Runway East
2 Whitechapel Road
London
E1 1EW

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

Sent via email: codereview@frc.org.uk

13th September 2023

Dear Financial Reporting Council,

ShareAction response to the UK Corporate Governance Code Consultation

I am pleased to respond to the UK Corporate Governance Code Consultation on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices throughout the financial services sector. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters. Among other activities, we work with the financial services sector, including asset management firms, to promote integration of sustainability factors in investment decisions, long-term stewardship of assets and the consideration of the views of clients, beneficiaries and pension scheme members.

ShareAction welcomes the revisions to the Code that focus on the wider responsibilities of the board and audit committee for expanded environmental, social and governance reporting. Company disclosure on social factors lags significantly behind disclosure on environmental factors. Data on companies' health-related impacts, practices and relevant risks is especially limited, incomplete and poor quality. These changes to the Code are a step in the right direction by giving the audit committee monitoring and review duties over narrative reporting and the board providing review over all reporting not just financial; however, there are places where social reporting could be highlighted more explicitly. Also, it should be clear that these monitoring and reviewing powers on narrative reporting include looking at how sustainability issues will be built into the overall strategy not just that the issues have been considered.

We have answered the relevant questions below. Please do not hesitate to contact us if you require any clarification on specific points.

Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?

Yes, we do think the board should report on the company's climate ambitions and transition planning in the context of its strategy. However, it is widely accepted that the private sector has contributed to social harms, such as poor health, racial injustice, and inequality, not just climate change. By requiring companies to report on social factors, investors can assess whether directors are appropriately mitigating the broad range of financial risks that might impact a company. Corporate boards should incorporate health-related factors in their strategies and decision-making. This does not have to be onerous. For example, companies can begin by linking existing climate-related strategies to health-related strategies. Air pollution is often linked to greenhouse gas emissions, which is a risk that is more likely to already be embedded in corporate strategy. Air pollution not only takes years from peoples' lives but also has a significant effect on quality of life. However, few companies currently report on key air pollutants or set publicly available policies for reducing their air pollution impact. The economic costs of air pollution are estimated to lead to 1% of global GDP loss by 2060 due to reduced labour productivity, health expenditures and crop yield losses.[1]

Government and consumer expectations around public health may expose companies to regulatory, reputational, and litigation risks. All of these risks can have a material financial impact on businesses that are overly reliant on the sale or production of harmful products and services. New regulations or even just regulatory pressure can hinder or accelerate a company's growth. Governments around the world are acting on health, including regulations on tobacco and sugar taxes. More than 50 countries have implemented taxes on sugar sweetened beverages, which is significantly more than the number of global carbon taxes.[2] The regulatory landscape is trending towards improving population health; therefore, reporting on social factors, including health, should be encouraged just as much as climate and transition plans.

We support the change to the Code stating that "the board should describe in the annual report how environmental and social matters are taken into account in the delivery of its strategy." However, this section would benefit from adding an example of a social issue alongside climate ambitions and transition planning to clarify that this is not just about linking company strategy to these two goals but wider social ambitions as well.

Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?

As stated in the consultation, "the audit committee has experience in setting policies and frameworks which could be adapted to ESG metrics, and as such it is best positioned to oversee ESG disclosures, controls, processes, and assurance." We agree that connecting the oversight of financial reporting and ESG reporting is likely to be helpful, as the performance of a company is a holistic calculation combining financial and non-financial information. Non-financial information, particularly information on health risk, can have a financial impact on a company.

---

[1] OECD. (2016). The Economic Consequences of Outdoor Air Pollution. OECD Publishing, Paris. Available at: https://doi.org/10.1787/9789264257474-en

[2] World Health Organization. (2022). WHO calls on countries to tax sugar-sweetened beverages to save lives. Available at: https://www.who.int/news/item/13-12-2022-who-calls-on-countries-to-tax-sugar-sweetened-beverages-to-save-lives
United Nations Climate Change. About Carbon Pricing. Available at: https://unfccc.int/about-us/regional-collaboration-centres/the-ciaca/about-carbon-pricing

Good health is a driving force for economic prosperity, but poor health exposes investors and many of the businesses they are invested in to elevated and preventable financial risk. The Office of National Statistics (ONS) UK Labour Force Survey shows that the sickness absence rate in 2022 was the highest it has been since 2004. An estimated 185.6 million working days were lost because of sickness or injury.[3] Improved population health would lead to a decrease in the number of sickness absences, which would boost productivity, increase labour supply, and reduce healthcare expenditure. This improvement would add $12 trillion to global GDP by 2040, an increase of 8%.[4] The audit committee monitoring the financial statements and narrative reporting allows for both financial and non-financial information to be reviewed collectively to make sure that all relevant data has been reported.

The reporting landscape in the UK is incredibly fragmented. Even if sustainability-related information has been reported, it can lack a connection to how these issues are important to a company's long-term success and financial outcomes. This new expanded role for the audit committee of monitoring the integrity of narrative reporting is a step in the right direction towards more consistent and comparable data. However, effective reporting needs to address how sustainability issues will be built into the overall strategy not just that the issues have been considered.

Q15: Where controls are referenced in the Code, should 'financial' be changed to 'reporting' to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?

Yes, 'financial' should be changed to 'reporting' to capture controls on narrative as well as financial reporting. Narrative reporting provides an opportunity for stakeholders to get a broader view of the overall health of the business, including its sustainability goals and how these sustainability goals impact business strategy and market position. Firstly, this information is important for stakeholder relationships and investor knowledge, so it should be monitored and reviewed by the board. Also, as the board oversees all material controls of the business, for cohesion and company alignment, narrative and financial reporting should both receive board oversight.

As this information is so broad and is sourced from many different people and teams, the integration needs to come from the top the down. The process of monitoring and reviewing narrative reporting can enhance board effectiveness and promote better governance. This information gives boards a more complete understanding of company performance, which facilitates more information available for investors to assess the strategy and how likely the strategy is to succeed.

To achieve this, there needs to be expertise on a comprehensive range of sustainability factors available at board level. While it may be difficult to ensure individual expertise in each of these areas (such as biodiversity, D&I, fair pay, and health) at the board level, there are tools available to help expand the breadth of knowledge: continuous training, knowledge management, and sustainability champions. Also, ensuring that all key decision-makers within the organisation are subject to mandatory training from subject matter experts will help with collecting and validating the information.

---

[3] Office of National Statistics. (2023). Sickness absence in the UK labour market: 2022. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceinthelabourmarket/latest

[4] Remes, J. et al. (2020). Prioritizing health: A prescription for prosperity. McKinsey Global Institute. Available at: https://www.mckinsey.com/industries/healthcare/our-insights/prioritizing-health-a-prescription-for-prosperity