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UK Stewardship Code 2020 Application and Assessment

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Contents	<i>Page</i>
Part 1 – Introduction.....	1
Purpose of this document.....	1
What is the UK Stewardship Code?	1
Who is eligible to apply?.....	2
Links to guidance and rules.....	2
Part 2 – How to apply.....	3
Step 1: Prepare the Stewardship Report	3
Step 2: Complete the application form.....	3
Step 3: Submit the Report	3
Part 3 – How the FRC assesses applications.....	5
Assessment	5
Referral to Advisory Panel.....	5
Notifying applicants of outcome.....	5
Feedback	6
Re-applying if unsuccessful.....	6
Part 4 – Next steps	7
Ongoing expectations of signatories.....	7
Removing signatories.....	7
Review and future assessments.....	8

Part 1 – Introduction

1. The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. We also represent UK interests in international standard-setting. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.
2. [The UK Stewardship Code 2020](#) ('the Code') is a voluntary set of principles that sets high expectations for how investors, and those that support them, invest and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. There are 12 Principles for asset owners and asset manager, and a separate set of six Principles for service providers – investment consultants, proxy advisors, data providers and others. These Principles cover the policies, processes, activities and outcomes of effective stewardship.
3. The Code took effect on 1 January 2020. Asset owners, asset managers and service providers who choose to adopt the principles set out in the Code may apply to the FRC for recognition as a 'signatory' to those principles.

Purpose of this document

4. This document outlines:
 - (a) the application process and ongoing commitments organisations make if approved as a signatory to the Code.
 - (b) how the FRC assesses reporting.
5. It should be read alongside the Code, the UK Stewardship Code 2020 Terms and Conditions and the FRC [website](#).
6. It sets out our general approach; however, there may be instances where we need to adapt that approach to consider cases fairly and appropriately. This document may also be updated from time to time. Organisations may wish to visit the website for the most recent version.

What is the UK Stewardship Code?

7. The Code comprises 12 'apply and explain' Principles for asset owners and asset managers, and a separate set of six Principles for service providers. The Principles are supported by reporting expectations which indicate the information that organisations should publicly report to become a signatory. The Code has four main sections:
 - (a) Purpose and Governance
 - (b) Investment Approach
 - (c) Engagement
 - (d) Exercising Rights and Responsibilities
8. To become a signatory to the Code, organisations need to submit a Stewardship Report ('the Report') that demonstrates how they have applied all 12 Principles (six for

service providers) and the reporting expectations. (See section 2 and 3 for more detail).

9. For more information, organisations should read the [UK Stewardship Code 2020](#).

Who is eligible to apply?

10. The Code applies to:
 - (a) **Asset owners** such as pension funds, insurers, endowments, foundations, local government pension pools, master trusts and sovereign wealth funds.
 - (b) **Asset managers** who manage assets on behalf of UK clients or invest in UK assets, including fund of funds, multi-managers and fiduciary managers.
 - (c) **Service providers** such as investment consultants, proxy advisors, data and research providers who support asset owners and asset managers to exercise their stewardship responsibilities.
11. Organisations that carry out more than one of the roles above should report on all relevant reporting expectations. The Report provided by the organisation must clearly state the scope of disclosure provided.

Links to guidance and rules

12. Guidance from The Pensions Regulator (TPR) encourages [defined benefit](#) and [defined contribution](#) pension schemes to become signatories to the Code. [Guidance](#) from the Ministry of Housing, Communities and Local Government recommends that administering authorities in the Local Government Pension Scheme become signatories to the Code.
13. Financial Conduct Authority (FCA) regulated asset management firms covered by the [FCA Conduct of Business Sourcebook \(COBS\), Rule 2.2.3](#), are required to disclose the nature of their commitment to the Code, or where they do not commit to the Code, their alternative investment strategy.

Part 2 – How to apply

Step 1: Prepare the Stewardship Report

14. Organisations must submit a Report explaining how they have applied the Code over a 12-month period and complete an online application form. Both parts of the application must be received by the FRC by the appropriate reporting deadlines, as published on the FRC [website](#).
15. Reports should be in a single PDF or Word document, structured to give a clear understanding of how the organisation has applied the Code. Reports should be engaging, succinct and in plain English. The organisation can follow their own structure or present Principle by Principle.
16. The document should be informative and useful to clients and/or beneficiaries as well as the FRC. Organisations may choose to disclose information to meet other stewardship-related UK regulatory requirements or international stewardship codes. The FRC will, however, only assess Reports against the Principles set out in the Code.
17. The Report must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer, or equivalent, before it is submitted for consideration to the FRC.
18. Organisations who become signatories of the Code must make their Report publicly available on their website.
19. The Report must meet all requirements set out in the Code. Applicants can find more information about how to report effectively on the Code in the [UK Stewardship Code Review of Early Reporting](#).

Step 2: Complete the application form

20. Applicants must complete a short online form on the FRC website. The form requires information about the organisation such as assets under management and the Report's year-end date. Applicants must provide a named contact for the application and subsequent communication.
21. Before starting the form, applicants should read the UK Stewardship Code 2020 Terms and Conditions and the FRC [Regulatory Privacy Notice](#), which sets out how the FRC will process any personal data that forms part of the application.
22. The individual submitting the application must have authority to do so on behalf of the organisation. By submitting the form and Report, organisations confirm that the information provided is truthful and accurate. Organisations which provide false or misleading information may be removed as signatories.

Step 3: Submit the Report

23. After submitting their application form, applicants will receive an automated email to the address provided.
24. This email will contain a link and instructions for applicants to submit their Report. Applicants should click the link in the email and attach their Report to the email provided. The attachment must not be encrypted and must not exceed 20 MB.

Applicants should not change the subject header as this will affect the successful processing of their application.

25. The FRC will review the form and Report and may seek clarification on any missing information from the application.
26. Applications received after the appropriate deadline will be processed following the next application deadline as detailed on the FRC website.
27. Applicants must not refer to themselves as a signatory to the UK Stewardship Code 2020 before their application has been accepted and the result published.

Part 3 – How the FRC assesses applications

Assessment

28. Reports will be assessed by FRC staff to determine if the applicant has sufficiently demonstrated how they have applied the Principles of the Code in the reporting period. The reporting expectations indicate the information that applicants should include in their Reports and these expectations form the basis of assessment of reporting quality.
29. Applicants that provide sufficient evidence which enables the FRC to have a good understanding of how they have applied the Code, without having to refer to information elsewhere, will be listed as a signatory. Applicants that do not provide sufficient information will not be listed as a signatory.
30. For each Principle there are either reporting expectations that apply to all prospective signatories or separate reporting expectations for those investing directly and those investing indirectly. Applicants should identify and address all the reporting expectations that are appropriate for their business and their investment role. If an applicant considers that a reporting expectation does not apply, they should explain the reason, rather than omit it from their disclosure.
31. Assessments are solely based on the information and evidence provided in the Report and not on a detailed knowledge of an applicant's business.
32. Throughout the assessment period, FRC staff will regularly meet to ensure assessments are consistent and identify Reports for referral to the [FRC Advisory Panel](#).

Referral to Advisory Panel

33. To ensure consistency, fairness, integrity and rigour, FRC staff will refer assessment recommendations to members of the [FRC Advisory Panel](#) with experience in stewardship and investment in the following cases:
 - (a) A sample of reports of approximately 10% of submissions distributed across the categories of asset owner, asset manager and service provider to ensure consistency of approach when considering applications.
 - (b) Reports where the assessment recommendation decision is marginal, either to approve an application or to decline it.
 - (c) In any other circumstances where it is considered that an additional layer of scrutiny may be helpful in ensuring the fair consideration of an application.
34. Our advisors are required to declare any conflicts of interest.

Notifying applicants of outcome

35. The FRC will notify applicants privately of the outcome of the assessment before updating the list of signatories for the assessment period. We will use the contact details provided in the application form.
36. Applicants whose Report meets our expectations will be listed as a signatory to the Code on the FRC website under the category applied for – asset owner, asset manager or service provider. The FRC will not publish the names of applicants who are unsuccessful.

37. Any decision by the FRC as to whether to approve an organisation as a signatory to the Code will be final.
38. Successful signatories must make their Report publicly available on their website once they have received a notification from the FRC that their application has been approved. The FRC may also host signatories' Reports on the FRC website and include excerpts from those Reports in publications, research and reviews. By applying, organisations agree that the FRC may use their reports for this purpose.
39. Signatories will not be 'tiered' in 2021. The FRC may in future consider introducing mechanisms to differentiate the quality of signatories' reports.

Feedback

40. The FRC will inform each unsuccessful applicant of the areas of their reporting that did not meet expectations.

Re-applying if unsuccessful

41. Unsuccessful applicants may re-apply in a subsequent reporting window as detailed on the FRC website.

Part 4 – Next steps

Ongoing expectations of signatories

42. Organisations that are approved as signatories to the Code must continue to meet the Code requirements to maintain their status by annually submitting a Report to the FRC. Each Report will be assessed and must meet the requirements for that year, as explained on the FRC website. The FRC will communicate any changes to the requirements or standards of reporting expected on the website.
43. The FRC expects signatories to submit their Reports in the same reporting window every year. Should the signatory wish to submit their Report in a different window within the same calendar year they must communicate this to the FRC at stewardshipcode@frc.org.uk at least one month before the initial deadline.
44. Organisations must provide contact details for the FRC to communicate with them about their Stewardship Code application and signatory status. It is the responsibility of applicants and signatories to update the FRC about any changes to these details at stewardshipcode@frc.org.uk. The FRC may remove signatories that fail to keep contact information up to date.

Removing signatories

45. The FRC may suspend or remove organisations from the list of signatories in the following circumstances:
 - (a) The organisation removes their current Report from their website.
 - (b) The organisation provides information in their application or Report which is later discovered to be false or inaccurate.
 - (c) The organisation fails to submit an annual Report by the relevant deadline.
 - (d) The Report submitted does not meet the reporting expectations in the Code.
 - (e) The organisation does not provide updated contact information to the FRC.
 - (f) The organisation is under investigation or has received regulatory action from another government or regulatory body.
 - (g) The organisation ceases to trade/exist.
46. Where the FRC identifies that an organisation may no longer meet the requirements to be listed as a signatory to the Code, we may write to the organisation and seek more information, as appropriate.
47. Where the FRC has already gathered sufficient information to form a preliminary view that an organisation may no longer meet the requirements of the Code, the FRC will write to the organisation at the contact details provided to the FRC, setting out:
 - (a) our concerns and the basis on which we consider that the organisation may no longer meet those requirements; and that,
 - (b) subject to any representations that the organisation may wish to make (see below), the FRC may suspend or remove that organisation from the list of signatories.
48. The organisation will be given 10 working days to make written representations to the FRC before a final decision is made as to whether to suspend or remove an organisation from the list of signatories.

49. Where the organisation chooses to make representations, these will be referred, together with the FRC's correspondence setting out the basis for our concerns, to a member of the [FRC Advisory Panel](#) with no previous involvement in the case, who will make the final decision about whether to suspend or remove the organisation from the list.
50. Where the organisation chooses not to make representations, it will be suspended or removed from the list of signatories without the need for further consideration by the FRC Advisory Panel.
51. Where the FRC decides to suspend an organisation from the list of signatories, we will set out the period for which the suspension will remain in place and any conditions that will apply in order for a signatory to be reinstated. The FRC may consider it appropriate to extend the period of the suspension, where more time is required to resolve our concerns fairly and appropriately.
52. Where the FRC considers it appropriate to extend the period of a suspension or, following a period of suspension, to remove an organisation from the list of signatories altogether, we will write to the organisation and where we are proposing to:
 - (a) extend the suspension, we will give the organisation 10 working days to make representations to us before we reach a final decision;
 - (b) remove an organisation from the list of signatories, we will give the organisation 10 working days to make representations to us before we reach a final decision.
53. The FRC will communicate the decision in writing to the entity.
54. The FRC's decision will be final. Organisations that have been removed as signatories to the Code may re-apply in future. The circumstances under which the signatory was previously removed may be considered in any future application.

Review and future assessments

55. The FRC will review the overall themes and quality of reporting from the Reports received from organisations and will publish an annual review on the Code.
56. The FRC will also evaluate the effectiveness of the assessment process and criteria and may make changes to better assess the quality of signatories' reporting on the Code.
57. Changes will generally be communicated on the FRC website by the end of the December of each year for reporting windows the following year, however there may, from time to time, be changes made at other times. Signatories are responsible for checking the website and ensuring their reporting continues to meet current reporting expectations.