THE
INVESTMENT
ASSOCIATION

Response to the FRC UK Stewardship Code Consultation

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

The IA and its members welcome the opportunity to respond to the FRC's consultation on the Stewardship Code. The UK Stewardship Code has been instrumental in promoting effective stewardship practices across asset classes, enhancing transparency, and supporting long-term value creation for end savers. The Code's influence extends beyond the UK, with its principles being replicated worldwide, cementing its reputation as a 'gold standard' for driving up standards of high quality stewardship. In the past few weeks the FRC has announced that there are now 297 signatories to the Code representing £52.3 trillion assets under management which demonstrates the importance that the market places on receiving and maintaining signatory status against the Code. It is seen as representing a minumum standard of stewardship, with a manager's signatory status often required by asset owners when making appointment decisions.

However, in recent years there has been significant debate on the role of stewardship and the impact it has had the competitiveness of the UK. There are concerns from certain stakeholders that the Code is too prescriptive, leading to greater volumes of reporting which are not all decision-useful to clients and create friction between investors and investee companies. It is argued, that this does not promote a stewardship framework which support the UK's economic growth and international competitiveness.

We believe that the proposed revisions to the Code represent an opportunity for the UK to lead globally by balancing growth, competitiveness and high standards of corporate governance and stewardship. The streamlining and flexibility within the new Code and its principles recognises that there is no one-size fits all approach to stewardship and that different signatories will conduct stewardship depending upon their business model, investment strategies and client expectations. We welcome this approach and believe that it will help to create better alignment, relationships and incentives across the investment chain with the end goal of promoting the long-term, sustainable value creation.

We would empahise the following points:

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- **Definition of Stewardship** – The majority of members support the revised definition, which emphasises delivering returns for clients while accommodating their broader investment objectives. However, concerns remain regarding the term "sustainable", which is a restricted term under FCA Naming and Marketing Rules. To avoid unintended compliance risks, we recommend that the FRC and FCA work together to promote regulatory alignment and publicly clarify whether a stewardship report acts as a "financial promotion" under the Rules.

  Some members do not support the removal of the benefits to the economy, the environment and society from the definition. They believe that this change removes the connection with the positive externalities of stewardship and de-emphasises the importance of long-term systemic risks that investors are exposed to. However, on the whole members believe that there is enough flexibility in the definition to still pursue these aims where they align with clients' investment objectives. It is important that the FRC delivers a definition which the whole market can support, so that we do not have different actors in the investment chain using different definitions.

- **Streamlined Reporting Structure** – The proposed split between a Policy & Context Disclosure and an Activities & Outcomes report is a positive step towards improving transparency and usability of reporting. However, requiring annual submission and republication of the Policy & Context disclosure could inadvertently increase compliance burdens. We recommend submission every three years, unless there are material changes.
- **Principles, Prompts & Guidance** – The revised reporting structure provides greater flexibility and relevance for signatories. We recognise the risk that overly descriptive guidance could lead to a tick-box approach to reporting. To ensure practical implementation, industry stakeholders should be consulted on the guidance before it is finalised.
- **Principles for Proxy Advisers & Investment Consultants** – We support the differentiation of stewardship expectations for service providers. Greater transparency on proxy advisors' research methodologies and voting recommendations will benefit clients, while investment consultants should clearly articulate how they assess stewardship in manager selection. Improved disclosures will help reduce excessive bespoke reporting requests that currently burden investment managers.
- **Principles on Engagement, Collaboration & Escalation** – Folding engagement, escalation, and collaboration into a single principle provides useful flexibility and reflects existing market practice in reporting, reducing incentives for unnecessary disclosure.
- **Market-wide & Systemic Risks** – While we welcome the retention of a Principle on systemic risks, the accompanying text should be revised to remove the expectation that all investment managers must address these risks directly. Stewardship plays a role in identifying and mitigating systemic risks for clients, but the responsibility for addressing systemic risks and solutions ultimately lies with policy makers.

We appreciate the FRC's efforts to evolve the Stewardship Code while addressing industry concerns and appreciate the FRC's engagement to date. The IA remains committed to working with the FRC to ensure the final framework supports high-quality stewardship while allowing flexibility for stewardship to be based on an individual manager's stewardship approach, investment style and business model.

Questions

1. Do you support the revised definition of stewardship?

Revised Definition of Stewardship

The majority of IA members support the proposed new definition of stewardship, which focuses on delivering returns for clients as well as responding to client objectives. The positioning of the revised definition and explanatory notes provides enough flexibility for signatories to focus on financial materiality and conduct stewardship in a way that creates long-term value for clients while also responding to client expectations on other specific issues. Members welcome that the revised definition allows for a diversity of approaches to stewardship and accommodates the range of investment and stewardship strategies that could be employed by different signatories depending on their size, business model and client needs. We believe that this creates better alignment with the purpose of the Code.

The new definition explicitly removes the additional benefits that stewardship can bring to the economy, the environment and society. We agree with the FRC's position that the 2020 definition was misinterpreted by some stakeholders so that they sought to apply the definition in a way where signatories felt that creating value for clients had to also deliver real world benefits to the economy, the environment and society. In light of this, we agree that signatories should be able to decide for themselves whether the incorporation of these additional benefits aligns with their clients' investment objectives and members are broadly supportive of the flexibility and latitude within the definition to consider these additional benefits whilst recognising that the core purpose of stewardship is long-term value creation for clients or responding to specific client objectives.

The old definition led to some companies being uncertain as to why investors were focusing engagement and voting on issues which the company considered to be immaterial to their business and some market participants or stakeholders were assessing investors' stewardship activities on these real-world outcomes rather than what was being delivered for their clients. The new definition focuses on what is material to the client's financial returns or needed to meet their explicit objectives. This should bring the focus of the definition back to the entire investment process and will lead to better conversations on how individual clients want their assets to be stewarded and allow them to hold their managers to account for it.

The accompanying text to the definition states that: *"...stewardship that supports sustainable, long-term returns may lead to wider benefits for the economy, the environment and society."* Members broadly agree that this wording enables signatories and their clients to factor these wider benefits into their investment strategies if relevant and appropriate to them, and in a way that recognises tradeoffs between them. In practice, the flexibility and breadth of the new definition and accompanying context allows for different interpretations of the word sustainable, where clients will have differing views, some focusing on financial returns, and others specific non-financial investment objectives which may ultimately lead to benefits to the wider economy, environment or society. Members want clients to define what 'sustainable' means to them. In practice this will allow for different mandates, a better match between asset owners and investment managers as part of the selection process, and the ability for investment managers to more effectively execute client mandates for sustainable value creation. This in turn should help to create and drive a better market for stewardship.

There are a minority of members who are concerned with the removal of these wider benefits from the definition, noting that the insertion of the word "may" in the text accompanying the definition can be perceived as severing the connection with the positive externalities of stewardship and de-emphasises the importance of long-term systemic risks that investors are exposed to. These members argue that consideration of these wider benefits are now seen as optional extras rather than relevant to any stewardship approach. The removal may bring about detrimental effects to the quality and the outcomes of stewardship performed by some signatories. This creates a view of sustainability that legitimises externalities and doesn't take account of finance and its impact on society.

These members further note that retaining reference to the wider benefits within the previous definition would allow for different interpretations of the materiality of these issues over different time horizons and allows for the concept of double materiality where applicable. They are concerned that the new definition also negates the positive steps that UK pension funds have taken to develop approaches to deliver on their fiduciary duty which currently take these additional benefits into account. They do not see any contradiction between the FRC's current definition and their fiduciary duty or any other legal duties. The preference of this minority of members would be to retain the current definition or make minor drafting changes but retain the link to real world outcomes and give more prominence to these additional benefits.

We recognise the challenge that the FRC faces in trying to balance a competing number of views on the proposed definition while also trying to provide flexibility to signatories. We would argue that it is imperative that investment managers' clients support the revised definition and that both investment managers and asset owners are able to coalesce around the definition. Without this, there is a risk that the revised Code will not operate any differently to how it currently does. In fact, some members note that it could have unintended consequences, leading to greater requests for data from clients in order to fulfil their own reporting obligations. This would exacerbate issues that already exist around stewardship reporting which would detract from the FRC's aims of trying to reduce the reporting burden on signatories and it would also create further misalignment between investment managers and asset owners.

On the specifics of the definition and accompanying text, the term "sustainable" has also raised concerns among members due to its restrictive connotations under the FCA's Naming and Marketing Rules within the Sustainability Disclosure Requirements (SDR). These rules are triggered where managers communicate a financial promotion, using the list of ESG restricted words (including "sustainable"), to a retail investor in the United Kingdom. Members have been cautious about using any restricted terms across their public communications even if it does not relate to a specific product or services captured by the naming and marketing rules.

We believe that it is the FRC's intention for the word 'sustainable' to mean enduring or durable rather than refer to specific sustainability issues. However, given the nervousness around the use of this term within the market, there is a risk that its use could create problems when legal and compliance teams review stewardship reports. If the FRC expect signatories to refer to how their stewardship activities have delivered sustainable long-term returns, some signatories would be concerned for legal and compliance reasons to use the term and of being accused of overstating the sustainability features of their products in a way that could be misleading to clients, with the ultimate concern from some that this could lead to supervisory and enforcement activity from the FCA.

It may not have been the intention of the FCA to capture stewardship reports under the Naming and Marketing Rules, but ambiguity remains as to whether a stewardship report could be a financial promotion which acts as "an invitation or inducement to engage in investment activity" to retail clients. We believe that it is unlikely a stewardship report would be used as the basis to invite an investment but there is a possibility that it could be used as a sales aid and thus could attract investment in this way. Given the cautiousness within the market on the use and evolution of terms relating to sustainable investment, the FCA should be clearer on whether a stewardship report constitutes a financial promotion within the Naming and Marketing Rules. The FRC should seek to work closely with the FCA to ensure regulatory alignment, recognising that global signatories and those of differing sizes operating across multiple jurisdictions will be subject to different regulatory requirements. The FRC and FCA need to provide public confirmation on this issue, the use of the term sustainable and applicability of Naming and Marketing rules on stewardship reports before the definition is confirmed.

Some members have highlighted the phrase "long-term" does not have a common definition among investors, who work with varied time horizons based on their client preferences. The explanatory text to the definition states that “Effective stewardship drives investors to take account of long-term risks and opportunities”. However, this fails to recognise that clients may have different investment strategies with different time horizons and that in some cases it is in the clients’ interests for manager to pursue short-term risks and opportunities, for example changes relating to strategy including capital allocation decisions or M&A activity. Some members note that the reference to long-term in the accompanying text to the definition should be clarified to take account of this variation in clients’ investment time horizons.

Alignment between the Purpose of the Code and Definition of Stewardship

We welcome the FRC providing clarity on the purpose of the Code and its interaction with the definition of stewardship, and whether it serves as a reporting mechanism or a way to improve and drive-up stewardship standards in the UK. Members generally accept that the purpose of the Code is to provide transparency on reporting based upon each preparer’s approach to stewardship, which provides investment managers with the flexibility to set out how they conduct stewardship. This transparency should enable better engagement from the asset owner community, who in turn can assess whether investment managers are adequately meeting their needs and expectations on stewardship and acts as an accountability mechanism if they are not. From discussions with the FRC we understand that the purpose of the Code is also to maintain high standards of stewardship and continue to be a leading international standard for good stewardship and there is no tradeoff between the change in definition and the expectations that are still placed on potential signatories. We welcome this approach. We believe that the new definition is better aligned with the primary purpose of the UK Stewardship Code owing to:

Clarity: The new definition is clear that stewardship's main goal is financial returns for clients and beneficiaries, while providing the latitude to respond to client expectations.

Flexibility: It allows signatories to decide their own investment objectives, including wider benefits if they align with their client’s investment objectives.

Sustainability: Retains its orientation towards "sustainable" value, highlighting long-term risks and opportunities to help investors make informed decisions without compromising future returns, although using the term “sustainable” carries risks for members.

Applicability: Broad enough to cover various asset classes and investment styles, making it inclusive and adaptable.

Assessment of Stewardship Code Signatories

Members are generally supportive of the FRC’s approach of allowing signatories to engage with clients to determine what they want to deliver through their stewardship approaches. The opportunity for increased dialogue between investment managers and asset owners will lead to more informed users of stewardship reports, while helping to deliver a better market for stewardship. As a result, the FRC’s future approach to the assessment of stewardship reports places the onus of assessing investment managers’ reports with asset owners. However, it is not yet clear to members how this will work in practice and how the FRC intends to approach this. We would welcome further clarity from the FRC on how the proposed assessment mechanisms will work and its own role in how it intends to judge reporting against the Code. In particular, more transparency on those areas with the greatest bearing on whether signatory status is achieved would be welcome.

With regard to feedback on stewardship reports, the FRC generally only provides feedback to first time signatories or those who have lost their signatory status, with the majority of repeat signatories receiving no feedback. Given that the revisions to the Code represent a substantive change for all signatories, members would welcome more detailed feedback following the first round of formal assessment against the new Code so that they can continue to evolve and improve their reporting to make sure it is useful for both clients and the FRC. The FRC should consider lengthening its assessment period in 2026 to ensure that all signatories receive substantive feedback on their reporting.

The loss of signatory status can have significant ramifications for member firms. Achieving signatory status is increasingly being incorporated as a hygiene factor as part of the investment manager selection process, despite the voluntary nature of the Code. Commercially, the loss of signatory status can result in the loss of mandates or not being considered for new mandates. Given the commercial imperative of being a signatory to the Stewardship Code, signatories are likely to be more ambitious or less risk adverse towards making significant changes in their reporting if they are given the opportunity to address issues which would, if left unaddressed, mean that they do not become a signatory. When feedback has been provided, members have generally been positive about the nature of that feedback. We recognise though the resourcing constraints incumbent upon the FRC in potentially providing fuller feedback. For those signatories that have to address significant feedback to maintain their signatory status, the FRC should provide sufficient time for remedy, before signatory status is removed. To enable this, the FRC could consider a submission schedule that would enable the resourcing of actionable feedback and further engagement. Publishing an annual review of best practice will also be important in helping to get further detail to signatories on how to potentially address areas for improvement.

2. Do you support the proposed approach to have disclosures related to policies and contextual information reported less frequently than annually? If yes, do you support the approach set out above?

We are broadly supportive of the proposed approach. IA members welcome the split between a static Policy & Context disclosure and a more dynamic Activities & Outcomes report.

Under the current reporting approach, members have commented on the significant volume of reporting required within the Stewardship Code report itself. While in practice this is supposed to serve as a "one-stop-shop" for stewardship reporting, the reality is that it has led to the regulator being the primary user of the reports as they are too long. As a result of the volume of reporting within the stewardship report, some members believe that clients and investment consultants rarely engage with the individual case studies. This has led to some members producing additional documents which draw out information from their stewardship reports that is most useful to clients, e.g. on case studies, as this helps them fulfil their own regulatory reporting obligations. We therefore believe that this split in reporting should provide more decision-useful information and dynamic reporting for clients, ensuring that these stewardship reports are used by other stakeholders beyond the FRC, thereby enhancing the utility and readability of the reports. It could also free up time for signatories to conduct stewardship rather than fulfil onerous reporting obligations.

Members want to ensure through these changes that the FRC does not seek to create a one-size-fits all approach to reporting on stewardship and that it should continue to promote flexibility in reporting which aligns with a signatory's specific approach to stewardship. For example, some members are seeking to combine the stewardship report within an annual sustainability report, provided that the Code disclosures are clearly articulated and indexed, while others intend to produce a single report combining the Policy and Context disclosures and the Activities and Outcome report with a foreword that attests to whether the Policy & Context disclosures have changed.

There is broad agreement on the proposed assessment timeframes, with the Policy & Context disclosures to be reviewed triennially and the Activities & Outcomes report annually. However, some concerns persist regarding the annual submission of both reports. While some members are supportive of the discipline and rigour that annual submission requires, annual submission of the Policy & Context report to the FRC will in many cases trigger a legal and compliance review, even if the report is not being assessed by the FRC that year.

Some members have made a distinction in this legal and compliance review between being required to annually submit a report to the FRC and republishing a report on their website. If the Policy and Context disclosures do not need to be republished on their website then the legal and compliance will be less onerous, if they are just submitting to the FRC. However, if signatories are required to submit and republish their Policy and Context disclosures annually on their website it would trigger this review. This is unlikely to reduce the reporting burden as expected.

The majority of members consider the FRC should require signatories to only submit and publish the Policy and Context report every third year when assessment is required as this may help to address the reporting burden in a more pragmatic way. We also recognise that updates to this report may be required more frequently as a result of "material changes" and hence submission and assessment may be required outside of the proposed three-year cycle. We agree that this should be left at the FRC's discretion to determine, but members would welcome more guidance and examples about what constitutes a "material change" as part of the proposed guidance.

On the timing of submissions, it is important to recognise that the Stewardship Code report is one of a number of submissions that signatories will often be required to make on an annual basis such as TCFD reports. Some members have noted the tensions that exist for signatories as a result of the reporting cycles for producing the stewardship report, particularly if they are required to take information from their listed company's annual report. Under the current submission timetable there is very little time for members to prepare their stewardship report after the company's annual report has been published. Extending the deadline for investment managers or providing more flexibility could help with the reporting burden.

3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

We agree in principle that the restructured approach of Principles, Prompts, and guidance to reporting should lead to more decision-useful information for clients. Providing walk-through best practice examples around the high-level prompts within the guidance will be important to individual signatories as a way of being able to tailor their reporting and ensuring that they can adequately demonstrate that they have undertaken stewardship in a way that is specific to their organisational approach. The guidance can also serve as a useful tool for those practitioners who have had less experience in preparing stewardship reports and should provide a useful indication as to how the FRC intends to assess signatories.

We note that the guidance has only been provided for one Principle so far and that the intention is to publish the rest following the outcomes of the consultation. The guidance is where a lot of the specific detail will be, and members would welcome the opportunity to be able to comment on this before it is finalised, particularly given there are some sensitivities as to the terminology used. The FRC has stated that it will treat the guidance as a "living document" and seek to update it on a periodic basis. It will be important to inform signatories of when those updates will happen, any governance around the updating process, and how the FRC intend to alert the market so that preparers can have adequate time to incorporate those changes into their reporting. It is important that the FRC provides the opportunity for practitioners to comment on it. One potential way to facilitate this may be the establishment of a practitioners working group made up of a range of signatories to the Code. This should be reflective of the different types of investment strategies and approaches taken to stewardship.

Some members have expressed some concern around the potential length of the guidance. There is a risk that it could become a de-facto rule book and undermine the flexibility of the Code, which signatories currently value. This could result in signatories disclosing significantly more in order to ensure they have covered all aspects of the guidance, which would turn it into a 'tick-box' and formulaic approach to reporting. This would run counter to what the FRC is trying to achieve with the newly proposed structure of reporting. It is therefore important that the guidance is framed in the right way and that it is designed for multiple stakeholders within the organisation from portfolio managers to risk teams, to ensure that the rest of the business is brought into the firm's stewardship reporting approach and journey.

4. Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some that are only applied by those who invest through external managers?

Yes. For those signatories that are not directly managing assets, reporting should focus on the oversight of the managers they engage. This should help to provide more insightful reporting on how asset owners oversee their investment managers.

Members note that a range of approaches will be taken to stewardship based on their business model, investment strategies or client objectives. For instance, there will be some asset owners who outsource their investment management but retain their stewardship responsibilities through engagement on thematic issues. Additionally, there are some types of managers such as discretionary managers who will typically construct client portfolios through the use of externally managed funds. It would be useful to draw out these distinctions and examples of different approaches further within the guidance.

Under the new Principle 5, some members have queried whether the FRC has been clear enough on what it anticipates in terms of oversight, engagement with and monitoring of investment managers. There is a risk that the current ambiguity on expectations could lead to a cottage industry for service providers, for example through additional requests for data on case studies to demonstrate how clients have engaged with and monitored their managers. This would be perceived as contributing to the existing reporting burden if it added to the number of bespoke reporting requests from third party service providers that investment managers already receive. Providing asset owners with the ability to monitor the quality of the services they receive from service providers as part of Principle 6 is also another useful way of trying to ensure that clients receive the most decision-useful information and in turn can help to reduce the reporting burden for investment managers. A walk-through example as part of the guidance may be helpful to demonstrate what "good" oversight by asset owners of their investment managers looks like. We broadly agree that for those entities that are managing assets directly, reporting should focus on activities such as engagement with investee companies. This will likely lead to more insightful reporting as well as reduce the incidence of duplicative reporting, for example on engagement case studies. It is, however, unclear how asset owners who undertake their own stewardship activities should report. Those signatories should be able to report on this, where appropriate.

5. Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?

We agree that Principles 3 on Engagement, 4 on Exercising Rights and Responsibilities on voting, and 5 on Selection and Oversight of Managers seek to appropriately distinguish between the focuses of clients and their managers. We believe that this distinction will help to elicit disclosures that better reflect the different roles and responsibilities of stakeholders within the investment chain.

The 10% threshold for assets managed directly to trigger reporting against the Principles seems broadly appropriate, although we recognise that clear objective criteria by which to determine a 'correct' figure for this do not exist. Some members note that the consultation refers to certain principles applying "primarily" to asset owners and others to managers. It would be useful for the FRC to clarify what is meant by "primarily" because where the 10% threshold applies, some signatories may need to report under both. A minority of members have flagged that even though the 10% threshold is only a suggestion as part of the guidance it could have unintended consequences of sending conflicting messaging to trustees by absolving those funds with less than 10% of assets managed directly from their reporting responsibilities. Whilst this may alleviate the burden for smaller pension schemes, in practice stewardship also covers the selection and monitoring of investment managers and this oversight of external managers is still a reasonable expectation of pension fund trustees. In practice some asset owners are also worried this threshold may be interpreted by managers as not having to communicate their stewardship activities to clients. The guidance should seek to clarify these expectations to avoid unintended consequences.

While we recognise that the FRC is trying to reduce the reporting burden on signatories, clients will still need to report on how they are meeting their Statement of Investment Principles (SIP) requirements under DWP regulations, which often require more detailed information on engagement case studies beyond what is provided by signatories within the Stewardship Code. We urge the FRC to collaborate closely with the Department for Work and Pensions (DWP) to harmonise the SIP guidance with the revised Code, to improve the alignment of reporting requirements across the investment chain.

6. Do you agree that the updated Service Providers' Code should have some Principles that are applied only by proxy advisors, and some that are only applied by investment consultants?

Proxy Advisors

We support the change to have specific Principles applied to proxy advisors and investment consultants. This differentiation acknowledges the distinct roles and responsibilities of these service providers within the stewardship ecosystem.

Proxy research plays an important role in the stewardship ecosystem by helping to provide advice and filter key issues for investment managers and owners to consider. During the busy AGM season, some investors may struggle to cover the breadth and depth of issues in house without the support of proxy advisory services. However, it is crucial to emphasise that the responsibility for voting lies with the shareholders themselves. Proxy advisory services are just one of a number of data and research sources that shareholders may use to inform their voting decisions, as part of a process and ultimately shareholders must decide and justify how they have voted, ensuring that their decisions align with their investment objectives and values.

According to the FRC's research on proxy advisers, 75% of investors who responded to the survey use proxy advisors to provide voting research based on their own customised voting policies rather than the proxy advisors' standard policies. The research also noted investors decline to follow most proxy recommendations to vote against company management, while at the same time investors generally took a harder line than proxy agencies on some issues, for example on over-boarding. This indicates that many investors are not simply following proxy advisors' recommendations but are instead using proxies to help them efficiently operationalise and ensure alignment with their own tailored voting frameworks.

Members consider that proxy advisors could be more transparent on their processes, but it is important to recognise that some stakeholders may blame proxy advisers rather than engage directly with shareholders. The updated Principles should allow proxy advisors to set out how they approach their research, ensuring that their clients and companies are aware of their methodologies and the basis for their recommendations.

This should be informed by effective communication with clients to ensure that they are creating services which meet their needs and demands. Proxy advisory research is client and data driven so market feedback and high-quality data is essential. Members have welcomed the focus on sustained communication in new Principle 1 in the Service Providers Code. While we recognise that not all signatories to the Code will have the internal resourcing available to contribute to proxy advisory policy development processes, this is an important process as it shapes the outcomes that investors will use.

Investment Consultants

Investment consultants play a crucial role in the stewardship ecosystem by advising asset owners on their investment strategies and stewardship practices, particularly where they do not have the resources to undertake their own stewardship activities. In our joint report with the PLSA on investment relationships for sustainable value creation, we recommended that:

“Investment consultants should support this process (for appointing managers by asset owners) by committing to scrutinise the stewardship capabilities of investment managers when supporting asset owners with their selection process and filtering prospective product choices. This should include an assessment of the integration of stewardship into the investment process and across different asset classes and strategies. They should also work closely with asset owners to identify the culture and values that will enable them to work with their managers as part of a commitment to a long-term relationship. Investment consultants should also demonstrate their commitment to incorporate stewardship and long-term investment into the relationships of their clients and investment managers by demonstrating their alignment to the Stewardship Code by becoming signatories.”

Under the current Code, investment consultants’ disclosures have been insufficiently clear on how stewardship is considered as part of the Request for Proposal (RFP) process, what they do with the information they gather, and what information is then communicated to clients. Feedback from IA members has consistently found that investment consultants request information that greatly exceeds the requirements of the Stewardship Code, leading to increased complexity and costs without necessarily improving client outcomes. For example, the ICSWG Engagement Reporting Guide has in recent years supplemented the Stewardship Code with a large volume of additional quantitative data points aggregated across all engagements. This includes detailed breakdowns of the number of engagements sorted by topic, which lack context and perspective, making it difficult to understand the managers’ approach to stewardship. While we recognise that asset owners believe they require some of this information to fulfil their regulatory reporting obligations, bespoke reports divert significant resources from the practice of stewardship and may dilute the provision of information that is most material to the protection of value and beneficiaries' interests, exacerbated by the guidance being subject to change without any significant consultation with preparers. Members are still unclear how some of the information which they provide to investment consultants is communicated to the asset owner, in what form and level of detail, or whether it is retained by the investment consultant for their own analysis of the investment manager and the quality of their stewardship activities. New principle 1 should elicit better reporting on how advice and information to clients meets their stewardship priorities and is tailored to their needs.

We welcome that the updated Code introduces specific Principles for investment consultants to enhance transparency and accountability to clients. These Principles require investment consultants to clearly articulate how they integrate stewardship considerations into their advice and the RFP process to take account of client needs. They must disclose how they evaluate investment managers' stewardship practices and ensure that these practices align with clients' investment objectives. This includes providing detailed information on the criteria used to assess stewardship, the process for reviewing and selecting managers, and how this information is communicated to clients.

We believe that these new Principles should:

(i) elicit better disclosures from investment consultants on how they are focusing on the long-term interests of their clients through a better articulation of the integration of stewardship into the investment process; and

(ii) reduce undue burden on asset managers, allowing them to focus more on practicing stewardship rather than on meeting excessive and fragmented reporting requirements.

7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

The updated Code retains the core expectations of good stewardship but repositions them to introduce a more flexible framework that better accommodates the variance in stewardship practices. We have the following comments on the Principles:

Integration of Stewardship and Investment: New Principle 1 on integration of stewardship and investment to create long-term value currently sits within the Activities & Outcomes report. Some members have noted that this Principle also belongs in the Policy and Context disclosures because integration of stewardship is best demonstrated and described by how integration is structured and implemented at a policy level across the organisation. This can then be supplemented with examples of how this integration has worked in practice on an annual basis in the Activities and Outcome Report. The FRC should consider making this clear within the reporting prompts.

One of the prompts under new Principle 1 asks signatories to "describe the key themes or issues that are important to your stewardship activities and how you have prioritised them". Whilst we understand the desire to ensure that stewardship has in scope systemic risk issues, some members have raised concerns with the language around describing issues or themes as some signatories will not focus on broad themes across their portfolio companies; instead their approach to stewardship activities will start with the specific idiosyncratic risks, opportunities or impacts relevant to an individual investee company or asset. This prompt should be clarified so that signatories are not expected to provide key themes or issues when it is not relevant to their stewardship approach. The Code should not embed a single approach to stewardship as being expected through this reporting prompt. This example reflects the importance of industry practitioners being able to comment on the proposed guidance to ensure that a range of different investment approaches are represented.

Monitoring service providers: New Principle 6 on monitoring and holding to account stewardship service providers currently sits within the Activities & Outcomes report. Some members believe that this principle is more appropriately aligned with the Policy & Context disclosures as it relates to firmwide processes for utilising and monitoring the activities of service providers. This should still be supplemented with examples of how signatories have monitored the quality of services provided on an annual basis as part of the Activities and Outcomes report. This could be usefully clarified within the reporting prompts.

Engagement: We are supportive of the proposal to combine expectations on collaboration and escalation into the new Principle 3 on Engagement. This retains reference to different stewardship mechanisms that signatories can utilise and enables them to report on them in more detail where it is appropriate and relevant to do so. The flexibility within this new Principle recognises that not all stewardship mechanisms will be exercised by all signatories in every reporting year and that the segmentation of the principles may have been creating perverse incentives to report even where it was not relevant to a signatory. This creates a tick-box approach and adds to the perceived reporting burden experienced by signatories.

The reporting prompts under new Principle 3 ask signatories to explain progress towards objectives or outcomes they have achieved through engagement. In practice, some members note that reporting on engagement has focused on engagement activities rather than the outcomes achieved by signatories, leading to a proliferation in the number of engagements reported. The new expectations within the Code should help shift the focus towards the quality of engagement over quantity.

The merged principle better reflects what members are trying to do in their stewardship activities and how they report on them, which is to consider a pertinent stewardship outcome and explain this by way of a holistic narrative that weaves together all relevant activities and approaches. For example, some members note that their engagement case studies will already capture the proposed purpose of the engagement, the approach taken to engagement and any escalation that they have considered taking, including where engagement is linked to voting or collaboration. The new principle therefore represents an extension of what is already happening in practice.

Managing market-wide and systemic risks: Members welcome that this principle has been retained, particularly given the removal of wording on the benefits to the economy, the environment and society from the definition of stewardship. The 2020 Code set expectations on investors to "identify and respond to market-wide and systemic risks to promote a well-functioning financial system". There are some concerns that the expectations under the revised principle are much wider and set unrealistic expectations on investment managers as to what can reasonably be achieved through stewardship in order to address such risks. In the accompanying text to new Principle 2, the FRC state that "effective stewardship takes these risks into consideration and seeks to address them". Members are concerned that as currently drafted, this places an expectation upon all investment managers to address market-wide and systemic risks, which could ratchet up the expectations of clients and other stakeholders such as NGOs. While systemic risks will be considered as material investment risks by most investors as they are non-diversifiable and can have an important impact on returns, this principle needs to be clear that there is a difference between identifying risks (which most investors will do) and then addressing them and that different investors will approach Principle 2 depending upon their business model, approach to stewardship (including resourcing) and investment approach.

Most investors accept that signatories to the Code can seek to mitigate systemic risk for their holdings. However, Principle 2 seems to imply a duty for firms to contribute to solving system-wide risks. For many of these risks, investors will have minimal control or ability to exert influence directly; as such, this is beyond what can reasonably be expected of investment managers.

Members have cited the difficulty of establishing a causal relationship between individual stewardship activities and real-world outcomes such as emissions reductions. Presenting these facts in a way that suggests a causal relationship in a stewardship report could be seen as violating the requirement for reporting to be fair, clear and not misleading under existing anti-greenwashing rules. Ultimately the responsibility to solve these systemic risks will rest with policymakers. One way that investment managers will seek to minimise systemic risks is to consider public policy engagement either directly or through contribution to the work of representative bodies of which they are a member. In practice investors are one of a number of different stakeholders involved in policy advocacy and realise that they may have limited ability and resources to influence policymakers directly.

There are some stakeholders that will judge investment managers based on the quality of the approach they have taken to resourcing public policy advocacy vs company level engagement to address systemic risks. Clarity within the reporting prompts which recognises that "other relevant stakeholders" includes policymakers would be welcome.

Some active managers have commented on the role and appropriateness of addressing market-wide and systemic risk given they are actively selecting individual stocks often at a portfolio rather than firm-wide level and therefore their sphere of influence will be limited to these companies. While the reporting prompts under new Principle 2 provide enough flexibility to report on market-wide and systemic risk where it is relevant to an organisation's business model and investment strategy, the accompanying text to Principle 2 and the implicit duty that investors should address market-wide and systemic risks should be clarified, or replaced with "identify and respond to" which would retain the current wording within the 2020 Code. This will reduce unrealistic expectations being placed on investors.

Under the 2020 Code a number of signatories have sought to demonstrate how they are managing systemic risks with a particular focus on climate-related risk. There is a recognition that this has now become an important part of portfolio management activity, for example, through the integration of climate change variables into capital markets assumptions and macroeconomic forecasts. However, some members note that an unintended consequence of the 2020 Code and its focus on sustainability issues including climate risk, is that it has led to reporting focusing predominantly on climate risk, which duplicates other reporting for example under TCFD. There is a risk that this could continue under the revised Code. The supporting guidance to the Code should make clear that reporting on market-wide and systemic risks can include a range of issues including inflationary environment, interest rate risks, human rights abuses, income inequality and broader governance issues relating to shareholder rights. This should help to pivot reporting to other issues that can also have an impact on well-functioning financial systems.

8. Should signatories be able to reference publicly available external information as part of their Stewardship Code reporting, recognising this means Stewardship Code reports will no longer operate as a standalone source of information?

Cross-referencing to other disclosures, such as within a signatory's annual report, holds significant potential to reduce the volume of reporting currently required by the Code. This approach can address concerns about redundancy and streamline the reporting process. But members have noted that the Stewardship Code is currently seen as a 'one-stop-shop' for stewardship information. If this were to change, it would be essential to provide context and framing for the additional information being referenced to prevent a fragmented narrative, possibly as part of a summary within the stewardship report so that users can access this information directly.

Some asset owner members have commented that being able to reference their managers' disclosures directly, rather than repeating this information, would save them considerable time. Stewardship reports can remain practical and efficient as a one-stop-shop if preparers provide digital links to accompany any textual references. This digital integration would ensure that reports remain comprehensive and easily navigable.

A significant concern raised by some listed members is the deadline to produce the stewardship report. Members find it hard to include information from the listed company's annual report as this is published shortly before the FRC's submission deadline for signatories. Without the submission deadline being extended, listed signatories may struggle to effectively cross-reference. Extending the reporting deadline for asset managers could alleviate this issue.

While cross-referencing can enhance efficiency, extending this practice to webpages introduces risks. Website links can become corrupted or removed, and the lack of a governance and approval process for web content poses additional challenges. Therefore, it is advisable to limit cross-referencing to stable, governed documents. An alternative solution could be the integration of the stewardship report with the annual sustainability report. Including Stewardship Code reporting within the annual report would avoid the need for cross-referencing to external documents and ensure that all relevant information is consolidated in a single, authoritative source. This approach would enhance coherence and reduce administrative burdens.

9. Do you agree with the proposed schedule for implementation of the updated Code?

We agree with the proposed schedule and for the application of the Code from 2026. Given the substantial changes to the reporting and assessment process, some members have called for a confidential draft review process which would provide signatories with the ability to test reporting with the regulator before it is submitted. Additionally, members have called for an extension to the assessment process in 2026 to enable the FRC to provide fuller feedback to all signatories within the first year of reporting against the new Code. This is in recognition of the fact that the revisions to the Code are reflective of substantial changes which signatories will need time to familiarise themselves with. We recognise that this will be contingent on the level of resource available at the FRC and its ability to set out a review schedule. It is therefore prudent that the FRC provides signatories with enough time to comment on and see the remainder of the guidance.