



ICGN

International Corporate Governance Network

Deepa Raval
Financial Reporting Council
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London
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By email: narrative@frc.org.uk

Re: Draft amendments to Guidance on the Strategic Report on Non-Financial Reporting

24 October 2017

Dear Ms. Raval,

The International Corporate Governance Network (ICGN) is a global investor-led body based in London, whose mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

ICGN was established in 1995, and today our network of governance professionals spans over 45 countries and includes investors representing assets under management in excess of US\$26 trillion. As such, ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. For more information on the ICGN, please visit www.icgn.org. Our policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles, both of which have been developed in consultation with ICGN Members and as part of a wider peer review. Many of our members are based in the UK, and almost all our institutional investment members have investment holdings in companies listed in the UK capital markets.

We are pleased to respond to your consultation on Draft amendments to Guidance on the Strategic Report on Non-Financial Reporting. We recognise the immediate need to have something in place to allow for UK companies to report under the terms of the EU Directive on disclosure of non-financial and diversity for purposes of 2017 reporting. But we are also supportive of the FRC's initiative to make changes to link the Strategic Report more closely with Section 172 of the Companies Act, in line with the UK government's review of UK corporate governance – and its focus on stakeholder relations and long term performance.

As an investor-led body, that emphasises long-term investment perspectives towards strategic value creation, ICGN is supportive of the UK government's focus on how companies interact with their stakeholders—and with the social impact of companies more broadly. We believe that stakeholder relations can influence, positively or negatively, sustainable returns for investors, and agree that it is important to consider financial implications of so-called non-financial information. We believe that the

Strategic Report can serve to demonstrate the extent to which executive management and the board practice both integrated thinking and reporting.

We are comfortable with both the direction and proposed wording of the draft amendments. We will limit our comments to a few overarching points:

- **Joined up policy making approach.** It is important that this consultation is appropriately aligned or “joined up” with the broader changes to the UK corporate governance regime that were announced in the government’s response to the Green Paper consultation this past August, which proposed 12 action steps. One of these actions is to propose secondary legislation to require companies to report on how they fulfilled their Section 172 requirements in terms of how they “have regard” to key stakeholder relationships. This is very much the subject matter of this current FRC consultation on the Strategic Report, and it would be important to know how or if the government’s proposed secondary legislation would differ in form or substance from what the FRC is putting forward in this consultation. The FRC may wish to finalise its own conclusions from this consultation once it has a clearer idea of what the government is intending to propose in terms of secondary legislation relating to non-financial reporting.
- **Retain focus on strategy.** While we fully support the greater disclosure on stakeholder relations in Section 172 in the Strategic Report, we also think it is important that the Strategic Report retains its overall focus on strategy and its linkage to sustainable value creation-- and does not evolve into a form of sustainability or ESG report. Stakeholder and related ESG factors can be critical for long term value creation, but they are not the only “non-financial” factors that a company must consider in a strategic report.
- **Foundations in UK law.** It may make sense to more prominently reference the linkage between Section 172 and Section 414 of the Companies Act, which focuses on the Strategic Report. It is important to understand this linkage, and in the consultation text this linkage may be insufficiently emphasised.
- **Links with integrated reporting.** We view the Strategic Report as a form of integrated report, helping to build a narrative around company reporting and its business drivers. Over time the FRC may wish to consider if companies should frame their stakeholder reporting along the lines of the different capitals of the International Integrated Reporting Council’s integrated reporting framework (financial capital, human capital, natural capital, etc.). Where possible we would encourage companies to demonstrate their own model for linking non-financial stakeholder factors with long term value creation and value retention.
- **ESG information.** Reporting on stakeholder relations is likely to draw, at least in part, on ESG data and disclosure. Companies should be encouraged to employ consistent and transparent metrics and KPIs with which stakeholder relations can be measured. While much of this disclosure would be the domain of a sustainability report, the most material elements should be integrated into the Strategic Report. Over time, and beyond the scope of this immediate

consultation, the FRC may wish to consider developing guidance on the application of ESG information to aid companies further in their reporting.

- **Paragraph 5.3.** In our only specific wording suggestion, we suggest you change this text to say “...especially those who take a long term view...” from “... including those who take a long term view”... We recognise that investors may have differing time horizons based on their individual strategies and mandates, but we believe that a focus on the long term success of companies should be the fundamental concern of all investors.

We hope our comments are useful for your deliberations. Should you wish to discuss this matter further, please contact me or George Dallas, ICGN's Policy Director, by email at george.dallas@icgn.org

Yours faithfully,



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