

Mr Chris Hodge  
Financial Reporting Council  
Fifth Floor  
Aldwych House  
71-91 Aldwych  
LONDON  
WC2B 4HN

11 July 2012

Dear Mr Hodge,

### **Consultation on Revisions to the UK Stewardship Code**

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 £3.9billion and appoints a number of specialist asset managers to make investment decisions on its behalf.

NILGOSC considers itself to be a responsible long term investor and votes its shareholdings on a global basis, in accordance with its in-house corporate governance policies. NILGOSC votes on all resolutions, taking into account the level of disclosure available as well as the impact of the proposal on long term shareholder interests.

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

#### *1 The definition of stewardship*

NILGOSC welcomes the definition of stewardship and the clarification on what constitutes stewardship activities in the draft revised Code. The revisions in the introductory sections and the guidance to Principle 1 set out clearly what is expected of institutional investors in discharging their stewardship responsibilities and what should be disclosed.

#### *2 The role of asset owners and managers*

NILGOSC welcomes the clarification provided in distinguishing between the roles of asset owners and managers and the change of wording throughout the document to reflect this. This was one area that NILGOSC raised in the initial consultation of the Code in 2010 as we did not consider that the wording made clear the application of the Code to pension funds like NILGOSC. The proposed revisions clearly identify pension funds as asset owners, while recognising that the division of duties within and between institutions may span a spectrum.

### *3 Conflicts of interest policies*

NILGOSC acknowledges that the amended wording in relation to conflicts of interest policies is to encourage more informative disclosure and is generally supportive of this.

### *4 Collective Engagement*

NILGOSC agrees that collaboration with other investors may at times be the most effective form of engagement and is supportive of the proposal that investor organisations indicate the sort of circumstances in which they might participate in collective engagement as this may help to facilitate more expedient collaborations if the circumstances were to arise.

### *5 The use of proxy voting or other voting advisory services*

In relation to the requirement for signatories to disclose not only whether they use advisors but also the extent to which they use, rely upon and follow their recommendations, NILGOSC supports this in principle as it considers that it is important for signatories to follow their own policies when casting votes and not always follow the recommendations of the advisory service. However, we recognise that the application of this in terms of monitoring and reporting is likely to increase disclosure requirements and increase administration costs. NILGOSC believes that it is important to achieve a balance of disclosure in this area that is both resource and cost effective and which provides information that is meaningful to the reader. NILGOSC considers that the Stewardship Code would benefit from further clarification as to what level of reporting is actually required.

### *6 Stock lending*

NILGOSC acknowledges that a reference to stock lending has been included under Principle 6 as this is an issue of importance in relation to stewardship and supports the proposal that signatories should disclose their policy on the issue. However, NILGOSC believes that disclosure of the policy should be as far as the requirement goes and asset owners and managers should be able to determine what the best policy is for their own portfolios.

### *7 Other asset classes*

NILGOSC views the proposed revision to encourage disclosure of whether the signatory applies its stewardship approach to other asset classes as a progression of the Stewardship Code. While the focus for the Code was originally on UK equities, it is a logical development that the approach would be applied to other asset classes. However, NILGOSC acknowledges that signatories will be at different stages of undertaking and engaging in effective stewardship activities and does not consider that it should be a requirement for signatories to apply its approach to other asset classes at this stage. NILGOSC considers that it is more important for signatories to ensure they get the approach right in relation to UK equities and can then develop this into other asset classes, if appropriate.

## *8 Assurance reports*

NILGOSC supports the revised wording in Principle 7 to state that asset managers should obtain an independent assurance report on their engagement and voting processes and agrees that clients should be provided access to such reports, if requested. This will help to ensure that stewardship activities are being carried out in line with the statements that asset managers have committed to and, as a pension fund, NILGOSC would find this useful in obtaining assurance that our fund managers are discharging their responsibilities effectively. However, NILGOSC does not consider that it would be appropriate or cost effective to require beneficial owners, such as pension funds, to obtain such external assurances.

In relation to the proposal that asset owners should report at least annually to those whom they are accountable on their stewardship policy and its execution, NILGOSC believes that an annual self-assessment process, similar to that currently operated by the UNPRI, would be a useful and more appropriate monitoring and reporting 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 an appropriate delegated body, would help to ensure compliance and consistency across the range of participants and could also help organisations to benchmark their performance.

## *9 Relevance of signatories statements*

NILGOSC supports the proposal that signatories review their policy statements annually and update them as necessary as this will help to ensure that stewardship activities are kept up-to-date and that statements reflect current practice.

## *10 Other substantive changes to the Code*

NILGOSC welcomes the clarification provided in the introductory 'Application of the Code' section in relation to FSA disclosure requirements. The section sets out clearly what information is expected to be disclosed and the purpose of disclosures, while making it clear the choice of whether or not to apply the Code remains voluntary.

NILGOSC also welcomes the proposed revisions that recognise service providers include investment consultants as the current wording in the Code does not make this clear.

Finally, NILGOSC supports the re-formatting of the Preface to the Code into the three sections that follow the structure used in the UK Corporate Governance Code as this makes the document more readable and helps to ensure consistency.

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,



**Ciara Keenan**  
**Acting Investment and Governance Manager**