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30th March 2019

Corporate Governance and Stewardship
Financial Reporting Council
8th Floor
125 London Wall
London
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RE: Proposed Revisions to the UK Stewardship Code

Dear Sir/Madam

Thank you for giving us the opportunity to provide our comments on the proposed changes to the UK Stewardship Code ("The Code").

About Black Sun

Black Sun is an internationally recognised, market leading stakeholder communications company. We help businesses articulate their purpose and communicate how they deliver value by developing inspiring communications that reach, engage and influence important stakeholders. The result is that organisations are more valued in the eyes of their stakeholders. We encourage best practice in corporate reporting and believe that transparency and clear communication are pre-requisites for effective engagement between companies, investors and other members of the investment community.

We regularly work with over eighty FTSE 350 companies, including some of the UK's biggest names such as Coca-Cola Hellenic Bottling Company, Tesco, G4S, Schroders and Rio Tinto. We are passionate about demonstrating thought leadership within the industry and will be publishing the 14th edition of our flagship Complete 100 research - which assesses corporate reporting trends among the FTSE 100 - in the coming months. In September 2018, we held a joint event with the FRC, attended by over 120 corporates, to discuss the upcoming changes in the governance and reporting landscape, including the changes to the Stewardship Code.

Summary of our response

Black Sun welcomes the changes to the Code and believes they represent a positive development that will help to secure Britain's position at the cutting edge of international stewardship practices. We believe that developments in regulation and market practice, as well as evolving international best practice, mean that the updates are timely.

Our interest in the Stewardship Code comes from the perspective of our corporate clients. We emphasise that the UK corporate governance system is predicated on effective engagement between companies and shareholders facilitated by clear and transparent information. We believe that for this system to work, transparency must go both ways. While it is important that companies continue to improve the quality and credibility of the information they provide to investors, it is also important that the investment community is transparent, both about what information it expects companies to provide but also about how it sources and uses information when exercising stewardship responsibilities. Preparing high quality information from across a large, global organisation is a time consuming process and our clients want to feel confident that the information they are publishing is fit for purpose.

Alignment with the UK Corporate Governance Code

We believe that the UK Corporate Governance Code and the UK Stewardship Code are two sides of the same coin. We therefore agree that aligning the structure of the Stewardship Code and the Corporate Governance Code is a sensible approach. In response to question 3, we support the use of 'apply and explain' for the principles and 'comply or explain' for the provisions. We would further highlight, that the new UK Corporate Governance Code places an increased emphasis on providing company-specific insight into application of the overarching principles. We argue that insight into application of principles is equally important for the Stewardship Code in order to avoid boilerplate disclosures.

We also feel - in response to question 8 - that requiring signatories of the Code to establish an organisational purpose, strategy, values and culture is aligned with the parallel expectations for companies set out in the Corporate Governance Code. Requiring this information reflects the role of the whole financial system in meeting society's needs.

More rigorous reporting requirements

In response to question 5, we welcome more rigorous reporting requirements for Code signatories including the introduction of an annual Activities and Outcomes Report. Clear reporting is at the core of our belief that transparency is the foundation for effective engagement. While the primary purpose of reporting by Code signatories is to increase their accountability to their beneficiaries and clients, we believe that it is also important that companies gain a meaningful understanding of signatories' expectations for investee companies. The information provided therefore needs to provide practical entity-specific insight and should not be a box-ticking exercise. Similarly - in response to question 11 - we feel that disclosure of investment beliefs will help companies to improve the quality of information and engagement based on an understanding of their investors' needs.

We believe the FRC should regularly review signatories' reporting and continue to work to promote best practice reporting using initiatives similar to its Financial Reporting Lab for company reporting. We have found through our experience with corporates that best practice examples are a valuable resource for driving improved disclosure. We also support the FRC's proposal to maintain a list of signatories with links to the statement and report on each signatory's website. However, we believe a central repository where signatories would be required to upload the statement and report would be beneficial to ensure standardisation of where information can be found.

As a final consideration, we highlight that the UK Corporate Governance Code places high importance on tone from the top and this should be reflected in the Stewardship Code. We therefore believe that instead of simply providing a *named contact* for stewardship, companies should identify an appropriately senior figure who is *responsible for* stewardship.

Recognising the importance of environmental, social and governance (ESG) issues

We welcome the recognition in the proposals of the importance of environmental, social and governance (ESG) issues. From our perspective, the key challenge in relation to ESG issues is developing a common 'language' for engagement, just as IFRS has created a common language for financial information. Companies must currently choose between a multitude of different, sometimes contradictory, reporting frameworks as well as responding to multiple investor surveys. These frameworks can be costly and time consuming for companies to adhere to. Transparency and consistency from asset managers and owners on what ESG information they expect their investee companies to provide (including their preferred reporting frameworks) would help to provide some clarity for companies and enable them to efficiently channel their resources.

Going beyond this, we believe it is important that asset managers and owners are transparent about their methodologies for assessing ESG performance. Many firms use information sourced from a number of third party providers before applying their own proprietary overlays. In our experience there is very little transparency about these methodologies. While some elements of the process may be commercially sensitive, we believe that asset managers and owners should at a minimum be transparent about the third-party providers they use so that companies can hone the information they provide to the benefit of all parties.

Expectations of different entities in the investment chain

In response to question 16, we consider that it is crucial to promote transparency and accountability across the entire investment chain. Many investment advisors have significant influence on investment decision-making among asset owners and asset managers and proxy advisors have a prominent role in determining the outcome of votes at general meetings. It is therefore of vital importance to our clients that these entities are transparent about their expectations and are themselves held to account. As discussed above, we believe there is an onus on asset managers and owners to explain why and how they use service providers and to provide sufficient resources to effectively monitor their performance.

We are thankful for the opportunity to provide our comments and we will be happy to discuss any of the issues raised.

Yours sincerely,

Sallie Pilot, Chief Insight and Engagement Officer