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29 March 2019

FRC Consultation on UK Stewardship code

As one of the world's largest active asset managers Aberdeen Standard Investments (ASI), the asset management arm of Standard Life Aberdeen plc, takes its responsibilities towards corporate stewardship extremely seriously.

As a global investor with assets under management of £505.1bn (at 31 December 2018), ASI aims to support the companies in which it invests to develop, implement and comply with the highest standards of corporate governance. ASI therefore welcomes the opportunity to contribute to this consultation on the Stewardship Code (the Code).

In addition to the information provided in the answers below, details of our work on stewardship and corporate governance is contained in our 2018 ESG reports which are published on our website.

<u>Summary</u>

ASI is strongly committed to the highest standards of stewardship and engagement which we believe is a key component of the service provided by asset managers to their clients. The UK has been at the forefront of the development of stewardship standards over many years. The UK Stewardship Code was first published in 2010, when the FRC took responsibility for the code that had been created and implemented by the Institutional Shareholder Committee (ISC). The code created by the ISC and then taken on by the FRC has formed the basis of standards implemented in markets around world in the intervening period. We would note that, although reviewed and updated in 2012, there has been no significant amendments to the code since 2010.

Although the UK has led the world in raising standards of stewardship there are concerns as to whether these are proving sufficiently effective in helping to improve corporate behaviours. This is partly because of the high profile failure of some companies in the public and private space that appear to have lacked sufficient challenge and oversight from those expected to act as stewards. It is therefore imperative that standards of stewardship continue to rise with demonstrably improved outcomes for savers, companies, the economy and society.

As a voluntary code the UK Stewardship Code has gone a long way in raising the levels of stewardship and engagement between UK companies and their shareholders. The implementation of the Shareholder Rights Directive (SRD II) by the FCA and other UK regulators further embeds stewardship requirements in regulation. We believe that this will broaden the application of requirements to a wider group of asset owners and asset managers that until now have not found it necessary to be signatories to the Stewardship Code.

The FRC initiative to develop a revised Stewardship Code is to be welcomed as necessary and timely but we do have some concerns regarding the proposed changes which we have described below.

- The proposed changes fundamentally alter the focus of the code to cover of all types of assets owned by institutional investors and managed by asset managers. We believe that the Stewardship Code and the FRC should be focused on promoting the long term success of companies in the UK. Asset managers invest on behalf of clients in the securities issued by companies across their capital structures and the code should cover the stewardship practices of holders of all such securities irrespective of their position in the capital structure. It is the nature of the relationship between the owners of securities and the issuers of securities that makes stewardship activities important. The changing nature of capital structures means that stewardship activities are important for the owners of debt securities as well as the owners of equity securities.
- It is important to strengthen the whole framework of law, regulation and codes that drive the long term success of companies and in turn better outcomes for investors and society as a whole. The Stewardship Code is a key component of this but should not be viewed in isolation.
- The Stewardship Code should focus on those activities that will raise standards above those that will be required under the FCA rules. We believe that it would be useful to have more clarity on how the code raises the standards above those in the new regulations.
- The amendments to the Code are occurring as the FCA and the FRC are advancing the debate about effective stewardship and the potential benefits of improved stewardship in their joint discussion paper (DP19/1). It is important that the development of the Code benefits from the outcomes of this debate so that a coherent and high quality framework of standards and enforcement is established.
- The demand for the visible demonstration of stewardship activities and the integration of ESG factors in investment decisions is increasing quickly. Asset managers are already seeking to improve transparent disclosure of the activities they undertake using new and innovative methods. The new code seems to seek to create more prescription in the standards expected which we worry could act to stifle some of the current improvements. It is essential that the new code encourages the achievement of ever higher standards and improved outcomes without restricting the current demand for improvements.
- On the implementation of SRD II in the UK the FCA and other responsible regulators will put in place mechanisms to enforce the standards under the new requirements. It is important that the FRC focuses its enforcement work on the higher standards in the Code seeking to avoid duplication with the work of other regulators.

As can be seen from the points made above, most relate to how the new Stewardship Code will be used as part of a coherent framework in which the replacement body for the FRC will have a key role. We would urge that the code is clearly aligned to the role of the FRC's replacement, is integrated with the roles to be played by other regulators under SRD II and is part of a strengthened framework to deliver the outcomes of more successful companies over the long term, improved returns for savers and economic and societal benefits.

We have provided below our views on those questions which we believe are most relevant to us.

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.

We believe that the sections cover the core areas. As indicated above we are concerned about the extension of the definition of stewardship to all asset types. We are worried that this may deflect from **the clear purpose to improve outcomes for companies.**

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

In general we believe so, but suggest the FRC seek to provide additional clarity to demonstrate how the standards in the Code are significantly higher than those required by the FCA in the implementation of SRD II.

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

We are comfortable with these proposals, but would note that in practice the best practice is moving to simply explain how all principles and provisions are met.

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

We are comfortable with the guidance but care should be taken to ensure that these do not become a template for compliance rather than an encouragement to strive for higher standards.

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?

We support the introduction of an annual outcomes report. This should include details of key engagement and voting activities with detailed descriptions of the reasons for engaging with certain companies, the outcomes sought by these engagements and where appropriate any progress made towards the desired outcomes.

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?

We are comfortable with the proposed schedule but would highlight our concern to ensure that it leads to a coherent overall framework to create better outcomes. Therefore there may be a need to further amend the Code and the schedule as the debate generated by DP19/1 develops further.

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?

As highlighted above we are concerned that the extension to include all asset types is not aligned with the clearly defined mission and purpose of the replacement body for the FRC.

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

We believe that those entities that are currently signatories will easily adhere to this requirement, but have concerns that rather than encourage more signatories it may result in firms seeking to simply to adhere to the standards of SRDII.

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?

As described above we believe the Code should cover the ownership of securities across the capital structure of companies.

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?

As described in the definition stewardship activities include monitoring, engaging and holding to account. Other than the different purpose of stewardship in passive and active funds we are not clear what different stewardship practices would occur between funds. There may be a difference in the consideration of ESG factors across funds but not in the stewardship activities.

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?

No comment.

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

Yes.

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

No comment.

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

We believe that investors should be able to escalate concerns to an appropriate regulator and in turn the regulator should be required to consider making suitable public disclosure so that the market as a whole is aware of and can consider the concerns raised.

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

See our comments above regarding the extension of the Stewardship Code to wider asset types.

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?

No comment.

We look forward to engaging further in the debate generated by the joint FRC/FCA discussion paper (DP19/1)

Yours sincerely,

Mike Everett
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Aberdeen Standard Investments