



Corporate Governance and Stewardship
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

29th March 2019

Re: Proposed Revisions to the UK Stewardship Code

Dear Sir / Madam

Thank you for giving us the opportunity to comment on your discussion paper on the Proposed Revisions to the UK Stewardship Code

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community. The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two-way communication with the markets and to create a level playing field for all investors. It has over 850 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

We have addressed your questions within the consultation paper and the key points from our response can be summarised as follows:

- Overall the Society acknowledges the Stewardship Code's efforts to promote greater alignment between investors and companies, as well as the importance of the role of the investor in wider society.
- We would support enhanced separate guidance for different categories of the investment chain to help drive best practice, including any further review of, or guidance for, the proxy advisory industry, as well as for ESG advisors.
- Communications between service providers and companies have improved in recent years, however we would support the principle that all proxy advisers provide the same approach of 'information provision without conclusion' and asset managers take full control of their voting decisions.
- Companies and IR practitioners are seeing an increasing demand to respond to multiple ESG investor surveys, and their quality and conclusions drawn can be highly variable. There is currently no standard approach to reporting ESG data or best practice in this area, and often no right of appeal by companies to conclusions drawn by ESG providers, however erroneous or misleading. This is an important area for the FRC to continue to monitor to help facilitate a coordinated approach that will meet the needs of both corporates and their stewards.
- Developing a mechanism for investors to escalate concerns could have unintended consequences and requires further clarity. We believe that, if enacted, should only be a potential route when all other channels of communication have been exhausted. In addition, such a proposal we consider to

be 'one-way' and we would fully support a review of how companies can also register any issues or complaints against investors under similar guidelines.

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.

Yes.

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

We support the tiering structure of the Stewardship Code, which demonstrates that if investors drop out of a tier, then the Code is sufficiently demanding enough. We support the increased transparency that the revisions support and we would encourage all measures to promote timely and consistent engagement between companies and their investors.

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

We support the efforts to align the Stewardship Code with the UK Corporate Governance Code, and this approach is consistent with this. It is important for signatories to remember the importance of meaningful reporting, focusing on actions and outcomes and avoiding boilerplate and "tick-box" approaches to reporting. In our view the Code should be sufficiently reviewed and enforced along these lines in order for it to ensure meaningful engagement and not a last-minute form filing approach.

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

As a Society we would be interested to understand what constitutes best practice reporting. Along with the Guidance it would be helpful to get case studies and examples to demonstrate best practice. From a signatory perspective it would also be helpful for practitioners to see who is leading the way in best practice reporting, and how compliance is being monitored.

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?

We support the FRC's efforts to achieve stronger reporting from signatories and further transparency on how their activities are carried out. While an annual Activities and Outcomes Report would be welcomed, there is a question whether it would encourage a more 'tick-box' exercise and regular reviews may be necessary to ensure this does not happen.

We also note that the FRC will require a named contact for stewardship. The duty of effective and meaningful stewardship reporting should not be overly onerous, and we believe the responsibility should be taken by a named individual at senior level. This will ensure the tone and culture of effective stewardship is set from the top and fed down through the organisation.

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?

Yes, we agree with the proposed schedule for implementation.

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?

The IR Society agrees that the proposed revisions to the Stewardship Code address the Kingman Review, through the higher expectations placed on the signatories, more rigorous reporting and the focus on actions and outcomes.

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

We agree that the revised Stewardship Code should align its focus with the Corporate Governance Code and with a longer-term focus. It is reasonable to ask signatories to disclose information around culture and values of an organisation, however from a company perspective, we would be more interested to see reporting on how the asset manager or asset owner is run. In order to avoid boilerplate reporting, disclosure should have a greater focus on stewardship activities and objectives.

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?

We believe it is appropriate for the revised Stewardship Code to address other asset classes, including bonds and listed private equity and it is good to have a level playing field across all asset classes.

On behalf of our corporate members, we are seeing a strong appetite for debt IR activities, and more companies are conducting good debt IR programmes, however it has proved difficult to establish an ongoing relationship with bond holders, due to the difficulty in tracking named beneficiaries.

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?

We support the proposed Provision 1.

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?

Yes, we feel it is appropriate to ask asset owners and asset managers to disclose this, and it supports the principal of the Stewardship Code. Meaningful insight and disclosure will drive towards best practice behaviour and identify those signatories that are taking it seriously.

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

We support the Code's aim through Principal 3 to set a sufficient expectation on signatories to monitor those agents that operate on their behalf. From a listed company perspective there is a real disjunct between what asset managers would like to achieve and what they do achieve when outsourcing their services to proxy advisers and ESG advisors for example. It is a strongly held view by IR Society members that investors who are signatories of the stewardship code should not use their size and the quantity of companies they invest in as an excuse to not participate fully.

We would recommend that asset managers are required to disclose their approach to using third party service providers (e.g. proxy advisers and ESG advisors), including for example, how much do they follow proxy advisers' recommendations, versus how much analysis they undertake in-house etc. On behalf of our corporate members, there is a requirement for feedback on these service providers.

On behalf of our members, we would be interested to pursue the idea of the need for asset managers to disclose if they have had complaints, and how many complaints they have had, regarding service providers.

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

The IR Society is not opposed to the use of the term 'collaborative engagement'.

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

On behalf of our corporate members, we would appreciate further clarity around this point and the idea of the type mechanism intended for investors to escalate concerns. We are aware that the Investor Forum for example is already in place to achieve 'collective investor engagement' so how would this mechanism be different and not overlap with the activities of the Investor Forum?

We would also like to highlight the potential unintended consequences in developing such a mechanism. There would need to be consistency set in the escalation process, and clear guidelines as to at what point investors are able to escalate concerns. Otherwise minority shareholders could gain a significant voice. The best route possible for investors to resolve concerns is through meaningful discussion via the usual channels of IR, Chairman, SID etc - it would not seem to be within the governance code guidelines for routes to become available to circumvent well defined lines of communication.

In addition, to avoid this becoming a biased one-way process, we would encourage, if this proposal is enacted, consideration being given to a similar route for corporates to escalate concerns about a signatory to the stewardship code, again under very clear guidelines as to what would necessitate this approach. This could also potentially be incorporated into the regular review of signatories and into the determination of which tier they might be a part of.

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

We have no further comment on this Section.

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?

The IR Society agrees that the Code's Service Provider Principles and Provisions do set out the expectations of practice and reporting. Whilst we support the fact that proxy advisers and investment consultants have a role to play in the effective functioning of the marketplace, the onus should be on asset managers and asset owners to monitor and report how they are using Service Providers.

We have in the past voiced our concerns on behalf of listed companies about the issues faced when communicating with proxy advisers, including access to reports, factual accuracy and right of response, with investors, in some cases mandated to automatically follow their recommendations. Many claim this is down to lack of resource, time and budget, and these third-party providers fulfil this service adequately. On behalf of our corporate members we do not accept that this is a valid rationale. While in recent times communications between service providers and companies has improved, we support the IVIS approach of 'information provision without conclusion' and would support this is a reasonable solution for all proxy advisers going forward. As part of their commitment to stewardship and the Code, we believe asset managers should be adequately resourced internally to take full responsibility for all voting decisions and stewardship activities. Should they choose to outsource any part of this activity they should demonstrate a sufficient level of oversight and report on any issues & corrective actions where this outsourcing falls below their own stated level of conduct.

There is also added and growing complexity for listed companies who are seeing an exponential increase in activity from commercial ESG investment consultants. Companies and IR practitioners are seeing an increasing demand to respond to multiple ESG investor surveys, which can be inconsistent in detail and extremely time and resource consuming to complete. There is currently no standard approach to reporting ESG data or best practice to determine who and how they should be responding to. This is an increasingly important area for many company investor relations practitioners as the 'E' and 'S' becomes more integrated into mainstream investment decision making. We would therefore

fully support any recommendations to standardise the approach to ESG reporting requirements and further guidance on best practice, both for companies and on the use of advisors by investors.

We hope you find these comments useful and please do not hesitate to contact me if you require any further clarification.

Kind regards,

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