The proposed non-singular approach to materiality, while enabling organisations to personalise the reporting framework to suit their objectives, risks encouraging significantly divergent approaches to materiality and undermining comparability across organisations for users of the information. • It is our belief that the proposed caveat – that organisations must communicate 'oversight by the board and/or management) over materiality processes and judgements, as well as any qualitative or quantitative

[11] Double and dynamic: understanding the changing perspectives on materiality, SASB blog, by Donato Calace (September 2020)

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	benchmarks used' – does not go far enough to embed consistency of sustainability reporting, for which a plethora of standards exist. • Should the proposed approach materialise, we would urge the FRC to, at a minimum, work closely with the larger and more developed standard setters to issue clear and definitive guidance on materiality processes and judgements for reporting on their environmental, social and economic outcomes. • Furthermore, comparability should not, in our view, be understood as a 'content communication principle', considered by organisations to 'guide' the preparation of individual reports, but should be held as a foundational 'system-level attribute'. 2. **The FRC's proposed networked system and approach to materiality risks diverging from the global direction of travel with regards to sustainability reporting.** • Whilst the Institute supports many of the concepts underpinning the FRC's paper, we remain concerned that elements of this approach risk diverging from the global direction of travel on sustainability reporting, particularly with regards to materiality and the networked corporate reporting system proposed. • The Institute strongly supports the global convergence of sustainability reporting standards. Supply chains are global; investors and capital flows are global; urgent challenges such as climate change or pandemics can only be tackled globally. Global standards can effectively counter the risks of regional solutions not meeting the needs of cross-border capital flows and multinational expertise, as well as the risks of gaps in participation by some countries. • We are therefore concerned that the overarching premise of a networked approach to corporate reporting diverges from significant global/jurisdictional steps towards integrating all environmental, social and economic disclosures (i.e., those that are relevant to sustainable development, and those that are also relevant to an organisation's enterprise value) in the existing reporting framework. For example, the EU's recent consultation on reviewing the Non-Financial Reporting Directive (NFRD) proposed mandating the disclosure of all necessary non-financial information by expanding the annual management report. • To address this, we firmly believe that the FRC should trial the proposed approach, particularly the separate Public Interest Report, with a preceding 'good practice' initiative. This trial should include an evaluation of the transparency and comparability across jurisdictional corporate reporting systems, as users of this information are likely to have a global perspective: supply chains, investors and capital flows are all global.

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	Further developments of the approach following this trial must consider how it will align with efforts towards global convergence of corporate and/or sustainability reporting. • Whilst the Institute agrees that there should no longer be a single test for materiality based on accounting standards, we are concerned that the FRC's proposed approach risks diverging from the global direction of travel – whereby sustainability reporting standards are developed to closely align with accounting standards. The recent IFRS Foundation consultation on sustainability reporting gave some indication that the global direction of travel was, at present, to develop global sustainability reporting standards, governed by a 'Sustainability Standards Board' (SSB), that would operate alongside the International Accounting Standards Board (IASB), with the two boards benefitting from 'increasing interconnectedness between financial reporting and sustainability reporting'. The Institute believes that an effective corporate reporting system must remain in step with these developments to enable translation across borders, better meet the needs of multinational enterprises, and set a better global precedent by the UK for other countries to follow suit. 3. **Satellite reports in the proposed approach, in particular the Public Interest Report, risk not being considered of equal importance to the Core Business Report and treated as a tick-box exercise by reporting organisations and/or not used by users of corporate reporting.** • Confining 'external outcomes' to a separate Public Interest Report risks presenting this information as 'secondary', or unequal to the information contained in the Core Business Report. • The universe of sustainability matters that address significant impacts on people, the environment and the economy is the same universe of impacts that organisations would have to assess on the basis of potential relevance for enterprise value. • It is vital, therefore, that although mandated for only the largest organisations, the Public Interest Report is presented as being of equal significance to the Core Business Report. Furthermore, there must be genuine connectivity between the two. • The proposed model must also effectively strike a balance between a flexible/tailored/individual approach to assessing materiality and identifying stakeholders, whilst ensuring transparency, accountability and consistency. We agree that, as a minimum, oversight (by the board and/or management) over materiality

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	processes and judgements should be communicated as well as any qualitative and quantitative benchmarks. • We also suggest the FRC sets out specific guidance for recommended benchmarks to be used by organisations as part of the corporate reporting approach. Benchmarking will encourage organisations to set and achieve their impact goals in a way that is comparable and accessible, thereby contributing towards the convergence of global standards in environmental, social and economic outcome reporting. • The World Benchmarking Alliance (WBA), which is part of the Impact Management Project's (IMP) structured network, is developing a range of corporate benchmarks in order to clarify what society expects form businesses with regards to the SDGs and how businesses can contribute to meeting these expectations. **4. Burden on organisations due to non-singular approach to materiality and introduction of multiple reports.** • The Institute is concerned that the proposed non-singular approach to materiality and the introduction of multiple reports increases the reporting burden on organisations. • The proposed approach to materiality places increased onus on organisations to assess the materiality of nonfinancial, or sustainability information and determine its relevance to multiple reports within the networked system. Clear processes and guidance must be in place to help organisations carry-out any additional materiality assessments or judgements required by the approach. We recommend that the FRC works closely with practitioners to develop such guidance.
Question 3: Implementation: Do you have any suggestions on how the above could be overcome?	• [See Qs 1&2]
Question 4: Implementation: What do you see as the costs and benefits of the new model?	• [See Qs 1&2]

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Question 5: Objective-driven: Do you agree that corporate reporting should focus on a wider group of stakeholders?	• The Institute strongly supports the FRC's focus on meeting the needs of a wider group of stakeholders. • Multi-stakeholder capitalism is a rapidly evolving concept that is increasingly influencing corporate reporting standards. Through its engagement with a broad range of investors, the Institute sees rapid growth in investor demand for disclosures that reflect all significant impacts on people, the planet and the economy. Similarly, stakeholders (consumers, investors, civil society, policy makers) increasingly expect organisations to report transparently on their impacts and the way in which an organisation contributes to the planet, people and prosperity. Corporate reporting no longer solely serves the capital markets but broader society too, and the distinction between the two is ever more blurred. • The group of sustainability matters that address significant impacts on society, the environment and the economy is the same group of impacts that organisations would assess on the basis of the potential relevance for enterprise value. As materiality is dynamic (see Q1), failing to incorporate wider stakeholder perspectives could prevent organisations from identifying risks and opportunities that could become material to enterprise value in the medium- to long-term.
Question 6: Objective-driven: Do you agree that reports should be driven by their objective instead of a primary user-focused approach?	• The FRC is correct to recognise that the range of users of corporate reporting has diversified, as have their objectives. This, we agree, renders the current accounting-driven system no longer fit for purpose. We therefore welcome the FRC's proposed objective- rather than purely user- focused approach, as this is better suited to the multi-stakeholder world. However, the objective of some reports may be established specifically in order to meet the needs of particular user groups.
Question 7: One set of principles: Do you consider the principles of good reporting would be helpful in improving the quality of corporate reporting?	• The Institute agrees that an overarching set of principles for good reporting would be helpful in improving the quality of corporate reporting. In particular, the Institute welcomes the FRC's recognition that 'connectivity' and 'transparency' are fundamental system-level attributes of this networked approach, particularly with regards to reporting on non-financial or sustainability issues.
Question 8: Reporting network: Do you agree with our approach to improving the relevance and accessibility of information,	• The Institute supports many of the foundational concepts underpinning the proposed networked corporate reporting approach, including the introduction of a separate Public Interest Report (see Q1). However, we remain concerned that impacts relevant to people, the planet and the economy would be confined to the Public Interest Report, which risks presenting this information as 'secondary', or unequal to the information

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involving more concise reports distributed across a reporting network?	contained in the Core Business Report. Please see our response to Q2 for more detail around these concerns.
Question 9: Materiality: We are proposing that there should no longer be a single test for materiality that is based on accounting standards. Do you agree with this approach?	• Whilst the Institute agrees in principle with the FRC's proposed eschewal of a singular approach to materiality, we believe that it is important that a balance is struck between giving organisations flexibility over their materiality processes and judgements, limiting processual and disclosure burdens and ensuring the proposed corporate reporting system is aligned with a global direction of travel. • The recent IFRS Foundation consultation on sustainability reporting gave some indication that the global direction of travel was, at present, to develop global sustainability reporting standards that would work in tandem with international accounting standards. • In moving away from definitions of materiality based on accounting standards, the FRC's approach risks diverging from a global direction of travel whereby sustainability reporting standards are developed to operate alongside accounting standards, with a vision of 'increasing interconnectedness between financial reporting and sustainability reporting'.[12] The Institute believes that an effective corporate reporting system must remain in step with these developments. • Further to this, a very flexible approach to materiality processes and judgements could risk undermining consistency and comparability – particularly with regards to nonfinancial or sustainability matters, for which a plethora of competing standard setters exist. One study carried out in 2016 found there were almost 400 reporting approaches categorised as focused on sustainability.[13] • We recognise that the FRC has underwritten its approach to materiality with the principle that oversight (for example, by the board and/or management) over materiality processes and judgements should be communicated as well as any qualitative and quantitative benchmarks. Whilst this gives organisations autonomy and allows them to personalise the reporting framework for their own objectives and contexts, we consider that this does not go far enough to encourage transparency, consistency and comparability across nonfinancial reporting. Should the proposed approach materialise, we would urge the FRC to, at a

[12] Consultation Paper on Sustainability Reporting, IFRS Foundation, September 2020.
[13] Growing a Culture for Impact Investing in the UK: Better reporting, Impact Investing Institute (October 2018)

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	minimum, work closely with the larger and more developed standard setters to issue guidance on materiality processes and judgements for reporting nonfinancial information. This would support organisations as they take on the increased reporting burden associated with these processes.
Question 10: Non-financial reporting: Do you agree that there is a need for regulatory standards for non-financial reporting?	• The Institute agrees that there is an urgent need for nonfinancial reporting regulatory standards. Socio-economic and environmental challenges are mounting, and stakeholders and societies want organisations to make and declare their positive contributions to a more sustainable world. Sustainability issues are critical to the future of the planet, the well-being of people and the prosperity of nations. • Currently, there is a lack of standardisation and a plethora of competing standard setters. Despite numerous approaches, there are only a handful of standard setters that have invested heavily to build independent and representative governance structures. Progress amongst these more developed approaches is encouraging – we welcome the recent announcement by the five global framework and standard setting institutions (CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB)) of their intention to work together towards a shared vision of comprehensive corporate reporting, and to work with the IFRS Foundation and global market regulators through the International Organisation of Securities Commissions (IOSCO). We also note the proposed merge of the IIRC and SASB, and the announced collaboration between SASB and GRI. However, there is still more to be done to improve coherence between standard setters so that stakeholders are able to compare and evaluate the performance of different organisations.
Question 11: Non-financial reporting: What do you consider the scope of information that should be covered by those standards?	• The Institute firmly believes that all sustainability (environmental, social and governance) matters are important and interconnected. • An organisation's impacts on society extend well beyond climate. This is encapsulated by the UN's Sustainable Development Goals (SDGs), which articulate a broad range of environmental and social challenges that need addressing to ensure well-being and security for people and the planet, now and into the future. • Climate-related impacts and social impacts are, in many cases, inextricably linked. For example, we can only measure and manage the successful transition to a low carbon economy if we understand its impact on skills and job markets. Not to understand these interdependencies risks perverse and disruptive political movements.

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	• Furthermore, a growing body of research is rendering visible links between broader environmental and social impacts: the coronavirus pandemic, in particular, has shone a light on the social consequences of biodiversity loss.[14] • The Institute firmly believes that a comprehensive corporate reporting system must incorporate nonfinancial disclosures across environmental, social and governance factors. Furthermore, the system must accommodate the relationships – and at times unclear distinction – between them. The Institute believes that the FRC's approach of grouping outcomes according to internal and external impacts (i.e., material to the business or to the wider public interest), seems a sensible approach to take, providing there is sufficient transparency and oversight around materiality assessment processes, and robust connectivity between the two reports.
Question 12: Non-financial reporting: Do you agree with the need for companies to provide information about how they view their obligations in respect of the public interest?	• The Institute believes that organisations should be mandated to report, through communication channels suited to their various stakeholders, the outcomes that are material for society, the environment and the economy, even if they are not yet material for enterprise value creation. • As noted in Q1, impacts can also move very quickly from having relevance to the wider public interest, to being material to the enterprise value of an organisation. Reporting on wider nonfinancial, or sustainability impacts, even whilst not (yet) financially material, allows organisations to 'keep tabs' on their wider impacts, and can help them pre-empt risks and opportunities that may have financial implications in the medium- to long- term. • The Institute therefore believes it is vitally important that organisations report on the impacts their activities have, not only on their own business, but on the ecosystem within which they exist.
Question 13: Non-financial reporting: Do you consider that reporting by a company in respect to the public interest should be dealt with through a public interest report?	• The Institute supports the introduction of mandatory 'public interest reporting', whereby large organisations should report on outcomes that are material for society, the environment and the economy, even if they are not yet material for enterprise value creation ('external impacts'). This type of sustainability reporting would serve the public interest and enable all stakeholders to better assess the wider impacts of organisations, both positive and negative, on the environment and society.

[14] Biodiversity and the economic response to COVID-19: Ensuring a green and resilient recovery, OECD Policy Responses to Coronavirus (28 September 2020)

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	• However, requiring the production of a separate Public Interest Report risks presenting such information as 'secondary', or unequal to the information contained in the Core Business Report, and also places additional reporting burdens on reporting organisations (see Q2 for further elaboration on this risk).
Question 14: Non-financial reporting: Do you agree with the suggested content of the public interest report?	• We agree with the suggested content of the Public Interest Report in principle. Identification of stakeholders and metrics relating to external outcomes for each stakeholder relationship are key. Similarly, risks posed by the company's operation in relation to those stakeholders will be important, particularly when identifying stakeholder relationships that could shift into the realm of material for enterprise value. • As noted in Q1, materiality is dynamic and wider non-financial impacts relevant to the public interest can become financially material very rapidly. Flow-through of disclosures and connectivity between the two reports will therefore be critical and the FRC should encourage reporting organisations to recognise the value the Public Interest Report may have in helping them uncover risks and opportunities, as well as serving the needs of their stakeholders.
Question 15: Technology: Do you see any other ways that current and new technology could be used to facilitate the proposed model and support the overall attributes of corporate reporting?	• The Institute supports the FRC's move towards a technology-enabled corporate reporting system. We believe that digitisation will play the vital role of providing a seamless and universal 'push/pull' platform for information. By this, we refer to the fact that technology will enable organisations to 'push' relevant information into the public domain, whilst seamlessly enabling users of that information to 'pull' out that which is relevant to them. • Publicly available depositories – properly governed, accessible by and distributable to all – of data, KPIs, metrics, benchmarks, tools and approaches will be key to achieving this and reducing the reporting burden on organisations. These depositories can be developed and maintained in part using public and/or philanthropic funds and should be developed with and owned by market participants to maximise industry participation. In this vein, we note the considerable contribution made by the US Securities Exchange Commission, in the form of its Electronic Data Gathering, Analysis and Retrieval system (EDGAR) and note the recent EU consultation on the establishment of a European single access point (ESAP) for financial and nonfinancial information publicly disclosed by companies. • Technology and data providers also need to help to validate impact measurement and reporting by gathering evidence to substantiate claims and comparing to and contrasting with relevant market data. This already happens to a limited extent (e.g., to support the issuance and application of use of proceeds for

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	green/sustainable/ social bonds). The requirement needs to be proportionate to the size of the organisation to avoid excessive additional assurance costs.
Question 16: Proportionality: Do you agree that the model we propose will achieve a proportionate reporting regime for companies of different sizes and complexity?	• The Institute agrees that the proposed Core Business Report, which incorporates nonfinancial disclosures relevant to an organisation's ability to create long term value in accordance with its stated purpose, should be prepared by medium and large companies at a minimum. If a Public Interest Report was introduced, we agree that it should, at least initially, be prepared by Public Interest Entities.
Question 17: Other: What other areas do you see as necessary or relevant to the development of corporate reporting that is fit for the future?	• N/A
Question 18: Other: Do you have any other comments?	• N/A

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