irm

27 March 2019

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

Dear Sir or Madam

Institute of Risk Management Response to Consultation on the UK Stewardship Code

I am pleased to attach a response prepared by the Institute of Risk Management to the consultation on the UK Stewardship Code. This updates and replaces the previous submission dated 14 March.

We recognise the value of the Code and hope you consider our comments will contribute to its development.

Yours sincerely

Ian Livsey
Chief Executive

cc Socrates Coudounaris, IRM Chairman

Institute of Risk Management Response - Consultation on the Revisions to UK Stewardship Code

The Institute of Risk Management welcomes the opportunity to comment on the revisions proposed to the UK Stewardship Code. We are an independent, not-for-profit professional membership body providing education, training and thought leadership in enterprise risk management internationally. We supported the University of Cambridge with research which provided '*Risk Management Perspectives of Global Corporations*' based on a survey of over two hundred members of the risk community. IRM is a liaison group member in the development of the '*Guidance for the Governance of Organizations*' to be published by the International Standards Organization as ISO 37000.

We set out our comments according to the sections in '*Proposed Revisions to the Code – General*' in the January 2019 document 'Proposed Revisions to the Code'. Our comments are focused upon those aspects we consider risk management to offer the greatest value to the stewardship of institutional investment.

Section 42. We agree with the revised definition of stewardship. It clearly articulates that the investment community has responsibilities to the wide range of stakeholders involved in, or potentially impacted by, investment decisions. The specific reference to *sustainable value* for the *economy and society* - as well as beneficiaries - speaks to the investment community as responsible for managing risks, including emerging risks such as climate change, and opportunities, such as those aimed at alleviating inequality and poverty. To note, we see risk and issue management as central to the list of Stewardship activities cited, with the monitoring stage forming an essential part of providing assurance and holding decision-makers to account.

Section 53. In relation to *Service Providers*, the stewardship role in risk management should be supported by professionals accustomed to designing and evaluating *risk standards and frameworks*. Independent reviews of such arrangements provide evidence that decisions are made based on robust and timely information on risks and issues. Specific expertise in financial investment risk management will support those in a stewardship role to make sound risk-based decisions.

Section 55. In relation to *Reporting* as a means of increasing *transparency* through *policies* and *practices,* this is enhanced if individual organisations publish their 'Risk Policy' as well as commit to monitor and report on risk management practices. In this way, ultimate beneficiaries and regulators will have transparency of arrangements in place across the investment community and an ability to hold relevant parties to account in relation to activities concerning the management of risk.

Sections 79. We recommend that *risk* continues to be recognised alongside *purpose*, *values*, *strategy* and *culture* as a key aspect of fulfilling stewardship objectives. At a time of considerable change and uncertainty in the environments in which companies operate, it is important to be aware of emerging risks as well as opportunities. Risk management provides information on the potential impact of such factors and the effectiveness of management measures and plans in place.

Section 80. We agree that signatories should define the *purpose* of their stewardship activity. Risks should be viewed in the context of a purpose – notably in identifying risks to the achievement of specific objectives. In this respect, a purpose which clearly mentions the wider community will provide assurance to a range of stakeholders that collaboration is sought in handling risks and issues.

Sections 83. We agree with the statement concerning the importance of a *sustainable financial system* and the need to consider *systemic risks* and *sustainable investment*. An understanding of systemic risk can support those in a stewardship role to avert potential financial crises in the sector. An understanding of sustainable investment will frame a longer-term view of risk-return decisions.

Sections 87. A wide range of stakeholders across the investment chain will have an interest in reports on the effectiveness of stewardship. We view stewardship to include recognising the risks to different stakeholders and providing assurance that their interests are protected. Reporting on risk arrangements is one way of demonstrating that roles and responsibilities have been properly discharged in this regard.

Sections 94. We agree that monitoring is a central activity of stewardship. In relation to monitoring companies, the effectiveness of risk management and reporting arrangements should be evaluated. Regular dialogue on matters concerning risks and issues provides valuable information in ascertaining confidence in projected performance, whether in the short, medium or long-term.

Sections 97. In the context of uncertainty and change, including greater awareness of corporate social responsibility, a whole range of risks to a company could threaten its financial standing and even long-term survival. It should be noted that a culture in which risks are regularly discussed in an open, 'no blame' forum will facilitate collaborative engagement and the exchange of information.

Section 98. We agree that stewardship requires *escalation* paths to be clearly set out such that they facilitate action to be taken in handling key issues and risks. In relation to engagement, early communication and collaboration will optimise the ability to handle risks including the threat of damage to reputation. Research shows that risks to reputation/brand is in the top five enterprise risks of potential concern for global companies in the next twelve months (Cambridge Centre for Risk Studies 2018 ERM Survey, 'Risk Management Perspectives of Global Corporations', 2018).

Section 99. We agree with *collaborative engagement* as a means of building a culture which supports effective risk management across the investment community.

Institute of Risk Management

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