RESPONSE FROM ICAS TO THE FINANCIAL REPORTING COUNCIL (FRC) PROPOSED REVISION TO THE UK STEWARDSHIP CODE

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Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

General comments

We welcome the opportunity to respond to the Financial Reporting Council’s (FRC) proposed revisions to the UK Stewardship Code.

We acknowledge the emphasis in your consultation documents of the relevance to investors of the Sustainable Development Goals (SDGs) and the recommendations of the Financial Stability Board’s Task Force on Climate related Financial Disclosures (TCFD). This demonstrates the greater consideration and assessment given by many investors as to how to embed an organisation’s Environmental, Social and Governance (ESG) related matters within their investment decision-making processes. As a result, the proposed revisions reflect what is happening in practice.

Standard-setters and regulatory bodies can play an important role in providing guidance for companies on how to respond to the SDGs and other sustainable development issues which pose a risk to an organisation’s ability to create long term value, and the proposed revision of the Stewardship Code would be an important step in this process.

Our responses to the consultation questions are detailed below.

<u>Responses to consultation questions</u>

Question 1
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.

Response 1
We believe that the proposed Sections cover the core areas of stewardship responsibility.

Question 2
Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?

Response 2
Given that practice with respect to climate change and other ESG risks and opportunities is still emerging, and that there are many laggards, the Principles should explicitly require asset owners

and asset managers to disclose their stewardship objectives with respect to them. This will assist in reducing the risks to beneficiaries.

Question 3
Do you support ‘apply and explain’ for the Principles and ‘comply or explain’ for the Provisions?

Response 3
We are supportive of ‘apply and explain’ for the Principles and ‘comply or explain’ for the Provisions. This will require asset owners and asset managers to carefully think through the Principles and Provisions and justify any non-application or non-compliance. Overall, this will lead to better practice.

Question 4
How could the Guidance best support the Principles and Provisions? What else should be included?

Response 4
We believe that the assessment mechanisms detailed in paragraph 60 will be particularly important in supporting compliance with the Principles and Provisions. It will also be essential to ensure that the FRC allocates adequate resources to implement them.

Question 5
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?

Response 5
We support the proposed approach to introduce an annual Activities and Outcomes Report. A key content element should be disclosure of the processes by signatories to the Code on how they identify and monitor key ESG risks and opportunities and sustainable development issues impacting on their portfolio/Fund. Activities and Outcomes Reports should also discuss the processes by which asset owners/managers are engaging with companies in which they invest on matters such as: material ESG risks and opportunities; and, contributions to, or negative impacts on, achievement of the SDGs.

Activities and Outcomes Reports should also discuss how asset owners/managers plan to improve their stewardship in the future in order to ensure continued improvements and adaptation of their investment approach to changing circumstances – particularly with regard to social and environmental risks.

Question 6
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?

Response 6
We agree with the proposed schedule for implementation of the 2019 Code and requirements.

Question 7
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?

Response 7
We believe that publishing leaders and laggards as per para 72, and thematic reviews as per para 73, are important and should be adequately resourced by the FRC so that this exercise can take place on an annual basis.

Excellence in stewardship cannot occur without reference to ESG/sustainable development issues. By including such considerations in the revised Code, the FRC has raised the bar. Some of the responses from pension funds to the UK Government's Green Finance Inquiry indicated that assessment of this (for example, by the mechanisms in paras 72 ad 73) is sorely needed.

Question 8
Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?

Response 8
We agree that signatories should be required to disclose their organisational purpose, values, strategy and culture as this has an influence on their stewardship approach. Ideally this should already be disclosed in other reporting mechanisms and can be cross referenced to avoid duplication.

Question 9
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?

Response 9
We believe that asset managers should be encouraged to disclose differences in approaches to stewardship across funds and asset classes.

Question 10
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?

Response 10
In our opinion, signatories should be required to disclose significant differences in their stewardship approach across funds. Some funds focus on particular SDGs or address particular ESG risks and opportunities therefore, it is important to overall improvements in stewardship that this is known and shared.

Question 11
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?

Response 11
We believe that it is appropriate to ask asset owners and asset managers to disclose their investment beliefs and that this will provide meaningful insight to beneficiaries, clients and prospective clients.

Given concerns about stranded assets and long term non-financial risks, it is particularly appropriate to expect asset owners and asset managers to disclose their investment beliefs with respect to climate change and other sustainable development or ESG risks and opportunities.

Question 12
Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?

Response 12
We believe that Section 3 appears to set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf.

Question 13
Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons.

Response 13
We support the Code's use of 'collaborative engagement' rather than the term 'collective engagement' as long as the term 'collaborative engagement' is defined. The term 'collaborative engagement' implies a common and more reciprocal arrangement.

Given the importance of ESG issues to long term beneficiaries, and the relative newness of integrating ESG issues into investment approach and strategy, there should be an explicit requirement to engage on ESG risks and opportunities and the SDGs that companies materially impact on or contribute to.

Question 14
Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?

Response 14
We believe that there should be a mechanism for investors to escalate concerns about an investee company in confidence. This might result in corrective action which reduces the risks to beneficiaries.

Question 15
Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?

Response 15
In our opinion, Section 5 should be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity.

Question 16
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?

Response 16
We believe that the Service Provider Principles and Provisions appear to set sufficiently high expectations of practice and reporting