NAPF
Securing the future of pensions

Mr Chris Hodge
Financial Reporting Council
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London WC2B 4HN

13 July 2012

Dear Chris,

Financial Reporting Council Consultation: Revisions to the UK Stewardship Code

The National Association of Pension Funds (NAPF) is the UK's leading voice for workplace pensions. We represent all types of workplace pension schemes, including defined benefit, defined contribution, group personal pensions and statutory schemes such as those in local government. Between them, our members have combined assets of nearly £800 billion, and operate some 1,200 pension schemes. Our membership also includes over 400 providers of essential advice and services to the pensions sector. This includes accounting firms, solicitors, fund managers, consultants and actuaries.

We welcome the opportunity to respond to the FRC's consultation document, *Revisions to the UK Stewardship Code*.

The National Association of Pension Funds has been a strong supporter of the Stewardship Code and has issued guidance for our members on applying the Stewardship Code - we are pleased to note that in excess of 50 pension funds have already publicly declared their support of the Code. We believe the Stewardship Code has the potential to enhance the quality of engagement between institutional investors and companies and the efficient exercise of ownership responsibilities, thus helping to improve long-term returns to shareholders.

We are supportive of the attempts through these proposed revisions to the Stewardship Code to add greater clarity to what is meant by the term 'stewardship' as well as the differing responsibilities of asset owners and asset managers – it is vital that both owners and managers engage with both the letter and spirit of the Stewardship Code. We have set out some comments in relation to the suggested revisions below and we have responded separately to the proposed revisions to the Corporate Governance Code and guidance on Audit Committees.

The definition of stewardship

We support the revised definition of "stewardship" as set out in the introductory section and in more detail in the guidance to Principle 1.

The roles of asset owners and asset managers:

We welcome the attempts made through the proposed revisions to identify more clearly the differing responsibilities of asset owners and asset managers. We agree and support the explicit recognition that asset owners have a stewardship obligation to their beneficiaries and are pleased to see that the Code continues to recognise that most specific stewardship activities are delegated by asset owners to asset managers.

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We agree with the assertion in paragraph 7 of the 'Application of the Code' that increased dialogue between asset owners and their managers is to be encouraged and it is the responsibility of asset owners to hold their managers to account for the quality of their stewardship.

In order to aid asset owners to carry out their responsibilities as set out in paragraph 7, we suggest that paragraph 8 be extended to encourage more meaningful disclosures by asset managers with regards to how they deliver their stewardship responsibilities. Disclosures should include an overview of their stewardship policies with regards to voting; company engagement; integration of ESG issues into investment decisions as well as any broader relevant policy activities. The description could also be expanded to include reference to the resources and capabilities of the asset manager with changes reflected within the annual review of the policy statement (para. 13).

Elsewhere in this section, we believe that paragraph 12 should specify the types of service providers the Code is encouraging disclosures from – e.g. proxy voting advisors and investment consultants.

The use of proxy voting or other voting advisory services

We support the proposed revised wording in relation to the use of proxy advisors. Investors should be transparent about their proxy advisor relationship – including the extent to they follow, rely upon or use recommendations.

Proxy advisors should also be encouraged to be signatories to the Code and should set out transparently the methodology and guidelines they utilise to determine their recommendations and disclose any conflicts along with their procedures for managing them.

Other asset classes

We welcome the revisions which encourage disclosure of whether the signatory applies its stewardship approach to other asset classes than UK equities including corporate debt. It may be beneficial to be more explicit and encouraging signatories to indicate their stewardship approach to UK and global equities; fixed income, property and alternative assets and strategies, including private equity and debt, infrastructure and absolute return funds.

Other issues

In 2010, the FRC acknowledged a number of issues which it believed merited further consideration. Of the issues mentioned it is only that of arrangements for voting pooled funds that has yet to receive further attention.

This is an issue that remains of concern to our members due to current arrangements having the ability to disenfranchise minority shareholders. As such we would encourage the FRC to investigate steps to promote shareholders voting rights within large pooled funds – perhaps in the form of pro-rata voting arrangements.

Yours sincerely,

David Paterson
Head of Corporate Governance