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**Template letter:
April 9, 2003**

Open Disclosure: Sustainability and the Listing Regime Letter in support of Mark Mansley's proposals

Template Letter

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To: The Director, Listing, Financial Services Authority, London

Given the review of the UK listing regime that you are currently undertaking, I am writing to support the recommendations made in "*Open Disclosure: Sustainability and the Listing Regime*" written by Mark Mansley of Claros Consulting (www.claros.co.uk).

As you know, information disclosure is at the core of the listing process and is essential for the fair and efficient functioning of the markets. As such, information disclosure is rightly governed by the Listing Rules, to ensure documents contain "all such information as investors and their professional advisers would reasonably require".

In recent years there have been substantial changes in the investment industry, leading to greater interest in social and environmental issues. These changes include:

- A regulation requiring pension funds to disclose their policies on how they consider environmental and social issues;
- Growing consumer interest in socially responsible investment funds;
- Share prices that increasingly value brand, reputation and intangible assets;
- The increasing importance of corporate governance and risk management, and notably the Disclosure Guidelines on Social Responsibility issued by the ABI;
- Several financial sector initiatives on the role of social and environmental issues;
- Continuing concern over the short termism of the markets;
- Interest in the idea of the "universal investor", which justifies responsible investing;
- And rising pressure from a variety of other stakeholder, including government agencies.

A common theme emerges of the need for enhanced disclosure of social and environmental factors. And recent events such as the listing of Xstrata plc underline the need for adequate disclosure. However the listing rules have not yet changed to reflect any of these developments. Without such disclosure investors cannot be sure they are taking all financial factors into account, nor that they are meeting their fiduciary responsibilities, or the needs of their clients.

While the current listing regime in theory permits environmental and social disclosure it does little to encourage or require it in practice. In contrast, the King

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report on Corporate Governance in South Africa calls for "every company to report at least annually" on its social and other policies, and specifies five key areas for disclosure. In the US, the SEC explicitly refers to environmental factors in its listing rules. The OECD guidelines for multinational enterprises support enhanced disclosure of issues regarding employees and other stakeholders. The Global Reporting Initiative is aiming to set standards for environmental and social disclosure. Several countries have enacted laws or regulations requiring environmental/social disclosure, including Australia, Belgium, Canada, Denmark, France, Norway, Sweden and The Netherlands. France, in particular, has specified detailed disclosure.

A number of options are available in terms of how the Listing rules could be modified to include social and environmental disclosure. The key challenge is on the one hand to ensure meaningful reporting does occur, while on the other to avoid being over prescriptive and rules based, with long menus of data items to disclose. **This is why I support Mark's preferred option - the integration of the ABI guidelines into the listing rules combined with specific requirements for the disclosure of key items.**

Any enhanced disclosure regime also needs an effective mechanism for ensuring compliance. There are a number of problems with the current system, such as conflicts of interests of sponsors. A number of tools could be used to reduce this including: developing more detailed guidelines; inviting comments or getting third party input, changing the role of the sponsor, or adopting a more aggressive approach to enforcement (or a combination of these).

It is now time to revise the Listing Rules to incorporate social and environmental disclosure. High and broad standards of disclosure are likely to strengthen the standing of the UK as a financial centre. They would renew Britain's reputation for leadership in integrating sustainability and investment and play a significant part in realising the Prime Minister's hope that "that the UK will be showing the world community the future for financial services"

To conclude, I support Mark's other recommendations:

- Firstly, that the UKLA conducts a review of the Listing Rules to examine the case for the inclusion of social and environmental information.
- Secondly, that the UKLA reviews its enforcement mechanisms to ensure they do indeed support adequate disclosure.
- Thirdly, that the UKLA work with other regulators and the European Commission, to ensure that enhanced disclosure rules are not undermined by action elsewhere.

Yours etc...

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