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To whom it may concern,

Proposed Revision to the UK Stewardship Code

We welcome the opportunity to respond to the Financial Reporting Council's consultation on the Proposed Revision of the UK Stewardship Code.

The Quoted Companies Alliance *Corporate Governance Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-size quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, we welcome your work to update your Stewardship Code as it should reflect developments in the governance debate over recent years. We feel that the Stewardship Code plays an intrinsic role in enabling the effectiveness of corporate governance as it encourages shareholder based companies and institutional investors to actively engage in corporate governance in the interests of their shareholders.

Small and mid-sized quoted companies are keen to obtain constructive feedback from their shareholders with regards to matters concerning business strategy and board remuneration. In order for there to be an effective corporate governance landscape in the UK, it is imperative that shareholders are willing and able to challenge directors on issues relating to the company as and when required. The Stewardship Code needs to be developed in order to facilitate better engagement and interaction between investors and small and mid-sized quoted companies as it is regular, direct engagement that helps to foster growth and encourage change.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

General comments

The Stewardship Code is a vital document that forms part of the foundation of the corporate governance landscape in the UK. The task to create and maintain a code for stakeholder and investor stewardship is one that will encounter many challenges. Just as companies vary in their structure, management and strategies, investors and stakeholders vary in their priorities and engagement approach.

Small and mid-sized quoted companies support good stewardship in all of its manifestations as it is important to receive constructive feedback from shareholders. The Stewardship Code is in need of being revised to ensure that stewardship responsibilities continue to progress in line with developments in governance. As the FRC's operation will evolve into the new Audit, Reporting and Governance Authority (ARGA), it will be beneficial to have an updated and strengthened Stewardship Code in the UK that will help raise awareness and performance of stewardship.

From the perspective of small and mid-sized quoted companies, we believe that stewardship should be evidence-based and have a focus on achieving outcomes on material issues, including how to foster growth, rather than solely a policing role. As such, we welcome the introduction of an Activities and Outcomes Report for signatories, which will help all stakeholders to understand and assess stewardship performance.

Q1 Do the proposed Sections cover the core areas of stewardship responsibility? Please indicate what, if any, core stewardship responsibilities should be added or strengthened in the proposed Principles and Provisions.

Yes. In particular, we support the revised definition of stewardship, and we welcome the broadening in scope of the Codes definition to include investment in assets other than listed equities and investment decision-making.

Q2 Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?

Yes. However, it would be beneficial to strengthen some of the provisions associated with service providers, as these are currently quite unclear.

Q3 Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions?

Yes. However, for both the Principles and the Provisions, greater emphasis should be placed on the 'explain' part as this is more important and more telling than application or compliance.

Explaining should arise as a result of effective engagement and dialogue between institutional investors and shareholders. We believe that the Stewardship Code should help to encourage and build a platform for this type of engagement on a regular basis, which will then enable companies to raise public finance in a cost effective manner. That said, there should be a focus on the quality of the explanations and the efforts to achieve those outcomes.

Q4 How could the Guidance best support the Principles and Provisions? What else should be included?

We believe that guidance will help to develop a strengthened approach. We believe the following guidance would be useful for investors:

- Putting in place a system that supports, enables and tracks engagement from investors all year round. Investors should be available to meet directors, Chairman and senior executives as and when requested.
- Publishing a number of case studies to highlight examples of a range of good practice. Due to the continually evolving nature of best practice, a range of examples being published would be more appropriate than a single best practice example.
- Considered and intelligent voting, which is engagement-led and on an informed basis. Smaller quoted companies want investors who are willing to engage in long-term dialogue and will raise and discuss differences in opinion before deciding to vote against resolutions. Furthermore, it should take into account the resources available to the company in question.

As well as this, we feel that companies can encourage and replicate the behaviour of investors through the following guidance:

- Directors, Chairmen and senior executive should be available as and when requested by the shareholder.
- Establishing a platform to consult shareholders on potentially contentious issues.
- Producing an annual report that discloses a comprehensive picture of the company, which includes disclosure of the company's purpose, strategy and structure.

Q5 Do you support the proposed approach to introduce an annual Activities and Outcomes Report? If so, what should signatories be expected to include in the report to enable the FRC to identify stewardship effectiveness?

Yes. However, prescriptive guidance on how to prepare a good report that risks signatories adopting a tick-box approach must be avoided. There is value in setting out a principles-based view of what best practice is likely to be, but this must not be achieved through the adoption of a tick-box approach. It should facilitate a discussion of how growth is encouraged, rather than just compliance.

Q6 Do you agree with the proposed schedule for implementation of the 2019 Code and requirements to provide a Policy and Practice Statement, and an annual Activities and Outcomes Report?

Yes.

Q7 Do the proposed revisions to the Code and reporting requirements address the Kingman Review recommendations? Does the FRC require further powers to make the Code effective and, if so, what should those be?

Following the government's response to the Kingman Review, the control of the Stewardship Code is likely to pass from the FRC to the new ARGA. As such, the FRC must only propose changes to the Stewardship Code which fit within the scope of its currently held powers. ARGA must take control of the more substantial changes to the Stewardship Code in order to ensure that any adjustments made are effective in practice and aligned with the new authority's objectives, which include adopting a proportionate approach. It is essential that the updated Code is properly monitored and enforced by ARGA or another body.

We believe that the Code should have a binary status – whereby signatories either meet the stewardship requirements or do not. This will remove the need for a tiering system and help provide clarity on what constitutes high quality stewardship.

Monitoring and enforcement could be undertaken by the FRC/ARGA or moved to the FCA, where it would be emboldened by the FCA's oversight and enforcement powers. Monitoring and enforcement could be achieved through a combination of checks and removal from the list of signatories. Further enforcement action, such as fines, could be necessary if signatories are clearly demonstrating a lack of effort towards achieving their stated policies.

We believe that the Code should be reviewed every three years in order to ensure it is fit-for-purpose and reflects the continually evolving governance landscape.

Q8 Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?

Yes. In order for stewardship to be integrated comprehensively, it is essential for signatories to disclose this information so that it can guide business purpose and deliver better outcomes for shareholders.

Q9 The draft 2019 Code incorporates stewardship beyond listed equity. Should the Provisions and Guidance be further expanded to better reflect other asset classes? If so, please indicate how?

Our belief is that effective stewardship can be conducted for all asset classes, including public and private. Guidance that follows how stewardship can be adapted for different asset classes would be useful.

That said, if the Stewardship Code extends to include other asset classes beyond listed equities, any additional burdens must not inadvertently fall on smaller companies, who may not necessarily have the resources to cope with the additional requirements.

Q10 Does the proposed Provision 1 provide sufficient transparency to clients and beneficiaries as to how stewardship practices may differ across funds? Should signatories be expected to list the extent to which the stewardship approach applies against all funds?

Yes. There is value for shareholders to receive information about stewardship activities at a fund level in order for the market to truly value stewardship. This may also help eradicate conflicts of interests between different funds run by the same investment manager.

Q11 Is it appropriate to ask asset owners and asset managers to disclose their investment beliefs? Will this provide meaningful insight to beneficiaries, clients or prospective clients?

Yes, it is appropriate. It helps signatory firms deliver on their stated stewardship objectives as it increases their accountability at a top-level by disclosing their investment beliefs. This will also help shareholders establish whether stewardship is a central pillar in the investment approach of a firm or whether their motivations lie elsewhere.

Q12 Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?

Yes, the expectations are sufficiently high.

Q13 Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons.

Yes, we support the notion 'collaborative engagement'. It is a collaboration between a company and all other stakeholders to achieve shared objectives.

Q14 Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?

We do not believe that the Stewardship Code is the appropriate mechanism for investors to escalate concerns about an investee company. Any mechanism, should take into consideration the additional costs and administrative burdens that this may place on companies, and particularly, small and mid-sized quoted companies.

Alternatively, another appropriate channel for escalation would be through a challenge by auditors and investors to drive change at companies where concerns have arisen.

Q15 Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?

The current requirements seem appropriate.

With regards to listed equities, there could be clearer guidance on avoiding empty voting. We believe the FRC should require all signatories to disclose their investment policies/strategy and how this aligns with their stewardship objectives.

Additionally, we believe that it is reasonable to suggest that a signatory firm should abstain from voting if their short position in the investee company is larger than their long position in order for the Code to achieve its objective in delivering "sustainable value for beneficiaries, the economy and society".

Q16 Do the Service Provider Principles and Provisions set sufficiently high expectations of practice and reporting? How else could the Code encourage accurate and high-quality service provision where issues currently exist?

In comparison to the rest of the Stewardship Code, the requirements here are more vague. Strengthening and Expanding the Service Provider Principles and Provisions would help provide clearer market guidance. Other service providers should be held to the same standards of accountability as both asset owners and asset managers, whereby they place stewardship at the forefront of how they operate.

Service providers who follow the Stewardship Code should reciprocate the exemplar approach of asset owners and managers. We support an additional provision that service providers should:

- Publish the policies and principles that guide the services they provide
- Report on any activities intended to deliver their stewardship objectives

Appendix A

The Quoted Companies Alliance *Corporate Governance Expert Group*

Will Pomroy (Chair)	Hermes Investment Management Limited
Tracy Gordon (Deputy Chair)	Deloitte LLP
Edward Beale	Western Selection PLC
Nigel Brown	Gateley
Amanda Cantwell Julie Stanbrook	Practical Law Company Limited
Jo Chattle	Norton Rose Fullbright LLP
Richie Clark	Fox Williams LLP
Jonathan Compton	BDO LLP
Louis Cooper	C/o Non-Executive Directors Association (NEDA)
Edward Craft	Wedlake Bell LLP
Tamsin Dow	Hogan Lovells International LLP
Peter Fitzwilliam	Mission Marketing Group PLC
David Fuller	CLS Holdings PLC
Nick Gibbon	DAC Beachcroft LLP
Nick Graves	Burges Salmon
Ian Greenwood	Korn Ferry
David Hicks	Charles Russell Speechlys LLP
Alexandra Hockenhull	Hockenhull Investor Relations
David Isherwood	BDO LLP
Daniel Jarman Kalina Lazarova	BMO Global Asset Management
Colin Jones	Candid Compass
Damien Knight	MM & K Limited
Peter Kohl	Kerman & Co LLP
James Lynch	Downing LLP
Marc Marrero	Stifel
Efe Odeka	UHY Hacker Young
Darshan Patel	Hybridan LLP
Sahul Patel	FIT Remuneration Consultants
Phillip Patterson	PricewaterhouseCoopers LLP
Jack Shepherd	CMS
Carmen Stevens	Jordans Limited
Peter Swabey	C/o ICSA
Melanie Wandsworth	Faegre Baker Daniels LLP
Kerin Williams	Prism Cosec