

AN OPEN CONVERSATION ABOUT TRANSPARENCY

June 2015

As one of Big Society Capital's founding principles is Transparency, we want to make sure BSC is being as transparent as possible as an organisation as well as encouraging wider transparency in the social investment market. We recognize that others like New Philanthropy Capital and Alternative Commission have also called on us to play a bigger role here.

We are proposing a range of additional measures across three areas – as an investor, a market champion and as a corporate ourselves to increase our transparency. We hope these measures will improve understanding of BSC as well as the wider social investment market. Additionally practicing better transparency could help increase standards across both the social and financial sectors.

Before we go further, we would like to hear other's views on our proposals and in particular making sure additional transparency measures are achievable and do not unintentionally lead to misinformation, as well as, gather suggestions for other areas we could be more transparent on.



HOW WE LOOK AT TRANSPARENCY

When most organisations use the term transparency, they most often mean clear, accurate, and timely disclosure of information that enables shareholders, stakeholders, employees and the general public to observe and understand the actions of that organisation. In the context of Big Society Capital, we see it to mean clarity on why and how Big Society Capital pursues its mission for those that have a stake and interest in its activities.

Our dual roles as an investor and as a market champion as well as our position as a corporate entity guides the way we approach transparency.

BSC AS AN INVESTOR	BSC AS A MARKET CHAMPION	BSC AS A CORPORATE
<p>Ways in which BSC can be fully transparent on the use of its investment capital by disclosing information on:</p> <ol style="list-style-type: none">1. Frontline level investments2. Intermediary level investments3. Investment process	<p>Ways in which BSC can influence transparency practices across SIFIs, social sector organisations and investors:</p> <ol style="list-style-type: none">1. The type of tools BSC could provide to facilitate transparency2. Practices BSC could encourage through the levers it has as an investor	<p>Ways in which BSC can be the most transparent organisation by disclosing information on:</p> <ol style="list-style-type: none">1. BSC strategy and activities2. BSC governance3. BSC financials

Across all three categories, it is not sufficient to solely disclose information but BSC will try to ensure that any information disclosed is (1) Usable, (2) Relevant, (3) Timely, (4) Put in context and (5) Proportionate



WHAT WE CURRENTLY DO TO BE TRANSPARENT

Below is a summary of the type of information Big Society Capital already makes public to be transparent and the relevant links on how to access that information:

What Big Society Capital currently does

As an Investor

Information about frontline organisations

- Publishes a summary of the impact of frontline investments in the [Annual Report 2014](#)
- Publishes [case studies](#) of social investments with details on business models, social impact, purpose of investments and terms
- Alongside the Social Investment Research Council, Big Society Capital commissioned EngagedX to collect and publish performance of over [400 social investment deals](#)

Information about Social Investment Finance Intermediaries (SIFIs)

- Publishes details of commitments and [investments into SIFIs](#)

Information about the investment process

- Publishes a [summary of the investment process](#) on the website
- Discusses the three assessment criteria (social impact, market development and financial sustainability) in a publically available [investment policy](#)

As a Market Champion

Big Society Capital has begun to include social impact reporting requirements on SIFIs concerning their investments that might encourage SIFIs to publish such information going forward and not just report it to investors.

As a Corporate

Strategy and activities

- Publishes a comprehensive [Annual Report](#)
- Makes available Big Society Capital's [full strategy](#) on the website
- Publishes progress on [Key Performance Indicators](#)
- Publishes "[insights](#)" papers summarising strategic thinking across issue areas (e.g. housing) and products (e. g. social impact bonds)
- Provides an opportunity for stakeholders to [ask questions](#) through the website

Governance

- Publishes information on [shareholders](#) of Big Society Capital
- Discloses full list of [board members](#) with biographies
- Makes available [salaries](#) of highest paid staff in the annual report
- Makes public the [appointment and remuneration process](#)
- Has a [Frequently Asked Questions](#) section on the website covering common questions around governance

Financials

- Produces [financial accounts](#) that are verified annually by an independent source



BEST PRACTICE ELSEWHERE

In coming up with our proposals for additional transparency, we examined best practice in the UK and internationally. Although Big Society Capital does not have direct comparator organisations, we looked at examples from international development institutions (e.g. European Bank for Reconstruction and Development), transparency regulations for governments and initiatives such as B-corporations and Principles of Responsible Investing.

Summary of the principles that guide best practice initiatives

Source	Target organisations	Principles
Aid Transparency Index	Aid institutions	States commitment to transparency Disclosure on organisational planning Disclosure on finances Disclosure on portfolio
B-corp	Social enterprises	Financials Information disclosure with employees External impact reports Opportunity for stakeholders to provide feedback
Glasspockets initiative-	US foundations	Availability of governance policies Availability of staffing policies and information Financials Information on the grantmaking process, grants made and outcomes from those grants Information on performance management
Open Government Partnership	Countries (Including UK)	Fiscal transparency - timely publication of essential budget documents Access to information - an access to information law that guarantees the public's right to information and access to government data Disclosures related to public or elected officials - rules that require public disclosure of income and assets for elected and senior public officials Citizen engagement - openness to citizen participation and engagement in policymaking and governance, including basic protections for civil liberties
Principles of Responsible investing	Investment firms	Organisational overview Disclosure on approach to investing Information on equity and debt investments



OUR PROPOSALS FOR THE FUTURE

Below we outline a number of proposals across BSC as investor, as a market champion and as a corporate organisation. Each of these proposals has a rating on Transparency improvement and Difficulty.

It is important to note that if we implemented all of the measures, they could come at an annual cost of £25,000 - £40,000¹ to BSC as well as significant costs for SIFIs and social sector organisations. These proposals are not yet firm commitments to action, as we are aware these proposals may have wider consequences that we have not yet fully understood. Testing these proposals is the purpose of this open conversation.



Transparency Improvement (with 5 as significant improvement and 1 as low improvement)



Difficulty (including consideration of time, cost and confidentiality, with 5 as easy and 1 as difficult)

Big Society Capital as an Investor

FRONTLINE LEVEL INFORMATION

- 1) **Publish anonymised data on frontline investments in social sector organisations made by each SIFI.** **5 1**

Deal level data with information on some of the financial and social characteristics of those deals is a key piece of information missing from the social investment market. Improved information about front-line social investment deals would help accelerate learning in the market and in turn, improve access to repayable finance for social enterprises and charities by increasing confidence on all sides. BSC's aim would be to begin publishing some information on deals made by SIFIs and performance data on completed deals by end of 2015 and continue to publish information about new deals on an ongoing basis.

SIFI LEVEL INFORMATION

- 2) **Shift to default of publishing one page summaries of the characteristics and rationale (the "what" and the "why") of each SIFI investment we make as soon as we make it.** **4 2**

We think it is important for the market to better understand the details of the investments BSC makes and therefore would aim to publish a summary of each following completion. We hope these summaries would increase the availability of information for social sector organisations on the remit of each SIFI. There are important confidentiality considerations to take into account and we would consider these on a case-by-case basis. The aim would be to begin publishing the summaries following the completion of this transparency conversation.

- 3) **Publish semi-annually the breakdown of portfolio across geography and sector.** **4 4**

To illustrate where social investment is available and is being taken up, BSC could publish a regular summary of its investment activity. The content of this might include a summary of BSC's entire portfolio of investments broken down by size, sector and strategy strand as well as investment flows. The aim would be to begin publishing these breakdowns as soon as this transparency conversation is finished.

¹ Calculated from estimates of staff and external resource required to implement each proposal per annum.



INVESTMENT PROCESS

4) Improve dialogue on how we consider social and financial return.

4 3

BSC examines each investment based on its social impact, market development and financial sustainability. Not every investment is able to score highly on each criteria and therefore BSC takes a portfolio approach in assessing the trade-offs within each single investment. We propose to be more explicit about how we consider the various trade-offs in investments through a bi-annual blog series “Reflections from our Investment Committee”. At the same time we recognize it is early days for BSC and our thinking continues to develop as we increase our investment portfolio.

5) Publish an abridged version of our internal investment manual.

4 3

As Big Society Capital has developed as an institution, we have begun putting together an investment manual that helps guide our investment team through our investment process. It covers due diligence, development of legal documentation and performance management. This manual will be further developed and refined over the coming year as it is constantly tested through each investment Big Society Capital makes. To help clarify the process for potential applicants and others in the market we propose publishing an abridged version of that manual. The aim would be to publish the manual by 2016.

Big Society Capital as a MARKET CHAMPION

6) Provide tools to encourage transparency.

3 3

In partnership with the Social Investment Forum and others, BSC will help provide tools to encourage transparency (e.g. transparency checklists for SIFIs) – these tools could facilitate SIFIs to consider their own transparency and the improvements they could make. We would work with partners to put these together over the course of Autumn 2015 and are open to proposals of activities we should undertake to encourage greater transparency in the market.

7) Lead by example.

Highlight our ongoing transparency work and progress to act as an exemplar for others.

2 5



Big Society Capital as a CORPORATE

STRATEGY AND ACTIVITIES

- 8) Publication of the market championing projects BSC is involved in on a bi-annual basis.** **5 3**

There is a range of work BSC is involved in to increase awareness of and confidence in social investment. We propose to publish and keep updated on a bi-annual basis a summary of each of our market championing projects. An understanding of the range of work we are involved in would help inform the market on our strategic thinking and help stakeholders engage and contribute to projects of interest. We would begin doing this as soon as this transparency conversation is completed.

GOVERNANCE

- 9) Publish a summary of key governing principles and constraints derived from Big Society Capital's governing documents.** **3 3**

Over the last three years we have made great efforts to publically disclose our design principles and the implications of those principles. We would like to further those efforts by publishing a more detailed summary of these with specific reference to the relevant legislation and contracts. We would aim to do this once this transparency conversation is completed.

- 10) Hold a town hall meeting with board members.** **4 2**

Face to face meetings are one of the best ways stakeholders can engage in true dialogue with BSC representatives. We propose holding one annual board meeting open to anyone with an interest in BSC's work enabling people to ask questions and offer feedback on BSC's activities and future strategy. One of the discussion topics for the town hall meeting would be BSC's consideration of social and financial returns in its portfolio. We would aim to have a first town hall meeting at the next publication of our annual report.

FINANCIALS

- 11) Develop a signposted annual report.** **4 3**

We would like to further make use of cross-referencing and signposting tools in an online version of an annual report which would enable our stakeholders to better understand and locate the relevant information. We propose commissioning the development of such a tool following our next annual report, and all subsequent annual reports.



WHAT WE WOULD LIKE TO HEAR FROM YOU

We would like to open up a conversation with those interested in BSC's activities to get input on:

- What are your views on the proposals we have outlined? Do you think there are areas we should not pursue and why?
- Do you think there are other ways in which we can be more transparent? For each suggestion please provide
 - A summary of the proposal including timing and practical steps BSC could take to implement it
 - Rationale for the proposal and the target audience
 - Likely resource requirement across relevant parties
 - Potential risks and unintended consequences
- Other thoughts and ideas?

There are two ways in which you could provide feedback:

1. Contact us directly at transparency@bigsocietycapital.com
2. Publish your comments in the blog below to enable others to view them

Please submit your response by August 14th. Upon consideration of those comments we will be publishing our final transparency proposals in September 2015.



Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society. It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return.

Since it was set up as an independent organisation in 2012, Big Society Capital has signed more than £160 million in investments to specialist organisations who lend to charities and social enterprises. Over five years Big Society Capital will be capitalised with approximately £600 million, from a combination of English dormant bank accounts and the four main UK high street banks.

www.bigsocietycapital.com

Big Society Capital Limited is registered in England and Wales at Companies House number 07599565. Our registered office is 5th Floor, Chronicle House, 72-78 Fleet Street, London EC4Y 1HY. Big Society Capital is authorised and regulated by Financial Conduct Authority number 568940.