

## **Financial Reporting Council: Proposed Revision to the UK Stewardship Code**

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 strongly agree with the broadening of the scope to include assets outside of listed equity. This should encourage consistency and the highest level of standards across all areas of investment.

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

While the Principles clarify and explain expectations around stewardship, we would welcome more explicit examples on what good practise constitutes in order to ensure robust expectations.

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

We strongly agree with the 'apply and explain' approach for the Principles as we believe that disclosure of the methodology is incredibly important, especially when it comes to enabling 3<sup>rd</sup> parties to make informed decisions.

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

Case studies (fictional or real-life) would provide clear examples of acceptable or not acceptable practise and would support the existing guidance.

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 agree with the proposed introduction of an annual Activities and Outcome Report. Such a report will help to increase transparency and help avoid a "box-ticking" approach to compliance. It will encourage signatories to reflect fully on their practices and how they relate to their code, stimulating a constant improvement of stewardship practices and policies.

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 have no issue with the proposed time frame.

However, we do have some reservations over the proposal to allow other reporting frameworks to stand in for your own code reporting. Although we agree that it makes no sense to duplicate, we think it would be useful to provide some examples of instances where this might apply and similarly

instances where alternative reporting would not meet requirements. This should help to avoid signatories referring to reports of inadequate standards.

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?

Although we see significant improvement to the Code statement, there still lacks proper clarification on the consequences to signatories of not complying with their own Stewardship codes, or of poor reporting. We ask that you consider proposing further measures to enforce signatories to do what they have set out in the statements.

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

While it would be beneficial and encouraged for signatories to disclose their organisational purpose, values, strategy and culture, we do not see it as being required. We would support having these disclosures as part of guidance however with a view to include in requirements depending on transparency of signatories.

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?

We support the widening of the scope for The Code. However, we believe that further guidance could be produced on how the code should be applied to other asset classes. Clarity should be made on whether there are unique stewardship issues that apply to different asset classes, and how far down the investment line stewardship should be considered the responsibility of the signatory. For example, is it the responsibility of the asset owner to ensure that all firms operating on an infrastructure project adhere to UK standards of worker's rights?

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, we strongly agree that signatories should disclose how stewardship practices may differ across funds. Doing so will ensure that signatories properly think about how stewardship applies and influences each fund, ensuring that approaches are appropriate and not applied in a broad sweeping manner.

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?

Investment approach should be detailed in the SIP and is ultimately the responsibility of the trustees. As such, we do not believe that it is necessary to ask asset owners and asset managers to disclose their investment beliefs.

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

Although Section 3 sets out the expectation of monitoring agents, we believe that further clarity should be provided on which standards agents are expected to be judged against and what steps signatories are expected to take when agents do not meet these standards. If the steps taken to ensure high standards are at the discretion of the signatories, then we would suggest that signatories should be required to assess the outcome of these steps, i.e. whether they are successful in improving standards, and if not, are they no longer using that agent. These steps and outcomes should be taken into account when considering the effectiveness of the signatory's stewardship. Reporting on monitoring is undertaken is irrelevant if the signatories take no further action on engaging with their agents to address any short-comings.

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?

Yes, we agree that there should be a mechanism for investors to escalate concerns. However, before this can be put into place there needs to be consideration of the process by which this should be done and what will then be done with this information. This should ensure that all investors feel confident in reporting short-comings.

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

No comment.

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.