Consultation

Financial Reporting Council

January 2019

Proposed Revision to the UK Stewardship Code

Annex B - Summary of Changes from 2012 UK Stewardship Code

The FRC's mission is to promote transparency and integrity in business. 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. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

THE STRUCTURE OF THE 2012 CODE AND PROPOSED 2019 VERSION

The Principles and Guidance in the current UK Stewardship Code are detailed in the left hand column. The right hand column shows where they have been incorporated into the revised Code or deleted.

2012 CODE	NEW PROPOSED LOCATION
Principle 1 Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	Introduction – disclosure against the new Code's Principles and Provisions will demonstrate how a signatory has satisfied its stewardship responsibilities.
Guidance Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.	Incorporated into Section 3 – Active Monitoring and Section 4 – Constructive Engagement and Clear Communication.
The policy should disclose how the institutional investor applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.	Incorporated into Provision 11.
The statement should reflect the institutional investor's activities within the investment chain, as well as the responsibilities that arise from those activities. In particular, the stewardship responsibilities of those whose primary activities are related to asset ownership may be different from those whose primary activities are related to asset management or other investment-related services.	The new Code has been tailored to address different categories of Code signatories, this includes asset owners and asset managers.
Where activities are outsourced, the statement should explain how this is compatible with the proper exercise of the institutional investor's stewardship responsibilities and what steps the investor has taken to ensure that they are carried out in a manner consistent with the approach to stewardship set out in the statement.	Incorporated into Provisions 15 and 16.
The disclosure should describe arrangements for integrating stewardship within the wider investment process.	Incorporated into Provision 9.

2012 CODE	NEW PROPOSED LOCATION
Principle 2 Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.	 Incorporated into Principle D.
Guidance An institutional investor's duty is to act in the interests of its clients and/or beneficiaries. Conflicts of interest will inevitably arise from time to time, which may include when voting on matters affecting a parent company or client. Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.	 Incorporated into Principle D. Incorporated into Section 1 Guidance. Incorporated into Principle D, Provision 7 and Section 1 Guidance.
Principle 3 Institutional investors should monitor their investee companies.	 Incorporated into Principle G and Provision 14.
Guidance Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness. When monitoring companies, institutional investors should seek to: • keep abreast of the company's performance; • keep abreast of developments, both internal and external to the company, that drive the company's value and risks; • satisfy themselves that the company's leadership is effective; • satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members; • consider the quality of the company's reporting; and	 Incorporated into Section 3 Guidance.

2012 CODE	NEW PROPOSED LOCATION
Principle 3 Guidance (contd.) • attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.	
Institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position.	Incorporated into Section 3 Guidance.
Institutional investors should endeavour to identify at an early stage issues that may result in a significant loss in investment value. If they have concerns, they should seek to ensure that the appropriate members of the investee company's board or management are made aware.	Deleted.
Institutional investors may or may not wish to be made insiders. An institutional investor who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.	Deleted.
Institutional investors will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.	Deleted.
Principle 4 Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.	Incorporated into Provision 19.
Guidance Institutional investors should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening.	Incorporated into Section 4 Guidance.

<table>
<tr><th>2012 CODE</th><th>NEW PROPOSED LOCATION</th></tr>
<tr><td>Principle 4 Guidance (contd.)

Instances when institutional investors may want to intervene include, but are not limited to, when they have concerns about the company’s strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.

Initial discussions should take place on a confidential basis. However, if companies do not respond constructively when institutional investors intervene, then institutional investors should consider whether to escalate their action, for example, by:
• holding additional meetings with management specifically to discuss concerns;
• expressing concerns through the company’s advisers;
• meeting with the chairman or other board members;
• intervening jointly with other institutions on particular issues;
• making a public statement in advance of General Meetings;
• submitting resolutions and speaking at General Meetings; and
• requisitioning a General Meeting, in some cases proposing to change board membership.</td><td>

Incorporated into Section 4 Guidance.

Incorporated into Section 4 Guidance.</td></tr>
<tr><td>Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.</td><td>

Incorporated into Provisions 2 and 20.</td></tr>
<tr><td>Guidance

At times collaboration with other investors may be the most effective manner in which to engage.

Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.</td><td>

Incorporated into Section 4 Guidance.</td></tr>
</table>

2012 CODE	NEW PROPOSED LOCATION
Principle 5 Guidance (contd.) Institutional investors should disclose their policy on collective engagement, which should indicate their readiness to work with other investors through formal and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. The disclosure should also indicate the kinds of circumstances in which the institutional investor would consider participating in collective engagement.	Incorporated into Provisions 2 and 20.
Principle 6 Institutional investors should have a clear policy on voting and disclosure of voting activity.	Incorporated into Provisions 25 and 26.
Guidance Institutional investors should seek to vote all shares held. They should not automatically support the board. If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons why. Institutional investors should disclose publicly voting records. Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services. Institutional investors should disclose their approach to stock lending and recalling lent stock.	Deleted Incorporated into Section 5 Guidance. Incorporated into Provision 26. Incorporated into Section 3 Guidance. Incorporated into Section 5 Guidance.
Principle 7 Institutional investors should report periodically on their stewardship and voting activities.	Incorporated into Section 1 Guidance and Provision 26.

2012 CODE	NEW PROPOSED LOCATION
Guidance	
Institutional investors should maintain a clear record of their stewardship activities.	Deleted
Asset managers should regularly account to their clients or beneficiaries as to how they have discharged their responsibilities. Such reports will be likely to comprise qualitative as well as quantitative information. The particular information reported and the format used, should be a matter for agreement between agents and their principals.	Incorporated into Provision 21.
Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution.	Incorporated into Provision 21.
Transparency is an important feature of effective stewardship. Institutional investors should not, however, be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome.	Deleted
Asset managers that sign up to this Code should obtain an independent opinion on their engagement and voting processes having regard to an international standard or a UK framework such as AAF 01/06. The existence of such assurance reporting should be publicly disclosed. If requested, clients should be provided access to such assurance reports.	Incorporated into Provision 8.

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk