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Legal & General Investment Management
One Coleman Street
London EC2R 5AA
United Kingdom

The Financial Reporting Council Limited
8th Floor, 125 London Wall,
London, EC2Y 5AS

Re: Financial Reporting Council – A Matter of Principles: The Future of Corporate Reporting – Legal & General Investment Management (LGIM) feedback

Dear Sir/Madam,

Legal & General Investment Management ("LGIM") is one of the largest international investors globally with assets under management of £1.2 trillion (as at 30 June 2020). We manage assets for a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors. As a significant investor, we share a responsibility to ensure that global markets operate efficiently and uphold the highest level of corporate governance and sustainability standards to protect the integrity of the market over the long term.

Corporate reporting is one of the primary tools (not the only one) for which investors use to gather decision-useful information on company performance, financial strength, quality of management, treatment of material risks and opportunities, and ultimately supports efficient allocation of capital. Whilst we recognise that investors continue to be the primary users of such disclosures, reporting does need to provide a broader range of stakeholders with information that is key for public scrutiny and accountability. In this regard, we welcome the FRC's continued thought leadership on corporate reporting and are supportive of the discussion on how reporting can more clearly communicate to stakeholders whilst also maintaining a sense of materiality, cohesiveness and usability.

Several corporates do presently produce a collection of disparate reports alongside their annual report, often a poor level of cohesiveness, this is highly undesirable. Whilst we are supportive of many of the principles and aims of the FRC's work, introducing a completely new system of corporate reporting that formalises a complete unbundling of the annual report into a 'network of reports' may, however, not be helpful. This is not to say corporates should not develop 'public interest', 'business', or 'ESG data' reports, rather that if they do, these should be presented together as *single annual report framework*. Providing a principle-based approach to strengthening cohesiveness and integration in such a framework would be welcomed. It is also key that these are maintained for monitoring and accountability purposes. We have outlined several elements below that we ask you take consideration of before progressing further with this review.

- **Non-financial information and integration**
  As you know, for there to be an efficient allocation of capital, the market needs to be able to accurately price-in material ESG risks and opportunities. For this to happen, investors need access to high-quality non-financial information. Corporates must increase their efforts on transparency and ensure that non-financial disclosures are relevant, comparable, consistent and verifiable. Non-financial information should be treated the same manner to that of financial information.

  We do, however, have concern that these proposals will weaken the integration and management of ESG risks and opportunities. ESG issues impact long-term value creation and should not be treated separately, they are central to a corporate strategy and their business model. LGIM has developed '*A guide to ESG transparency'*[1] that include advice for corporates on ESG disclosures, including our support for '*financial and other'* information to be presented in an integrated manner within corporate reporting. We believe this approach supports corporates to adopt an *'integrated thinking'* approach between ESG and their financial and strategic information, with the perspective of value creation over time. Although LGIM does not prescribe that corporates adopt one form of reporting over another, we do find that standalone sustainability reports do not always adequately evidence the integration by the board of ESG issues and can result in separate and disengaged financial and ESG sections or documents.

Whilst the FRC has noted that there is no intention to move away from the concept of *'integrated reporting'*, there are practical risk that with that through the expansion to a 'network of reports' that a degree of integration and consistency will be lost. 'Unbundling' reporting could create further unwelcomed silos internally for corporates; weaken complete and concise communication to stakeholders; and ultimately reduce the overall usability of corporate reporting. We encourage the FRC to focus on ensuring that non-financial reporting is more integrated and standardise with existing financial reporting.

We have also been encouraging corporates and regulators to strengthen the harmonisation of disclosures across markets and asset class. We have been engaging with regulators and voluntary standards setters around the world, and more recently have voiced our strong support for the IFRS to lead the way to a single global mandatory standard that corporates can report against consistently. As the FRC also notes, it will be key that this standard is developed as a matter of urgency and builds off existing voluntary standards e.g. GRI and SASB. It should help minimise data inconsistencies and minimise the production of the various duplicative non-financial reports currently being produced. We are pleased to see the FRC is supportive of the global efforts to develop the 'Sustainability Standards Board' through the IFRS.

- **Audit and accountability**
  At present, audit requirements are clear and understandable. Opinions are clear and given on against a single report. Breaking up into a network of reports could put unnecessarily increase the risk and costs associated with audit requirements.

  It is also worth considering that the single audited annual report that is publicly available cannot be altered or taken down. Investors do not only look at the latest annual reports, rather we use historical annual reports to track on performance, commitments and ultimately hold to account the companies that we invest in. Other reports can sometimes be either altered or taken down entirely. It is crucial we have current and historical material information kept in one place.

- **Technology**
  As you have rightly noted, technology is changing the way in which we all interact with information. It is no longer appropriate, or indeed market practice, for a corporate to communicate to stakeholder through a paper-based report. Corporates, however, are embracing this change and we have seen a significant growth of reports now published online. Some corporate are going further and producing reports that are easily searchable, interactive, and are featured clearly on the website (as opposed to a hard to find report that is there to meet regulatory requirements). We are also seeing a global trend for external parties that are utilising technology to aggregate corporate disclosures (to which our earlier point on accuracy and consistency is vital for) combined with growing interest from regulators in supporting machine-readable data. In this context, we do encourage the FRC to continue exploring how corporate disclosures can be more machine-readable, tagged, etc., perhaps through a standalone data report as an annex to the annual report.

[1] https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cc64082020-a-guide-to-esg-transparency.pdf

If you would like to discuss any of our responses further, please do not hesitate to contact us.

Yours sincerely,

Alexander Burr
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Investment Stewardship
LGIM