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Dear Ms Haan

### **Consultation on Stewardship Code for Institutional Investors**

The Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) administers the Local Government Pension Scheme for Northern Ireland. It is a funded defined benefit scheme with assets of approximately £3.3billion and appoints a number of specialist asset managers to make investment decisions on its behalf.

NILGOSC welcomes the Stewardship Code and supports the FRC's position in providing an oversight role. In particular, NILGOSC supports the additional disclosures being sought from the asset management industry and the proposed application of the comply and explain principle to the Stewardship Code.

We wish to make the following comments in response to the consultation document:

#### *1 Clarification of Terminology*

The Stewardship Code would benefit from clarification on its application to pension schemes like NILGOSC. The terms institutional investor and institutional shareholder are used throughout the document with no distinction made between pension fund investors and asset managers. Paragraph 3.2 clearly states that pension schemes are included within the term institutional investor. The wording of the final bullet point in paragraph 1.14 would suggest that pension schemes are clients of institutional shareholders rather than falling within the definition itself. It is therefore unclear to what extent investors such as NILGOSC would be expected to comply with those sections of the Code which refer to institutional shareholders, such as Section 5 Reporting Monitoring and Review. Section 5.1 would further suggest that pension funds are clients of institutional shareholders and that the reporting, monitoring and review requirements are primarily aimed at asset managers.

It is our belief that the underlying principles of the Stewardship Code should apply to pension scheme investors such as NILGOSC however our recommendation is that the FRC distinguish between the different types of participant when addressing each principle. As an example, the UN PRI groups its signatories into one of three classes: asset owners, asset managers and professional service partners. This classification would help address the issue of how third party advisors such as investment consultants might fall within the remit of the Code.

## *2 Monitoring Compliance with the Stewardship Code*

The distinction between asset managers and other institutional investors could assist with compliance monitoring which should be tailored to the different signatory groups. NILGOSC supports the proposal for independent audit opinions on asset manager compliance and as a pension fund would find this useful in obtaining assurance that our fund managers are discharging their responsibilities effectively. We do not think that it would be appropriate, or cost effective, to require beneficial owners such as pension schemes to obtain such external assurances.

Instead, NILGOSC believes that an annual self-assessment process, similar to that currently operated by the UNPRI, would be an appropriate monitoring tool for all signatories. The assessment could apply to all signatories, with questions tailored to individual signatory groups. A validation exercise, undertaken by the FRC or appropriate delegated body, would help ensure compliance and consistency across the range of participants.

## *3 Voting Service Providers*

NILGOSC considers that voting and engagement providers should be encouraged to comply with the Stewardship Code where they act in an engagement or advisory capacity only. NILGOSC currently uses a voting service agency to provide independent research and access to a proxy voting platform. NILGOSC does not consider that these services would fall within the remit of the Stewardship Code.

## *4 Voting Disclosure Requirements*

The main barrier to a pension scheme such as NILGOSC implementing the Stewardship Code is resources/cost. As a local government pension scheme, the focus is on delivering good investment returns while administering the scheme in a cost effective manner.

Principle 6 states that institutional investors should publically disclose their voting records however the Code does not clarify what constitutes full disclosure. The disclosure of votes cast at company/resolution level would be a resource and therefore cost intensive activity for NILGOSC which to date has seen no demand for this level of information from the scheme beneficiaries. Disclosing this level of information would therefore result in an increase in the administration costs of the pension scheme. At the opposite end of the spectrum, summary level disclosures, similar to those currently provided by many asset managers, do not identify how votes were cast at a company and/or resolution level.

A balance is therefore required between disclosures at a votes cast level, which is costly and often so voluminous as to outweigh the benefit of disclosure, and summary level data which is often of limited use to the reader. In order to ensure that the spirit of the principle is not lost, and to allow compliance to be monitored fairly and consistently, the Stewardship Code would benefit from further clarification in this area.

We look forward to hearing the outcome of the consultation exercise and hope that the above comments contribute to the process. If you have any queries, please do not hesitate to contact me.

Yours sincerely



**David Murphy**  
**Deputy Secretary**