

## Issues for comment

### Section 1: Introduction

**The FRC would welcome views on the policy objectives against which the FRC should judge its approach to a Stewardship Code....**

*Our comments:*

Addition to the proposed objectives (re: paragraph 1.14)

- *To ensure an effective continuous review procedure that could lead to sustainable improvements in the relationship between Institutional Investors and their investee companies in the interest of the shareholders*

**The FRC is seeking views on whether it should accept oversight of the Code in its current form, or whether amendments should be made before the FRC does so (paragraph 1.16)**

*Our comments:*

*The FRC should accept oversight of the Code subject to some amendments. Our suggestions for amendments are as follow:*

Introduction & Scope:

- **Include as paragraph 5:** *Institutional Investors as a best practice procedure should sign up to a sustainable stewardship covenants and have well defined stewardship objectives. These should form the basis for their mandates to their fund managers or agents.*
- **Include in paragraph 9, after “The duty of institutional investors is to their end-beneficiaries and/ or clients and not to the wider public”:** *Although the interest of the wider public should be considered in arriving at the best line of action that is most beneficial to the shareholders*
- **In paragraph 10, remove:** *The ISC would welcome their commitment to the Code and may also list those that choose to sign up on the ISC’s website.*

**Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities**

**Include:**

- *Policy on how to approach concerns on serious reporting quality issues*
- *Policy on commitments to long term views of the firm*

- *Policy on whistle -blowing*

**Principle 2: Institutional investors should have a robust policy on managing conflict of interest in relation to stewardship and this policy should be publicly disclosed.**

**Include:**

- *Such policy and procedures should be fair to all parties and should be subjected to continuous review so as to take considerations of current developments and evolving concerns.*

**Principle 5: Institutional investors should be willing to act collectively with other investor where appropriate**

**Include:**

- *Such policy should only be used if it the most economically beneficial to the interest of the shareholders*
- *Such policy should be reviewed on a regular basis.*

**Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity**

**Include:**

- *Instructional investors should seek specialist advice on their voting decisions and also on the potential effects of their voting decision on shareholders' value.*

**Principle 7: Institutional investors should report periodically on their stewardship and voting activities**

**Remove “be” in the last sentence in under Guidance.**

**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 (paragraph 1.17)**

*Our comments on:*

**“which institutional investors and agents should be encouraged to apply the code on a “comply or explain “ basis”**

*We think that all beneficial owners deserve to benefit from a transparent and objective interactions, that is underpin by accountability, between their fund manager and agents the investee companies. Thus all institutional investors and agents should report on their compliance with the Stewardship Code.*

#### **“what they should be asked to disclose and to whom”**

*We think institutional investors should disclose the following for the benefits of the current and potential investors:*

- *Their stewardship covenants and objectives (the objectives may be framed into short, medium and long term perspectives).*
- *Their stewardship policy*
- *Their stewardship strategy(s)*
- *Report of their interaction and engagements with their investee companies in the year. Qualitative as well as quantitative report of those engagements will be beneficial to current and potential investors.*
- *Their assessments of the usefulness of those engagements*
- *Their voting pattern on crucial issues of interest to the shareholders*

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

##### **Does the ISC Code cover all the relevant responsibilities?**

##### **Responsibilities to beneficial owners**

*Our comment:*

- *The Code is fairly broad, however; it should include the responsibility to regularly review their Stewardship policies in keeping with current changes in corporate demand and potential future developments.*

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

**On the arrangements to monitor how institutional shareholders apply and report against the Code; and arrangements for reviewing the operation and content of the Code (paragraph 5.2)**

*Our comments:*

*Monitoring arrangements: This should be shareholder driven. However, the FRC should conduct an annual research aimed at assessing the application of the Code*

*Reviewing the operation and content of the Code:*

- *This should be done biennially.*
- *A committee should be established to undertake this review in the light of current and potential future or evolving events and developments.*

**The FRC would welcome views on 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 (paragraph 5.3)**

*Our comments:*

- *Their stewardship covenants and objectives (the objectives may be framed into short, medium and long term perspectives).*
- *Their stewardship policy*
- *Their stewardship strategy(s)*
- *Report of their interaction and engagements with their investee companies in the year. Qualitative as well as quantitative report of those engagements will be beneficial to current and potential investors.*
- *Their assessments of the usefulness of those engagements*
- *Their voting pattern on crucial issues of interest to the shareholders*
- *How adherence to the Stewardship Code have impacted on their operation and on shareholders’ value.*
- *The total cost of compliance and how they have achieved compliance with the Code.*

**Views are invited on the structure of the ISC Code and on the best way to encourage reporting against it on a comply or explain basis (paragraph 5.10)**

*Our comment:*

- *The Code should be presented in well numbered paragraphs following the approach in the Combine Code.*
- *The principles should be changed for sections to make it easier for all users*
- *Additional explanations with example should provided under the guidance*

*Prepared by:*

*Dr. Ismail Adelo*

*Centre for Research into Organisational Governance*

*Department of Accounting and Finance*

*Leicester Business School*

*De Montfort University*

*Leicester*

*UK*

*Email: [ladelopo@dmu.ac.uk](mailto:ladelopo@dmu.ac.uk)*

*Tel: 0116 257 8138*