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By email: stewardshipcode@frc.org.uk

7 April 2010

Our ref: DJOC/SMD

Dear Ms Haan

**Financial Reporting Council:
Consultation on a Stewardship Code for Institutional Investors**

We are pleased to respond to the Financial Reporting Council's consultation document issued in January 2010.

We understand from CP 10/03 that the FSA is still considering its position on whether "comply or explain" disclosure against the Stewardship Code will be mandatory for investors, pending the outcome of this consultation. The majority of the questions asked are relevant more to investment managers and their clients together with investee companies and their boards than to auditors.

We do, however, wish to comment on the question in paragraph 5.14 relating to auditor reporting in respect of such "comply or explain" disclosures. We recommend that auditor reporting should be a voluntary aspect of the Code, allowing the development of market practice in light of customer demand as investment manager reporting develops.

We would not encourage auditor reporting across the whole Code, since some of the provisions of the Code are inherently subjective and therefore not capable of consistent objective assessment by auditors, and any such reporting on subjective matters could also be prohibitively expensive.

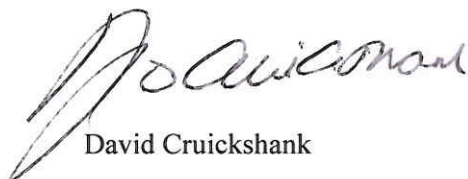
We agree with the FRC that, as suggested in Appendix D, it would be practicable to extend AAF 01/06 to cover reporting on the objectively verifiable provisions of the Code. AAF 01/06 has the advantage that it is already accepted by pension funds, investment managers and auditors; has been developed after due process involving a stakeholder group; and is consistent with applicable international stands including ISAE 3000 and the IAASB's Framework for Assurance Engagements, and therefore has international and not just UK application.

We set out in the Appendix some comments regarding which provisions may be suitable for objective verification. We believe that such an engagement would not be overly costly, particularly for investment managers who already commission an AAF 01/06 report on other aspects of their operations.

If the FRC's exercise concludes that an element of auditor verification is appropriate, we recommend that the ICAEW be asked to develop appropriate control objectives to support the application of AAF 01/06 to the Code, with its stakeholder group comprising representatives of investors, investment managers and auditors.

If you have any questions regarding our response, please contact me, Stuart Diack or Martyn Jones.

Yours sincerely



David Cruickshank

Chairman

For Deloitte LLP

Appendix: Objectively verifiable provisions of the draft code

Auditor involvement with the proposed draft Code should be restricted to those parts of the Code that are objectively verifiable, and not those which are inherently subjective. This is consistent with the approach taken to the auditor’s review of Combined Code disclosures for listed companies. Broadly speaking, the auditor cannot seek to second guess the investment manager’s policies on if, how and why to vote – this is inherently subjective and part of the reason that investors will choose a particular manager.

Principle	
1	Disclosure of policy on how the institutional investor will discharge their stewardship responsibility.
2	Whether the controls in place around identification and management of conflicts of interest is as described. Auditors would not judge whether any particular circumstance was a conflict as this is a subjective matter for each manager.
3	Whether there is a clear audit trail to support votes cast.
4	Inherently subjective.
5	Inherently subjective.
6	Existence of a policy.
7	Periodic reporting on stewardship and voting activities.

The comments above represent our preliminary observations, and would need to be discussed with a stakeholder group to ensure an appropriately balanced range of objectively verifiable controls.