

Brent J Fields  
Secretary  
US Securities & Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Submission via email**

21<sup>st</sup> July 2016

Dear Mr Secretary

**Response to Concept Release paper S7-06-16 “Business and Financial Disclosure Required by Regulation S-K”**

I write on behalf of Railpen Investments, which carries out investment management for Railways Pension Trustee Company Limited (RPTCL), the corporate trustee of the UK Railways Pension Scheme and other UK railway industry pension schemes. RPTCL has total assets of circa US\$29 billion and around 350,000 beneficiaries, of which US\$7 billion is invested in US listed assets.

The governance and sustainability of US companies matters greatly to us as a long term and responsible investor, as we believe that such factors are material to the long term performance of companies in which we invest, and by extension, our investment portfolio. It follows that we very much welcome the opportunity to respond to the Concept Release paper entitled “Business and Financial Disclosure Required by Regulation S-K” and we are providing specific feedback on sustainability and public policy disclosures, and human capital disclosure.

We believe that investment is best executed by adopting a holistic approach that considers factors that are strictly financial as well as those that are non-financial in nature, or have the potential to be financially material at some point in time. Such factors include, but are not limited to, the policies and processes that a company deploys as a means to manage opportunities and risks relating to environmental, social or governance factors.

We have long been of the opinion that a company’s approach to corporate governance sets the platform for its ability to manage risks and opportunities related to environmental and social issues, and that if non-financial factors are considered to be material to a company’s future success, they should be viewed no differently to financial factors in determining the attractiveness of that company for investment. Whilst we recognise that the specific issue of disclosure of corporate governance factors lies explicitly outside the scope of the present consultation, it is because of our belief in the materiality of corporate governance, and the importance of robust governance structures in managing all risks and opportunities, including those related to environmental and social issues, that we are now responding.

As a long-standing member of the Council of Institutional Investors (‘CII’), we support the comments you have already received from CII Executive Director Kenneth Bertsch in his

submission of July 8, 2016, and would like to echo particularly the comments made regarding sustainability and public policy disclosures, and human capital disclosure.

In addition to the CII submission, we would like to offer the following comments as additional feedback:

- In our experience, which comes particularly from being located in the UK and having been invested since inception in our own domestic market, whilst it may be possible to adopt a hybrid approach to disclosure, we believe that the benefits of a principles based approach substantially outweigh those of a more prescriptive nature. By allowing companies to explain for themselves what risks and opportunities they do and do not consider to be material within a broadly defined reporting framework, investors are able to decide whether they agree that management are taking an appropriate and responsible approach to risk identification and attribution given the nature of the company's main stakeholders. We believe it is entirely reasonable, and in the best interests of all stakeholders, for the onus to rest with the company for determining what is and is not material to the business and for reporting in those terms, with guidance from shareholders where appropriate.
- Where our views on risk and opportunity (whether they are related to operational, political, sustainability and/or governance) differ from those reported by the company, we make use of our right as a shareholder to engage with management and independent board members in order to obtain clarity and improve the nature of the inputs to our investment decision making process. This is the underpin of the UK's 'comply or explain' approach to corporate governance. With this in mind, as a means to foster more productive conversations on risk management, we would be very supportive of any amendment to Regulation S-K that encourages a higher standard of dialogue between investors and the boards of US companies. Whilst some progress has been made, and many board directors of US companies are now engaging on governance and sustainability issues, further progress in this area would help investors understand and assess the true regard of Boards for the materiality of financial and non-financial factors related to environmental, social and governance issues. In this connection, a Model Board Policy for US companies that we developed in partnership with the Dutch pension fund PGGM can be viewed via the following link: <https://www.rpmi.co.uk/news-events/news/news-details/2015/03/30/model-board-policy>
- To maximise utility for interested stakeholders and for shareholders in particular, disclosure should, in our view, be fulsome yet as concise as possible. We have a strong preference in reporting for companies to adopt the standards set out by the International Integrated Reporting Council (IIRC), which seeks to improve the effectiveness of company reporting by marrying together, in one coherent document, financial and material non-financial disclosures. We would also commend you to consider the work of the Financial Standards Board's Taskforce on Climate-related Financial Disclosures in terms of stipulating factors against which companies should be required to report. Our general expectation is that larger listed entities will provide the most fulsome, highest quality disclosures as they are best resourced to undertake the work required in compiling and reporting this data; smaller companies are less well-resourced and thus our expectations of them are naturally lower although we nonetheless expect them to be ambitious and to disclose all material risks and opportunities.
- As regards specific issues on which we place importance when trying to understand a company, beyond those laid out in Item 101(c), we ascribe great significance to human capital management factors, particularly employee engagement statistics and staff turnover. We find both these factors to be highly informative in assessing a company's

approach to human capital management, an issue attracting increasing attention amongst the UK investor community. The recent report by the UK Pension and Lifetime Savings Association ("[Understanding the Worth of the Workforce: A Stewardship Toolkit for Pension Funds](#)") draws attention to some of the human capital management factors considered most pertinent by shareholders today.

- We put great significance on a company's environmental disclosures, particularly where the company in question is in a sector for which carbon emissions are relatively high. Scenario analysis data, of the kind outlined in numerous shareholder proposals across the 2016 US proxy voting season, is especially helpful to us as we build up our understanding of how such companies are, in practice, preparing for transition to a low carbon economy. The completion by companies of the annual industry standard emissions survey issued by CDP (formerly 'Carbon Disclosure Project') is also of significant value, as is demonstrable awareness of the factors considered most material to the company's industry by the Sustainability Accounting Standards Board (SASB).
- For the record, you may also like to refer to our [US Corporate Governance and Voting Policy](#) which sets out our approach to voting in relation to a number of the issues being considered under this consultation. For example, on the issue of political contributions, we will generally support shareholder proposals seeking disclosure of either related donations or the process of donation oversight adopted by the relevant Board Committee, especially where current disclosure levels are not considered adequate.

We would be happy to discuss any aspect of our response if that would be helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read "Deborah Gilshan", with a long horizontal flourish extending to the right.

**Deborah Gilshan**  
Head of Sustainable Ownership  
Railpen Investments

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