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Dear Ms Haan

Consultation on a Stewardship Code for Institutional Investors

1. Introduction

Mazars, the leading integrated international accountancy organisation with over 12,500 professional staff in 56 countries welcomes the opportunity to comment on the above consultation and is very supportive of the development of a Stewardship Code for Institutional Investors. We share the FRC's view that the Stewardship Code can contribute to a significant improvement in the stewardship of UK listed companies.

2. Policy objectives

We support the FRC's proposed policy objectives for the Stewardship Code. We would propose strengthening a couple of the objectives. In the first bullet, we believe institutional investors should do more than *aspire* to the standards laid down (our italics). They should at least be called on to strive to achieve the relevant standards. Similarly, in the fourth bullet, we believe the word 'communication' should be replaced by 'engagement' so that the policy objective would be to contribute towards improved engagement between shareholders and companies in which they have invested.

3. Oversight of the Stewardship Code

We do believe the FRC should accept responsibility for the oversight of the Stewardship Code. As discussed below, we believe the proposed Code could be strengthened. We are willing to leave it to the judgement of the FRC as to whether, as a matter of practicality, this would best be done before the Stewardship Code is promulgated for the first time or whether it is best to publish it in its current form and to look at amending it at the time of the first review of it in two to three years time.

4. Structure of the Stewardship Code

We consider that the Stewardship Code should be developed in a manner similar to that for the corporate governance code for listed companies, ie. institutional investors should be called on to apply the principles and disclose how they have done so and to comply with the related guidance (the equivalent of provisions) or provide an explanation where this has not been followed.

5. Reviewing the content of the Stewardship Code

When it comes to reviewing the content of the Stewardship Code, we believe a specific group should be established for the purpose whose membership is selected, or at least endorsed by, the FRC. The group should be made up of representatives of bodies on the Institutional Investors Committee along with a number of independent members and have an independent chair. The inclusion of independent members on the group and the endorsement or selection of its membership by the FRC will be important factors affecting long-term confidence in the Stewardship Code.

6. The content of the Stewardship Code – areas for improvement

Principle 1 currently says that institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities. We believe this should be strengthened by indicating that institutional investors should give high priority to the discharge of their stewardship responsibilities and allocate sufficient resources to enable this to be done effectively. In particular, we believe that institutional investors should take particular care to ensure that they are devoting sufficient attention to engaging with smaller quoted companies in which they have a reasonable shareholding as well as with their larger counterparts. In the past it has often been said that this has not always been possible due to lack of resources. We consider that, if necessary, additional resources should be utilised to allow an overall increased level of engagement with investee companies. We believe an increase in resources devoted to engagement with investee boards would be more than likely to yield a significant return in terms of additional upside performance in portfolios under management and/or the avoidance of severe losses such as those that occurred in the recent financial crisis.

Principle 3 currently says that ‘Institutional investors should *monitor* their investee companies’ (our italics). We believe it is essential that institutional investors engage with as well as just monitoring their investee companies as the latter may be undertaken without entering into dialogue with them. Indeed the guidance to this principle suggests engagement will only occur on a selective basis. We believe that there should always be engagement at least when the institutional investor is a significant shareholder in the company concerned. Dialogue between shareholders of a company and its board is vital if there is to be a shared understanding of the strategy being pursued and how its implementation is progressing.

We further believe that principle 3, or the guidance to it, should be extended to elaborate on the areas normally to be considered by institutional investors when undertaking the monitoring process. We believe it would be helpful to make clear that they should take an interest in the strategy of the business and how it is being implemented, key risks to the attainment of that strategy, Key Performance Indicators, remuneration matters and issues related to the audit and the appointment of the auditors. With regard to the last point, a number of major accounting firms will be implementing the new Audit Firm Governance Code in the coming year and is important in the interests of both the institutional investors and the wider public interest that there be active dialogue between the investors and audit firms on issues covered by that code.

We note that the ISC Code does not discuss stock lending. As this has been the subject of much discussion in recent years, we believe it would be helpful if it were addressed and if institutional investors were at least called on to disclose their policy on short lending. In this context, the Transparency Directive Assessment Report, prepared by Mazars for the European Commission, calls for making the lending and borrowing of voting rights more transparent.

7. Monitoring arrangements

We consider that a Monitoring Group, whose membership is selected or endorsed by the FRC, should be set up to review the application of the Stewardship Code by individual institutional investors. The composition of the Monitoring Group should include independent members and representatives of bodies on the Institutional Shareholders Committee and have an independent chair. It may be appropriate for there to be a size threshold, perhaps by reference to the amount of funds under management, in determining which institutional investors should be formally subject to the monitoring process.

In addition to addressing any issues relating to the application of the Stewardship Code by individual investors, the Monitoring Group should also review and comment appropriately on the overall level of application of the Stewardship Code by the investment community as a whole. In doing this, it may wish to have regard to surveys prepared by independent third parties as well as to issues arising from its own deliberations. It may be convenient for the Monitoring Group also to be responsible for the periodic review of the content of the Stewardship Code.

8. The Annual General meeting

As your consultation paper points out, the ISC Code is silent on whether institutional shareholders should attend the Annual General Meetings of companies in which they have shareholdings. We believe there should be an item of guidance attached to the appropriate principle calling on them to do so where they have a significant shareholding in a company. We see their attending the AGM and participating in it, as appropriate, and, where necessary, pushing to make it more effective to be important elements of their stewardship responsibilities.

9. Independent audit

We would support the independent auditing of the report by individual institutional investors related to their implementation of the Stewardship Code so long as it is helpful to the Monitoring Group or to other users of an institutional investor's report, eg pension fund trustees. Consultation should be held on which areas independent assurance would be valuable.

10. Further discussion

If you would like to further discuss any of the issues raised in our letter please contact Anthony Carey on 020 7063 4411 or David Herbinet on 020 7063 4419.

Yours faithfully

Mazars LLP