



Chris Hodge
Corporate Governance Unit
Financial Reporting Council
5th Floor, Aldwych House
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London WC2B 4HN

Our Ref: TECH-CDR-1125

13 July 2012

Dear Chris,

FRC CONSULTATION ON THE DRAFT REVISED UK STEWARDSHIP CODE

ACCA (the Association of Chartered Certified Accountants) is pleased to respond to your consultation on the draft revised UK Stewardship Code.

ACCA, as a global professional accountancy body with 154,000 members and 432,000 students in 170 countries, is an active contributor to developments in corporate governance in Europe and around the world. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

General comments

We welcome the proposed changes in the draft revised Code. In our response in April 2010 to the draft of the present Code, we suggested the scope should also address the stewardship responsibilities of institutional shareholders to those who entrust their money to them. We also suggested that the Code should define more clearly what it means by 'stewardship' and the responsibilities of institutional shareholders. We are pleased to see that these suggestions have been adopted in the draft revised Code.

We feel, however, that the Code can and should be improved further and would be grateful if you would consider the following suggestions:

Apply and Comply

We note that there are some apparent inconsistencies in the use of the words 'apply' and 'comply'. For example, on page 6, paragraph 2 refers to 'apply' and paragraph 3 refers to 'comply'. We prefer the word 'apply'. The Stewardship

Code consists of principles and guidance. ACCA has long argued that principles should be afforded more importance than provisions in the UK Corporate Governance Code. The word 'comply' seems inappropriate to both principles and to guidance. In our view, institutional investors should apply, rather than comply with, the principles and follow the guidance or explain why they have not. We therefore suggest that the phrase 'apply and follow or explain' is more appropriate than 'comply or explain'. The term 'comply or explain' serves to reinforce the widely held but mistaken belief that provisions are more important than principles.

The Role of Shareholders and Investors

We also think there is some inconsistency between the draft revised Stewardship Code and the draft revised UK Corporate Governance Code in how they articulate the role of shareholders. The latter, in (2) of 'Governance and the Code' on page 1 says '*The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place*'. The draft revised Stewardship Code refers to investors rather than shareholders and does not make explicit reference to the appointment of directors or auditors but sets out a far broader role for investors.

The Meaning of Corporate Governance

This broader role refers to 'monitoring and engaging with companies on matters such as strategy, performance, risk, remuneration and corporate governance, as well as voting'. This phrase implies, wrongly, that deciding on strategy, monitoring performance and having oversight of risk management and remuneration is not part of corporate governance. This is unhelpful and further encourages the box ticking approach to governance which, it is generally agreed, is still a problem. The words 'strategy, performance, risk, remuneration and governance' occur together in other parts of the document (eg in the guidance to Principles 1 and 4). The wording should be amended to make clear that governance includes, rather than excludes, considerations of strategy, risk management, remuneration and performance.

Short termism

The problem of short termism in capital markets remains to be addressed. We suggest that the words 'long term' be inserted between 'enhance' and 'the' in '*So as to protect and enhance the value to the ultimate beneficiary*' on page 8 before the list of stewardship principles and in appropriate parts of the guidance to the principles.

The Importance of Values

The recent pronouncements by the FSA on the LIBOR fixing scandal and on mis-selling of interest rate hedging products have highlighted the vital importance of having the right culture in organisations. ACCA has consistently over many years called for the UK Corporate Governance Code to give greater leadership on having the right values and culture. We suggest that investors, as part of their monitoring satisfy themselves that the company's leadership sets the right moral tone and ensures this tone is reflected in the culture throughout the company. This could be incorporated in the guidance to Principle 3.

Independent Opinion on Engagement and Voting Procedures

Finally, we support the principle (7) that institutional investors should report on their stewardship and voting activities. We are not convinced, however, that the FRC should be endorsing frameworks for the giving of independent opinions on engagement and voting. Independent opinions, although potentially valuable, are usually given on the basis of information and records that are objectively verifiable. Relying only on what is objectively verifiable does not give a complete picture of the quality of engagement or voting.

Please let me know if you would like to discuss any of the above comments.

Yours sincerely

A handwritten signature in black ink that reads 'Paul Moxey' in a cursive script.

Paul Moxey
Head of Corporate Governance and Risk Management