



Catherine Horton
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Dear Ms Horton,

Proposed Revisions to the UK Corporate Governance Code

GES is a leading service provider of engagement services to institutional investors globally. Representing more than EUR 1 trillion of investments worldwide, GES acts as an owner advocate by assessing and engaging with clients' portfolio companies and reporting and providing related recommendations to investors.

GES is dedicated to good stewardship. We take seriously our clients' responsibility to exercise their ownership rights globally, particularly through voting their shares at all the general meetings at companies in their portfolios and engaging with companies.

We welcome the opportunity to respond to the consultation on the proposed changes to the UK Corporate Governance Code ('the Code'). Below are our responses to the specific questions.

UK CORPORATE GOVERNANCE CODE AND GUIDANCE ON BOARD EFFECTIVENESS QUESTIONS

Q1. Do you have any concerns in relation to the proposed Code application date?

No, we do not have any concerns.

Q2. Do you have any comments on the revised Guidance?

Overall, we find the revised Guidance useful. One area where there could be enhanced guidance is encouraging companies to provide greater disclosure on the board directors and their individual skills, as well as an explanation as to why they are on the board. We believe that this would build on Provision 11 of the Code, which asks board to identify the independent directors.

Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

Yes, we agree.

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?

No, we do not think that there needs to be a more specific reference to the UN SDGs or other NGO principles in the Code. However, we believe that there could be room to make specific reference to the UN SDGs in the

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Guidance in the 'Relations with the Workforce and Wider Stakeholders' section. The UN SDGs provide a useful framework for companies to align their business and sustainability activities with, and many investors are already engaging with companies on how they are contributing to the UN SDGs.

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?

Yes, we agree and support the inclusion of a specific percentage and deadline in the Code itself. We think that it provides greater clarity for all stakeholders.

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.

Yes, we agree with the removal of the smaller companies' exemptions. The Code is 'comply or explain' – if smaller companies do not comply with a specific provision, then they have the flexibility to explain why they do not comply.

Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

Yes, we agree that it is an appropriate time period.

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

Yes, we agree that it is not necessary.

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?

We are supportive of the changes proposed in Section 3. However, we do not believe that this change will necessarily lead to more action to build diversity in itself. We believe that this new emphasis will certainly encourage boards to provide greater disclosure on how they have taken diversity into account when recruiting and considering its pipeline, which should help indirectly to build diversity.

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, we agree. Ensuring that a company has a diverse pipeline is equally important for both small and large companies. Given the FRC's removal of the smaller companies' exemptions, it would not make sense for the FRC to introduce an exemption on this particular point. Once again, companies can explain if they do not comply with a particular provision.

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.

We believe that the FRC's approach of initially requiring data on gender diversity seems to strike the right balance. We recognise the challenges associated with companies reporting on the levels of ethnicity at the moment. However, we believe that the Guidance could make encourage to companies to collect and report ethnicity data.

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, we agree. We believe that including some duplication enhances readability and focuses the board's attention to certain issues.

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, we support the removal. The Guidance seems like the more natural place for this type of recommendation.

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?

Yes, we agree with the wider remit for the remuneration committee. We believe that it is necessary for the remuneration committee to take account remuneration practices more broadly throughout the company, as executive remuneration decisions should not be made in isolation.

Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

We believe that that there are no further measures needed in the Code regarding executive remuneration.

Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

Yes. We are very supportive of the introduction of the first sentence of Provision 37 into the Code, which indicates that boards should have the discretion to override formulaic outcomes. However, we would suggest that the FRC encourages companies to explain any discretion clearly to shareholders. Therefore, we suggest that a sentence to that effect – asking for disclosure in the annual report on any discretion exercised – is added either in Provision 37 or in Provision 41.

UK STEWARDSHIP CODE QUESTIONS

Q17. Should the Stewardship Code be more explicit about the expectations of those investing directly or indirectly and those advising them? Would separate codes or enhanced separate guidance for different categories of the investment chain help drive best practice?

Yes, we believe that the Stewardship Code should be more explicit about the expectations. This is the direction of travel of the Code and, therefore, it would naturally align for the Stewardship Code to adopt the same approach. We believe that there should be one Stewardship Code with enhanced guidance for different categories of the investment chain. Having multiple Stewardship Codes would add an additional layer of complexity, which we believe is unnecessary. In general, the principles should be applicable in some form to all members of the investment chain and, if not, members of the investment chain can explain why they do not think it is applicable/relevant for them.

Q18. Should the Stewardship Code focus on best practice expectations using a more traditional ‘comply or explain’ format? If so, are there any areas in which this would not be appropriate? How might we go about determining what best practice is?

Yes, we believe that it makes sense to focus on using a more traditional ‘comply or explain’ format. In terms of determining best practice, we believe that it is important to recognise that, unlike the Code, the Stewardship Code is applicable to different actors in the investment chain. This means that it will inevitably be more difficult to develop detailed best practice expectations. We suggest that there could be principles and general provisions that are applicable to all categories of signatory and specific provisions applicable to each category of signatory. We would recommend that the FRC holds roundtables with each different category of signatory (ie asset owners, asset managers, service providers, investment consultants, etc...) in order to collect specific feedback on stewardship best practice.

Q19. Are there alternative ways in which the FRC could highlight best practice reporting other than the tiering exercise as it was undertaken in 2016?

We believe that the tiering exercise that the FRC undertook in 2016 was valuable in helping asset owners and managers to improve on their disclosures and generally increasing transparency. However, it is not possible to continue it due to increased volume, then some type of highlighting of best practice reporting would be appropriate – potentially in a similar to fashion to some of the FRC’s Financial Reporting Lab projects.

We do not consider the new Shareholder Rights Directive’s (SRD) requirements to be necessarily in conflict with the Stewardship Code. Instead, we view them as complimentary and we would suggest that they are integrated into the Stewardship Code following implementation of the Directive. In terms of the service provider category, again, we do not think the SRD’s requirements are in conflict with the Stewardship Code and believe that they could be integrated somehow. More broadly, we think it is important that service providers go beyond just explaining their processes and quality assurance, and speak about how they contribute to stewardship more broadly and generally.

Q20. Are there elements of the revised UK Corporate Governance Code that we should mirror in the Stewardship Code?

The purpose and audience of the Code and the Stewardship Code are very different and, therefore, we do not think it is appropriate to mirror directly various concepts.

Q21. How could an investor’s role in building a company’s long-term success be further encouraged through the Stewardship Code?

We believe that it is important to recognise that there are many different types of investors that have distinct strategies and purposes. Therefore, we would like to see the Stewardship Code focus more on having investors explain their purpose and strategy. It would then become clear from investors’ other disclosures in relation to the principles and specific provisions how they contribute to building a company’s long-term success.

Q22. Would it be appropriate to incorporate ‘wider stakeholders’ into the areas of suggested focus for monitoring and engagement by investors? Should the Stewardship Code more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?

We believe that the Stewardship Code should more explicitly refer to ESG factors and how ESG is integrated into investor’s investment strategies and stewardship activities more broadly. We believe that integrating ESG factors into the Stewardship Code would be very much in line with the EU High Level Expert Group’s recent recommendation in its final report to clarify the duties of investors to take into ESG factors in their key investment strategies, risk management, asset allocation, governance and stewardship.

Q23. How can the Stewardship Code encourage reporting on the way in which stewardship activities have been carried out? Are there ways in which the FRC or others could encourage this reporting, even if the encouragement falls outside of the Stewardship Code?

The Stewardship Code could ask signatories for examples of how they implemented the processes and procedures that they applied. However, there are other initiatives that look at this particular point. For example, the Principles for Responsible Investment (PRI) is essentially a mechanism for investors to report on how stewardship activities have been carried out in a given year, which are then assessed by the organisation.

Q24. How could the Stewardship Code take account of some investors’ wider view of responsible investment?

We do not have any specific comments on this question.

Q25. Are there elements of international stewardship codes that should be included in the Stewardship Code?

As inferred in our response to question 22, we support adopting the ICGN Global Stewardship Principle's explicit reference to ESG factors and how they are integrated.

Q26. What role should independent assurance play in revisions to the Stewardship Code? Are there ways in which independent assurance could be made more useful and effective?

We do not have any specific comments on this question.

Q27: Would it be appropriate for the Stewardship Code to support disclosure of the approach to directed voting in pooled funds?

Yes, we believe this would enhance transparency.

Q28: Should board and executive pipeline diversity be included as an explicit expectation of investor engagement?

No, we do not believe that the FRC should mandate in the Stewardship Code which topics investors should engage with companies on. Each individual investor has its own investment strategy, which is supported by their individual engagement strategy.

Q29: Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?

No. As mentioned in our response to question 28, we do not believe that the FRC should mandate in the Stewardship Code which topics investors should engage with companies on.

Q30: Should signatories to the Stewardship Code define the purpose of stewardship with respect to the role of their organisation and specific investment or other activities?

We do not see a problem with this.

Q31: Should the Stewardship Code require asset managers to disclose a fund's purpose and its specific approach to stewardship, and report against these approaches at a fund level? How might this best be achieved?

No, we do not think this is practical and would be quite onerous on asset managers. Furthermore, we are not sure how useful it would be to stakeholders. Asset managers usually have an integrated strategy and approach for stewardship. Given that, it is difficult to see what added value reporting on each individual fund's stewardship approach would be. An alternative could be for the FRC to have asset managers disclose whether their stewardship approach differs for any particular funds and then have them explain the approach for those funds which are exceptions.

If you have any further queries about our responses, please do not hesitate to contact us.

Yours sincerely,

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GES International AB