ICMA AMIC Response to the FRC consultation on a proposed revision to the UK Stewardship Code

The ICMA Asset Management and Investors Council (AMIC) was established in March 2008 to represent the buy-side members of the ICMA membership. ICMA is one of the few trade associations with a European focus and both buy-side and sell-side representation. The AMIC Corporate Governance working group welcomes the opportunity to respond to the FRC's consultation on a proposed revision to the UK Stewardship Code and will do so mainly from a debt investors' perspective as ICMA's main focus is on debt instruments.

General comments

AMIC is broadly supportive of the FRC's revised Stewardship Code. We are pleased to see the expansion in the scope of the Code to include all asset classes and that bondholders are specifically mentioned. AMIC supported such an approach in our response to the consultation on a revised UK Corporate Governance Code and initial consultation on the Stewardship Code which ended on 28 February 2018.

AMIC also supports the FRC's approach regarding how asset owners and asset managers should integrate their stewardship responsibilities into their investment processes and the explicit reference to environmental, social and governance (ESG) factors being taken into account when firms are fulfilling their stewardship responsibilities. AMIC has already broadly supported ESMA's suggested approach to integrating sustainability risks and factors in the UCITS and AIFM Directives.

There are two general areas where AMIC members would appreciate some additional clarifications:

(1) While some of our members are happy with the flexibility that the revised Code allows in terms of the new annual Activities and Outcomes Report, others said they would welcome more clarity around what the expectations are, so as to avoid this becoming a "boilerplate report"; and

(2) Some members noted that the focus of the revised Code seems to have switched slightly towards value creation and reporting while de-emphasising the need to actively engage, which was at the core of the previous Code – if this is intentional, the FRC should state so explicitly.

Responses to questions

Q1. 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.

AMIC supports the FRC's revised Stewardship Code.

Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?

Yes, we believe the revised Stewardship Code sets sufficiently high expectations of effective stewardship for all signatories. We welcome the expansion in the scope of the Code to include all asset classes, and that bondholders are specifically mentioned. We believe the guidance given sets a sufficiently high expectation for equity and bond holders, but perhaps could do with slightly more guidance for other asset classes, for example for loans.

Q3. Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions?

Yes, we support the 'apply and explain' for the Principles and 'comply or explain' for the Provisions.

Q4. How could the Guidance best support the Principles and Provisions? What else should be included?

We have no particular view on this.

Q5. 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?

Yes, we support the proposed approach to introduce an annual Activities and Outcomes Report, however while some of our members are happy with the flexibility given, some have raised concerns about the risk of this becoming a "boilerplate report" and would welcome more clarity on the expectations from FRC.

AMIC urges FRC to exercise caution in how it evaluates the first year of reporting under the new annual Activities and Outcomes Reports.

Q6. 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 of implementation.

Q7. 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?

We believe that the revised Code does address the recommendations of the Kingman Review, but have concerns whether there is enough patience to allow signatories to get it right in the absence of further guidance. As we stated in Question 5, it is important that in the first year of reporting the FRC exercises sufficient caution with regard to how rigorously the new reporting regime satisfies the Kingman Review recommendations.

Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?

Yes, we agree that signatories should be required to disclose their organisational purpose, values, strategy and culture. Doing so may prove a useful exercise for signatories if they have not already considered such questions.

Q9. 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 the draft 2019 Code incorporates stewardship very well for equity and bonds. In particular, we welcome Provision 27 requiring explaining of the policy on bond engagement. Given the focus on ESG in the new Code, we believe bond engagement will become more significant in the future.

AMIC also believes it may be helpful to mention and provide some guidance on how stewardship should be exercised for other asset classes, such as private placement, private equity and loans.

Q10. 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?

AMIC believes that Provision 1 achieves the goal of requiring asset managers to provide disclosures on their stewardship activities in respect of various funds. However, we believe sufficient flexibility should be allowed for management companies to comply with this requirement according to their specific circumstances. For instance, large asset managers with many funds may find it more appropriate to provide disclosures at the level of asset class or fund strategy type, as opposed to on a fund-by-fund level.

Q11. 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?

We believe there is merit in asking firms to do this exercise of identifying and disclosing their investment beliefs. As in Question 8 for “organisational purpose”, the exercise of defining “investment beliefs” may be a useful exercise for firms that have not already considered such questions. This should however be managed carefully as there is a risk that this may create more “boiler plate disclosure”.

However, we believe that Provision 10 in Section 2 on Investment Approach should be modified. We believe that for Investment Time horizon, for instance, it is very important to have separate requirements for asset owners and asset managers. While an asset owner may have a unitary investment time horizon, an asset manager may be subject to any number of differing investment time horizon depending on their funds’ and underlying clients’ investment mandates. FRC should give the asset manager the opportunity to decide whether it wants to disclose an average time horizon or “typical” time horizon, for instance.

Similarly, for Provision 12, AMIC hopes FRC will allow asset managers to differentiate their investment beliefs from their clients’ and funds’ mandates.

Q12. Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?

Yes, we believe Section 3 sets a sufficiently high expectation on signatories to monitor the agents that operate on their behalf.

Q13. Do you support the Code’s use of ‘collaborative engagement’ rather than the term ‘collective engagement’? If not, please explain your reasons.

We support collaborative engagement as a replacement for collective engagement, as this emphasises the more holistic engagement that asset owners and managers adopt with investee companies. Some of our members, however, have pointed out that collective engagement is the more widely used term, and that there is little benefit in creating another term.

Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?

We support the Guidance on constructive engagement and recognise that escalation examples are comprehensively mentioned. However, AMIC members are concerned that in monitoring compliance with these provisions, FRC should not place too much emphasis on the new annual reporting regime. AMIC believes the Code should remain focused on engagement between asset owners and investee companies.

Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?

Yes, further guidance could be provided for other asset classes, such as private placement, private equity and loans.

Q16. 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?

We support the Service Provider Principles and Provisions and believe that service provider stewardship engagement by signatories of the Code should consequentially improve. This will benefit asset owners and asset managers as responsibilities across the engagement chain will be clearer.

ENDS