

Rt Hon Kwasi Kwarteng  
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08 July 2021

Dear Minister

**Re: Restoring Trust in Audit and Corporate Governance**

**Brunel Pension Partnership** was formed in July 2017 and is responsible for the investment of the pension assets (around \$40bn) of 10<sup>1</sup> Local Government Pension Scheme funds in the UK. Brunel understands that every company or asset we invest in operates interdependently with the economy, civil society and the physical environment. Considering whether these interdependencies create **financially material risks or opportunities** for the investments is a core part of our role as a responsible investor and is central to how we fulfil our fiduciary duty.

Our aim is ***“to deliver stronger investment returns over the long term, protecting our clients’ interests and contributing to deliver a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.”***

We are responsible investors (RI). We integrate a broad spectrum of business, environmental, social and governance risks into all aspects of our investment and operations, covering 100% of our assets under management, tailoring RI implementation to the needs of each mandate. We collaborate extensively through collective action forums with our asset managers and asset owner peers. Transparency is critical to demonstrating that we are delivering on our commitments to our stakeholders. Our reporting also aims to assist partner funds in their reporting to their beneficiaries. Our website - [brunelpensionpartnership.org](http://brunelpensionpartnership.org) – provides extensive reporting on our activities.

This context is relevant to our responses below. As an investor we need to have information to both evaluate risks relating to the companies in which we invest and to address the reporting expectations placed on us. Two critical areas of data disclosure that have risen in importance because of the pandemic are social risks and climate risks. These have a direct bearing on the government recommendations relating to **Restoring Trust in Audit and Corporate Governance**.

The ongoing pandemic continues to shine a light on a whole range of social challenges and inequalities, highlighting the need for the investment sector to further engage on the social component of ESG. Social data is sparse and can be challenging to quantify, which is why Brunel has joined the Workforce Disclosure Initiative. This initiative calls for greater transparency on workforce policies and practices in companies’ direct operations and supply chains.

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<sup>1</sup> Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds

We have directly supported policy makers in the development of proposals that mandatory Taskforce on Climate-related Financial Disclosures (TCFD) are embedded within pensions law and corporate disclosures. Global adoption of mandatory TCFD right down the investment chain will remain a key priority.

### **The process to date and relationship with the Financial Reporting Council (FRC)**

We agree with the need to reform and have been strongly supportive of the various reviews responding to the consultation led by [Sir John Kingman](#), and my predecessor and Chief Responsible Investment Officer (CRIO) were directly interviewed by Sir Donald Brydon for his review.

Our CRIO, Faith Ward, has sat on the Financial Reporting Council's (FRC) Investment Advisory Group (IAG) since its formation and has directly supported the FRC's in investor outreach, most notably to our asset owner peers. Faith has participated in several of the webinars and roundtables organised by the FRC in relation to this consultation and has shared our views in those forums. Our response therefore focuses on the issues we wish to reiterate rather than to all aspects of the extensive consultation.

One of the aspects that leaps out both from this and previous reviews is how critical the leadership is in building a good culture and the impact that has on conduct, operations, transparency and thereby the trust in an organisation. This is not only true of corporations and audit firms but also the regulators themselves.

The consultation notes that "under new leadership [the FRC] has taken significant steps to strengthen its capabilities". We would endorse that view and take this opportunity to note the positive shift in the overall culture and attitude within the FRC, most particularly to the engagement with stakeholders such as ourselves. Early in his role Sir John Thompson met Denise Le Gal, our Chair, Patrick Newberry, Chair of our Audit and Assurance Committee, and our CRIO to invite our thoughts on the role and priorities of the FRC. The extensive nature of the outreach efforts, particularly given the covid restrictions, in relation to this consultation, serves as further illustration of the FRC's active gathering and listening to stakeholder views. **We commend and strongly recommend that this is continued and enhanced in the formation of the Audit, Reporting and Governance Authority (ARGA). Furthermore, we recommend the continuation of the IAG, and Brunel would be delighted to continue to be a contributing member, if deemed appropriate.**

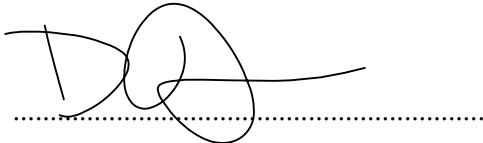
### **Key points**

- We are strongly supportive of the need for reform and the creation of a well-resourced, highly skilled regulator that has "teeth" in terms of powers.
- We are supportive of granting powers that will enable ARGA to be fit for purpose for the future. We acknowledge some of the suggestions feel very progressive but would argue it is better to have the power for when it is needed.
- ARGA's purpose should be broader than currently defined, embracing society's need for a regulator that explicitly has oversight of a wide range of environmental, social and governance risks.
- There is little evidence that companies are taking decarbonisation or the physical impacts of climate change into account as they draw up their financial statements. In order to shift capital flows towards activities aligned with the Paris Agreement, material climate impacts must be fully reflected in company accounts, and we need ARGA support in achieving this objective.

- We are supportive of changes to the audit scope, audit profession and the governance arrangements within audit firms to enable a more sustainable finance system that serves society and savers.
- Reflecting inwards, we acknowledge that investors need to engage more with the audit committee, and we commit both to do this and to advocate for others to engage. We have therefore recommended to the FRC that it (or ARGAs) supports the confidence-building campaign in audit matters with investors, particularly asset owners.

We would be delighted to follow-up on any of the comments made in our response and provide further support to the review. Please contact our Chief Responsible Investment Officer, Faith Ward on [faith.ward@brunelpp.org.uk](mailto:faith.ward@brunelpp.org.uk).

Regards



Signed by David Vickers  
CIO, Brunel Pension Partnership Ltd

## Detailed feedback

### The Government's approach to reform

#### Resetting the scope of regulation

##### Public Interest Entities (PIE)

Brunel invests across both the public and private markets and have striven to apply consistent standards and expectations of good corporate governance and the inclusion of large private companies into the definition of a PIE would greatly assist.

Public interest can extend beyond size, and it is difficult to imagine all the eventualities so we would support the concept of PIE being expressed not only in terms of size but of strategic importance and therefore the regulator having the power of being able to designate the status outside of any actual metric.

We note the "Government intends that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m." – we would not object to this threshold and would support the application "over an appropriate period".

We are supportive of the consideration of third sector entities being designated as PIE's but do not feel we have sufficient insight to provide input on thresholds.

#### Directors' accountability for internal controls, dividends and capital maintenance

##### Stronger internal company controls

The US Sarbanes-Oxley Act (SOX) has resulted in improvements in internal controls and risk management more broadly through an emphasis on responsibility and accountability of senior executives and the Board. We support the idea of SOX-style framework but one that is proportionate and reflects the different UK context. We therefore support **Option C** which requires auditors to express a formal opinion on the directors' assessment of the effectiveness of the internal control systems. Option C covers 'Option A' by default and is the only option, in our view, that will deliver the desired Government objectives and more pertinently to ourselves, provide enhanced assurance for investors.

##### Dividends and capital maintenance

We are strong advocates of the new requirements of S172 (1) Company Act 2006 for companies to have regard to those matters more broadly and the link to the long-term capital allocation decisions but would welcome further reinforcement. The essence of S172 is of vital importance to all organisations whether public, private or third sector and it is vital it fulfils its purpose for society. We would go further and suggest that the quality and effectiveness of S172 disclosures is a useful indicator as to the success (or otherwise) of ARGA itself.

While we acknowledge the Government's concern regarding "*any potential adverse effects and to avoid measures which will unnecessarily reduce the level of dividends paid by UK companies*" and the "*importance of dividends pension funds and savers*" – it is in no-one's interest for dividends to be paid if it imperils the long-term sustainability of the company.

We are strongly supportive of the proposal that ARGA be given statutory powers to provide guidance as to how firms should calculate their distributable reserves and legislate this as a legal requirement.

We would go further and request that ARGA should also be required to publish guidance on the recognition of profits, specifically what is allowable under 'realised' and 'unrealised', which would give greatest weight to prudence and the provision of a true and fair view.

We are supportive of a robust definition of 'realised profits' in the context of the calculation of distributable reserves should adhere to a normal meaning of the word 'real' as in "actually existing as a thing or occurring in fact; not imagined or supposed" (Oxford English Dictionary). We feel this will strengthen the role of the auditor in ensuring the company is not being overly optimistic with respect to its financial position.

## **New corporate reporting**

### **Resilience Statement**

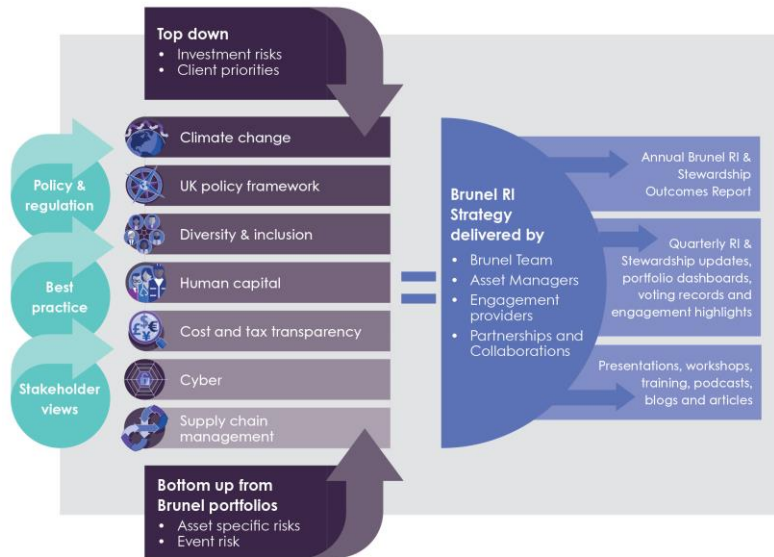
We are strongly supportive of the Government's proposals to expand reporting requirements for PIEs to disclose their assessment of the company's outlook with respect to the short, medium and long-term challenges to the business model. Whilst we understand that Government cannot prescribe all aspects relevant to a business, we would push back on "might include" - as this list covers aspects we would see as minimum, with the notable absence of its human capital which must be added. With the approach adopted by the UK, companies have the option to 'explain' that which they cannot 'comply' with.

Extract 3.1.13 – these might include:

- *threats to liquidity, solvency and business continuity in response to a major disruptive event (such as a pandemic) which disrupts normal trading conditions.*
- *supply chain resilience and any other areas of significant business dependency (e.g., on particular markets, products or services);*
- *digital security risks (both including external cyber security<sup>76</sup> threats, and the risk of major data breaches arising from internal lapses).*
- *the business investment needs of the company to remain productive and viable.*
- *the sustainability of the company's dividend and wider distribution policy; and*
- *climate change risk*

To provide context, Brunel defines its Responsible Investment Policy priorities based on our assessment of risk in our portfolios. Our model is pictured below. These are the risks we see as being financial material to our portfolio management as well as material to the economy and society. There should be a strong correlation between the risks being identified by investors and the disclosures made by the companies in which we invest – more specifically on how they are managing those risks.

Brunel RI & Stewardship Priorities



These are the topics we, as investors, are expected to report to our beneficiaries. **Enhanced reporting to investors will lead to enhanced reporting by investors.**

**Climate risk and TCFD**

With respect the Resilience Statement and climate risk, Brunel is a strong advocate for mandatory reporting to the Taskforce for Climate-related Financial Disclosure and given the purpose of both is 'resilience' including TCFD in the resilience statement seems appropriate.

We note that in a recent consultation regarding where BEIS are proposing UK companies (criteria linked to this consultation) be required to disclose climate-related financial information in line with the 4 TCFD pillars of governance, strategy, risk management, and metrics and targets. Whilst we welcome the proposals to increase climate-related reporting, the current proposals are very weak (certainly in contrast to those placed on pension funds) and we believe will fail to provide the comprehensive and comparable disclosures for market participants to adequately manage exposure to climate risk. We recommend that further precision is introduced to reporting requirements. The outcome of the current TCFD consultation on targets and metrics may well assist with defining enhanced requirements.

Our own approach is to provide a summary of our governance, principal climate risks and key metrics in our main financial filings and supplement this with a more detailed, separate TCFD report. We think this is a useful model, which we would support corporates adopting to avoid duplication.

Brunel has identified climate risk as one of its top-level strategic risks and places a strong focus on this with respect the management of our portfolios. However, we would seek support of the regulator to ensure that climate risk does not dominate at the detriment of other environmental and social issues. For example, we anticipate increasing our questions to companies regarding biodiversity impacts and we won't be the only from investors doing so.

We flag the recent report by the IIGCC on [Investor expectations for Paris Aligned Accounts](#), Brunel was a co-signatory of the letter outlined in the summary below.

### IIGCC Summary - Investor expectations for Paris Aligned Accounts

At present, there is little evidence that companies are taking decarbonisation or the physical impacts of climate change into account as they draw up their financial statements. In order to shift capital flows towards activities aligned with the Paris Agreement, material climate impacts must be fully reflected in company accounts.

IIGCC's report '[Investor Expectations for Paris-aligned Accounts](#)', sets out in detail the steps investors require companies to take on the issue. On 16 November, the Investor Expectations were sent to 36 of Europe's largest companies along with a [letter signed by 38 investors](#) who collectively represent \$9.3 trillion in assets under management or advice. See [here](#) for more detail on this engagement.

The Investor Expectations set out five clear steps companies should take in preparing 'Paris-aligned' company accounts. It also outlines expectations for auditors to call out where accounts are ignoring material climate risks and making it clear they should say when accounts are not 'Paris-aligned'.

We would also direct your attention to the work on the PRI website relating to the Climate Action 100+ relating to climate accounting. The PRI and Asia Investor Group on Climate Change (AIGCC).

### PRI - climate-related risks in financial reporting

In Sept 2020 investor groups including the [PRI called upon companies](#) to reflect climate-related risks in financial reporting. Between March and May 2021, the PRI commissioned a series of climate accounting analyses for 52 [Climate Action 100+ focus companies](#) coordinated by PRI and AIGCC. These analyses, available to download below, aim to raise awareness and inform investor engagement about the extent to which companies' audited financial statements and audit reports are currently integrating climate change. They will also support the development of a new indicator to be included in the next iteration of [Climate Action 100+ Net Zero Benchmark](#) that will assess a company's climate accounting practices and audit process.

The analyses were prepared by the team of independent experts comprising the Climate Accounting Project and assess companies against three basic criteria:

- Do the audited financial statements reflect climate change issues, and are they consistent with the narrative reporting in relation to climate change?
- Are the climate-relevant assumptions disclosed, and if so, are they consistent with the goals of the Paris Agreement?
- Does the work of the auditor appear to have incorporated climate change issues? In particular, has the auditor considered the consistency of the audited financial statements with the narrative reporting with respect to climate change, and is there a key (or critical) audit matter relating to climate change?

The slide deck with summarise the outcomes as well as report for each company can be downloaded from <https://www.unpri.org/accounting-for-climate-change/climate-accounting-analyses/7906.article>



### **Audit and Assurance Policy**

We support the proposals for an Audit and Assurance policy but would recommend additional requirements relating to:

- Auditor rotation – the policy and timetable relating to retendering (with shareholder consultation) that encourages independence and professional scepticism.
- Employee and shareholder consultation in the formation of the policy
- Outline what steps the Audit Committee will take each year to secure shareholder engagement and how it assesses its effectiveness in doing so.

It is critical that collectively we improve the level of meaningful engagement between the Audit Committee and shareholders. We would support the disclosure of the Audit and Assurance Policy (A&AP) annually and a shareholder vote on the A&AP every three years unless there is a need for significant change e.g. risks have been flagged and an intermediate review (and vote) is required. We believe an annual vote - in the absence of concerns – may distract from a more meaningful dialogue on what has been done rather than the policy. In keeping with this, we recommend the Policy should outline what steps the Audit Committee will take each year to secure shareholder engagement and how it assesses its effectiveness. This mirrors the requirements of investors in the 2020 Stewardship Code.

We acknowledge the low level of shareholder engagement with the audit process or with Audit Committee Chairs. Investors rarely use the power to appoint (or otherwise) auditors at the AGM effectively. We believe that in addition to the increasingly stretched resources of investors, particularly asset owners, a contributing factor is the complexity of audit and audit process. There is a lack of confidence to challenge. We recommend that AGRA looks to use its expertise to support investors in building their own knowledge, understanding and what best practice engagement relating to the audit process looks like. Furthermore, we would like consideration that ARGA supports collaborative engagement by investors on audit related matters.

### **Reporting on payment practices**

We are supportive of the Government's efforts to improve late payments, something that feels even more pertinent in the current post covid recovery. We would recommend that the government define reporting metrics that quantify the effectiveness of the measures e.g., number and quantum of payments made within the contracted timeframes. Hopefully, this transparency will encourage appropriate behaviours with suppliers.

### **Public interest statement**

We are strongly supportive of the reporting requirements relating to S172 as outlined earlier. We also support the work being undertaken by the FRC on *The Future of Corporate Reporting*, which is exploring what additional reporting would be of benefit to stakeholders. The one area we would highlight that we feel would be a **positive development is the encouraging companies to articulate their purpose in their directors' report**. We have supported the work of Purposeful Company and direct the Government to review their research <https://thepurposefulcompany.org/> on the matter.



## Company Directors

### Enforcement against company directors

#### Extension of remit to cover all Directors.

We support the proposal to sanction all directors, irrespective of their professional affiliations and seek disqualification as appropriate. However, we are **passionate about encouraging high quality and diverse non-executive directors** to be appointed to boards and are keen that regulations do not hinder this objective.

We support that concept of 'reasonable steps' but the framing of that should be placed in the context of each directors position and background.

We believe ARGA should have the power to disqualify directors relating to matters under its purview.

#### Strengthening clawback and malus provision in directors' remuneration arrangements

We agree with the wider criteria proposed for Clawback and Malus triggers and would encourage a **minimum of five years** from vesting of awards to be introduced in the Corporate Governance Code.

#### Audit purpose and scope

We support the extension of wider information being included in auditor judgement. We specifically highlighted the issues of climate and cyber security in previous submissions – to this we would add assurance on controls relating to the company's supply chain e.g., modern human slavery. These are priority risks for almost all companies. We would also support a framework that required the auditors to consider the most material environmental, social and governance issues, depending on the operations of the company, in the context of the audit scope and purpose. To do this effectively the skill sets needed to auditors will need to be considerably expanded.

We would welcome the extension of the quality inspection regime but ask that ARGA is more transparent about the findings of its inspections. This allows companies to learn from each other and offers valuable insight to investors. It has been a flaw of the Audit Quality Review (AQR) regime that there has not been this transparency to date.

#### A new professional body for corporate auditors

We support the Government's proposals to create a distinct professional body for corporate auditors and believe it would help drive better audit. As discussed above, we believe the audit scope and purpose should be expanded and the skills sets needed to evaluate this extended scope extend beyond accountancy. We would expect auditors to obtain qualifications from a professional body which equips individuals to conduct audits. There are lots of types of audits and there are transferable skills sets which might be desirable, certainly when looking at the whole audit team.

The creation of a new profession is a significant shift and the skills and knowledge in the industry will take time to build. We would welcome further discussion as to how to bring the new profession to fruition.

### **Audit Committee Oversight and Engagement with Shareholders**

We support the recommendations in the Brydon review with respect to mandatory standing item at the AGM and for the senior audit partner and Chair of the Audit Committee to address questions. We have commented above about the challenges to investor engagement and the support ARGA could provide to enhance future dialogue.

### **Audit Committees – role and oversight**

We support the proposal that ARGA should have the power to set additional requirements of Audit Committees but feel the most effective action will be the encouragement of a change of mind set of these committees, for example seeing a good audit as providing useful insights to the company itself, not merely a compliance activity.

We have been vocal in suggesting that we, as investors, should expect to pay more for audit – and it is money well spent for a high-quality audit. We are concerned that there has been an inappropriate focus on reducing auditor fees and whether this indicates a reduced scope and attention to detail. We would support the requirement to disclose the rationale for fee reductions.

We support the creation of Audit Users Review Board and strongly recommend the requirement for asset owners to be included.

### **Operation separation between audit and non-audit practices**

We support the operational separation of audit and non-audit operations. Any audit report should identify where non-audit functions have been included.

Audit partners remuneration should solely derive from the performance of the Audit firm.

### **Audit firm governance and culture**

ARGA should encourage Audit firms to:

- ensure that audits are conducted by teams that have sufficient audit experience and specialist industry/sector knowledge. This will require changes to current hiring practices.
- have clear cultures and appropriate training to ensure that they are able to stand up to pressure from client executives or Directors where there could be a conflict with appropriate prudence or a true and fair view.
- ensure that, wherever possible, narrative descriptions that “tell the story”, unvarnished and realistic, backed by numbers are used, rather than a tick-box approach.

### **Resilience of audit firms and the audit market**

There are three potential reasons for wanting to increase competition in the audit market:

- a. To bring down prices
- b. To improve quality
- c. To improve resilience

As outlined above, we do not believe that the cost of audit needs to come down. On the contrary, we would rather see the cost increase, within reason, if it led to improved quality.

Whilst we recognise that increased competition is a spur to greater quality, there are other drivers that can have an impact. For example, audit quality could be improved by clear and effective regulation and better engagement from investors as well as by strengthened governance and better diversity of resources as recommended above.

On the other hand, as there are only four firms that can audit the UK's largest companies, the potential for a collapse or market exit of one firm represents an unacceptable and potentially systemic risk. It is therefore a matter of urgent and primary concern that this consultation should lead to measures that increase choice in the shortest possible timeframe.

In this context, we find the proposal for managed, shared audit, which predicts that all Challenger firms would, after ten years, collectively achieve a market share that is behind the share of the smallest incumbent, to fall far short of what is needed.

Nor do we find the concept of a "market share cap" attractive or particularly plausible. It would be far from optimal for the Chair and Board of a FTSE350 Company to be told that they are being obliged to select a challenger as their primary auditor in their upcoming retender. In addition, it is hard to see why a market share cap will somehow create capacity among challengers to take on the largest audits if it does not exist today.

This is a difficult problem, as has been highlighted by the CMA review and the objections raised in the consultation on that review. But we believe that the reason it looks so difficult is because of a natural desire to minimise disruption. This creates an impossible feedback loop when the whole point of a competition failure rectification exercise is to disrupt the market.

We do not believe that there is a perfect solution. But a collapse or market exit of one of the Big Four would be catastrophic and so it is vital that the way forward includes a credible plan, including options that can be invoked, depending on progress.

The conventional approach to a monopolistic situation is to break up the monopolies. In this case, if each of the Big Four were to be broken into two equal parts, we would have a Big Eight.

Naturally, the Big Four would regard a solution that simply required them to split into two equal parts as being a terrible idea. And there are a host of very real and practical impediments to making this work in practice.

In addition, this consultation and the introduction of a new regulator mean that the whole industry will be stretched to implement other changes in the short-term. Our immediate priority is for audit firm governance to provide the platform for change in the short-term.

Given this, we propose that the Big Four should be invited, as an alternative to a compulsory break-up, to work with the Government to ensure that challenger firms have at least a 20% market share and that there would be at least one new firm that is capable of competing for the largest audits within five years.

To achieve this, we recommend that:

- a. The legislation minimises exemptions from the requirement to appoint a challenger to a managed shared audit. For example, international subsidiaries should be included in the requirements, not exempted. This will create a larger pool of opportunity and revenue for challengers. The Big Four should be encouraged or required at the very least to drop their restrictive covenants on Partners and other talent that prevent them moving to a challenger, whether to advance their career prospects or as a new challenge as they approach retirement. They might even feel

incentivised to “sweeten the deal” for such transfers to avoid the nuclear option of break-up.

- b. The Big Four should be encouraged or required to share technology with challengers to help them cut costs, improve efficiencies, handle more work and devote more resources to talent.
- c. The Big Four should be expected to provide a dowry if a merger of firms can be arranged that would accelerate the development of a new “Big Five”.

The Government should make it clear that if a 20% market share for challengers and at least one new “Big” firm being well on the way cannot be achieved within five years that it will have no other choice but to force a separation of the firms to create more choice.

## **A strengthened regulator**

### **Establishing the regulator**

#### **ARGA's Purpose**

While we support the published ARGA objectives (“to protect and promote the interests of investors, other users of corporate reporting and the wider public interest”) we believe it should go further.

We would like to see the description of ARGA's purpose extended to reflect the type of language that can now be found in the UK Stewardship and Corporate Governance Codes.

This would mean including wording to the effect that it is one of ARGA's statutory objectives to support the **creation of wealth for investors by companies in a sustainable way**<sup>2</sup> through the regulation of Audit, Audit firms and Accounting. It means explaining that this includes the development of regulation, guidance, supervision, enforcement, and sanctions.

Consideration should also be given to decarbonisation, protection of ecosystem services and social cohesion. There should be recognition that these are not additional to, or separate from, financial resilience and stability but that they are, in fact, intimately interlinked.

#### **ARGA's Governance**

ARGA is due to enjoy wide-ranging and significant powers. Therefore, it is important that it enjoys strong and independent governance.

We are generally supportive of the proposals for ARGA's Governance structure. In practice though we believe that it is of vital importance that a high bar is set for independence from the Audit industry. For Directors of ARGA, we suggest no more than two independent Directors who have ever been partners of audit firms should be permitted, with no more than one having been a partner of a Big Four firm. Committee Chairs should all be independent of the audit profession and Committees should have no more than one member who is not.

One of main points in responding to the Kingman review was the resourcing of the FRC. We are highly supportive of ARGA being given the resources it needs to do its vital job well. In addition to the necessary funding, we believe that ARGA should look to diversify its talent by hiring senior executives with industry experience, who understand how companies work. This

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<sup>2</sup> We appreciate ‘sustainable way’ can be considered a vague term, but we would point to FRC stewardship code reference to awareness and management of systemic risks, the UN SDGs and with reference to the EU Sustainable Finance Plan.

is a measure that we believe should also apply to audit firms themselves and which is repeated later in this response.

As outlined in opening remarks we have welcomed the creation and participation on the FRC's Investment Advisory Group and **would recommend ARGA continue with this group**, which Brunel would be delighted to continue to serve, should that be appropriate.

### **ARGA Funding and resources**

We are strongly supportive of a well-resourced and suitably skilled regulator. This is an issue we have raised in previous reviews. We have flagged our recommendation to expand the remit to cover a broad array of material financial issues that fall outside traditional accounting, and we need the regulator to be as, if not more, equipped to identify and challenge those who it regulates on these issues.

### **Additional Changes in the regulator's responsibilities**

#### **Stewardship Code**

We are strongly supportive of the Stewardship Code and have submitted a report for 2020. Whilst we agree with all the things we are asked to report, the resource needed to respond is not inconsequential and whilst this will inevitably improve over time, we are cautious about the government's intention to consider whether to introduce *"stronger requirements for reporting on the Code or to alter the balance between a rules and voluntary Code-based approach if the desired outcomes have not been achieved."*

We think it appropriate that all asset owners of a reasonable size should work towards being fully compliant and we will continue to be vocal in saying so. We do however recognise the market infrastructure for stewardship is still developing and think that this needs to mature before going the next step.

#### **Whistleblowing**

We support the Brydon Review recommendation that workers should have legal protection for whistleblowing disclosures made to audit firms and audit partners, as well as directly to the regulator. It also recommended that Statutory Auditors for PIEs be added to the list of prescribed persons to whom workers can make a protected disclosure.

We note the government's concerns and commit to conducting a review in due course – we would urge this to happen sooner rather than later.