

*(Submitted by email to [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk))*

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Dear Ms Haan

**Response to the Financial Reporting Council's ("FRC") Consultation  
on a Stewardship Code for Institutional Investors ("the Code")**

We are pleased to have the opportunity to provide comments on the FRC's consultation on a Stewardship Code for Institutional Investors ("the Code").

Whilst the financial crisis has demonstrated the need in some instances for shareholders of companies in the banking and financial services spheres to be further engaged and to hold the boards of those companies more fully to account, we have no evidence of this based on our own engagement with investors. Our investors take very seriously their stewardship obligations.

We nevertheless very much welcome both the Code and the greater general engagement with UK listed companies that the FRC hopes will follow from its implementation.

Please find attached our views on the issues for comment set out in the consultation. In this regard, please note that our response does not cover those specific items which the FRC has addressed for comment purely to the investment community.

Should you have any queries please do not hesitate to contact either me or Victoria Whyte, (Deputy Company Secretary) (020 8047 4509).

Yours sincerely



**Simon Bicknell**  
Company Secretary

**RESPONSE TO THE FINANCIAL REPORTING COUNCIL'S ("FRC") CONSULTATION  
ON A STEWARDSHIP CODE FOR INSTITUTIONAL INVESTORS ("THE CODE")**

**1. Consultation Issues**

**a) The FRC would welcome views on its policy objectives against which to judge a Stewardship Code**

We agree with, and are fully supportive of, the policy objectives set out in the consultation.

**b) The FRC is seeking views on whether the FRC should accept oversight of the Code in its current form, or whether amendments should be made before the FRC does so?**

We believe that the amendments set out in our responses to the specific consultation questions below should be made to the ISC Code before the FRC accepts oversight of the Code.

**c) Views are also sought on which institutional investors and agents should be encouraged to apply the code on a "comply or explain" basis, what they should be asked to disclose and to whom, and the monitoring arrangements that should be put in place?**

We believe that all institutional shareholders and voting agents should be required to adopt the Code on a "Comply or Explain" basis.

**2. Other Issues**

**Section 2: Background and Recent Developments**

**d) The FRC would welcome any insights on lessons which may be learned from experience outside the UK.**

We believe that the FRC should seek to work closely with those jurisdictions that have already put in place, or are considering putting in place, codes and disclosure obligations for investors to develop best practice and ensure that, to the extent practicable, there is a degree of coordination and conformity in terms of the spirit of each code. This will work towards preventing the proliferation of a range of disparate codes and disclosure obligations which might otherwise complicate and thereby undermine the efforts of the global investment community to realise the benefits that will flow from such investor codes.

**Section 3: The Coverage of the Code**

**e) The FRC would encourage all UK institutional investors to apply and report on the Code regardless of whether or not they are subject to mandatory requirements, and would welcome views on whether there are any barriers or other reasons that would prevent or discourage them from doing so.**

We believe that the Code should have the widest possible coverage. Provided that the significant benefits of the Code are communicated clearly to institutional shareholders, we can see no reasons that would discourage UK institutional investors applying and reporting on the Code on a "Comply or Explain" basis. The increased accountability through the Code of asset managers to their underlying clients, as the beneficial owners, should bring competitive pressure to bear both from their asset management peer group and their existing/prospective client base in encouraging good stewardship and enhancing engagement with listed companies. In this regard, we believe that it would be beneficial for the FRC or the Financial Services Authority ("FSA") to arrange for a form of educational awareness campaign to be initiated within the UK institutional shareholder and investment management communities to promote and 'sell' the benefits to all of good stewardship and enhanced engagement by investors with UK listed companies.

Given the high level of international ownership of UK issuers we believe the FRC should identify how to encourage foreign investors to adopt the Code in respect of their investment in UK issuers or to work with other countries to seek to establish international best practice, as set out in 2(d) above.

In some circumstances the complexities in the investment chain may require a high level of coordination between the various parties involved in relation to the discharge of an investor's responsibilities under the Code. Where such responsibilities are delegated or split between the parties, any delegation or demarcation, together with its practical implications for the discharge of the investor's responsibilities under the Code, will need to be clearly presented in the information that institutional shareholders and their agents make publicly available and report to clients.

**f) Views are invited on whether agents such as voting services agencies and investment consultants should be encouraged to commit to the spirit of the Code, and if so how this could be done.**

We believe that, with the growth in the use by institutional shareholders of voting services agencies (including specialist corporate governance advisory organisations), it is important for the success of the Code that those agents are also encouraged to commit to the Code in relation to the UK listed company investments for which they have voting responsibilities. As mentioned above, where responsibilities are delegated or split between different parties in an investment chain, any delegation/demarcation will need to be clearly presented in the information that institutional shareholders and their agents make publicly available and that they report to clients. This may also necessitate appropriate cross referencing or linkage between the relevant websites of each organisation employed in the chain. In our view, investment consultants should also be encouraged to commit to the spirit of the Code.

In addition, we believe that institutional shareholders should be required to specify whether they exercise their vote based on their own decision making process or are guided by the advice issued by a specific voting agency.

#### **Section 4: The Content of the ISC Code**

**In particular, the FRC invited views on the following questions:**

**g) What are the responsibilities for engagement of institutional investors to the beneficial owners whose interests they represent? Does the ISC Code cover all the relevant responsibilities?**

We believe that the benefits of enhanced stewardship of UK listed companies (as set out under the FRC's policy objectives within the consultation and the introductory sections of the draft revised UK Corporate Governance Code) could usefully be included in the "Introduction and Scope" of the ISC Code.

**h) What are the responsibilities for engagement of institutional shareholders to the UK listed companies in which they invest? Does the ISC Code cover all the relevant responsibilities?**

Our comment at g) immediately above also applies. We believe that an explicit reference should be made in the "Introduction and Scope" section of the ISC Code to its interaction with the UK Corporate Governance Code. In addition, the practical meaning of the wording at the end of paragraph 2 of the "Introduction and Scope" that states "... and help with the efficient exercise of governance responsibilities" should be made clearer.

**i) Are the respective responsibilities of the different parts of the investment chain sufficiently clear and appropriate?**

No. While the investment chain is recognised in the "Introduction & Scope" section of the ISC Code (for example, in relation to the definition of "Institutional Investor") and in Principle 1, this is an aspect that, in our view, should be further brought out and strengthened in the Code.

**j) Does the Code strike the right balance between the need to avoid over specification that might discourage the application of the Code and the need for it to be effective with an appropriate degree of transparency?**

Broadly yes, subject to our specific comments made in this response.

**k) Are there any parts of the ISC Code where further guidance is needed, or where the existing guidance should be amended?**

Please see our specific comments made elsewhere in this response.

With regard to Principle 5 (Collective engagement by institutional shareholders), it would be helpful for a reference to be included in the Code, through a footnote or otherwise, of how to access the latest guidance issued by the FSA detailing the extent to which institutional investors are able to act collectively for these purposes within the UK's regulatory framework.

Additionally, we believe that there could be greater coordination between some fund managers and their corporate governance functions. This need for internal coordination is a matter that could be highlighted in the Code.

We would also reiterate the point made in our responses to last year's consultations by the FRC on the Combined Code and the Revised UK Corporate Governance Code regarding the range of guidelines and codes that have been developed by investors and other groups. The clarity which came with the creation of the Combined Code was welcomed by companies. It provides a bar against which companies can be measured and evaluated. However, over time,

a plethora of guidelines and other codes have been developed by the investment and governance communities. These often seek to go further than the Combined Code and unfortunately place additional and often conflicting requirements on companies. If institutional shareholders are content that the Combined Code/UK Corporate Governance Code provides the right checks and balances on corporate governance then it would be helpful if these competing codes and guidance notes were withdrawn. This would reduce the burden on companies to keep abreast of the numerous alternative codes and guidelines and help focus their attention on the Combined Code/UK Corporate Governance Code. We therefore believe that this message could be communicated by the FRC when implementing the Stewardship Code in place of Section E of the Combined Code.

Principle 6 - In the interests of transparency we believe that voting agencies should be required to publish on their website a list of clients who subscribe to their service and vote in accordance with their advice. This would help issuers who find it difficult at present to identify who to approach to ensure that an issuers position has been properly understood.

Where the investor determines not to support the Board of a Company they should engage with the issuer in good time before the relevant meeting.

We believe that where an investor outsources the submission of their vote they should ensure that it has been submitted accurately. If it has not been properly submitted before the deadline for proxies we would suggest that investors should take steps to attend the general meeting to vote the shares as they wishes them to be voted. On this basis we do not believe that it is necessary for investors to attend all general meetings – we recognise that this would place an impractical burden on investors.

**I) Whether the ISC Code adequately covers the content of Section E of the Combined Code.**

No. The revised UK Corporate Governance Code has given increased emphasis to the acceptability of non-compliance with its provisions, where a satisfactory explanation is given by a listed company. This increased emphasis should be mirrored in the detailed wording of the ISC Code.

Please see also our comment in the final sentence in our response at h) above.

**Section 5: Reporting, Monitoring and Review**

**The FRC has welcomed views on:**

**m) The information that institutional shareholders should disclose publicly and that they should report to clients.**

Please see our specific comments at q) and s) below.

**n) The arrangements that should be put in place to monitor how institutional shareholders apply and report against the Code.**

Please see our specific comment at t) below.

**o) The arrangements for reviewing the operation and content of the Code.**

Please see our comment at u) below.

**p) The specific information that should be disclosed by institutional shareholders and their agents, and at what level of detail the “comply or explain” principle should apply.**

Please see our detailed comments at q) and r) below.

**q) Whether public disclosure of the information summarised (in Section 5.4 of the consultation) is appropriate and useful, and whether other information might also usefully be disclosed.**

We believe that the information summarised in Section 5.4 of the consultation is appropriate and useful. However, from a listed company perspective, we believe that it would be helpful for details from the institutional investors’ guidelines of when and how they will escalate their activities to also be made publicly available.

**r) On the structure of the ISC Code and on the best way to encourage reporting against it on a “comply or explain” basis.**

We are supportive of the structure of the Stewardship Code.

In our view, the most effective way in which investors should report on a “Comply or Explain” basis against the Code would be for there to be a requirement for a statement as to whether the firm follows the Stewardship Code or an explanation of its alternative ownership or trading strategy if not. If the firm has elected to follow the Stewardship Code, there should then be a requirement for a further statement of how the firm has applied the principles within the Code, in a manner that would enable their clients to evaluate how the principles have been applied, with an explanation of non-compliance against each of the principles and the guidance if and where applicable. Issuers could refer to this to understand how best to engage with the investor.

**s) On the proposals in ISC Code for reporting to clients and the merits of independent opinions from auditors or other professional accountants.**

We are broadly supportive of the proposals in the Stewardship Code for reporting to clients. However, it would be helpful for the Code to provide greater clarification in practical terms of the wording of the final two sentences of the second paragraph of the Guidance relating to Principle 7.

It is obviously imperative that the information that institutional shareholders and their agents make publicly available and that they report to clients is produced to an appropriately high standard and that its integrity is under-pinned. Subject therefore to the FRC being able to ascertain through the consultation that there are cost-effective and tangible benefits from commissioning independent opinions from auditors or other professional accountants, we believe that it appropriate for the Code to retain the recommendation that investors consider obtaining independent assurance certification on their engagement and voting processes.

**t) Possible approaches to monitoring the overall application of the Code.**

We believe that the FRC could usefully work with the IMA and the wider investment industry to further develop or build upon the IMA's existing survey so as to meet the monitoring requirements for the Code. In our view, this should also include a form independent assurance verification of the data gathered.

**u) On the proposed approach to reviewing the Code.**

We support the FRC's proposed approach to reviewing the Code.