

14 April 2010

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By email to: stewardshipcode@frc.org.uk

Dear Susannah

Consultation on a Stewardship Code for institutional investors

Thank you for the opportunity to comment on the above consultation.

In our responses to both the Walker Review and the FRC Review of the Combined Code, we expressed our support for the proposal for a Stewardship Code to be operated by the FRC. In the light of the financial crisis, there is a compelling case for strengthening the chain of accountability and we hope that the proposed code will contribute to this objective.

However, we also expressed the view that the proposed code should not be regarded as the complete solution to what is a complex problem and that careful consideration should be given to the costs and benefits of operating such a code. CIMA would therefore like to see development of the proposed code as part of a broader review of the shareholder's role in good governance. The changing pattern of UK share ownership – and, in particular, the increasing importance of foreign investors – may mean that there is simply not the critical mass of investors prepared to exercise an active stewardship role. It would therefore be appropriate to assess the extent to which the phenomenon of 'ownerless corporations' is a reality and the consequent implications. This should then lead to the generation of a range of possible options designed to address this link in the chain of accountability such as incentives to support greater investor engagement.

Another key factor that could contribute to improved investor engagement is better reporting. CIMA has been engaged in this field for some time now, for example, through its membership of the Report Leadership Group along with PricewaterhouseCoopers and Radley Yeldar. The aim of the group is to improve narrative and financial reporting to make it more relevant and informative for investors. This year, the group is turning its attention specifically to governance reporting with the objective to provide information that will meet investors' needs rather than being compliance-driven and boilerplate in nature. (Further information on the Report Leadership Group is at www.reportleadership.com.)

It is important to have realistic expectations as to what active shareholder engagement can achieve. While the issue of stewardship should be addressed in the current climate, we believe that the area where there is greatest scope for effecting significant improvements in practice is that of boardroom performance and behaviour. It is essential therefore that this remains the primary area of focus for governance reform.

Nevertheless, as indicated at the outset, we support the code as a part of the overall 'governance toolkit' and our comments on some of the specific points raised in the consultation document are set out below.

Comments on the draft code

In terms of the proposed draft code, we believe that it is broadly suitable for acceptance by the FRC in its current form. The seven principles and supporting guidance, together with the 'comply or explain' approach make an appropriate starting point and we would agree that there should be a review process similar to that already in place for the Combined Code. There are a few areas where we think the guidance to the principles could be usefully expanded, for example:

Principle 1 (public disclosure on discharge of stewardship responsibilities)

- The recommendation that investors should disclose their strategy on intervention could be expanded to also include an explanation of how this strategy fits with the overall investment strategy.
- the Supporting Principle to E.2 from the Combined Code (which covers consideration of company explanations for departures from the Combined Code) could be added to the guidance to Principle 1.

Principle 7 (reporting to clients)

This guidance could give examples of what information might be included eg details of skills and resources available for engagement work, examples of actual engagements etc.

Comply or explain

We believe that 'comply or explain' should operate in relation to the code as a whole as well as the seven principles. This would mean that a firm would make a statement as to whether it followed the Stewardship Code or would explain its alternative strategy if not. Those firms that do follow the code should explain how they have applied the principles with an explanation of non-compliance where applicable. However, we believe it is too prescriptive to extend 'comply or explain' to the supporting guidance.

Please let me know if you have any queries on our comments.

Yours sincerely



CHARLES TILLEY
Chief Executive