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Comments on proposed revisions to the UK Corporate Governance Code and UK Stewardship Code

Dear Chris,

Thank you for your invitation to comment on the proposed changes to the Codes. We believe that the majority of the changes will be beneficial to shareholders and UK plcs. In the interest of brevity I have restricted our feedback to those issues that we believe are most contentious. The section numbers refer to the relevant section of each Code.

UK Corporate Governance Code

B.7 Annual re-election of directors

- We believe that the annual re-election of directors should be extended beyond the FTSE 350 to cover all UK plcs.
  - The annual re-election of directors is an essential engagement tool which protects investors' and directors' interests. It enables shareholders to robustly express their views on the competence and decisions of individual board members (especially the heads of committees) in a timely manner without having to call an EGM*. It also allows directors to leave boards in a timely manner without having to "resign and explain", simply by choosing to not stand for re-election. In situations where there are corporate governance concerns around a particular board member, particularly concerning longevity of tenure, the ability to re-elect for a single year is often a practical compromise. These benefits are no less relevant for smaller companies than for the FTSE350. In fact the more "hands on" nature of small company boards often makes them more relevant. Finally we note that there is no financial cost associated with the annual re-election of directors.
  - *We believe that EGMs called by shareholders are inevitably the result of failed stewardship, are highly disruptive and expensive for both investors and plcs, and should be avoided whenever possible. The annual re-election of directors significantly reduces the need for EGM's, even in extreme cases of board failure.

C.3.1 Audit Committee composition

- We believe that the head of the Audit Committee should be a qualified accountant, especially in the case of companies in the FTSE350. We also believe that that the reasons for this are self-evident.

C.3.6. Tendering of external audit contracts

- We believe that plcs should be compelled to change their external auditor at least once auditor every five years.
    - We believe that this would significantly reduce the possibility of auditors "going native" and reduce the risk of financial mis-statement and/or fraud. Apart from the common sense comment that a pair a fresh eyes, with a different way of doing things, is likely to be more questioning of a company's accounting policies and procedures, we also believe that an auditor who knows that they cannot have an audit for life is likely to be more robust in their dealings with a plc's finance director and audit committee.

UK Stewardship Code

APPLICATION OF THE CODE, 9.

- We believe that the requirement for independent verification of compliance with Stewardship statements should be removed.
    - We find the statements that "the Code is not a rigid set of rules. It consists of principles and guidance", the fact that the FRC allows asset managers to explain rather than comply, and yet still expects asset managers to pay third parties to independently verify their Stewardship policies to be contradictory. The FRC seems to be adopting the approach that it is acceptable for asset managers to avoid all Stewardship responsibility on grounds of cost, but that their clients must take on the costs of verifying that this is the case. We query whether this was the FRC's intention. By increasing the financial costs and documentation requirements associated with having an active Stewardship policy the FRC is likely to dissuade many asset managers, in particular the larger ones, from engaging in meaningful Stewardship activity.

Principle 5

- We do not agree with the statement "collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value".
    - The main purpose of Stewardship is to pre-emptively prevent situations of corporate stress from occurring. Once a plc has reached the point where it is failing financially, strategically or operationally, the soft power of Stewardship is highly unlikely to be effective. We believe the wording should be changed to reflect this fact.
- We believe that in addition to disclosing their policy on collective engagement, those asset managers who claim to participate in collective engagement should be obliged to make public the contact information of an individual or team who can be contacted by other asset managers in order to discuss potential collective engagement.
    - From an operational perspective this would greatly assist real world Stewardship activity. It would also make the management of the collective engagement audit trail significantly easier to manage

Conclusion

I hope that you find these comments to be useful.

Given that our core competence as an investment manager is explicitly as a UK Stewardship specialist, and that our offices are next door to yours, if you would like to meet to discuss any of these comments face to face please do not hesitate to contact me directly.

Regards.

Adam Steiner, CEO, SVG Investment Managers

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