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By email: codereview@frc.org.uk

28 February 2018

Dear Catherine,

I am writing to respond to the FRC's consultation on proposed revisions to the UK Corporate Governance Code.

We are very encouraged by the significant emphasis the consultation places on culture, purpose and values and we suggest certain areas where we think this could be further strengthened. We also think the enhanced board oversight of the workforce is a very positive step, and suggest that this could be expanded to all the company's key stakeholders in line with the requirements of a director's duties in the Companies Act. We expect that the enhanced focus on diversity will be very helpful in encouraging further action to build diversity across the organisation. An area that we feel requires particular additional focus, highlighted in particular by certain recent events, is Section 4 relating to audit, risk and internal controls.

It is very helpful for the Stewardship Code and the UK Corporate Governance Code to be aligned in what the ambitions of stewardship should be, and so are supportive of reconsidering the Stewardship Code to bring both up to the same level of aspiration. The duties of the directors should not be any different to the aims of investors that undertake stewardship activities in the pursuit of the long-term sustainable success of the company. While we do not believe imposing topics for stewardship as a requirement on investors is the right approach we do think that further discussion on the definition and purpose of stewardship will be helpful in promoting many of the aspects the enhanced Code and S. 172 of the Companies Act address. Additional disclosure on how stewardship contributes to the investment process and client outcomes should also help improve practices and client understanding of how investors behave in their interests.

We would be very pleased to discuss any aspects of our response with you should you wish, and we look forward to continuing dialogue with you as your thoughts on the Stewardship Code develop. You can contact me at freddie.woolfe@omglobalinvestors.com or on 020 7332 7637.

Yours sincerely,

Freddie Woolfe
Head of responsible investment and stewardship, Old Mutual Global Investors

**UK Corporate Governance Code**

**Section 1 – Leadership and Purpose**

We are fully supportive of the proposed revisions to highlight and reinforce the importance of the board's role in setting the company's purpose, culture and values.

The significant role corporate culture and purpose play in securing the success of companies is consistently underestimated. The generation of cash flows and profits, and as a result shareholder returns, is not a right of business but a function of the many relationships the company has with its employees, its customers, its suppliers and other important stakeholders, as well as its impact on the environment and its reliance on society. A key part of knowing which of these relationships are most important to a company's strategic delivery and how to manage them optimally comes from an understanding and an articulation of who the company serves, how it does it and what it looks to achieve in doing so. The worst (and too often heard) response to the question "what is your strategy?" is "to generate shareholder returns"; shareholder returns are the result of having run a business in a sustainably successful way, not the strategy itself.

Conversely, we struggle to think of many corporate failures that cannot be tracked back to a failure of corporate culture, values and purpose. At worst this involves destructive behaviours and practices authorised by the leadership of the organisation which eventually bring the company to failure as the pursuit of short-term gains jeopardises the company's long-term future. However, even the strictest policies, the tightest controls and the most comprehensive audits are unlikely to be able to compensate for human behaviour that wants to contravene them, leaving companies potentially exposed to significant risks by the actions of a small, culturally mis-aligned few.

Board leadership therefore is essential, and we propose that the Code should stipulate that the directors should "*define*, embody and promote the desired culture of the company" in Provision 2. With this amendment we think there is also an opportunity to add reporting on the main aspects of the company's culture and how the board satisfies itself that the behaviours it embodies and expects are reflected throughout the organisation, rather than just when things go wrong as Provision 2 implies.

It should be noted that ensuring cultural alignment throughout the organisation is no small feat for many companies. While we are of the view that the entire board should have responsibility for setting and promoting the company's culture, the role of the audit committee, in particular, could be strengthened in the oversight of related controls and the results of those controls. The remuneration committee's enhanced oversight of compensation practices throughout the organisation provides another natural connection into the culture of the company. We expand on both of these points in our comments in Sections 4 and 5.

As alluded to earlier, we believe that a company's social licence to operate is essential to its sustainable success and long-term shareholder value, and so we are very pleased to see references to wider society in Principle A. However, in its current form, Principle A suggests that contributing to wider society is the role of the board, whereas in our view societal impact and contribution extends well beyond the board to the result of how the whole business operates, and indeed strikes at the heart of the company's purpose. We also see the company's interactions with its main stakeholders and the impact of its environmental externalities as key drivers of long-term, sustainable performance.

We therefore suggest that the first sentence of Principle A should be broadened to the below, which would also align it more closely with the requirements of Section 172 of the Companies Act (S. 172): A successful company is led by an effective and entrepreneurial board, whose function is to promote the long-term sustainable success of the company *with consideration of the interests of the company's key stakeholders as well its contributions to wider society and impact on the environment, thereby generating value for shareholders.* The board should establish the company's purpose, strategy and values, and satisfy itself that these and its culture are aligned.

**Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?**
We agree that the board should have a mechanism for ascertaining the views of the workforce, indeed we struggle to understand how a board could operate effectively and steer the company for long-term success without doing so. This comment applies to the board's understanding of the views of the company's other important stakeholders as well.

S. 172 makes clear that every director has a duty to consider the interests of a company's employees. It is, therefore, important that the result of this mechanism involves engagement from the whole board, with a focus on its effectiveness and oversight of the company's relationship with a key contributor to the company's performance and success. While we understand that the choices presented have come from the UK government's paper on Corporate Governance Reform we believe that the focus in the Code should be on the desired outcome rather than the structure itself. A list of options risks meaningless compliance rather than engagement with the aim of the provision which is to ensure directors have sufficient understanding of the opinions and experiences of the workforce; recommendations on the structures should be put in guidance documents. It is also not clear to us why this Provision has been limited to only employees when S. 172 refers to a range of important stakeholders; we therefore recommend expanding it to reflect all the company's key stakeholders.

Principle 3 also references methods for the workforce to raise concerns anonymously. It would be helpful for the Code to be clear that the board should also have oversight of the complaints and how they have been followed up, rather than just the means themselves and the arrangements for follow-up. We also think it is important for the Code to stipulate that some issues require direct escalation to the audit committee and board, such as concerns about management behaviour or matters relating to finance.

**Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?**
The UN Sustainable Development Goals (SDGs) are rapidly becoming the mainstream framework for assessing and reporting on sustainability, moving from measuring just negative impact to considering positive contribution as well. While at the moment this applies in the main to companies we anticipate that the fund management industry will increasingly be challenged against its own contributions to the SDGs in its investments. We would hesitate to include reference to them in the Code itself, not least as reporting against them is not mandatory, however mentioning the broad interest in the SDGs in the guidance would be helpfully supportive to their continued uptake and development. We would make similar comments regarding the Taskforce for Climate-related Financial Disclosures (TCFD) reporting recommendations.

**Q5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?**
We agree that requiring companies to provide an update within six months of the vote is helpful, not least as it ensures the company engages or is transparent if it hasn't done so. The table in the consultation document shows that there remains a number of companies that provide no comment on significant votes against.

In our experience, however, even where comments are provided few are particularly useful. We therefore believe that there is an opportunity to strengthen this aspect to require disclosure of what the main points of feedback have been, how the board has responded/intends to respond and why this is the most appropriate course of action. We also think that this addition would help to highlight that a 20% vote against management in and of itself isn't bad – indeed it is a difference of views that makes the market in the first place – but that the problem the Provision looks to address is when boards do not act to understand the views of engaged shareholders.

On a technical point, the Code should be careful to reference *votes cast against management's recommendations* rather than simply votes cast against, in order to apply the same logic to shareholder proposals or other instances where management may recommend voting against a resolution.

**<u>Section 2 - Division of Responsibilities</u>**

The consultation introduces two important changes of nuance in this section, namely the independence test and the definition of the chair as independent.

*Independence testing*
On the independence test, we do not believe switching the focus of the Provision to a list of red lines when determining director independence is a positive step. We worry it will be seen as more of a check-list beyond which a director can be deemed independent whereas in reality independence and effectiveness is much more about objectivity and mind-set. It is possible to imagine a board comprised of individuals who meet none of the criteria but who have a range of other connections that clearly means they are anything but independent.

If the result of the consultation is to make this change we believe particular caution is required with the last two items. It is not clear to us that a significant shareholder in a company can never be independent; indeed we can recall many circumstances where they have been particularly objective and challenging, and have helped shake up an entrenched board. The most obvious example would be activist nominated directors, however even where anchor shareholders take board seats by the size of their shareholding, we do not think their independence or lack thereof is clear cut. An additional challenge is the lack of definition of "significant" in this context, and we would struggle with applying a fixed percentage of the issued shares to the determination. Overall, we think it would be helpful to remove this from the list, or at least make clear that the assessment is subjective and will not apply in all circumstances. Please see our response to questions 7 and 8 for comments on the tenure limits for independence.

*Independence of the chair*
Regarding the chair's independence, while we agree that it is right that they should be independent on appointment it is not clear to us, particularly at larger companies, that they should remain independent throughout their tenure. The nature of a chair's role means that they will develop a relationship with the executive that is closer than that of the other non-executives, and indeed we hear that these roles at large companies can involve near full-time participation. In some cases they might therefore fail a "common sense" test of independence even if they passed all the criteria in Provision 15, which we do not see as unacceptable in all cases.

**Q6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.**
We see no reason why this exemption should be retained. The benefits of a quality, robust assessment of board effectiveness (which surely must be conducted at least occasionally by a third party for a fully independent view) far outweighs the potential monetary costs of the process for companies to whom the Code applies.

**Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?**
We are very wary of time limits for determining director independence, if the ambition is to secure a more effective board. While we find it self-evident that a board member is more likely to take an objective view if they have joined the board recently than they would be if they had served for a decade, none of the attributes of a non-executive director highlighted in Principle G naturally diminish after nine years.

We think it is more meaningful to focus on board effectiveness, and how the individuals contribute to the success of the board as a whole. In this context it would be more helpful for the Code to reference the average tenure of the board rather than that of the individual directors, and expect refreshment of longer-serving board members when the board as a whole appears long-tenured. This should avoid strongly-performing and value-adding directors resigning from boards for the sake of complying with an arbitrary tenure number and give the company more flexibility in how it balances valuable experience with fresh views.

**Q8. Do you agree that it is not necessary to provide for a maximum period of tenure?**
Yes.

**<u>Section 3 – Composition, Succession and Evaluation</u>**

*Diversity*
Essential to ensuring an effective board is securing board members with the best backgrounds and skill sets to steer the business. There are many considerations within this, including the main drivers of value and risk within the business, the geographic footprint of the company and the profiles of the customer base and the workforce. We therefore assess board diversity and succession planning in this context, and expect boards to be able to explain why the current composition of the board is right for the company's particular circumstances and would like to see more disclosures to this effect. We expand on this more in questions 9 and 11.

*Board effectiveness reviews*
As outsiders we rarely get genuine insights into how boards operate and whether they are effective or not. The Code's requirement in Principle K is clearly designed to assist with this by providing a framework for boards to assess their own effectiveness. Unfortunately, reporting to investors in this area is rarely insightful and we have seen very recent examples of companies who publish that the board and the directors are highly effective in the annual report shortly before a major failure of governance at the company.

The additions to Provision 23 we think will be helpful in promoting better and more insightful disclosure. We wonder whether there could be additional emphasis on being clear what the outcomes have been, the actions taken *and the extent to which those actions have improved the effectiveness of the board* to focus more on the benefits of the process. We also think it would be helpful for Principle K to reference how directors *contribute to the long-term success of the company* as much as the degree to which they have met their objectives: after all, if the objectives are flawed the board might well have still fulfilled its expectations even in the event of significant problems.

**Q9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?**
Yes, we think the proposed changes should encourage further action to build diversity across the organisation.

We are fully supportive of the intentions of Principle J to further improve diversity on UK boards, however are concerned there could be some confusion in its meaning. While we completely agree that appointments and succession plans should be based on merit and objective criteria, it is not clear to us that this process should *promote* diversity of gender etc., but rather be done *with particular reference to* the following attributes. The important point is that boards should comprise the best people with the right backgrounds and attributes for the company's particular circumstances; there is a risk that the word "promote" adds additional duties to the process which might not result in optimal board composition.

While we understand the intention, we are not certain that the requirement under Provision 23 to report on how diversity supports the company in meeting its strategic objectives will produce particularly insightful disclosures as the direct link is not made clear. Wording such as *an explanation of how the board ensures the company's diversity profile in the boardroom and across the organisation is optimal for the* *company's success* might get to the desired intentions of the Provision while being more explicit on the purpose of the disclosure.

**Q10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.**
Yes.

**Q11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.**
While intuitively we see no reason for anything other than an equal gender split on boards, an expected level of ethnicity is not as clear cut. Expectations on diversity of ethnicity will vary substantially depending on the profile of the company's workforce, its geographic footprint and its customer base among other considerations. It is therefore not clear to us that disclosure of the numbers alone will provide useful insights. We would find additional disclosure on the company's strategy for ensuring that it has the right ethnic representation at all levels a particularly useful additional disclosure as a foundation for analysis and engagement on the topic.

**<u>Section 4 – Audit, Risk and Internal Control</u>**

*Culture*
As mentioned in our response to Section 1, we believe there is an opportunity to strengthen the audit committee's role with regard to culture and related risks. Policies and controls alone are never going to be a sufficient mechanism to promote cultural alignment across an organisation, but they are an important line of defence in protecting the company against cultural risks. We have numerous examples of where destructive behaviour has persisted within an organisation because the understanding of where the cultural risks, and therefore the related required controls, were poor. This is particularly the case for MNEs where local market practices and behaviours can be significantly different to those expected, and therefore planned for, in the UK. Likewise a positive culture that is understood and reflected throughout the organisation is likely to promote better risk management and longer-term thinking. The added board-level focus on culture in the consultation is an ideal opportunity to highlight the important link between culture and risk in the Code, for example in Provision 25 by requiring that the audit committee must satisfy itself that the company's risk and controls framework is appropriately designed to promote and protect the culture set by the board.

*Internal controls reporting*
More generally, internal controls statements continue to be 'boilerplate' and unhelpful. A read through some examples of these statements where issues have subsequently been discovered (and seemingly known about at the company despite the poor disclosure) demonstrates how difficult it is to pick out any useful insights and in many ways calls the whole requirement into question. We wonder whether strengthening either Provision 28, or adding text to Provisions 26 or 29, to the effect that the board should identify the key internal controls it focuses on, explain why they are important and how the board has satisfied itself that they are robust (much like the audit committee's significant issues with the financial statements disclosure), could result in some major improvements in this area of reporting and better board-level engagement.

*Viability statements*
The FRC Lab's work on risk and viability identified some good examples of viability reporting, however these are few and far between; indeed the consultation document references Grant Thornton's observation that 51% of FTSE 350 companies provide little or no insight into their long-term resilience. For example, even companies with particularly long-term investments and contractual obligations such as those in the extractives industry talk about their ability to continue in operation over only three years. We have not seen a viability statement in that sector make reference to the company's ability to respond to

carbon regulation, which is surely one of the biggest question marks over the long-term viability of the whole industry.

Furthermore, there have been a number of recent examples of where the governance around these statements appears to have been (in some cases fatally) flawed. This was poignantly exemplified by the recent collapse into administration of a company whose viability statement in the previous annual report reported that “the Directors believe they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.” Another company recently, shortly after a change of management, announced a large rights issue and suspended the dividend despite having made a similar statement in its previous annual report. It appears to us that viability statements are not working in the way they were intended to.

We think there could be a number of ways to improve the disclosures. Firstly, it would be helpful to explicitly decouple the timeframes for consideration of prospects and viability in the Code. This would allow companies the opportunity to discuss their longer-term prospects and challenges without the need to make similar projections on viability, which boards might feel they have shorter-term visibility on. Secondly, it would be useful to be explicit on the link to strategy, risk and business model in the assessment of prospects. Thirdly, we think it would be helpful to require disclosure on the stress testing that the company undertook, the scenarios it used to reach its conclusions and the outcome of the scenarios. There will be many more ideas for how to make these disclosures more useful and relevant and, importantly, more impactful for the reporting company and we would hope that the Lab could be a good source of inspiration for further strengthening this area of the Code.

**Q12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?**
Yes.

**Q13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.**
Yes.

**<u>Section 5 – Remuneration</u>**

**Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?**
We are highly supportive of the increased remuneration committee remit over workforce pay, and the related reporting requirements.

Charlie Munger once quipped “show me the incentive and I’ll tell you the outcome”. The benefits of this insight clearly extend much further than executive pay. Giving the remuneration committee this additional responsibility will be another cultural touchpoint for the board, and should give it more visibility into and accountability for the behaviours that incentives create within the organisation. It will also provide a particular board-level connection with and responsibility for the forthcoming pay ratios.

In this light we believe that the language of Provision 33 could be strengthened to “It should oversee *and ultimately be accountable for* workforce policies and practices, and take these into account when setting the policy for director remuneration”. While we do not expect remuneration committees to replace the HR function, we do believe they should have the ultimate say over and responsibility for compensation policies, and so we look to hold them accountable where we see compensation practices across the organisation as having failed.

The consultation document mentions that this work could be done by other committees in paragraph 85. We strongly disagree and believe that the remuneration committee is best placed to oversee and be accountable for compensation policies and practices throughout the company.

**Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?**
We remain concerned by the general uniformity of executive incentive schemes, and find it hard to understand how many are linked to long-term value creation. While the performance metrics will vary across companies the underlying structures are consistently similar, with many now adopting three-year performance testing with five-year vesting in the long-term scheme as a matter of established practice rather than an engaged decision as to why five years is the right timeframe for the business. Even the restricted share schemes that certain companies are consulting on, which we had hoped would be an opportunity to rethink the whole structure of a company's long-term incentives, tend to stick to five-year vesting or thereabout and appear simply to constitute a de-risked LTIP.

We would therefore strongly favour removal of the stipulation of five years in Provision 36. The performance testing and vesting schedules of awards should be linked to the timeframes relevant for strategic success and value creation in the business. We would, for example, expect that for an IT business this will be shorter than for a pharmaceuticals company. We worry that referencing five years in the Code will restrict any advancement beyond that.

While we have been critical of some deferred share schemes in our comments above, we are very keen to promote innovation in executive compensation and so believe that it is important that the Code does not become overly prescriptive such that it might hinder this. While we are supportive of the general themes in Provision 40, we question whether some of the language, particularly in the section on proportionality and reward for individual performance, risks limiting different structures. For example, we do not believe that all incentive schemes should be required to be tied to individual performance. Additionally, it is not clear whether a "demonstrable link" involves performance conditions or not – certainly Principle P implies that it should – and whether share price is considered a performance condition or not. The prevalence of performance conditions has been one of the main contributors to complexity and short-termism in executive compensation.

In the interests of continued debate around alternative incentive structures we believe Principle P could be simplified to: A formal and transparent procedure for determining director and senior management remuneration should be established. *Executive compensation should clearly and simply be linked to the successful delivery of the company's long-term strategy and aligned with the company's culture, purpose and values.*

**Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?**
We very much hope that the inclusion of reference to discretion in the Code will reinforce the importance of boards to consider its use. It is helpful for boards to realise that where it is not clear how compensation outcomes have linked to performance, investors will make broader inferences about the boardroom culture and the degree to which directors challenge management.

We are yet to see more than a few examples of clawback being used effectively, despite several cases where we would believe it should have been. We suspect that this is because clawback policies are worded so tightly that it becomes very hard to trigger them, rendering them impotent in all but very few situations. We wonder whether there is in fact a perverse outcome in the specification of the circumstances in which it would be appropriate to use clawback under Provision 37, in that boards end up being overly restricted in when they can use it, and suggest that the FRC should consider removing them. We note that discretion is more regularly applied, perhaps at least in part because the specific triggers are not so clearly defined in advance.

**UK Stewardship Code**

We think it is very helpful for the Stewardship Code and the UK Corporate Governance Code to be aligned in what the ambitions of stewardship should be. This will make clear that both boards and investors are responsible for good stewardship, as well as ensure that both Codes are brought up to the same level of aspiration. The duties of the directors should not be any different to the aims of investors that undertake stewardship activities in the pursuit of the long-term sustainable success of the company. We therefore see every reason to include references to purpose, culture and values, as well as wider society, reflected in the Stewardship Code as important aspects of stewardship in the interests of promoting long-term, sustainable business success. In a similar vein, making reference to the topics in the legal requirements of directors in S. 172 would helpfully introduce material environmental and social topics as core aspects of stewardship.

As we suggest in our earlier comments to Section 1 of the Corporate Governance Code, we believe that all of these aspects can be fundamental drivers of a company's success. However, it is necessary to recognise that the factors that will be material to a particular company will vary according to its industry and circumstances, and so we would caution against providing a list of topics that investors <u>must</u> consider in every case in order to avoid detracting from the investment-relevant issues. Additionally, if an issue is material and an investor does not focus on it this might simply reflect the quality of their investment abilities rather than be seen to be a failure of stewardship. As expanded on below, we think that enhanced disclosure requirements will achieve many of the intentions of an S. 172 requirement for investment managers and improve stewardship behaviours without imposing processes on firms.

*Disclosure and transparency vs best practice expectations*
As mentioned above, we believe it is right to align the aims of the UK Corporate Governance Code with the ambitions of the Stewardship Code in the interests of ensuring that both work together to improve stewardship in the UK. However, we do not think that a change of focus from transparency to best practice expectations in the Code is necessary or indeed desirable in order to achieve this.

For stewardship to be most effective it must be an integral and influential part of the investment process. It makes little sense to us to separate the process of investing clients' money from the process of exercising the resulting responsibilities as owners of the investment. We have often heard that companies receive different messages from the investment staff and the stewardship resources within the same investment house, which is clearly unhelpful and counter-productive. It also means that directors are all too rarely held accountable for their actions and the company's performance, which perpetuates bad governance and restricts innovation when "established good practice" might not be most applicable for a company's particular circumstances.

As an integral part of the investment process stewardship is intellectual property belonging to that investor, created as a result of their belief as to whether and how it will help them improve outcomes for their clients and succeed as a business. For example, a quantitative fund owning thousands of equities with significant portfolio turnover is rightly going to have substantially different stewardship requirements and processes to those of a concentrated long-only fund with 10% annual churn. In the same way as the UK Corporate Governance Code does not look to tell companies how to produce widgets, the Stewardship Code should not seek to tell investors how to act as stewards of their investments. Indeed, we worry that a list of expected behaviours and activities risks encouraging box-ticking and puffed up reporting rather than genuine behavioural change.

Instead, we continue to believe that disclosure and transparency are more likely to result in better stewardship outcomes. With an updated definition of the purpose of stewardship and a requirement to report how it contributes to client outcomes, the Code should encourage investors to choose which approach is right for them with reference to their investment processes, timeframes and client expectations. The transparency provided allows those investors' clients to make an informed choice as to whether their stewardship activities match up to their expectations of how they would like their investment managers to behave and the outcomes they look to achieve.

In this light we can see merit in the Code highlighting the ability (rather than imposing the requirement) to provide fund level reporting on the various approaches to stewardship should they differ across the organisation. This might not be particularly relevant to investment houses that have common investment processes across their desks, however for others with a more diversified range of styles and strategies it would help provide more transparency and granularity.

Below we set out some initial thoughts on how to promote more meaningful stewardship activities and disclosure in line with the intentions of the Corporate Governance Code revisions and S. 172.

- Develop the definition of stewardship (i.e. promoting the long-term success of the company) with explicit reference to alignment with the intentions and topics of the UK Corporate Governance Code and S. 172. This would further highlight the dual responsibility for stewardship of boards and investors and act as a framework for considering the key issues involved. Additional discussion on the definition and purpose of stewardship will also be helpful in developing market understanding and expectations of the activity.
- Place significant emphasis on the role that holding boards accountable plays in stewardship as a platform for constructive dialogue, and highlight the importance of the connection between investment processes and stewardship activities.
- Require investors to set out if and how stewardship contributes to their investment processes as well as what they did and how this enhanced outcomes for clients. This would encourage additional disclosure in line with how investors help promote the long-term success of the company according to their investment styles without suggesting their duties are to anyone other than their clients. It would also help clarify that stewardship is most effective when part of an investment process.
- In order to place focus on the purpose of the investor and how their activities support and promote the interests of their clients the Code should include requirements to disclose how investors determine their stewardship priorities and the key aims of this activity.

*Alternative ways for the FRC to highlight best practice reporting*
We would be very supportive of a Lab-style approach to promoting best practice and innovation in stewardship reporting. Our experiences of the Lab so far have been very positive and we have been pleased to see the extent to which it is able to drive improvements in reporting by collating the views and experiences from a range of stakeholders.

*Signatory categories*
We do not believe that there is a requirement for multiple Stewardship Codes to address the needs of the various signatory categories. While we think that the Code could be enhanced in line with our suggestions above we do not think it should be so prescriptive that it requires different Codes for each type of signatory, certainly not at least for asset owners and managers.

Additionally, it is not clear to us that a category for service providers is necessary. As the Code explains, stewardship is the responsibility of investors and cannot be delegated; the total outsourcing of important decisions and processes, such as proxy voting policies and ESG analysis, is to the detriment of stewardship as it breaks the connection with the investment process. The inclusion of service providers in the Code risks implying that reliance on outsourcing can absolve the investor of any further responsibilities, which we are certain is not the intention and is a long way from where good practice stands today. Service providers clearly play an important role in good stewardship and indeed we rely on them in our own processes, however they are not the stewards themselves and so we would favour removing their category.

*Independent assurance*
Unfortunately, we have heard very few positive comments regarding independent stewardship assurance. At OMGI, while we keep the option of external assurance under consideration, we use our internal audit department to challenge our stewardship activities, which provides a robust and independent challenge

and has resulted in a number of improvements to our processes. We do not think that external assurance, conducted by firms that are not subject matter experts, is anywhere near as challenging or innovative. We think it would be helpful for the Code to focus on the quality of the process (i.e. the independence and challenge) rather than the outcome (the certification) in the requirement and make clear that an effective internal audit can achieve the desired result.