

UK Financial Reporting Council (FRC) Consultation on Proposed Revisions to the UK Corporate Governance Code and future direction of the UK Stewardship Code

CDSB Consultation Response – 28 February 2018

The Climate Disclosure Standards Board (CDSB) welcomes the opportunity to offer our written response to the Proposed Revisions to the UK Corporate Governance Code (**the Code**) and accompanying appendices.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the **CDSB Framework**) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

This consultation on proposed revisions to the UK Corporate Governance Code highlights its success in the past 25 years to foster well-functioning, resilient businesses that support their workforce. We would like to applaud the FRC's work for this achievement. At the same time, this affords the FRC an opportunity to support companies who are looking for guidance in relation to other key developments in the non-financial reporting sphere, such as how best to implement recommendations from the Task Force on Climate-related Financial Disclosures (the **TCFD**), of which governance is a core element across all sectors and organisations as well as assisting those who will disclose alignment with TCFD within their annual reports.

This response has been prepared with the advice of CDSB's Technical Working Group, a group of approximately 50 experts across legal, accounting and technical bodies. Please find our comments below and do not hesitate to contact us if we can be of further assistance.

Kind regards,

Simon Messenger
Managing Director
Climate Disclosure Standards Board

Adam Peirce
Technical Director
Climate Disclosure Standards Board

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T: +44 (0) 203 818 3939
www.cdsb.net

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71 Queen Victoria Street
London, EC4V 4AY



General Comments on the proposed revisions to the UK Corporate Governance Code

We have the following general comments on the proposed revisions to the UK Corporate Governance Code¹:

We call on the FRC to continue making stronger links between the Code and the Strategic Reporting Guidance. Given that companies should be disclosing in Strategic Reports on the actions of the Board and their associated committees, we suggest that the Governance Code and any accompanying Guidance includes references that show the governance principles and requirements should form the basis of Strategic Reports. The Directors of the Board are expected to be responsible for the company's financial and non-financial performance, including governance, policy and due diligence. However, we do not think this is clear enough in practice for Directors who have not considered these issues before. Directors should have fluency on material topics as well as their associated risks and opportunities to their business. The FRC should further clarify that there are new expectations of Directors, which will require Board level discussion and action. As such, we suggest using clearer language in expectations, outcomes and actions to attract the attention of Directors and Board Chairs.

We welcome efforts to reduce duplication in requirements between the Code, listing rules, disclosure and transparency rules as well as the Companies Act. In order to avoid any misconceptions about these requirements being completely removed and to ensure that the Governance Code acts as a helpful guide to companies, we suggest including a short summary of these relevant requirements. This will help organisations clearly understand that by following the Code, they are in compliance with those obligations.

In the same vein, we **suggest that deeper integration of the TCFD recommendations is needed**, especially with respect to the governance and disclosure around climate related risks and opportunities. As the UK Government has endorsed the TCFD recommendations², it is important to prepare businesses and build their capacity to implement them. While some the elements of the TCFD recommendations on governance are already part of the Corporate Governance Code, the fact that the Code should cover climate-related matters is not well understood. Clarifying this by including references to the TCFD recommendations would be a helpful way to inform and prepare business so that they understand the full coverage of the Code, without putting any further burden on them.

Going forward, the deeper integration of the TCFD Recommendations and broader sustainability issues into the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting would benefit the Corporate Governance Code, Section 4 especially. For such development, the FRC may wish to consider COSO and the World Business Council for Sustainable Development's (WBCSD) guidance on applying enterprise risk management to environment, social and governance related risks³.

¹ Note that all references to paragraphs here are to the FRC Proposed Revisions to the UK Corporate Governance Code unless expressly stated otherwise.

² <https://www.gov.uk/guidance/green-finance#green-finance-taskforce>

³ COSO and WBCSD (2018). Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks (Preliminary Draft) [PDF]. Available at: http://docs.wbcsd.org/2018/02/COSO_WBCSD_ESGERM.pdf

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T: +44 (0) 203 818 3939

www.cdsb.net

.....
71 Queen Victoria Street
London, EC4V 4AY



Responses to the Specific Consultation Questions

Application of the Code

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

We do not have any concerns over the proposed Code application date. However, CDSB would like to bring to FRC's attention that two significant reports that have been released within the consultation period which has recommendations that should be further studied and integrated within the UK Governance Code. The EU High-Level Group on Sustainable Finance (HLEG) released its final report⁴ on 31st January 2018. Part of its key recommendations chapter covers Governance and Leadership and the recommendations should be studied by the FRC so that it can align any update of the Code for companies to wider changes in governance and leadership across the investment chain. The City of London Green Finance Initiative is due to publish in Spring 2018 its recommendation on Establishing the World's Best Framework for Climate-related and Sustainability-related Financial Disclosures. We believe it will set out a process for UK Government and regulators to create and publish guidelines that cover the recommendations from the TCFD and voluntary sustainability-related financial disclosures. It also recommends that these guidelines are appropriately referenced in the relevant UK rules and codes, including the Corporate Governance Code.

Guidance

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

We have the following comments on the revised Guidance:

- Article 10 states that at 'the heart of a director's duties lies a focus on generating and preserving value for shareholders for the long-term, taking account of...the environment.' Given the emphasis on the long-term, we believe it would be beneficial to provide readers with examples of long-term environmental impacts, e.g. climate change and resource depletion, to assist their considerations.
- There needs to be a much clearer link to section 172 of the Companies Act 2006 and the responsibilities of directors. The current emphasis on 'culture' fails to address the business context discussed in the Strategic Report Guidance and recent publications on risk and governance issued by other bodies, including a recent speech by the SEC⁵.
- In 'Questions for boards' of the 'An Effective Board' section, the second bullet point speaks of 'identifying and addressing future challenges and opportunities', which is followed by two examples. Directors should have fluency on material topics as well as their associated risks and opportunities to their business. We believe that it would be beneficial to include climate change as an additional example, given its materiality. This would also align the Guidance better with the recommendations of the Task Force for Climate-related Financial Disclosure.
- In Article 14 of the Guidance, the authors note that 'Boards can minimise the risk of poor decisions by investing time in the design of their decision-making policies and processes'. We believe drawing attention to scenario analysis would assist companies in understanding how or in which way they can develop their decision-making processes. As such, we believe it worthwhile including this as an example.
- In Article 37, you note that 'Boards have a responsibility for the health of the company and need to take a longer-term view.' However, in Figure Two, 'Tell-tale signs of a culture problem', short-term focus is not

⁴ EU High-Level Expert Group on Sustainable Finance (2018). Final report of the High-Level Expert Group on Sustainable Finance [PDF]. Available at: https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

⁵ US Securities and Exchanges Commissioner Kara M. Stein (2018). **Speech** "Mutualism: Reimagining the Role of Shareholders in Modern Corporate Governance" Remarks at Stanford University [Online]. Available at: <https://www.sec.gov/news/speech/speech-stein-021318>

.....
T: +44 (0) 203 818 3939

www.cdsb.net

.....
71 Queen Victoria Street
London, EC4V 4AY

included in the list. We believe, for consistency and reiteration, short-term focus should be included in such 'Tell-tale signs'.

- In 'Questions for boards' of the 'Setting the Framework' section, the third bullet point asks boards to consider how they are demonstrating ethical leadership and promoting it throughout the company. We believe it would be beneficial to illustrate this question by drawing attention to several issues that demand such consideration, such as climate change, human rights and anti-corruption, by providing them as examples.
- In Article 75, the Guidance notes the need for 'fresh input and thinking' to the board for emerging and developing challenges and opportunities. We believe that it would assist readers by including several example challenges and opportunities, such as climate change, technological advancement and changing societal expectations. This point can be reiterated in Article 79 of the same section of the Guidance.
- In the 'Questions for remuneration committees' of the 'Role of the Remuneration Committee' section, the sixth bullet point asks committees to consider how effective the financial and non-financial performance measures are at supporting values and culture. In addition, we believe it would be beneficial and consistent for the Guidance to ask committees to ask how effective the financial and non-financial performance measures are at supporting sustainable, long-term growth as well as values and culture.

CONSULTATION ON CHANGES TO THE UK CORPORATE GOVERNANCE CODE

Section 1 – Leadership and purpose

Wider Stakeholders

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

We agree that employees are not the only stakeholders that companies should engage with. Engaging with a wider range of stakeholders ensures that material risks and opportunities are identified. We suggest two practical suggestions: 1) a board sub-committee is charged with oversight of a wider range of risks and opportunities as well as the stakeholder engagement required to identify them; and 2) developing a board skills matrix to ensure sufficient expertise with respect to climate change and wider sustainability issues⁶.

With that said, it is important that the role of the annual report as a principal accountability document to investors is not lost – the consideration of wider stakeholders is not a binary consideration and it is important that the board thinks about how, and through which medium, to communicate appropriately with various stakeholder groups.

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?

We suggest deeper integration and alignment between the core elements of the TCFD recommendations and UN SDGs are needed in both the Code and Guidance. Both should incorporate more references to the leading practices in corporate reporting outlined in the TCFD recommendations. Not only would this help to promote high quality corporate governance and reporting to foster investment, but it would also help future-proof the revised Guidance from further revisions in the short-term, as reporting in line with the TCFD becomes more common practice. Implementing the TCFD recommendations would help the FRC to satisfy its mission to promote transparency and integrity in business and would support the needs of its stakeholders (i.e. to serve investors and others who rely on company reports, audit and high-quality risk management).

⁶ Adams, CS, (2017) Conceptualising the contemporary corporate value creation process, *Accounting Auditing and Accountability Journal* 30 (4) 906-931 <http://dx.doi.org/10.1108/AAAJ-04-2016-2529>

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T: +44 (0) 203 818 3939

www.cdsb.net

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71 Queen Victoria Street
London, EC4V 4AY



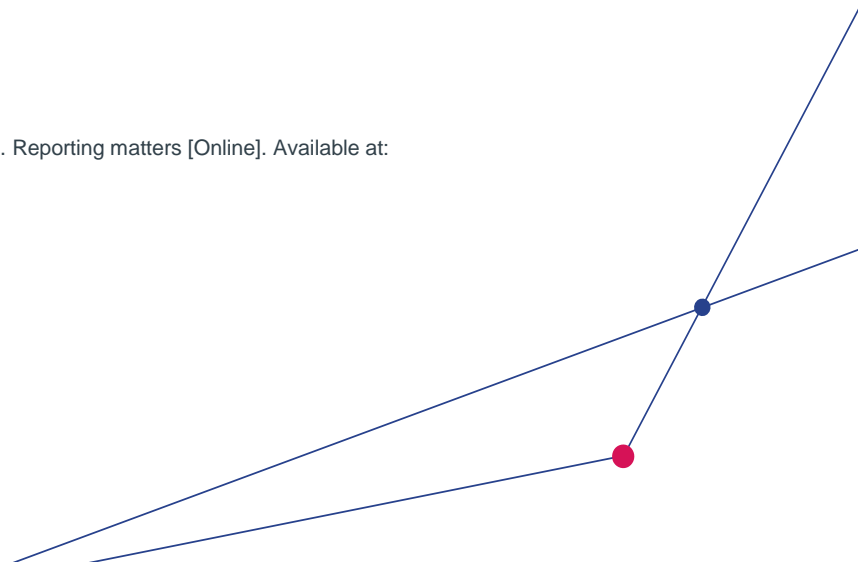
We would also consider that specific references to the TCFD recommendations both within the Code and accompanying Guidance, would help align the Code with the any potential future recommendations set out by the UK Green Finance Taskforce. We have set out some suggested amendments for the Guidance in Q2.

Below are five identified provisions within the Code where we suggest edits:

- Provision 1: “It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company’s business model and how its governance contributes to the delivery of its strategy.”
 - This point could be slightly expanded, i.e. “the sustainability of the company’s business model, operations and assets...”, to align with the TCFD recommendations.
- Provision 13: “Non-executive directors should scrutinize and hold to account the performance of management and individual directors against agreed performance objectives.”
 - This could be amended to explicitly encompass financial and non-financial objectives.
- Section 3 – Composition, succession and evaluation
 - We believe that Principle K should be amended to ensure that the board is equipped with the knowledge and skills to understand both current and emerging risks and opportunities that could affect the longer-term interests of the business, e.g. climate change, automation and AI, changing social demands.
- Provision 28: “The board should monitor the company’s risk management and internal control systems and, at least annually, carry out a review of the effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls”
 - We believe that the list of the examples for the monitoring and review covering all material controls should also include sustainability controls.
- Provision 29: “The board should carry out a robust assessment of principle risks (financial and non-financial) facing the company, including those that would threaten its business model, future performance, solvency and liquidity”
 - Given that wider ESG risks are, generally, less well understood by companies and boards, the Code could provide a clarification or definition of those wider (i.e. ESG-related) financial risks ensuring it includes climate-related as well as broader environmental and social impacts. There is a need for integration of such risks and having appropriate internal controls over ESG-related information, given much of it is now required to be reported in the Strategic Report. As research⁷ by the World Business Council on Sustainable Development shows, the quality of such disclosures requires significant improvement. We are also aware that the reported sustainability information is not always considered by Boards, so it is not clear how they can declare their reports to be fair, balanced and understandable.
- Provision 40: “alignment to culture – incentives should drive behaviours consistent with company purpose, strategy and values”
 - This bullet point could include a direct reference to sustainability, i.e. “...consistent with company purpose, strategy, long-term sustainability and values”.

Significant votes against resolutions

⁷ World Business Council on Sustainable Development (2017). Reporting matters [Online]. Available at: <http://www.wbcsd.org/Projects/Reporting/Reporting-matters>



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?

We believe that lowering the significance threshold would potentially create more constructive dialogue between companies and their investors when discussing the potential risks and opportunities associated with climate change and sustainability issues. However, we cannot comment on whether 20% is an appropriate threshold for significance.

Section 2 – Division of responsibilities

Board Composition

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. It is useful for the success of the company to have frequent reviews to ensure that the Board has the necessary experience in place to fulfil their duties and understand emerging longer-term trends that would affect the business. This should also include a working knowledge on climate change and wider natural capital considerations, to the extent that they are necessary for their decision-making.

Independence and tenure

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

This matter is beyond CDSB's remit.

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

This matter is beyond CDSB's remit.

Section 3 – Composition, succession and evaluation

Q9: Do you agree that the overall changes proposed 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 welcome the changes proposed in Section 3 of the revised code and believe they will build diversity in the boardroom. We believe that is also essential for the board to be diverse in expertise and experience. This is especially important regarding emerging risks and opportunities such as climate change, technological development and changing social demands.

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.

This matter is beyond CDSB's mandate.

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.

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T: +44 (0) 203 818 3939

www.cdsb.net

.....
71 Queen Victoria Street
London, EC4V 4AY



This matter is beyond CDSB’s mandate.

Section 4 – Audit, risk and internal control

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?

We agree with this decision to retain the requirements within the current Code if practical users of the Code find this duplication of value. It may be a beneficial exercise for the FRC to consider mapping that the duplication between concepts in the Code as well as those within the Listing Rules, the Disclosure and Transparency Rules and Companies Act. It could then be included within the Guidance so that users can quickly identify these overlaps.

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.

We do not object to the removal of the requirement if it does not reduce access to material information to investors. However, we believe that the guidance should explicitly mention that for the most vulnerable sectors to climate-related risks (both transition and physical risks) as highlighted by the TCFD (see figure 1), the audit or risk committee should have it included within their terms of reference. For either committee, monitoring and evaluating climate-risk should be part of their terms of reference. Here we recommend the guidance developed by COSO and WBCSD on enterprise risk management for environmental, social and governance risks.

Energy	Transportation	Materials and Buildings	Agriculture, Food, and Forest Products
<ul style="list-style-type: none"> - Oil and Gas - Coal - Electric Utilities 	<ul style="list-style-type: none"> - Air Freight - Passenger Air Transportation - Maritime Transportation - Rail Transportation - Trucking Services - Automobiles and Components 	<ul style="list-style-type: none"> - Metals and Mining - Chemicals - Construction Materials - Capital Goods - Real Estate Management and Development 	<ul style="list-style-type: none"> - Beverages - Agriculture - Packaged Foods and Meats - Paper and Forest Products

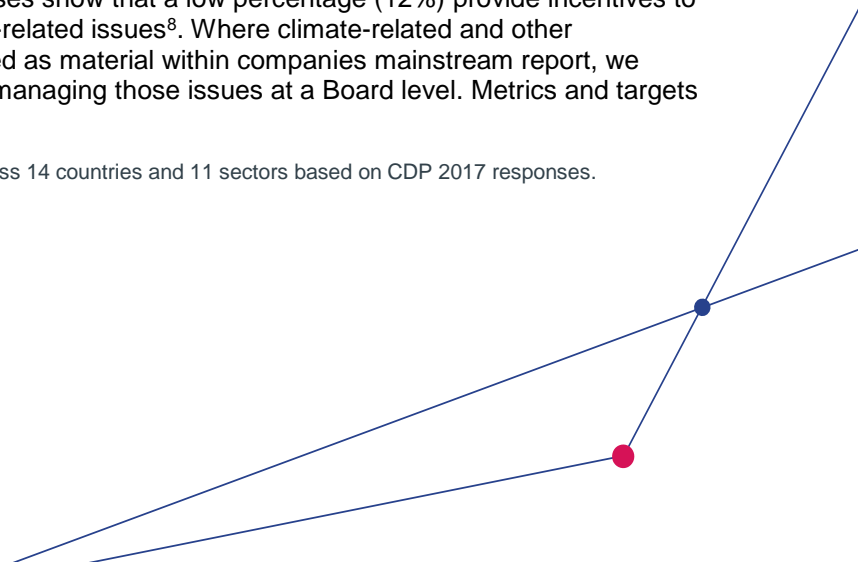
Figure 1. Source: Box 2, TCFD Final Report (2017)

Section 5 – Remuneration

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?

We agree that the remuneration committee should have a wider remit. Recent research carried out by CDSB and CDP using 2017 company disclosure responses show that a low percentage (12%) provide incentives to the Board for the management of climate change-related issues⁸. Where climate-related and other environmental risks and opportunities are identified as material within companies mainstream report, we believe that there should be better incentives for managing those issues at a Board level. Metrics and targets

⁸ The sample size for the research was 1,600 companies across 14 countries and 11 sectors based on CDP 2017 responses.



associated with these climate-related and other environmental risks and opportunities should go through the same rigorous process for setting and evaluating performance as financial targets. This should also assist with other longer-term performance objectives and incentives.

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

We believe that the Code could be enhanced through a strengthening of director duties related to sustainability. The EU HLEG final report (p. 40) and asks for directors' duties to be amended along the lines of:

To act in a way the director considers in good faith is most likely to promote the success of the company for the benefit of its owners and other stakeholders. This includes:

- The likely consequences of any decision in the longer term (beyond three to five years).
- The interests of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment (externalities), safeguarding the world's cultural and natural heritage.
- The integrity of the most significant business partners in the company's supply chain (for example, no corruption, no child labour, observing human rights including those of indigenous peoples).

To exercise reasonable care, skill and diligence. This requires a director to be diligent, careful and well informed about the company's affairs, including the direct and indirect impact of the company's business model, production and sales processes on stakeholders and the environment. To fulfil this duty, the director should be required to participate in adequate education and training measures.

Specific duties of non-executive directors and supervisory boards.

- Require the company management to develop a climate strategy, aligned with climate goals, and to describe the company's approach to the SDGs. **Ensure that remuneration policies and individual executive employment contracts are consistent with the long term, including sustainability goals.**
- Ensure that in the board nomination process, competence in relevant sustainability matters is systematically considered.
- Demand regular reporting to the board and relevant stakeholders about the sustainability strategy, its evolution and the development of the business against specific, measurable sustainability targets.

Although we note there is a general provision in relation to a 20% significance threshold for shareholder action mentioned in Q5, we believe that principles or provisions of the Code should be revised to further clarify shareholder dissent on directors' remuneration.

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

The key point is not the exercise of discretion, but to clearly demonstrate that the directors have discharged their duties. At present governance reports are relatively silent on sustainability issues, even though section 172 of the Companies Act 2006 has been in force for over a decade, giving sufficient time for experimentation and implementation.

INITIAL CONSULTATION ON FUTURE DIRECTION OF UK STEWARDSHIP CODE

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T: +44 (0) 203 818 3939

www.cdsb.net

.....
71 Queen Victoria Street
London, EC4V 4AY



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?

Better clarity over roles and expectations for different actors across the investment chain should help them understand what best practise looks like. An overarching code with enhanced separate guidance for different categories of the investment chain may be the optimal approach so that wider adherence to the code is achieved.

Best Practise Format

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?

We believe that a 'comply or explain' obligation can be an effective way of focussing best practise expectations, but ask the FRC to clarify what is meant by 'traditional'. CDSB undertook research⁹ through a review of FTSE 350 companies' environmental reporting and greenhouse gas emission disclosures in annual reports in January 2016. Our analysis showed that a comply or explain approach resulted in nearly complete implementation of some basic requirements in the first year or its implementation, but complete compliance may take longer, however it is unclear whether the 'comply or explain' aspect of the requirements was a contributing factor to this. Our research also found that most explanations for non-compliance were due to logistical matters (such as the need to begin data collection) that should be resolved in the next reporting cycle.

Shareholder Rights Directive (SRD)

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?

The FRC could undertake a review for the UK market's implementation of the Shareholders Rights Directive, to find examples of good practice. We believe that the FRC should also show examples of practise that requires improvement or inadequate explanation for non-compliance. Constructive feedback should be provided to organisations that require improvement or should comply. Sufficient resources should be allocated to ensure that effective stewardship reporting is being monitored and communicated.

Amendments to the UK Corporate Governance Code

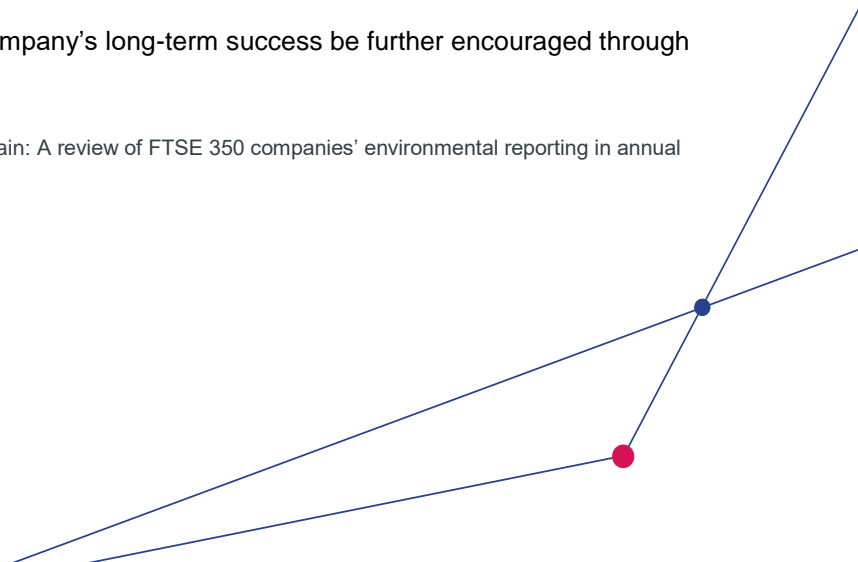
Q20. Are there elements of the revised UK Corporate Governance Code that we should mirror in the Stewardship Code?

Alignment with the TCFD recommendations on climate-related risk disclosure across the investment chain is crucial for future financial stability and long-term sustainable growth. Changes in the UK Corporate Governance Code suggested previously should also be reflected in the Stewardship Code, where appropriate.

Long-term factors and other issues relating to investment

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

⁹ Climate Disclosure Standards Board (2015). Comply or Explain: A review of FTSE 350 companies' environmental reporting in annual reports [PDF]. Available at: <http://cdsb.net/FTSE>



We believe that there should be the following:

- specific reference to approaches and recommendations of TCFD and UN SDGs;
- encourage engagement with companies on long-term strategy and approaches on the incorporation of material risks and opportunities; and
- encourage engagement with companies on their approach to addressing sustainability issues and contribution to SDGs¹⁰.

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?

Please see answer to Q21

Best practice content elements

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?

Reporting can be encouraged through improved engagement by asset owners (directly or indirectly) with their asset managers, and crucially, by promoting asset managers to engage more on ESG matters. We believe this could be through an annual report of stewardship activities and decisions with supporting guidance on what should be disclosed. In general, the more attention and feedback issues are given by investors, the more important it becomes within corporate reporting strategies.

Asset classes

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

As mentioned in our response to Q23, taking a wider view of the characteristics that may influence a company's future ability to create value provides the necessary incentive for companies to take a broader view as well.

The Stewardship Code could therefore act as a reference in this respect, highlighting best practice in ESG stewardship, to give more resources to investors who may have an interest in this matter.

Content elements of other Codes

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

CDSB would like to bring to the FRC's attention to the Code for Responsible Investment in South Africa¹¹ (CRISA), which has integrated sustainability considerations into the code, e.g. 'An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries'.

The role of independent assurance

¹⁰ Adams, CA (2017) *The Sustainable Development Goals, integrated thinking and the integrated report*, IIRC and ICAS. ISBN 978-1-909883-41-3

¹¹ Institute of Directors Southern Africa (2011). Code for responsible investing in Africa 2011 [PDF]. Available at: www.iodsa.co.za/resource/resmgr/crisa/crisa_19_july_2011.pdf

.....
T: +44 (0) 203 818 3939

www.cdsb.net

.....
71 Queen Victoria Street
London, EC4V 4AY



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 have no comments on this matter.

Voting in pooled funds

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

This matter is beyond CDSB's mandate.

Diversity

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

This matter is beyond CDSB's mandate.

UK Committee on Climate Change

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

We believe that the code should go beyond just the consideration to company performance and reporting on adapting to climate change to include other ESG and social impact issues. 'Adapting' to climate change could be misinterpreted as only focussing on the physical risks, which misses the risks associated with the transition to a low carbon economy. The TCFD categorises a number of different risks that organisations should consider as a result of future climate change. Figure 2 below has been extracted from the TCFD recommendations and it is our belief that investors give consideration to company performance and reporting to all risks associated with future climate change and this should be explicitly mentioned.

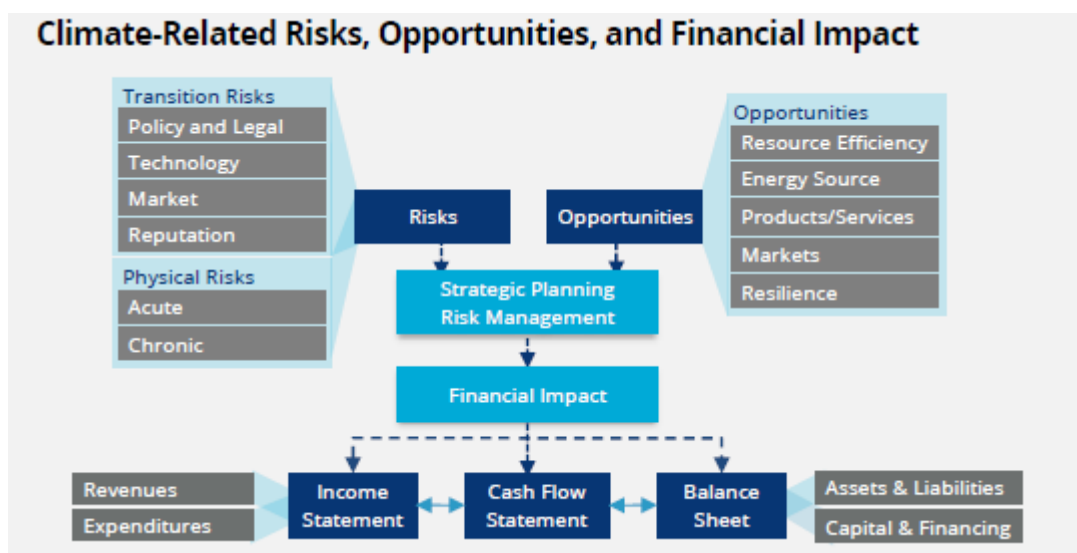


Figure 2. Source: TCFD Final Report (2017)

Purpose of stewardship

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?

Yes. We believe that defining the purpose of stewardship would clarify the desired outcome of, and motivation behind the Stewardship Code and ensure that it is not used as a rubber stamp exercise by investors but as a guide to inform their everyday decision-making. It could also be used, as long as the minimum requirements are met, as a point of differentiation and potential competitive advantage.

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?

This matter is beyond CDSB's mandate.

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T: +44 (0) 203 818 3939
www.cdsb.net

.....
71 Queen Victoria Street
London, EC4V 4AY

