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Investor Relations and Markets Committee

By email: corporate.responsibility@bis.gsi.gov.uk

Edward Greatrex
Business Environment Directorate
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27 September 2013

Dear Mr Greatrex

CORPORATE RESPONSIBILITY – A CALL FOR VIEWS (June 2013)

I am writing in my capacity as Chairman of The 100 Group Investor Relations & Markets Committee to share with you our views on the BIS's consultation document on the above stated topic.

As Directors of large international companies, we understand the importance of responsible business and effective dialogue with all stakeholders. We are supportive of BIS's desire to improve the transparency of a company's operations, covering a broad range of corporate, social and other factors. Active promotion of long-termism and improvement in clarity of communications are important considerations for our members. Our comments and recommendations below should be read in this context.

Who we are

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2012, paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

Our views

We have provided our main comments in the body of this letter. Where appropriate, we have added further details in the Appendix to this letter, responding to the questions proposed in the Consultation Draft.

Corporate responsibility is embedded within our members

Our members fully accept that the impact of their business activities goes far beyond the simple need to make short-term returns for their shareholders. They have embraced this under the banner of sustainability i.e. long run returns can only be made if businesses make a significant contribution to the development of the people they employ and the societies in which they operate. Otherwise the various stakeholders, including shareholders, customers, Governments and other agencies will penalise the business through loss of goodwill, market share or, in the extreme, legislation to protect their citizens from being "exploited" by business. In this way we believe the fiduciary duty is fully consistent with corporate responsibility.

Companies understand that in order for this position to be readily accepted by stakeholders there is greater scrutiny over the actions, activities, and obligations of businesses. Therefore, we, as business, do actively consider how we can further promote sustainability within our own businesses and business models, and how this creates opportunity within the wider business community. How we best report this can vary considerably from company to company and as a result we feel a prescriptive approach is not necessarily best. However, we recognise that, as new areas of information become important to shareholders and stakeholders, so new ways of building trust in information is needed. Sustainability and the associated thinking about the need for the way that business is done, rather than just doing what we do better, means that this need is even greater.

A lot of work has already been done to improve reporting although there has been a tendency to encourage boilerplate content that can obscure the real issues through too much broad sweep reporting. Accordingly, we would encourage Government to focus on sustaining the progress to date and encourage those who lag the leaders in this area to raise their game to the highest standards. At the same time, any emerging framework should allow for a degree of flexibility so companies can focus attention on meaningful measures and ideally avoid wasting time, cost and reporting misdirection on the less relevant. There is a high degree of scrutiny (from media and multiple other stakeholders) of what companies are reporting which should prevent this from being "corporate advertising" or window dressing. Thus we would encourage Government to consider supporting this approach so that companies can make further progress and be proactive in fulfilling their wider role.

Can an all-encompassing framework be designed?

We are supportive of measures that give us, as management, the freedom to identify what are appropriate corporate responsibilities policies and practices, and to present information about these, including how to measure them, in a manner which is most suited to the requirements of its stakeholders. As highlighted above, our members already understand the long term benefits of building trust within the broader community and the risks of abusing that position. Accordingly, principles based guidance is of most benefit to our members, and would be particularly important in ensuring that information provided in any format can be clear, informative and to support investor decision making.

We encourage Government to take a more proactive stance to cut the clutter that prevents stakeholders from clearly seeing the key elements of disclosure. We are not in favour of detailed rules as these will add to the already significant regulatory burden on our members and often attempt to apply a 'one size fits all' approach which is not compatible with the aim of enhancing transparency and clarity to provide relevant information. We would be very concerned if it became a requirement for companies to disclose information that they do not, as a matter of management priority, monitor and track, as we end up with irrelevant facts crowding the important issues for each company.

Consistency is required with other proposed disclosure/reporting regulation and guidance

The UK has made good strides in changing the way in which it reports its business and operations to a variety of stakeholders. Annual Reports and Accounts have changed considerably over the years, with more companies focusing on providing a more holistic overview of its operations, its value creation and corporate, social and environmental responsibility factors. Indeed, in addition to an Annual Report and Accounts, many of our members now produce a Corporate, Social Responsibility report, some of which already have independent assertion of certain of its content.

We note the ambition of BIS to publish a framework for action on corporate responsibility by the end of 2013. We encourage BIS to take a leadership role here. A number of bodies are looking at similar reporting and disclosure issues to the comments and queries presented within BIS's consultation draft: the European Commission are currently reviewing the reporting of non-financial information and the International Integrated Reporting Council are looking into a concept of Integrated Reporting (<IR>), aiming to propose their own framework in December 2013.

It is, therefore, critical that any framework developed and proposed by BIS is assessed within the current context of other UK regulation, and is harmonised with the current and future regulatory environment being proposed by these other bodies, such that the overlap between these frameworks and the requirements of national authority is maximised. To fail to do so is a missed opportunity, and will cause confusion amongst users and regulatory overload for preparers.

In short, we support any drive to reduce boilerplate disclosures, reduce the complexity and length of company's reporting and focus user's attention on the key performance indicators of a business and it results. As above, we urge caution to ensure that any proposed disclosure framework does not create a shopping list of disclosures that are not material to an assessment of stakeholder or shareholder value.

Costs of implementation

The implementation of any proposed framework for corporate responsibility may be challenging for certain companies, requiring the disclosure of information from sources that have not traditionally been subject to the same level of internal control as information processed within established financial reporting systems.

We recognise that, in certain circumstances, stakeholders may benefit from such enhanced reporting being externally assured, either on a 'reasonable assurance' or 'limited assurance' basis depending on the identified need. As noted above many companies already receive independent assertion regarding certain items. Leaving this to individual companies and their Board and audit committee members to assess the degree to which the impact of their activities is significant enough to merit external verification is a good example of allowing the process to evolve in an efficient way.

There will be many smaller companies where an external verification would add no value as their activities have very little impact on the broader community. It is therefore important that investors' views are taken into account in this regard. Given the diversity of the information that would be provided by different industry sectors, it is not possible to generalise over the nature of information that would benefit from assurance. A voluntary code which permits a separate assurance engagement – rather than an 'audit' engagement – would appear appropriate and allow a more tailored approach. This is because the preparedness of businesses and the level of interest in this reporting among stakeholders is likely to be different according to jurisdiction, industry or entity. It would be important for BIS to work with the IAASB if assurance is to be considered further.

Supply Chain

Companies are already incentivised to ensure they have a sustainable supply chain and are alive to the issues that have arisen where insufficient care has been taken in supplier selection. A number of our members have seen the adverse impact on cost and decision speed suffered by those organisations that already have legal responsibilities for supply chain e.g. Government. This will have an adverse impact on the competitive position of UK based companies in comparison to those not impacted by such requirements. Again this will affect the very companies that the Government is most focussed on helping grow; medium and small exporters.

Timetable

We note BIS's plans to publish a final framework in December 2013. Given that companies are already doing a lot in this area, achieving one appropriate framework is more important than issuing guidance in a hurry. Furthermore, although our members are generally large international companies with, perhaps, a better ability to react to required change, SMEs may struggle and bear over-burdensome costs.

We would hope that BIS would be receptive to further discussion and comment following the end of the formal consultation period and we would welcome the opportunity to meet and further discuss our concerns as mentioned within this document.

In conclusion, we wish to reiterate, the largest companies which have the biggest social impact already recognise that it is in their interests to promote a transparent dialogue on how they interact with the broader economy and community. This can best be nurtured by applauding those companies that do this, not by adding yet further one size fits all requirements that clutter the message and encourage a "keep your head down", boiler plate philosophy.

Please feel free to contact me if you wish to discuss the views expressed in this letter.

Yours sincerely

Matthew Lester
Chairman
The 100 Group – Investor Relations & Markets Committee

APPENDIX 1 – CALL FOR EVIDENCE QUESTIONS

Question 1: What more could Government do to encourage a greater number of companies to adopt internationally recognised principles and guidelines in their own corporate responsibility policies? How might Government, in a light touch way, measure this take-up?

The Government should note that companies are already responding positively and that assisting them by preventing this becoming a cluttered, tick box report would be consistent with the positive background. We recommend public applauding, where relevant.

The Government could encourage take-up of internationally recognised principles and guidelines by:

- Formally engaging with a wider network of stakeholders, including regulators, users and preparers. Demonstrating its support and approval for a truly joined up, internationally recognised framework, taking into consideration the views of the above, and various current proposals in circulation by other international and European bodies.
- Initially adopting any proposed framework in government/public owned businesses and seen to be actively acting on them.
- Providing case studies of successful adoption, demonstrating how changes have been made and have improved social and business performance.

Question 2: Should Government encourage more sector-specific initiatives and, if so, how might it do that? Do different sectors need different levels of Government support and involvement?

Sector-specific initiatives should only be encouraged if they supplement or provide guidance for existing frameworks. As we have previously mentioned, the market is flooded with various proposals in the corporate responsibility arena, and industry specific legislation: what is really needed is consolidation of the initiatives, thoughts and ideas of the various bodies that seek to influence within this space.

Question 3: Are comparable, voluntary metrics on social and environmental aspects desirable? What might be the costs and benefits of this? What role should Government play in determining what these metrics might be and how might we encourage more businesses to adopt them?

As previously stated, many companies already prepare Corporate and Social Responsibility Reports that include certain non-financial metrics considered important for a greater understanding of the corporate and social responsibility of the company. In certain circumstances, independent assurance firms are engaged to provide assurance over the reliability of performance data included within these reports.

In seeking to attain comparability between metrics it would be important to determine what common metrics could be material (to a company). This is inherently difficult to do as each business will have its own unique circumstances, including its own strategy and management approach, and the extent to which it makes use of particular performance management methodologies for social and environmental impacts will vary. Developing common approaches for non-financial/metrics reporting is important but will take time to develop and will require flexibility per business.

We would not support a requirement to include non-financial metrics in companies' Annual Reports – other than where management deem them relevant – as Annual Report and

Accounts should not be further cluttered and removed from its primary purpose of clear concise information for investors.

Question 4: How might businesses demonstrate that the information they voluntarily capture and present is externally verifiable? What might be the costs and benefits of this?

As previously described, some companies do get independent, external assurance of certain non-financial disclosures, usually on a "limited assurance" basis. This is clearly at an additional cost. There are, of course, inherent limitations in the assurance that can be obtained, particularly as measurement of corporate responsibility factors is still an emerging subject and the nature of certain information is such that it would not lend itself easily to an assurance service.

As noted above many companies already receive independent assertion regarding certain items. Leaving this to individual companies to assess the degree to which the impact of their activities is significant enough to merit external verification is a good example of allowing the process to evolve in an efficient way. There will be many smaller companies where an external verification would add no value as their activities have very little impact on the broader community.

Question 5: How might companies' best manage their supply chains more effectively? How might Government help with this?

No additional comment.

Question 6: Should companies be obliged to be more responsible for actions within their supply chain? If yes, how could this be achieved without legislation? What would the costs and benefits be?

We strongly believe such action would result in Government adding to the Red Tape burden. Companies are already incentivised to ensure they have a sustainable supply chain and are alive to wider corporate governance and operating issues in their supply chain. A number of our members have seen the adverse impact on cost and decision speed suffered by those organisations (e.g. Government) that already have such legal responsibilities. We have seen that such responsibilities are often addressed by extensive and time consuming "due diligence" processes. This will have an adverse impact on the competitive position of UK based companies in comparison to those not impacted by such requirements. Again this will affect the very companies that the Government is most focussed on helping grow; medium and small exporters. The best example of this is a competitive tendering process, where a UK company may need a new supplier as part of such a contract. The UK company already needs to take into account whether its supplier is going to act responsibly, as it will be dependent on the supplier to fulfil its contractual obligations into the future. Legislation will necessitate companies addressing this legal risk and in the current litigious environment due diligence processes, similar to Government's own processes, are likely to be put in. Whilst this may be appropriate for Government, it is not appropriate for organisations that are under much greater time pressure and competing with organisations that do not have similar requirements, and which will add little to the probability of making a more sustainable decision.

Question 7: How might Government best support small business to adopt responsible business practices? What particular challenges does Government face in trying to achieve this? How might it overcome such challenges?

No additional comment.

Question 8: How might Government help SMEs publicise their responsible business behaviour?

No additional comment.

Question 9: What role does larger business have in supporting smaller business? Is there an imperative for larger businesses to support smaller businesses? How might Government enable this?

No additional comment.

Question 10: What are the main barriers to businesses contributing more to social outcomes?

No additional comment.

Question 11: What more could Government do to make it easier for businesses to support social initiatives? How might Government showcase innovative approaches that others might consider adopting?

As directors of large, international business, a key barrier to overcome is one of mind-set about the role and contribution within the UK. Certain bodies adopt a narrow view of the social contribution of business: that it exists to generate profit and that social benefit is simply an option. Although it may seem attractive to legislate to achieve "standard" practice, as previously described, this is not desirable. A truly internationally recognised framework would be welcome but Government must stand by this framework and act in the way it invites business to behave.

Question 12: How might the relationship between business and society be strengthened? How might Government support this?

The concept that business and society are separate needs to be changed: people are increasingly seeing business as self-serving or serving the interests of a few. This also relates to sustainability where business may be seen as exploiting the resources of the whole for the few.

Public trust in business needs to be rebalanced. The same is true of Government. To achieve perception shift of the social and economic contribution of business requires a holistic and systemic response.

Question 13: Is there any comment you wish to make on UK business and human rights generally?

We would expect the UK to be leading best practice on human rights.

Question 14: Should corporate responsibility be recognised as a profession?

Yes. To fully embrace corporate responsibility, education and training is needed to develop a holistic, societal understanding, the importance of the natural environment, and the role of business in delivering desirable, sustainable societal outcomes.

Question 15: What more can Government, business and others do to improve information available to consumers who want to take ethical considerations in to account? Does this differ between sectors?

We believe that consumers already do make conscious buying decisions based on their own assessment of corporate and social responsibility. For information to be useful to consumers, it is they who should be questioned on this matter.