



ICGN

International Corporate Governance Network

Via email: codereview@frc.org.uk

Chris Hodge
Financial Reporting Council
Fifth Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

23 July 2012

Dear Mr Hodge,

Re: FRC consultation on revisions to the Stewardship Code

We are writing on behalf of the International Corporate Governance Network (ICGN) regarding the Council's consultation on revisions to the Stewardship Code. The ICGN is a global membership organisation of over 550 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US\$18 trillion. The mission of the ICGN is to contribute meaningfully to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: www.icgn.org.

We welcome the opportunity to comment on this consultation. We recognise the Stewardship Code as the first such regulatory instrument in the world, and support the FRC's aim of seeking to enhance it over time. The ICGN is a strong supporter of Stewardship Codes, recognising them as a mechanism for delivering the shareholder responsibilities which we regard as a core role of all investors, as set out in our own Principles on Institutional Shareholder Responsibilities (themselves currently under review).

We support the bulk of the changes proposed to the Stewardship Code, which seem significant enhancements to the standards and expectations under it. We believe that the introductory text is helpful and welcome the increased focus on conflicts of interest. We strongly support the intention to encompass asset classes other than equity in the Stewardship Code, and to encourage an international application of the principles of the Code, as well as encouraging the application of the Code by overseas investors in the UK. The ICGN, with its international membership, recognises that there are some concerns regarding the possibility of conflicting responsibilities under different stewardship codes, but our experience of those codes that already exist are that there are no conflicts between the principles and that it is possible to deliver adherence to the spirit and aspirations of all the existing codes. In the context of a 'comply or explain' approach to the codes, we do not believe that there is substance to the concerns about conflicts.

We wonder whether the language could be amended slightly to reflect this, so that the Stewardship Code reads "encouraging the application of principles equivalent to those in the Code by investors in the UK and overseas" instead of the current "encouraging the application of the Code by overseas investors in the UK".

As well as these general comments, we make a few brief specific suggestions below.

Assurance standards

We note the increase in the expectation that investors will apply the AAF 01/06 or SSAE 16 assurance standards to their Stewardship Code disclosures. We believe that there are problems with these standards which the FRC will over time need to address. These problems arise from the approach in the AAF 01/06 or SSAE 16 requirements that they can only provide assurance on matters that are objectively verifiable. This narrows the scope of the Principles and the Guidance which are encompassed by the AAF 01/06 and SSAE 16 approaches, and means that often the most difficult and judgemental elements are not covered. We believe that this risks reducing the value of the AAF 01/06 and SSAE 16 as overall assessments of delivery under the Stewardship Code.

Perhaps more fundamentally, we note that in essence the AAF 01/06 and SSAE 16 assurance approach simply assesses whether in practice the investing institution carries out the processes which it has laid out. It does not assess the scope or the ambition of these, nor whether they are fully capable of delivering the intent of the Stewardship Code. This means that there will often be fewer issues raised by an AAF 01/06 or SSAE 16 assessment of a simple process which may deliver little of practical value to clients and beneficiaries than for an approach which seeks to deliver real value but fails to achieve the high standards it sets for itself on some occasions. It would be hugely unfortunate if the assessment process which the Code requires were to act as a constraint on the standards which investment institutions set for themselves in relation to the Code.

We support the use of the AAF 01/06 or SSAE 16 on an interim basis but we encourage the FRC to begin to consider developing an alternative assurance standard in relation to the Code which does not have these downsides.

Overall drafting changes and further proposals

We welcome the proposed textual changes to the Code. We believe that the introductory text (including the 'application' and 'comply or explain' wording) is a marked improvement on what went before, and that the added expectations with regards to conflicts of interest and collective engagement are extremely welcome. On conflicts, we would welcome it becoming standard practice for institutional investors to disclose at least annually to their clients and beneficiaries their conflicts of interest with respect to stewardship matters (which naturally will be different from their conflicts in their wider operations). We also support the proposed distinction drawn between asset owners and asset managers, as well as the clearer delineation made between voting and engagement activities.

We have one minor suggestion as to a further enhancement of the guidance text to Principle 4. Currently, the third bullet point on escalation suggests that concerned investors might meet "all independent directors". On occasion it may be appropriate for investors to meet all independent directors collectively, but it is also appropriate and normal practice, for investors to meet independent directors other than the chair or SID, and we believe it would be unhelpful if the Code indicated that individual meetings were inappropriate. We note that under Principle 3 the guidance suggests meeting the chair and "other board members" and we would recommend the adoption of the same language under Principle 4.

On Principle 7 we wonder whether "report" is a sufficiently demanding standard to set. A phrase which builds in greater substantive expectations would be "make themselves accountable", meaning that the whole principle might read "make

themselves accountable periodically for the delivery of their stewardship and voting activities". While it is perhaps not helpful to specify what this might mean in practice – and it should be a matter for agreement between the parties – it should be clear that this principle cannot be wholly discharged simply with a limited report of activities.

We would be delighted to discuss the points above or provide additional information. Please do not hesitate to contact Kerrie Waring, the ICGN's Chief Operating Officer, by email at Kerrie.waring@icgn.org or by telephone on +44 (0) 207 612 7098.

Yours sincerely,



Michelle Edkins
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Paul Lee
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