

FRC Review Secretariat

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Dear Sir John

Independent Review of the Financial Reporting Council

We welcome the opportunity to provide input to the Call for Evidence as part of your Independent Review of the Financial Reporting Council (FRC).

As the Chief Executive Office of Brunel Pension Partnership (Brunel), I present our views from the perspective of pension funds and their beneficiaries in this letter. Brunel brings together £30 billion investments of 10 like-minded Local Government Pensions Scheme funds which provide for around 700,000 pension beneficiaries.

Brunel's [values](#) are core to how we have developed our own culture and priorities. We believe in making long-term, sustainable investments supported by robust and transparent processes. We are here to protect the interests of our clients and their beneficiaries.

As such, we strongly support the FRC's current mission to **"promote transparency and integrity in business"** and its values; to be **effective, fair, independent** and, **influential**. We have used this framework to provide our high level thoughts into the investigation that provide answers to some of the many questions raised in the review.

Mission

Currently the FRC states that "it works in the public interest to ensure a strong flow of investment into UK Companies, so they can grow and support society". We would like to offer a challenge to the view that 'public interest' is solely linked to the flow of investment rather than ensuring that the companies themselves are behaving in the public interest in addition to growing and supporting society.

We recommend that the public interest remit is clearly and explicitly determined by Parliament and reflected in law. We believe this would align with the objectives of current legislation to have a regulator who is explicitly responsible for overseeing and enforcing Company Law: businesses must be run prudently to protect shareholder and creditor capital (as per Cohen report 1947; and Cadbury Report 1992); transparently (to ensure accountability; as per Cadbury) and in a way that is not harmful to related stakeholder interests (CA 2006, section 172).

Values

Effective

To provide a more effective regulator we propose that the corporate reporting, governance and audit oversight functions of the FRC need to be combined with the Insolvency Service (and perhaps Companies House) to ensure director and auditor duties are robustly fulfilled.

We also support the inclusion of the development and promotion of the UK Corporate Governance Code and guidance relating to the effective implementation of section 172 of the Companies Act 2006 being part of the functions of the regulator. In combination with the above we feel this provides the regulator with a coherent, comprehensive and complementary brief.

Whilst we commend the FRC on its work on the UK Stewardship Code, we propose, following the review currently planned, that this remit is passed to another regulator whose role would be to hold shareholders, such as ourselves, to account for the effectiveness of our stewardship. The FRC current role is arguably both to serve shareholders and to hold them to account.

To be effective the regulator also needs to be properly resourced both in terms of numbers of staff and levels of competency. We are particularly keen that the FRC continue to build out its knowledge and understanding of issues, traditionally seen as non-financial, and that have the potential to be financially material over the long term. The most prominent of these is climate change and the recognition of the risks companies face from adaptation and physical risks (the risks posed by the consequences of climatic change) as well those risks and opportunities arising from the transition to a low carbon economy (risks from addressing the root causes of climate change).

Fair and Independent

It is not enough to believe the governance structure in place is fit for purpose if it is not perceived as such from those it is supposed to serve. To echo back the FRC's own mission statement – “promote transparency and integrity in business” - the organisation itself, as we do in Brunel, must ‘do as I do’ not ‘do as I say’ and should be seen as an exemplar for those it regulates to follow.

We would propose the governance of the regulator clearly reflects the aspirations of the newly released UK Corporate Governance Code with its focus on culture, diversity and independence.

We would like clarification of its status of a public body and the transparency arrangements that will support this status. In particular, this is needed to reassure its stakeholders of an effective process in managing conflicts of interest – both real and perceived. Conflicts of interest would also be eased if standard setting and enforcement were separate. We would propose that a standard setting body is a separate independent body, which itself is answerable to Parliament.

Influential

We acknowledge that the review has placed specific questions relating to FRC responsibilities e.g. International Financial Reporting Standards outside its remit, whilst inviting stakeholder views on the effectiveness of the FRC on handling such issues.

To provide input to the request and to highlight the last of the current 'values' of the FRC, which is, to seek to be influential, we would propose that a regulator should be the voice of shareholders in challenging poorly designed standards and laws that damage our interests. For example, we would argue that the current IFRS are not fit for purpose in many respects. Where the regulator feels its powers of influence are limited, it could propose to augment regulations to rectify issues where it believes it will make the requirements more compatible with its own domestic law e.g. UK Companies Act 2006. Case studies such as those featured in the FT's Jonathan Ford's latest article on accounting flaws (here <https://www.ft.com/content/29ccd60a-85c8-11e8-a29d-73e3d454535d> following on from his piece on Carillion (<https://www.ft.com/content/765fc482-68db-11e8-b6eb-4acfcfb08c11>) are a cause for deep concern to us as long term investors.

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 Office, Faith Ward on faith.ward@brunelpp.org.uk on 07818 457759.

Yours sincerely

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