Elizabeth Corley CBE
Vice-Chair

20 February 2018

Stephen Haddrill
Chief Executive
Financial Reporting Council
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London EC2Y 5AS

Dear Stephen

The FRC's Consultation on Proposed Revisions to the UK Corporate Governance Code
The FRC's Consultation on Strategy 2018/21

Late last year, I wrote to thank you for the support the FRC had given to the launch of the Advisory Group's report on Growing a Culture of Social Impact Investing in the UK. Earlier this year, we launched an Implementation Taskforce drawn from members of the Advisory Group, whose purpose is to support the implementation of the Advisory Group's recommendations. We are a focal point for engagement and cohesion to ensure that sustained industry engagement continues at sufficient pace and that as many of the Advisory Group's recommendations come to fruition as is reasonably possible. Our role is to co-ordinate development; celebrate and champion best practice; commit to consistent quality and provide clarity, authenticity and integrity as the market in social impact investing grows.

You will recall that the Advisory Group identified a critical need for the development of better reporting of non-financial outcomes. We identified the UN Sustainable Development Goals (SDGs) as an invaluable resource around which a non-financial reporting framework could coalesce. Specifically, we recommended that BEIS should explore with the FRC how best to engage UK business to increase transparency on the contribution business makes towards the achievement of the UN SDGs. Separately we asked the FRC to explore ways in which material information, useful to wider stakeholders, could be reported in the context of the UN SDGs and we asked the FRC to include the development of mechanisms for wider corporate reporting on social impact in the context of the UN SDGs in its consultation of its strategy for 2018/21. Finally, we asked the FRC to ensure that the FRC's review of the Corporate Governance Code encouraged more companies to be purposeful, engaged with wider stakeholders and committed to assessing and communicating their social impact in the context of the UN SDGs.

We have reviewed the FRC's consultation on revisions to the Corporate Governance Code and the FRC's Strategy 2018/21 and attach at Annex A and B our comments on questions you have asked that are relevant to our work. On behalf of the Implementation Taskforce, I would like to draw to your attention the following key points:

(1) We note that Principle A of the revised Code clarifies that "the function of a board is to promote the longer term sustainable success of the company, generate value for shareholders and contribute to wider society." We welcome this clarity on a board's responsibility in relation to the impact of the company's operations on the wider society in which it operates.

(2) We note that the FRC's Strategy 2018/21 acknowledges the need to develop non-financial reporting relevant to wider stakeholders and advises that the FRC intends to explore how this is best done. The FRC also indicates a willingness to monitor reporting on the Code including the way in which companies have reported on how they have applied the Code's Principles. We welcome the implication that boards will be expected to report to investors and wider stakeholders on the contribution that their companies make to wider society.

(3) Encouraged by international asset owners, the investor community is rapidly embracing integrated Environmental, Social and Governance (ESG) investing. We consider that it is essential that the proposed revisions to the Corporate Governance and Stewardship Codes should reflect and support the development of ESG investing. The Advisory Group identified ESG investing as a 'forerunner' of social impact investing. It follows that by anchoring developments in non-financial reporting in ESG related requirements of the Codes, the FRC will be creating an enabling context in the longer term development of impact (and environmental) investing.

(4) We consider that the FRC has a critical leadership role to play in supporting and enabling market participants, both companies and investors, to coalesce around a unified framework for such reporting. Given this, we strongly welcome the FRC's commitment to a key project which will look afresh at the future of corporate reporting including non-financial reporting. We believe that such a project should have at its heart the development of best practice in reporting on environmental and social impact.

(5) You ask whether reference to the UN SDGs should be included in the Corporate Governance Code or the Stewardship Code. We consider that the use of the UN SDGs by companies and investors should be explored further as we continue to believe that they offer the most widely used and most readily acceptable context in which to develop a framework for impact reporting.

I attach at Annex C, an extract from the Advisory Group's report which captures the many initiatives which are in train in relation to social impact investing. You will see that there are multiple major initiatives that include work on developing better impact reporting. We are aware also of a piece of work being led by the Government's Inclusive Economy Unit which will explore the potential for SDGs to act as a unifying context for impact investing.

As you develop the scope and plan for your project on the future of corporate reporting we encourage you to be ambitious and clear in your intent and to commit sufficient resources to lead a coalition of interested and expert stakeholders who can participate with you in a collaborative effort aimed at significant advances towards a broadly accepted coherent framework for reporting environmental and social impact both to investors and wider stakeholders. We would welcome the opportunity to work with you on forming that coalition and developing the scope of work and more detailed plan including further work on the UN SDGs. Please let me know if you would like the Implementation Taskforce to assist you in this way.

Yours sincerely

Elizabeth Corley

cc: Sir Win Bischoff, Chairman of the FRC
Business Frameworks Directorate, BEIS

The FRC's Proposed Revisions to the Corporate Governance Code

We note that the Principle A of the revised Code clarifies that: "the function of a board is to promote the longer term sustainable success of the company, generate value for shareholders and contribute to wider society." We welcome this clarity on a board's responsibility in relation to the impact of the company's operations on the society in which it operates.

Principle C of the revised Code states that: "In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties." We welcome this clarity on a board's responsibility for engaging with stakeholders other than shareholders.

We welcome the FRC's recognition of the relevance to business and investors of the UN's Sustainable Development Goals (the SDGs). Key global standard setters are providing guidance to companies on responding to the SDGs. We consider that the use of the UN SDGs by companies and investors should be explored further as we continue to believe that they offer the most widely used and most readily acceptable context in which to develop a framework for impact reporting.

Q2. Do you have any comments on the revised Guidance?
Organisations or initiatives promoting sustainability reporting include the Cambridge Institute for Sustainability Leadership, Accounting for Sustainability, EY's Embankment Project, the Sustainability Accounting Standards Board and the IASB (see also Annex C). It is therefore appropriate that the SDGs be included in governance and stewardship codes and / or related guidance, at the least as an example of a relevant framework for reporting impact.

Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?
Yes, the SDGs are an example of a useful framework in which companies can engage with wider stakeholders and report on their contribution to / impact on wider society. In considering responses to Q4, we urge the FRC to bear in mind that responses may be negative due to a lack of experience with the SDGs. We believe that this will change as investors increasingly integrate their consideration of ESG issues across their portfolios and deepen their engagement with companies on these matters.

Q20. Are there elements of the revised UK Corporate Governance Code that we should mirror in the Stewardship Code?
The Stewardship Code should make specific reference to consideration of ESG issues and to the analysis of non-financial information on a coherent and consistent basis using, for example, the SDGs.

Q21. How could an investor's role in building a company's long-term success be further encouraged through the Stewardship Code?
There is a wealth of evidence which links superior company performance to superior management of ESG factors. It follows that if the Stewardship Code made specific reference to encouraging engagement with companies on their approach to addressing and reporting on ESG issues, the Code would be encouraging investor's to contribute to the long term success of the company.

Q22. Would it be appropriate to incorporate 'wider stakeholders' into the areas of suggested focus for monitoring and engagement by investors? Should the Stewardship Code more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?

We believe that it would be helpful for the Stewardship Code to encourage engagement by investors on the issues and factors relevant to the company's contribution to wider society. Such issues certainly include the company's reporting to investors and wider stakeholders on environmental and social impact and more broadly the company's approach to engagement with wider stakeholders.

Q29: Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?

Climate change has significant long term financial consequences. The SDG on Climate Change therefore underpins the achievement of a number of SDGs. It follows that consideration of the SDG on Climate Change may precede consideration of other SDGs. However, we consider that increasingly investors will want to assess companies across a broad and consistent range of impact measures including but not limited to climate related measures.

The FRC's Strategy 2018/21

We note that Principle A of the revised Code clarifies that "the function of a board is to promote the longer term sustainable success of the company, generate value for shareholders and contribute to wider society." We welcome this clarity on a board's responsibility in relation to the impact of the company's operations on the society in which it operates.

Q2. Do you have any comments on our strategic priorities?
We note that the FRC's Strategy 2018/21 acknowledges the need to develop non-financial reporting relevant to wider stakeholders and advises that the FRC intends to explore how this is best done. The FRC also indicates a willingness to monitor reporting on the Code including the way in which companies have reported on how they have applied Principles. We welcome the implication that Board's will be expected to report to wider stakeholders on the contribution that their companies make to wider society.

Q3. Do you have any comments on our key deliverables?
We consider that the FRC has a critical leadership role to play in supporting and enabling market participants, both companies and investors, to coalesce around a unified framework for reporting on environmental and social impact. Given this, we strongly welcome the FRC's commitment to a key project which will look afresh at the future of corporate reporting including non-financial reporting. We believe that such a project should have at its heart the development of best practice in reporting on environmental and social impact.