National Grid
1-3 Strand
London
WC2N 5EH

Financial Reporting Council

By email: codereview@frc.org.uk

13 September 2023

Dear FRC Code Review team,

Corporate Governance Code Consultation – May 2023

About National Grid

National Grid is an energy company with regulated businesses in both the UK and the US. Its principal operations are focused on the transmission and distribution of electricity and gas. The Group has a primary listing on the London Stock Exchange with a secondary listing on the New York Stock Exchange (with American Depository Receipts ("ADRs") in issue). Accordingly, National Grid is subject to Securities and Exchange Commission ("SEC") reporting regulations and regulatory oversight as a Foreign Private Issuer ("FPI") in the US.

Comments on the Consultation Paper

National Grid welcomes this opportunity to respond to the Consultation Paper on the proposed changes to the UK Corporate Governance Code (the "Code"). We have considered the questions raised, alongside the recently submitted responses from the GC100 and 100 Group, and confirm we agree with their responses.

We believe that the UK's strong reputation is crucial to continuing to attract and retain capital and note the Government's ambition to improve regulation and reduce burdens on companies to make London a more attractive listing venue. One of the most valued and respected aspects of UK corporate governance was the application of a principles based rather than an overly prescriptive rules-based approach. This has provided the right balance of assurance and flexibility and has been part of the backbone of the success of the UK's capital markets.

We are supportive of the FRC creating a governance framework that provides a proportionate response to risk, is effective and practical and allows businesses to tailor best practice to their own circumstances. Our response has sought to address some of the questions raised in the Consultation Paper in more detail. Overall, we believe that some of the changes proposed go beyond those envisioned by the UK Government in its June 2022 consultation response on audit reform. Furthermore, as detailed in the themes set out below, we are conscious of the over-regulation in certain areas and the duplication with other existing frameworks (such as in the US) but also the resulting increase in compliance and reporting for businesses with limited benefit to investors and other stakeholders.

National Grid
1-3 Strand
London
WC2N 5EH

Key themes

Impact on the UK's ability to attract and retain capital: The proportionate and flexible approach to corporate governance for which the UK is known has historically enabled companies to adapt requirements to their and their investors' needs. However, the amount and complexity of new regulations and an increasing proportion of stakeholders demanding a 'comply or else' response to corporate governance has led to a disproportionate and complex myriad of additional disclosures before these proposed reforms, particularly when compared to other jurisdictions. As an example, National Grid voluntarily publishes a Responsible Business Report to meet investor demands for information on environmental, social and governance matters. This is in addition to the increasing scope of the annual report and demands from other stakeholders for reporting against their own methodologies.

Impact on companies: In our view, the proposals appear to significantly increase the compliance burden on companies and it is not clear that the intended benefits are proportionate to the additional reporting requirements and costs. As an international energy company, we already have regulatory obligations across multiple jurisdictions with a significant external reporting and assurance burden. Care should be taken to avoid adding complexity in the reporting regime due to duplication of requirements set out in other international frameworks, or existing or upcoming legislation and regulation, including international standards that are yet to be adopted by the Government. We are conscious of ensuring this does not have a detrimental impact on the quality of reporting by companies. We also have concerns that disclosure in one country may be used as part of class action litigations in another country where reporting standards do not align.

In addition, we would like to add comments on the following questions:

Q1: Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?

Whilst National Grid is receptive to additional reporting where this is beneficial and useful to stakeholders, we would reiterate the concerns raised by the 100 Group and GC100 regarding the lack of clarity in the meaning of "outcomes-based" reporting and we question whether the desired intention to increase the quality of reporting will be achieved by the proposed changes. We note that the FRC believes (based on its own research) that companies generally report well on these matters . National Grid has expanded its reporting in this area in response to investor feedback. It is therefore not clear what additional disclosure will achieve in this regard. If there are specific concerns, these should be addressed through guidance or directly with individual companies, rather than amendments to the Code itself.

Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?

We are concerned that, taken as a whole, the proposed amendments to the Code increase the burden of reporting required by companies. We note that this proposal appears to extend the reporting beyond that required by TCFD reporting and appears to be pre-empting, and possibly duplicating, the adoption of the International Sustainability Standards Board ("ISSB") sustainability disclosure standards, which is likely to lead to unnecessary complexity in reporting and less understandable disclosures for stakeholders. As noted above, at the request of its investors, National Grid already reports on its climate ambitions and transition planning.

Q3: Do you have any comments on the other changes proposed to Section 1?

Whilst National Grid regularly seeks to engage with its investors on a variety of topics, we note that a change of emphasis to require companies to engage, rather than seek engagement, with shareholders may not be feasible if there is not a corresponding obligation on investors to respond to such engagement. National Grid provides regular opportunities for investors to engage with the company through a comprehensive investor relations programme and in addition, the chair and remuneration committee chair regularly contact shareholders on broader governance and remuneration issues.

Questions 4 – 9

National Grid agrees with the comments made by the GC100 and 100 Group.

Q10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?

National Grid has no specific comment on this question.

However, National Grid is concerned about the overall feasibility and value of the requirement to engage with shareholders and other stakeholders in relation to audit and assurance matters. Through National Grid's investor engagement programme shareholders already have an opportunity to raise such matters and the discussion of such topics is rare. In our view, many stakeholders are unlikely to be fully equipped to provide meaningful feedback and engagement in what can be a complex area and it is unclear as to the benefit this will have.

We also reiterate the points made by the 100 Group in relation to clarity and definitions needed over the scope of the Audit and Assurance Policy ("AAP"), if not in the Code itself then in separate guidance. In addition, the Code should reference assurance in the context of a 'level of assurance' rather than use explicit references to external assurance to avoid creating the perception that high quality assurance can only be provided by third parties.

Q11: Do you agree that amending Provisions 25 and 26 and referring Code companies to the Minimum Standard for Audit Committees is an effective way of removing duplication?

National Grid agrees with the comments made by the GC100 and 100 Group.

National Grid
1-3 Strand
London
WC2N 5EH

Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?

As drafted, this provision leaves no/limited flexibility for companies to determine how they oversee sustainability matters within their existing Board and committee governance structures. For example, National Grid, like many others, has a separate sustainability committee.

The remit and breadth of the Audit Committee is also increasingly being extended and therefore we have concerns around the Audit Committee having sufficient time and/or the specialist skills required to fulfil these obligations, especially for companies who already have a separate sustainability committee.

Q13: Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal controls systems in a proportionate way?

No. Whilst we are supportive of strengthening control environments, we believe the scope of the proposals should be restricted to financial reporting controls only and bear in mind any overseas frameworks (noting the fact that companies including National Grid have multiple listings). As a company with a US listing and subject to Sarbanes Oxley (SOx) reporting, we are particularly concerned that there will be significant and onerous implications from complying with two separate internal control reporting regimes, particularly where the proposed Code amendments are wider in scope than SOx.

As drafted, the proposed amendments are wide ranging and not proportionate to the significant increase in the compliance burden and the associated costs. It is unclear whether a cost analysis has been completed for the perceived benefits of the proposals. Despite already having substantial financial reporting and governance resources, we believe the costs are disproportionate to the desired benefits. We also feel this will be seen more akin to a SOx type framework for non-financial reporting, which we understand that the Government had sought to avoid in its response to the audit reform consultation. Our experience to date is that investors are not demanding assurance of climate-related disclosures, but do want to understand the company's efforts to meet its net zero ambitions. Standardisation of these disclosures is, in our view, likely to be more beneficial to readers of the annual report.

We also have concerns that the director sign off puts increasing responsibility on the non-executive directors beyond their existing supervisory role and is therefore inappropriate.

Q14: Should the board's declaration be based on continuous monitoring throughout the reporting period up to the date of the annual report, or should it be based on the date of the balance sheet?

We believe the Board's declaration should be as at the date of the balance sheet, as continuous monitoring will be incredibly onerous and potentially unachievable. It is also unclear as to the benefit or goal that it is trying to achieve for stakeholders. We also

National Grid
1-3 Strand
London
WC2N 5EH

reiterate the GC100 and 100 Group responses to this question on the lack of guidance as to how this would be achieved, what is required to meet this requirement and what the statement would need to include.

Q15: Where controls are referenced in the Code, should 'financial' be changed to 'reporting' to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?

No. We believe that reporting should be limited to controls over financial reporting and this would ensure equivalence with existing frameworks, such as SOx. We would reiterate the GC100 and 100 Group responses to this matter that, as drafted, the proposed changes to the Code seek to significantly extend the control environment beyond current requirements and we believe is likely to have a more detrimental impact on the quality of reporting.

Whilst increased ESG reporting and assurance is evolving at pace, we do not believe that it is realistic or warranted for the maturity of processes and controls in this area to be at the same level as financial reporting in the time scales envisaged.

Although the AAP seeks to place emphasis on companies to determine the level of assurance required for non-financial reporting, we are concerned that the de facto position will be to increase the assurance requirements so that directors can make a declaration on the control environment. This is likely to increase the need for external assurance and it is not clear that the additional costs (financial and management time costs) to comply with these requirements are proportionate to the desired benefit.

Questions 16 – 26

National Grid agrees with the comments made by the GC100 and 100 Group.

Conclusion

We are grateful for the opportunity to contribute to the consultation. In conclusion, we are concerned that the current proposals will not be interpreted in a proportionate way and therefore not deliver the intended outcomes. We are also concerned that the proposals go beyond those envisioned by the UK Government in its June 2022 consultation response. Our Chair, along with ourselves, are happy to discuss any concerns and our broader thoughts in ensuring we continue to enhance governance balanced against ensuring the UK remains a competitive investment destination.

Yours sincerely,

[redacted]