UK Stewardship Code consultation

M&G's response to FRC proposed revisions

March 2019

The following feedback is provided by M&G Investments Ltd in relation to the Financial Reporting Council's proposed revisions to the UK Stewardship Code Consultation Paper.

Executive Summary

M&G is broadly supportive of the proposed revisions to the Stewardship Code. We agree that creating a framework that allows for the demonstration of effective stewardship should be a core area of focus. Effective engagement, and the ability to collectively engage with other investors, driven by clear objectives to benefit investors, is rightly at the core of the proposals.

Our concerns are focused on the reporting requirements and ensuring that these are appropriate to the wide range of institutions, investment strategies and investment mandates that will fall under the remit. The focus of stewardship reporting must be on the quality of effective outcomes and the impact achieved by engagement, and this is likely to vary widely by institution and circumstance.

M&G believes the move to incorporate a broader range of asset classes is necessary and reflects a wider structural shift in the market.

In terms of implementation and timeline, we would want to make sure that the proposed revisions outlined in this Consultation Paper are not progressed in isolation to other Discussion Papers currently in circulation (ie FCA), or the recent BEIS announcements to implement the Kingman Review recommendations. An integrated approach across all regulatory bodies with an interest in stewardship would be in the best interests of all parties.

The ultimate goal of changes to the Code must be to drive up the quality of overall stewardship, rather than just encouraging reporting by box-ticking. We believe the FRC needs to communicate how judgement and reporting should best serve this goal, given the wide variety of forms that effective stewardship could take.

Questions

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.

M&G believes the proposed five sections of the code do cover the core areas of stewardship responsibility. We believe the consistency in paragraph 43 'the primary purpose of stewardship as looking after the assets of beneficiaries that have been entrusted to the care of others' while also incorporating the broader responsibilities to society is covered in the proposed sections.

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

Yes

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

Yes. Stewardship and its associated activities cover a wide remit of activities that are not well suited to rigid application criteria, given the widely varied nature of the asset management industry.

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

We believe the Guidance as provided is satisfactory. Successful implementation of the revised Code, particularly given the timeframe, will require a degree of flexibility and learning from those involved. In general, we would prefer limited guidance to allow firms sufficient flexibility to respond most appropriately to their circumstances.

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?

Yes. In terms of what signatories should be expected to include, it is important that organisations are given sufficient latitude to tailor the report to their particular situations. For example, in some years the quantum of engagements will be the appropriate judge of quality, and in other years the depth of engagement will be a more relevant metric.

We believe it would be extremely difficult to 'identify' effective stewardship in a way that could be measured on a scorecard. Asset managers run a diverse number of strategies with different underlying mandates and these are undertaken in varied organisational forms. The very nature of these diverse holdings and solutions means that while the core principles and practices outlined in the revised Code are generally appropriate, there may be exceptions; hence our consistent support for flexibility in reporting.

The appropriate measure to identify effective stewardship is likely to be broad-based, subjective to a degree, and not well suited to prescriptive formalised reporting. What should be clear from these proposed reports is the overall effort and focus of each submitting institution, and it is on this holistic basis that effectiveness should be judged.

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?

Yes, but clearly subject to our earlier comments regarding the ability of each signatory to respond in a manner appropriate to its investments, strategies, mandates and organisational structure.

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?

The Kingman Review cited specific concerns that the Stewardship Code could drive boilerplate reporting. We agree that an overly prescriptive approach in implementation would, in all probability, lead to this outcome.

We note that on 12 March 2019 BEIS announced it was implementing the Kingman Review recommendations. The FRC will be gaining new powers as part of this review. It is important that these changes are aligned with the Stewardship Code and that the FRC is enabled to enforce compliance with the Code.

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

Yes, provided this is kept at a sufficiently high level, such that it does not become onerous or counterproductive. There is a real risk of boilerplate answers that offer no insight beyond the marketing literature companies produce.

Strategy at a high level can give an insight into organisational direction, but clearly there are confidential strategic initiatives that will rightly remain private. Realising up front the limitations around this may help set expectations early.

Similarly, culture has widely varying definitions, and it is not clear that a detailed definition of this will advance an understanding of whether the organisation is engaging in effective stewardship.

The incorporation of organisational purpose would seem to offer little practical or theoretical value to the operation of the Code.

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?

No. We agree with incorporating stewardship beyond listed equity, however, we believe the Provisions and Guidance are sufficient.

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?

Provision 1 does provide sufficient transparency to clients.

Signatories should disclose if their broad stewardship activities and principles vary significantly from one fund to the next or where certain funds differ from broad organisational principles. But there must be recognition that for larger organisations, the scale and range of funds, and the underlying mandates, mean that micro reporting on this is both impractical and, in reality, counterproductive (as it may lead to simple rule following, where a more nuanced approach is appropriate).

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?

This should be a voluntary requirement. This information would likely duplicate marketing information currently supplied by firms.

Q12. Does Section 3 set a sufficient 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.

Yes.

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

No. We believe there are sufficient legal and regulatory options available should a concern be that serious.

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

No. This is an extremely nascent area of stewardship. To be overly prescriptive this early in its development is likely to be counterproductive.

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?

Yes. We have no further views on how the Code could encourage this.