16 Crucifix Lane
London
SE1 3JW
+44 (0) 20 7403 7800

Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

11th June 2020

Sent via online form

Response to BEIS Reforming Regulation Initiative survey

This submission is on behalf of ShareAction, a charity promoting responsible investment, regarding UK regulation of capital markets. We wish to see regulatory reform so that companies and their underlying investors adopt a more long-term, sustainable approach. Regulation can be amended to encourage them to be more proactive on environmental, social and governance (ESG) factors, e.g. climate change, human rights issues, or boardroom diversity, which pose a long-term financial risk to assets.

We would identify three areas of regulation that can be improved:

1) *Section 172 of the Companies Act 2006*

This clause currently imposes duties on company directors to safeguard the wellbeing of the company, including with regard to ESG factors. The same duty does not currently apply to institutional investors, who wield enormous influence of the governance of publicly traded companies, and yet very often fail to exercise it. Institutional investors should be placed with same responsibilities as company directors to act in this regard. They need incentives to engage with company directors on ESG factors and constructively address them. We therefore propose amending Section 172 to extend these duties to institutional investors.

2) *Mandatory TCFD reporting*

The Taskforce for Climate-related Financial Disclosures (TCFD) was set up by the G20's Financial Stability Board. The final TCFD reporting framework, published in 2017, provides a model for companies to report on how climate change affects their business in the long-term, and how they plan to mitigate this risk. The UK Government formally endorsed the recommendations in 2017, but has stopped shorted of making it mandatory. We have seen since that unless TCFD reporting is made mandatory, market update of the framework will be too slow. ShareAction's most recent surveys of the banking and asset management industries have shown this to be the case. We therefore propose new regulation to make TCFD reporting for UK companies mandatory.

3) *UK Stewardship Code 2020*

The latest iteration of the UK Stewardship Code came into force on 1st January 2020. While it has a number of welcome provisions to encourage investors to be more proactive on ESG issues, the Code fundamentally lacks an enforcement mechanism. Without this, there is no way to remedy non-compliance. We therefore proposed the FRC (or its successor agency, ARGA) to amend the

Code with a sanction mechanism. If signatories are found to not be complying with the Code, they must face the possibility of being delisted as official signatories by the FRC/ARGA.

Yours sincerely,

David O'Sullivan
UK Policy Officer, ShareAction