Dear Sir/Madam

We welcome the opportunity to respond to the Department for Business, Innovation and Skills' consultation on "Non-Financial Reporting Directive: UK implementation".

As major long term investors with £290bn of assets under management Aviva has long been a supporter of non-financial disclosure. We are a founding member of the UN Principles for Responsible Investment programme, one of the earliest signatories to the Stewardship Code, a founding member of the Sustainable Stock Exchanges Initiative and were the first company in the UK to put its corporate responsibility report to a separate shareholder vote at the AGM.

In 2011 Aviva convened the Corporate Sustainability Reporting Coalition representing financial institutions, professional bodies, NGOs and investors with assets under management of approximately US$2 trillion. The coalition seeks to encourage the development of a consistent framework for sustainability reporting worldwide.

We believe that non-financial reporting should adhere to four key principles:

1. **Transparency** - companies should be required to integrate material sustainability issues within their report and accounts.
2. **Accountability** - this report should be put to an investor vote. This should encourage investors to read the information, form an opinion, and provide feedback to the company.
3. **Responsibility** - board duties should include setting the company's values and standards and ensuring that its obligations to shareholders and other stakeholders are understood and met.
4. **Incentives** - companies should consider ESG factors which are of material relevance to the long term interests of the company when setting remuneration.

Our support for integrated non-financial reporting is based upon our firm belief that companies that integrate non-financial information into their core business strategy are more likely to succeed in the long term. We believe that the Non-Financial Reporting Directive is an important step in encouraging companies to focus on materially important non-financial issues that contribute to long term success. Implementation of the Directive should be seen as an opportunity to improve corporate performance, boost productivity and embed long term, sustainable economic growth.

We would also like to stress that the full benefits of the Directive will only be achieved if the capital supply chain integrates the information so that it is ultimately reflected in a company's cost of capital. We therefore encourage the Government to explore how it can encourage capital markets participants to report on how they integrate non-financial information on a comply-or-explain basis.

Please find our answers to the consultation's specific questions below. We would be pleased to discuss this in further detail if that would be helpful.

Yours sincerely

Kirsty Cooper
Group General Counsel and Company Secretary

Q1) Flexibility on where to provide the non-financial statement:

What is your view on permitting companies flexibility to place information where they feel most appropriate within the boundaries laid out by the EU NFR Directive? Please explain your reasons.

Aviva believe that material non-financial information should be integrated into the company's Strategic Report. We support such integration as we believe that non-financial factors can be material to a company's long term success and should be integral to business strategy and, by extension, the Strategic Report.

Integrated reporting is fundamental to a company's ability to execute strategies that deliver long term value. As the International Integrated Reporting Council says, integrated reporting is central to "*how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term*[1]". This means material measures of environmental and social capital should be disclosed alongside measures of financial stocks and flows published in a conventional report and accounts so that they are managed as a strategic priority by the management team and across all functions of the business.

Similarly, the Investment Association's recently published Productivity Action Plan,[2] which was announced in Budget 2015 and which will report back to HM Treasury, highlighted the need for investors to "*see improvements in reporting on the long-term drivers of sustainable value creation*". Aviva was on the steering committee of the Productivity Plan and fully support its work.

We also believe companies should have the flexibility to produce a separate sustainability report should they wish to do so. A separate report could be useful in enabling companies to provide additional information on non-financial factors and draw attention to specific areas of interest. Companies should have the flexibility to publish this wherever they deem to be the most appropriate place. Such flexibility may also serve to encourage welcome innovation on sustainability reporting.

However, we believe that a separate report should be in addition to, not at the expense of, an integrated report. We therefore believe that any flexibility over where to place material non-financial information should only be considered within the context of an integrated report being a minimum requirement.

Q2) Information that could be placed in a Separate Report:

We would welcome suggestions for information, currently required by law that could be placed in the separate report

As stated in our answer to Q1, we firmly believe that material non-financial information should be included in the Strategic Report, not solely in a separate report.

This is because non-financial information, far from being a separate issue, can in fact be a material factor in a company's long term success. Integrating non-financial information within the Strategic Report ensures that such factors are considered of material importance by the management team

[1] http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

[2] http://www.theinvestmentassociation.org/media-centre/press-releases/2016/press-release-2016-03-22.html

and become integral to company strategy. If information is placed in a separate report it risks relegating material considerations from a strategic concern into a CSR or compliance issue and this will detrimentally affect company performance.

As the FRC's Guidance on the Strategic Report makes clear, companies should use the Strategic Report to highlight and explain the linkages and interdependencies of a company's financial and non-financial information. Integrating material non-financial information within the Strategic Report supports the FRC's guidance by improving the transparency of these linkages. .

The Government is also seeking views on whether non-financial information should be published at the same time as the Strategic Report or at a later date. It is the natural consequence of integrated reporting that non-financial information should be published at the same time as the Strategic Report. This is not only for the reasons of materiality as set out above, important though those are, but also because we believe that providing the information at a separate time, far from making it less onerous on companies, may actually serve to increase the reporting burden. Having separate reporting deadlines would effectively create a new reporting period and would thus be a less efficient use of resources. Reporting non-financial information in an integrated manner ensures that there is a single reporting period for companies to focus on. It also serves to reinforce the materiality of non-financial information.

Whilst we do not favour an overly prescriptive approach we believe that a company should report on all material factors relevant to a company's long term performance. This will vary by company, circumstances, sector and market but should include, but only where material:

- Direct and supply chain consumption of natural resources such as energy, fossil fuels, water, forestry products and raw commodities
- Production of waste and pollutants, such as waste sent to landfill, greenhouse gas emissions, waste water discharges.
- How public policy activity links with their sustainability and governance strategy.
- Risks and opportunities associated with, for example, climate change, resource shortages, sustainability regulation and supply chain resilience.
- Human rights.
- Corporate governance including succession planning, how remuneration promotes long term strategic thinking, corporate culture and cybersecurity considerations
- Gender and diversity – from senior appointments to talent retention.
- Anti bribery, corruption, conflict mineral and modern day slavery guidance

Q3) Advantages and Disadvantages of a separate non-financial statement:

What do you see as the advantages and disadvantages, for your organisation of the separate statement?

We believe that integrating material non-financial information within the Strategic Report has clear advantages over publishing it in a separate statement. The advantages of integrated reporting are:

- **More successful companies, improved shareholder returns-** There is a wealth of evidence showing that company boards that debate sustainability issues, consider the consequences, and disclose their performance against key indicators are more likely to succeed in the long term. Goldman Sachs, for example, carried out analysis of the relationship between how companies address ESG issues and the returns they generate. Their research concluded that there is a direct correlation between sustainable business practices and the longer-term financial success of that company. Integrating it within the Strategic Report helps to ensure that non-financial factors are considered as material considerations by the management team and are a strategic priority for the company.

- **Better informed, more productive investment decisions-** Currently, while investors have a wealth of data about a company's profits and cash flows, they have little information about a company's sustainability. Integrated reporting has the potential to transform this by providing a concise and relevant explanation of how a business is creating value over the short, medium and long-term. This will help support capital allocation decisions and ensure capital is directed to the most productive companies.
- **Effective and active investor stewardship-** Integrated reporting enables investors to be effective and active stewards, improving corporate performance and increasing shareholder value. The UK's has been at the forefront of efforts to improve investor stewardship and the UK's Stewardship Code is testament to these efforts. As major long term investors we engage with hundreds of companies each year, working with management to address strategic business issues. The issues we address range from human rights, safety and labour standards, environmental impact, corporate values and tackling bribery and corruption. The effectiveness of investor stewardship is largely dependent upon good quality data being available and integrated reporting will help provide this.
- **Long term investment, long term success-** Markets are driven by information. If the information they receive is short term and thin then these characteristics will define our markets. Short-term and less well-informed markets will be less stable, more volatile and – ultimately – less valuable. As the Government's own Productivity Plan acknowledges, this excessive short term focus is a long term problem for the economy. Integrated reporting can equip investors with the information they need to make long term investment decisions and encourage companies to focus on long term success.
- **Greater consistency and comparability-** Integrated reporting would help encourage greater consistency and comparability of reporting. We believe frameworks should build on existing national frameworks and external guidance including, but not limited to, the International Integrated Reporting Council, the UN Global Compact, CDP, ILO Core Labour Standards.
- **Corporate sustainability benchmarks-** We believe that the effectiveness of non-financial reporting could be greatly enhanced by the development of a set of publicly available corporate sustainability benchmarks to help incentivise improved corporate sustainability. Such benchmarks would rank companies sectorally across a range of indicators and would enable investors to easily compare companies when making their investment decisions. This would create a market-led mechanism for incentivising improved corporate sustainability. The benchmarks would be multi-stakeholder partnerships, developed in conjunction with civil society partners internationally, and would not require new legislation or regulation. There is a precedent for this in the Corporate Human Rights Benchmark which Aviva has developed with our partners (Calverts, BHRRC, EIRIS, VBDO, IHRB) and which received funding from the UK and Dutch governments. This benchmark will publicly rank the world's top 500 listed companies on their human rights policy using the UN Guiding Principles on Business and Human Rights as its framework.

As stated in our response to Q1 we do believe that companies should retain the flexibility to provide a separate non-financial report if necessary. A separate report could provide additional granularity on a company's non-financial considerations that could be useful to companies, investors and other stakeholders. However, a separate statement should be in addition to an integrated statement, not at the expense of it.

Scope

Q5): Preferred option relating to scope

Considering the possible advantages and disadvantages provided by the flexibilities contained within the EU NFR Directive, which would be your preferred option in terms of which companies should be required to disclose non-financial information?

We do not favour either implementation options as we believe both contain inherent disadvantages.

Option 1 would result in a two-tier reporting regime in which companies that have a change in circumstance (i.e a fluctuation in staff numbers) could switch from one regime to the next from year to year. This would create an unhelpful level of complexity for both businesses and investors and would reduce consistency and comparability.

Option 2 would reduce the scope of existing UK reporting requirements and lead to a reduction in company disclosure. The intention of the Non-Financial Reporting Directive is to raise and harmonise reporting standards across the EU. It is important that this leads to a levelling up rather than a levelling down of standards. As demonstrated in the Sustainable Stock Exchange Initiative Index, UK disclosure of non-financial information is amongst the best in the world and we believe that watering down existing non-financial reporting requirements for listed companies would be a retrograde step.

Q6) Alternative Options

Are there any other options for implementing the EU NFR Directive the Government should consider?

We believe the Government should consider options that maintain the existing requirements for UK company disclosure but that do not create a two-tier system. We suggest more work is done to explore how the requirements of the NFRD could be applied to all listed companies.

Validation of non-financial information

Q7) Assurance of Non-Financial Information

Should the Government require that the non-financial statement be verified by an independent assurance service provider'?

We support some level of independent verification of non-financial information. For, just as investors would not rely on an unaudited financial statement, neither would they be able to confidently rely on sustainability data without independent assurance.

One possible route could be to extend the ISA 720 audit standard that requires auditors to verify that the information contained in the Strategic Report is not materially inconsistent with the annual report and accounts, to include the verification of non-financial information.

It is also important that all non-financial disclosure adheres to best practice and internationally recognised standards wherever possible. There is a plethora of existing guidance and frameworks and whilst companies should have the flexibility to choose which they use, they should be transparent about which standards and frameworks they have adhered to.

Companies should also have the flexibility to choose the level and method of verification applied for non-financial disclosure contained in a separate sustainability or similar report, but disclose the approach that is applied. Investors can engage with companies based on the confidence they have in that verification process. We also recognise that smaller companies in particular may have limited resources and may therefore prioritise or target how they approach less material disclosure.

Q8) Advantages and Disadvantages of third-party validation

What do you see as the advantages and disadvantages of requesting third party assurance?

A level of third party verification will ensure that companies and investors can be confident that the data provided is fair and accurate. This means that investors can make informed investment decisions based on a holistic assessment of the company.

Independent verification is also likely to lead to the development of consistent reporting standards which will help drive improved standardisation and comparability. We encourage policymakers and businesses to work together where possible to develop common standards building on existing national frameworks and external guidance.

Independent verification also serves to ensure that companies treat non-financial information as material issues that are subject to proper independent scrutiny. We believe that 'what gets measured gets managed' and independent verification ensures that the measurement and consequent management is rigorous. In this, the assurance process itself becomes a tool to improve the management of sustainability challenges. Equally, the quality of disclosure is often taken as a proxy for the level of awareness on the issue; assurance thus provides investors with further confidence in respect of the quality of data.

Q9) Other Options

Are there any other options the Government should consider for Third Party Verification?