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Dear Mark

Acas and CIPD have recently responded to the Government's call for evidence on non-financial reporting, as well as the International Sustainability Standards Board's consultation. We are also submitting individual responses to your colleagues on the Corporate Governance Code.

The social aspect of ESG is less well developed or consistently reported upon as governance and environmental reporting. Together we commend to the FRC the critical value of social factors within ESG to a pro-growth agenda and hence to value creation and risk mitigation.

While we recognise the economic imperatives and global climate emergencies that require attention, we also argue that matters of human and social capital also need to be prioritised by company boards. This was very much in evidence during the recent Covid-19 pandemic. Health and safety, labour and skill availability and job design and culture were all demonstrated to being material to company performance and therefore important and significant in their own right.

Our ask of the Financial Reporting Council is that you support a more strategic approach to social non-financial reporting over the medium to long term. While some investors are focused on a narrow set of ethical and diversity dimensions of 'good CSR', there is robust evidence pointing to a need for boards to identify a broader set of material 'S' dimensions to help businesses thrive and manage risks during uncertain challenging times and ultimately to drive value over the longer term.

We recognise the rationale for propositions to move human capital reporting to Audit Committees, but suggest that individual companies are best placed to decide the best place for ESG within the broader corporate governance structure (for example, a Sustainability Committee, a People and Culture Committee, etc). What is critical is that risk and value are recognised and the whole Board appropriately informed about the breadth of the S.

Acas and CIPD have started to marshal the evidence on the evolving definitions of the 'S' dimensions to understand implications for growth and risk mitigation we are seeking. We are also reviewing the non-financial social metrics in UK and International frameworks to understand areas of commonality and gaps. We can already see some clear patterns, for example around key human rights issues and significant gaps around workplace factors including productivity, culture, flexible work and skills.

We would be happy to share and talk through the emerging evidence and models with you.

Meanwhile we recommend:

- When considering changes to current legal requirements for companies to prepare non-financial information, that the FRC be cognisant of the importance of 'S' factors to growth. There is a current gap in the way these are understood and used by stakeholders and investors, which is a risk to progress. More needs to be done to improve understanding of the evidence on what has material impact.
- The FRC invite Acas and CIPD to present their findings based on the large body of evidence demonstrating the positive link between material 'S' dimensions and long-term value-creation and risk mitigation. Also, on the implications for consistent reporting and benchmarking.
- That the FRC acknowledges, and makes greater use of, the large body of management information available from Acas and CIPD on the causes of, and solutions to workplace conflict and what measurable practices create and build healthy, productive workforces.
- Using the shared convening powers of Acas and CIPD we have a process of investor and corporate engagement planned before year end, and the FRC's involvement would be most welcomed.

We would welcome further ongoing conversations to advance the UK's competitive advantage by engaging in a pro-growth conversation about the S in ESG.

