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Via email: [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk)

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Our ref EP4.013/100.101/rt/PW

Dear Madam

**PwC Comments on the Financial Reporting Council's (FRC) Consultation on a Stewardship Code for Institutional Investors**

We welcome the opportunity of commenting on the FRC consultation on the stewardship code for institutional investors – a code that has been published, as a response to issues raised in the financial crisis, by the Institutional Shareholders' Committee (ISC) and which we understand is supported by a large number of the institutional investor organisations.

We recognise the importance of investor engagement with those companies in which they invest – this is a key pillar to ensure the effectiveness of the 'comply and explain' model of corporate governance in the UK and in many other jurisdictions around the world. We believe that this stewardship code provides an important framework to allow for greater engagement between those acting on behalf of shareholders and companies in which they invest, and we support the application of these code provisions.

In response to this consultation we have the following comments:

- We believe that the FRC should allow sufficient time for the code as currently published to be applied prior to providing any additional guidance or making any amendments. Once the effectiveness of the code has been monitored the FRC and ISC should work together to consider any revisions that may then be appropriate.

- We recognise that a number of investors in UK listed companies are not based in the UK. Nonetheless, UK based investor organisations are well placed to drive ‘best practice’ in the application of the code, and therefore we believe that the FRC and ISC should encourage such organisations to apply all the code provisions, and to do so with an emphasis on the substance of the engagement and interaction and not the form.
- In most cases, the only effective enforcement mechanism on organisations that act on behalf of shareholders is the power of the shareholder to remove control of those shares from that organisation. Consequently, there should be an expectation that all ‘institutional shareholders’ (institutional shareholders, insurance companies, investment trusts and other collective investment vehicles and agents that act on their behalf) wherever they are based and who hold or control shares in companies listed on the main UK share market should ‘comply or explain’ with the code provisions and publish this information, at least annually, on their website.
- As has been seen with the development of the UK Governance Code, the level of information and explanation provided has been modified over time. This recognises that a number of factors, such as proportionality and cost, can influence the amount and ways in which information is provided. To better inform the FRC, institutional investor organisations and shareholders on the way information has been publicly provided we suggest that a review of the information provided by organisations is reviewed, by the FRC and ISC, after at least two reporting cycles.
- Principle 7 of the Code envisages that those who sign up to the Code should consider obtaining an independent assurance opinion on their engagement and voting processes. In our view a minority of the Code principles are not objectively measurable and are unlikely to be the subject of such independent assurance. However, where investors seek to obtain such an independent opinion it would be most cost effective if they included this within their existing reporting under AAF 01/06 or similar standards. Where the investor does not currently produce any reporting on its wider investment management control procedures then reporting in accordance with the guidance in AAF 02/07 might be more appropriate. We also suggest that an assessment of the use of independent opinions should be included within the wider review on the application of the code, as identified above.

Please do not hesitate in contacting Pauline Wallace if you require any further information.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Pauline Wallace' followed by a stylized initial 'CW'.

PricewaterhouseCoopers LLP