



THE INVESTOR FORUM

Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

28 February 2018

Dear Sir or Madam,

Initial consultation on the future direction of the UK Stewardship Code

Thank you for your request for input on the future direction of the FRC Stewardship Code, in preparation for a full consultation in 2018. The Investor Forum is aware that many bodies, including the Investment Association, are providing comprehensive responses to this consultation. Our comments are from the perspective of practitioners who facilitate collective engagement by investors with UK-listed companies.

The Investor Forum is committed to positioning stewardship at the heart of investment decision-making. We do this by identifying, and facilitating dialogue on, material issues that impact the long-term success of businesses. The Forum now has 39 members with £700bn invested in UK equities or 30% of the FTSE All Share Index, and has undertaken collective engagements with 18 companies.¹

The UK broke new ground globally when it published the Stewardship Code in 2010, but the stewardship landscape has evolved significantly in recent years. Defining investor stewardship is complex, and the role of the Code needs clarification.

As the FRC formulates a process to review the future direction of the Code, it would be useful to publish an analysis of the Code's effectiveness to date in achieving its objectives. A clear focus on purpose, objectives and evidence will help to frame the forthcoming consultation and encourage useful responses.

The Forum's experience engaging with companies on behalf of investors has provided insights which may prove useful in promoting effective stewardship. In particular:

- The “comply or explain” format has proven useful in raising accountability while allowing investors flexibility for unique circumstances. A narrative approach (even when “complying”) allows a qualitative assessment of stewardship activities and supports development of best practice. However, for a “comply or explain” approach to be effective, investors need to describe how they evaluate their stewardship activities, including outcomes and effectiveness.
- The time, energy and resource required to discharge stewardship responsibilities effectively is considerable. The FRC should consult on a framework to support a consistent approach to evaluating stewardship activities, involving enhanced disclosure and external assurance mechanisms.

¹ An update on our activities can be found in *The Investor Forum Review 2017*, available on the [Investor Forum website](http://www.investorforum.org.uk).



- A principles-based approach is likely to prove more effective than a prescriptive “one size fits all” approach. We have learned that all types of investment firms and strategies can benefit from high quality stewardship activities, including large and small asset managers and owners, active and indexed strategies, and those managing equity and fixed income assets.
- “Best-practice” guidance would be useful for various participants in the investment chain. The practices, role and use of investment consultants and proxy agencies requires further transparency and scrutiny. The complexity of this eco-system is a source of frustration for companies, investors and indeed the consultants and agencies themselves. The clarification of roles and responsibilities of all parties is vital to improving the level and quality of stewardship activity.
- Our experience is that collective engagement by investors can have a meaningful impact with companies and is cost-effective. Membership of the Investor Forum and active participation in our activities is a tangible indication of how our members discharge their stewardship responsibilities and is often cited as one element of “best practice” in stewardship.
- Our work has highlighted the need for the Code to take into account how investors can be encouraged to work with companies to solve complex issues. To be successful over the long-term and enhance franchise value, companies need to have keen regard to ESG issues and the interests of their wider stakeholders. In our experience, a flexible and bespoke approach works better than a “tick-box” approach to help focus on the issues most material to an individual company, adapted to its particular circumstances.
- The Code should have regard to enhancing the global attractiveness of investing in the UK and should take into account the global nature of investment by UK asset managers and owners. Our experience has shown that many international investors have a clear focus on their stewardship responsibilities with regard to UK companies.

Given the complexity of the investment chain and a fragmented legal and regulatory structure, it may be that some of the enhancements required fall outside the scope of the Code itself or the jurisdiction of the FRC. Consideration should be given to the necessary oversight and enforcement powers, which could involve a new body to oversee stewardship activities.

A revised Stewardship Code should aim to provide further impetus to the development of an informed market for stewardship services, for the benefit of the UK savers and the UK economy. Additional work may be required to achieve lasting improvements and keep the UK at the forefront of global practice.

There is much that investors can do to demonstrate their commitment to effective stewardship.

Yours faithfully,

Simon Fraser
Chairman