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

28 February 2018

Dear Catherine,

Proposed Revisions to the UK Corporate Governance Code

Schroders is one of the largest independent asset management and wealth management firms in Europe. We manage £418.2bn* on behalf of institutional and retail investors, financial institutions, charities and high net worth individuals from around the world. We are a major provider of capital to public markets. Schroders is also a constituent of the FTSE100 Index and the FTSE4Good Index with a capitalisation of approximately £9.5bn.

As both a major investor and listed company we are fully supportive of establishing appropriate standards of corporate governance and stewardship. We believe that a company's licence to operate requires them to take appropriate account of the views of their stakeholders and we broadly welcome the FRC's proposals in this respect. We understand and support the underlying objectives of the proposed reform, particularly the re-focussing of the Code using more principles and fewer provisions.

Corporate Governance Code

We strongly support the maintenance of the ‘comply or explain’ model and we believe that good corporate governance is best served through having strong principles, good disclosure and constructive engagement between companies and shareholders. We believe it is important that companies have appropriate latitude to implement governance arrangements in a way which enables them to meet their primary responsibility of promoting the success of the company.

We support the focus on principles and the reduction in the number of provisions in the revised Code, although as a major investor we would like to see the retention of the provision requiring AGM materials to be sent 20 working days prior to an AGM to enable shareholders more time to review them.

Whilst we broadly support the proposals, we do have a number of concerns we would like to raise, in particular:

* As at 30 June 2017

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For your security telephone conversations may be recorded.
1) We agree that companies, in running the business, should consider the broader interests of their stakeholders and the company’s wider purpose in society. We are however concerned that the combined impact of the revisions to the Code and the Guidance on Board Effectiveness could run against the current legal requirement that a board should act in a way which ‘promotes the success of the company for the benefit of its members as a whole’. We would suggest that S172 of the Companies Act is revised first, through secondary legislation where possible, and then changes to the Code and any associated guidance follow on to reflect the revisions to ensure alignment.

2) We agree that in order to take into account stakeholder interests companies need to engage with those stakeholders. The Code should be clear that the focus should be on material stakeholders and not all stakeholders. Boards are increasingly being asked to take more direct oversight in a number of areas, and in order to discharge these duties successfully they must be allowed to take a view of materiality and engagement in a way that complements the strategy of the business. Engagement need not be through direct contact with the board or individual directors as companies have multiple lines of engagement with material stakeholders including clients, suppliers, regulators and shareholders.

3) Employees are vital to the success of any company and we agree that their views should be made known to the board and due account taken of those views when directors are determining what is likely to promote the best interests of the company. Equally, understanding and oversight of the outsourcing and supply chain arrangements are essential for all businesses. We feel, however, that the revised Code’s use of the term ‘workforce’ instead of ‘employee’ is potentially confusing and that some clarification as to should be classified within the term ‘workforce’ (e.g. if a company uses a contracting company to provide services would the employees of the service provider come within scope?).

4) We agree that boards should comprise an overall majority of independent non-executives and that the chairman should be included in this calculation. We do not support the proposal that a chairman should be subject to the nine-year independence limit. The chairman plays a pivotal role in the governance of a company and succession for this position is a major task. In many cases the best candidate for the role would come from within the current non-executive ranks. This is because it is a role that individuals grow into over time having gained experience leading in other areas of the board activity. Under the proposals, any time already served as a non-executive would eat into the time that non-executive could then serve as chairman. This is unnecessarily restrictive and is likely to lead to chairmen being required to step down earlier than they should due to a reluctance by companies to be seen to be in breach of the Code. The requirement for the board to have a majority of independents, combined with regular refreshment of the board is sufficient safeguard we feel. While in theory comply and explain gives companies the latitude to make the case for having a chair remain in situ for longer, the reality is many proxy voting agencies will automatically recommend a vote against, which could create an obstacle to this happening in practice.

5) We generally support the move to put more of the detailed provisions into the Guidance. We believe the FRC could go further in some instances; for example we do not see why Provision 3 should include the whistleblowing arrangements. This level of detail seems inconsistent with the overall objectives of the review.
6) We have concerns with the wording of Provision 7. Conflicts of interest are inherent in many parts of corporate life and boards have the responsibility to manage such conflicts appropriately. Boards should not be required to ‘eliminate’ conflicts as the Provision is currently drafted.

7) There are several places in the proposals where the board is required to ‘ensure’ e.g. Principle B and C and Provisions 3. Whilst these are areas where boards should have responsibility, we believe the standard required should be that a board should be required to take ‘appropriate steps’.

**Stewardship Code**

The UK and the FRC has been instrumental in pioneering the Stewardship Codes around the world, and we should ensure that we remain leaders in the field. Stewardship is an essential component of the value proposition that we as fund managers provide to clients, and we take our responsibilities as signatories seriously. However, we are concerned that there is not a mechanism to hold signatories to account for their actions, or lack thereof in this area.

We attach a schedule of responses to some of the specific questions asked in the consultation. We are grateful for the opportunity to comment on the proposals and we are available to discuss our comments in further detail if this would be helpful.

Graham Staples  
Group Company Secretary  
Schroders plc  

Jessica Ground  
Global Head of Stewardship  
Schroders Investment Management Ltd
1. Do you have any concerns in relation to the proposed Code application date?
No.

2. Do you have any comments on the revised Guidance?
Whilst the guidance is helpful, it should be made clear that companies, shareholders, asset managers and proxy advisers should not treat the guidance as if it was subject to the same comply or explain principles as the Code itself. There is a danger with so much being contained within the guidance that some parties may put too much weight on the guidance and effectively use it as a second tier Code.

3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?
Broadly, yes; but companies must be given sufficient flexibility to use other mechanisms and explain why they are appropriate.

4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or the Guidance?
No. Whilst we see some interest in the UN SDGs, it is important to remember that they were designed primarily for policymakers. We estimate that only 15-20% of the metrics could be measured by a company. Companies should have the flexibility to use whatever principles are appropriate to them and explain accordingly.

5. 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. Although in some cases there may not be anything material to report.

6. 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.

7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?
As detailed in our covering letter, we do not agree with the proposals relating to the application of the nine years to the chair.

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

9. Do you agree that the overall changes in Section 3 of the 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 outlined in Section 3 of the revised Code and believe that ‘Diversity of Thought’ results in better outcomes for all stakeholders. As signatories of the Women in Finance Charter, we target 33% female representation within our senior management population by the end of 2019. We have also made a range of other public commitments to a broad range of diversity and inclusion metrics,
including identifying and developing our BAME talent. We support the principle that our recruitment and succession planning processes and practices, including at board level, must identify and consider a diverse pool of candidates.

10. **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, and to which companies it should apply.**

We are supportive of diversity in all organisations and believe that transparent data on the representation of diverse groups should apply beyond the FTSE 350. This would allow genuine progress on increasing diversity to be monitored and understood more widely. We already report on gender diversity for our executive committee and at one and two levels below this and are supportive of the changes that are recommended.

11. **What are your views on encouraging companies to report on levels of ethnicity in executive pipelines?**

As above, we are supportive of this and are looking to capture complete diversity data on all our employees to allow accurate reporting in this area.

12. **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?**

No. Duplication should be avoided wherever possible.

13. **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.

14. **Do you agree with the wider remit for remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?**

We are broadly supportive of the wider remit for the remuneration committee. Our Remuneration Committee already has provision to override remuneration outcomes where the outcome does not align with the performance of the company or individual. We also believe in the principle that executive pay should be consistent with the pay and policies that apply to our wider workforce.

Delegating this broader remit to the Corporate Responsibility Committee, or similar, is a sensible approach to avoid overloading the Remuneration Committee. For regulated financial services organisations, the Committee already oversees the individual compensation outcomes for all Material Risk Takers, which generates significant work for Committee members.

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

We are supportive of the changes proposed and do not have any further suggestions.

16. **Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?**
We believe that the changes proposed provide the appropriate means for boards to exercise discretion on remuneration outcomes, when required.

17. **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 are supportive of different expectations for asset owners, asset managers, and service providers with enhanced guidance. The reality is that asset owners are fragmented, and have a wide range of fiduciary duties, of which Stewardship, while important, is only one. The majority of asset owners have less time and fewer resources than asset managers to devote to the day to day practice of Stewardship, but can play an even more important role than they do now in holding their managers to account. Guidance could reflect the different roles actors play, and empower them to develop a more relevant articulation of how they do this. However we are very concerned that multiple codes would dilute the impact of the Stewardship Code.

One of the achievements of the UK Stewardship Code is that its principles have been widely adopted around the world, a testament to their aims and their practicality. It is important that this is not lost.

18. **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. During the 2016 tiering exercise the FRC made it very clear that the Stewardship Code should also be applied on a comply or explain basis in general. In this exercise the FRC was clear about what best practice statements looked like with signatories. It is important not to increase set the levels of “best practice” in a way that could stifle innovation or encourage a feeling that only minimum standards need to be met.

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

Yes. We feel that the FRC should consider partnering with or encouraging projects by stakeholders in identifying best in class actions rather than statements, which the previous tiering exercise was focused on. It would be good to collaborate with partners such as the NAPF, PRI, Shareaction and the IA who have a wealth of knowledge about Stewardship and understand the needs of different stakeholders to highlight best practice reporting. We note that the FRC encouraged the IA to have an award for the best extended audit report. A similar mechanism could be useful.

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

No. The two Codes should be kept separate.

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

As well as focusing on longer term issues in bilateral meetings, there is the opportunity for an investor to send wider messages. For example, we have had a number of market wide engagements, specifically on quarterly earnings and viability statements. We think that activities like these, while blunt, do demonstrate a very public commitment to focus on the long term. All of these activities are done collaboratively with our investment teams.
22. 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?

Yes We already incorporate stakeholders into the areas of focus for monitoring and engagement in our Stewardship activity where they are material and impact a company’s licence to operate. However we believe it is essential to stress that engagement should focus on issues related to material rather than wider stakeholders. Our experience has shown us that some stakeholders are focused on prioritising individual agendas above the needs of other more material stakeholders.

23. 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?

We were supportive of the IA’s guidance on Stewardship Reporting and the NAPF’s self assessment framework and believe that both of these could be leveraged to greater effect.

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

Despite its widespread use, the term Responsible Investor is still poorly defined. We work hard at a client level to ensure that we understand individual expectations, even commissioning a broad global investor survey to help better understand their attitudes. For some segregated clients we are engaging and reporting against specific client requests. We view this approach as the most effective mechanism of meeting clients’ expectations, which vary widely in this area.

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

Yes we agree with the Japanese requirement that there should be a commitment by Asset Managers to use resources of the right calibre for engagement.

26. 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?

In our case both internal audit and risk review our Stewardship activities, with independent assurance providing a limited amount of additional oversight. The effort might better be spent on providing more reporting or indeed engagement.

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

No, an important part of our Stewardship processes is being able to direct our votes to support our engagement, escalation and investment processes. We encourage all of our clients to delegate their votes to us, as we feel that this increases the effectiveness of our activity. Directed voting in pooled funds would limit the impact.

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

Yes.
29. **Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?**

No. We consider Climate Change a major investment risk and have been supportive of the TCFD, CDP and other initiatives that support better reporting in this area. However we caution about taking such an explicit approach over a single issue. We feel it is important that investors disclose on the material risks as they see them.

30. **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?**

Yes, we already define Stewardship in relation to our role as an active fund manger focused on long term value creation for our clients. This overarching approach is at times supplemented by specific client views of Stewardship, where they are not at odds with either this or our fiduciary duty to other clients. We find having a principle like this is helpful framing our wider Stewardship activities.

31. **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. On request we already do this for clients privately. There is a risk that in defining a Stewardship approach on a fund specific level descends into a boilerplate disclosure and tick box approach and does noting to improve the quality or volume of engagement.