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Financial Reporting Council

12th September 2023

We should be grateful if you would keep our response confidential and note that we do **not** consent to its being made available to the public.

Subject: FRC Consultation – UK Corporate Governance Code

Dear Sir or Madam,

We welcome the opportunity to respond to the consultation on revisions to the UK Corporate Governance Code. Aegon Asset Management UK plc has £201bn assets under management as at 30/06/2023, £16.7bn of those assets are in Equities. Active stewardship has always been core to our investment offering ensuring that companies are well governed leading to sustainable long-term returns for our asset owners. As such we have been strongly supportive of the various iterations of the Corporate Governance Code as a foundation of the governance regime we expect of the companies we invest in.

We note that changes to the UK Governance code are often copied in other jurisdictions and we welcome the high standards that are being set in the UK.

As a member of the Stewardship Committee and Board of the Investment Association we have been actively involved in the generation of the Investment Association response and are supportive of it. In addition to that collective response, we would like to contribute this letter which makes comment, directly to the FCA, on areas of particular interest.

First, the following points respond generally to the proposal:

Timing of the consultation – There is an ongoing debate on the competitiveness of the UK Listing regime. Many vocal participants in the markets believe that the UK governance landscape is too restrictive leading to companies listing elsewhere. With the changes being made to the Listing rules and Prospectus regime, it feels this is not the right time to be thinking of strengthening the rules around governance in the UK. It may be better to allow the dust to settle around the other changes before launching into a full-scale review.

Principle of Comply or Explain – As mentioned in the meeting held between the Investment Association members and the Financial Reporting Council last week, we appreciate that explanations require more effort on behalf of the corporates and the investors to be useful. However, we find them to be valuable in our understanding of the companies we are invested in and would appreciate as much emphasis being put on the need for good quality explanations to be given rather than viewing the code as being "comply or else". This message may need to be reiterated to the proxy advisors as they make judgements based on these disclosures that may not be in keeping with the concept that an explanation may be valid.

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Codification of market norms – Some of the proposals in the consultation appear to be codifying practices that are ever-evolving, e.g., diversity and climate ambitions. We would advise caution here to avoid limiting the flexibility of the market to change, especially since many market participants are reluctant to use the explanation route. It is questionable whether some of the proposals would add any value to the code, given that much of this activity is happening already.

Specific Feedback:

Outcomes-based reporting – Having been on the investor side of the Stewardship Code, outcomes-based reporting is a difficult concept for some people to comprehend. More guidance will be needed in explaining how this should be tackled.

Requirement for engagement – As I mentioned in our meeting, we are not keen on the idea of a requirement for committee chairs to engage with investors. Neither the corporates nor the investors have time for needless meetings when there is no real issue to discuss. We would prefer alternative wording to the effect that committee chairs make themselves available to engage with investors. We feel that a box-ticking approach to engagement would mean that real conversations will be lost in the noise. It also risks encouraging micromanagement of the organisations in question.

Overboarding of Directors – While the time commitment of directors is ever increasing, which in itself limits the number of directorships that are feasible, we welcome the considered guidance and recognition that no two organisations or directors are identical and that there should be room for good explanation of how time is managed. We would not like the code to be too prescriptive in this regard and would prefer to retain the ability to make judgements on a case-by-case basis.

Risk controls and Reporting – This is an area that has been debated at length at the Investment Association and we agree with the summary included in its response.

Remuneration linked to corporate performance – While we are proponents of the idea that there needs to remain a link between performance and pay, we are concerned that the consultation seems to separate out ESG from other strategic elements. This is contrary to our belief that the ESG metrics chosen to be part of the remuneration structure should be those that are material to the organisation and integrated into its strategy. This would align with the belief that good management of material ESG issues contributes to the long-term financial performance of the companies we invest in. This is another area that is evolving and it may be advisable to be less prescriptive to allow the market to find the most appropriate balance of financial and non-financial metrics, particularly as remuneration has been singled out as problematic for the international competitiveness of the UK Market.

This concludes the Aegon Asset Management UK plc response to the FRC Consultation on Revisions to the UK Corporate Governance Code. This response is in addition to our contribution via the Investment Association.

Yours faithfully

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