



## ICSWG – UK Stewardship Code Consultation Response – Executive Summary

The Investment Consultants Sustainability Working Group (ICSWG) is a collaboration between 19 UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry. You can find more about the group at [www.icswg.org](http://www.icswg.org).

### Executive Summary

Overall, the ICSWG are supportive of and agree with the proposals laid out in the consultation. However, we highlight in our response a few areas for consideration, as summarised below:

- We accept the intention of the change in the stewardship definition and believe it widens the scope of effective stewardship to create long-term sustainable value. However, it could also be seen as a backward step, with reduced encouragement of stewardship ambition – particularly regarding financially material systemic, environmental and societal issues. We would propose adding to the headline definition: “Stewardship that supports sustainable, long-term returns may lead to wider benefits for the economy, the environment and society”. We would also propose noting in supportive text that stewardship can be an important tool to address systemic risks, including to the financial system.
- We agree with the shift from annual assessments to three-yearly assessments for the Policy and Context disclosures (unless significant changes are made) and believe this will be helpful in reducing the burden of reporting. From a user perspective, it is beneficial to assist users in readily accessing up-to-date information. We would suggest an upfront disclosure on whether there has been a significant change in interim years for ease of review.
- We would welcome ‘how to report’ prompts supported by further guidance but believe it is important that reporting is not regarded as a ‘tick-box’ exercise. Therefore, we would rather the FRC provides suggestions and considerations for different types of signatories, including those with mixed strategies or dual roles (for example, companies that offer both advisory services and fiduciary management). We think it would be reasonable to update this guidance periodically to reflect FAQs and feedback from unsuccessful applications. The guidance should be aligned with UN PRI reporting updates and promote best-practice thinking.
- While we view the 10% AUM threshold as sensible, this could create some complexity for signatories with mixed investment strategies or dual roles, as noted above, and caution against guidance becoming too fragmented or granular across different types of entities. The guidance should address the services provided to clients.
- While the streamlined Principles are reasonable and further tailoring would lose sight of the flexible approach in reporting, we believe the Code should explicitly mention policy advocacy and lobbying.
- The consolidation of escalation into engagement and rights and responsibilities (voting) principles is reasonable, but collaboration could also be referenced explicitly in the market-wide and systemic risks principle.
- While we agree that signatories should be able to reference publicly available information, it would be useful to provide a summary of relevant policies at a high level. We would also stress that signatories should ensure links remain up to date.



- While we are comfortable with the implementation timescales, a possible consequence is that potential new signatories for 2025 may delay until 2026. However, we see this as a minor consideration relative to updating the Code.
- In preparing this response, several ICSWG members raised the governance burden on asset owners, and we would encourage the FRC to consider a split reporting structure, allowing non-commercial asset owners to report biannually (with reporting covering a 24-month period). This could encourage a greater number of asset owners to become a signatory.
- We would welcome moves to streamline sustainability reporting expectations for pension schemes and to have clarity about how different regulators' reporting expectations can be met by a single report. This could help to reduce the burdens on schemes and simplify messaging for the benefit of stakeholders.
- Regarding conflicts of interest, we note there is no explicit mention of reporting on 'actual' conflicts – only reporting on 'potential' conflicts. While we do not expect 'actual' conflicts to occur every year, we would expect signatories to report their approach (anonymised if needed) to actual conflict-of-interest situations, to reassure clients that they have sufficiently robust approaches to identifying and managing such conflicts.
- Finally, the importance of collaboration in the context of stewardship should not be diluted; we would encourage further guidance from the FRC on the importance of collaboration.

We set out below our responses to each of the questions posed in the consultation.



## 1. Do you support the revised definition of stewardship?

ICSWG members hold a range of views around the proposed definition. Some felt that no longer pointing to benefits for the economy, environment and society in the headline text was a backward step, with reduced encouragement of stewardship ambition – particularly regarding financially material systemic, environmental and societal issues. Others felt the new definition was appropriate given that stewardship spans a variety of topics, some of which may not be associated with an environmental or societal benefit.

It is difficult to capture an appropriately weighted definition for the varied world of stewardship in a single sentence.

So, we suggest expanding the headline definition as per below:

*‘Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries. Stewardship that supports sustainable, long-term returns may lead to wider benefits for the economy, the environment and society.’*

Regarding the supporting text (in the grey box), it may be helpful to note that:

- Stewardship can be an important tool to address systemic risks, including to the financial system.
- Stewardship activity may include the wider use of influence an organisation has beyond engagement related to current investments – for example, engagement with the wider market or policymakers.

The current supporting text notes that stewardship helps investors make well-informed investment decisions. However, this is not always the main driver. For example, in some indexation mandates, stewardship is important to improve the risk characteristics of underlying assets but does not affect an investor’s investment decisions.

## 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?

As producers of Stewardship Code reports, and in supporting clients to produce them, we recognise the pressure for incremental improvements that can come from an annual assessment process – even if that pressure arises behaviourally rather than from the Code expectations. Therefore, we agree that a shift from annual to three-yearly assessments for the policy and contextual section of reporting would be helpful in reducing the burden of the Code in practice.

We agree that signatories should not need to update information about their organisation, its governance and their resourcing of stewardship annually unless there have been significant changes in any particular year. Small updates should not require fresh FRC assessment. We note the requirement that policy and context segments should be shared with the FRC each year to ensure the FRC has the up-to-date version and publishes this on its website.



Having said that, as consumers of Stewardship Code reporting, we favour the reporting (policies and contextual information, and activities) being published annually in a single document. This assists users of reporting in most readily digesting and assessing signatories' reports. Stewardship Code reports are often the best public insight into the quality and effectiveness of a manager's approach to stewardship. The FRC is not the end consumer of the reporting – our clients as asset owners are. Therefore, making reporting most useful and readily accessible to them implies that the reports should be in a single document.

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

The additional guidance is welcomed, as clear guidance helps reduce the reporting burden and aids readers of final reports. Effort should be taken to ensure this is not positioned as tick-box, but rather as suggestions/considerations for different stakeholders.

It would be reasonable for this guidance to be updated over time to reflect FAQs. Therefore, the FRC may wish to publish its detailed reporting guidance separately from the Principles to aid the updating process.

It would be sensible for guidance notes to be aligned with the updates expected for UN PRI reporting.

It would be helpful to steer signatories on reporting beyond successful examples of stewardship activity, but also on how they have learned and responded to unsuccessful activity.

The supporting guidance would be the most suitable place for instructions for different types of signatories, rather than the tailoring of the Principles – for example, instructions to signatories who report against both sets of principles and instructions to ensure a consistent approach across the market.

It may be helpful for the guidance to set out what best practice would be. This would allow flexibility, and recognise different starting positions, but also ensure the Code helps raise stewardship standards.

**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?**

There is broad agreement among ICSWG members that the updated Code better reflects the differences in implementation approaches we see across asset owners and asset managers, particularly between those that manage assets directly and those who apply stewardship through third-party managers.

For instance, asset managers who invest directly can influence company and issuer behaviour through their shareholder engagement and proxy voting activities, an approach to stewardship that may be more constrained for those who invest via third-party managers. For the latter, there is scope for stewardship activity to entail oversight and engagement with third-party managers on



stewardship issues (eg engaging a third-party manager on its proxy voting policy or its approach to escalating engagement efforts, where appropriate).

The ICSWG acknowledge that some investors have overlapping roles in this area. As such, we view the 10% AUM threshold as a sensible hurdle to set for asset owners and asset managers to determine which stewardship principles apply. However, we note the risk that it could create some additional complexity in the reporting process for organisations with mixed investment strategies. Further, the AUM threshold should not preclude signatories reporting on their activities in parts of their assets that may have more material impact. We would also encourage that guidance notes focus on reporting where actions are material, rather than necessarily by size of AUM.

**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?**

The updated Code better reflects the nuances of how stewardship is undertaken by those who invest directly and through third parties. These proposals would allow signatories to report against the Principles in a flexible and tailored way that better reflects their investing approach. Therefore, the revision to the Principles, and the increased guidance on which Principles are more relevant for a given investment implementation (Principles 3 and 4 for those managing assets directly; Principle 5 for those using external managers), is viewed favourably by the ICSWG.

More generally, one concern about providing more guidance on how different stakeholders should report against the UK Stewardship Code Principles is that the reporting could become too fragmented across the different entities. While we believe the proposals are relatively balanced in this regard, we caution against an approach that would make the UK Stewardship Code reporting framework so granular by signatory type that it reduces the usefulness of these reports for key stakeholders.

**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?**

Yes, we agree that having some separate principles for both proxy advisors and investment consultants in the Service Providers' Code would provide better transparency and enable more functional reporting. This is because the two types of signatories provide essentially different services. The facility for more directed reporting could illuminate these key differences to readers.

Reporting expectations for each type of signatory should include clear articulation of the organisations' sustainability beliefs that underlie their respective approaches. Given the current political environment, there is an important distinction between, for example, support for wider stakeholder value versus support for corporate value and economic interest only. In this instance, different reporting expectations for proxy providers and investment consultants would enable the reader to more easily associate organisation type (in terms of the organisation and its services, per Principle A of the 2020 Code) with information that helps them judge the quality of



service provided. It would also improve understanding of where on the spectrum of sustainability beliefs they can expect the signatory's services to lie.

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

In line with its ambition for the Code to not become a tick-box exercise, the FRC should not seek to describe all activities that a signatory may demonstrate. The industry will continue to evolve alongside the participants and their roles.

We would encourage the FRC not to further tailor the Principles of the Code to reflect different parts of the market. Further tailoring would lose sight of the flexible approach sought by the FRC, which is sensible. Instead, encouraging all signatories to approach the principles with sense and judgement, applying them appropriately to suit the specific nature of their business, clients and investment exposures, would more readily reflect a principle-based Code and a shift away from a rule-bound mindset.

In terms of the specific changes set out in this review, the proposed Principles, as mapped out in Appendix C of the consultation:

- Are sensible and largely seem to reflect the same content as the 2020 Code.
- The repositioning/rewording of disclosure Principles is also sensible.
- The consolidation of escalation into engagement and rights and responsibilities (voting) Principles is reasonable, as escalation is likely to be conducted through these means (short of changing investment allocations).
- Collaboration could also be referenced explicitly in the Principle relating to systemic risk.
- The updated Principles (separating oversight of asset managers and service providers) are reasonable given the nature of the oversight of asset managers would be slightly different – though this could be captured through 'how to report' and streamlined.
- For service providers, the split of the proposed Principles is reasonable.

Further comment in relation to conflicts of interest is set out separately, as we are supportive of retaining this as a standalone Principle.

**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?**

ICSWG members are broadly in agreement that signatories should be given the opportunity to reference publicly available information that has received senior management or board-level sign off, thereby maintaining the quality of reporting. However, our experience as users of Stewardship Code reports is that it is most useful where signatories provide a summary of relevant policies within the body of their reporting, giving appropriate insights into the firm's approach at a high level, prior to providing a link that would then allow readers deeper insight. This enables consumers of Stewardship Code reporting to have clear insights without needing to access additional materials, while empowering them to dig deeper, should they wish.

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



We agree with the proposed schedule for implementation. However, a result of reviewing the Code will likely be potential new signatories for 2025 delaying until 2026. Early reporting against the updated Code is likely to confuse and complicate.

From last year, governing bodies of many pension schemes, as asset owners, are now required to follow the General Code of Practice, enforced by the Pensions Regulator. The General Code of Practice includes a recommendation for governing bodies to consider following the UK Stewardship Code. Therefore, early communication from the FRC on transition arrangements would be particularly helpful for asset owners, given the potential for governing bodies of pension schemes to consider their signatory status as a result of the introduction of the General Code of Practice.

This might be the first step in moves to streamline sustainability reporting expectations for pension schemes. It would be welcomed to have clarity on how different regulators' reporting expectations can be met in a single report, to reduce the burdens on schemes and simplify messaging for the benefit of stakeholders.

#### **10. Additional points**

In addition to the points raised in response to the nine questions above, ICSWG members would like to raise the following additional considerations:

- Several of our members have raised the governance burden on asset owners of reporting against the Stewardship Code annually. We would encourage the FRC to consider a split reporting structure, allowing asset owners to report biannually. This could encourage a greater number of asset owners to look to achieve signatory status.
- Some members have noted that the 'how to report' section of Service Provider Principle 3 is narrowly focused. We would suggest expanding to cover the wider range of stewardship services that investment consultants provide to clients, including support on development of voting and engagement policies, stewardship reporting, engaging with asset managers and selection of stewardship providers.
- In relation to conflicts of interest, we note the change of requirement to report on the management of potential rather than 'actual' conflicts. This seems a distinct step backwards; we would expect fund managers to be able to discuss their approach (in an appropriately anonymised form, if need be) to actual conflict-of-interest situations during the year, where relevant (noting there may not be actual conflicts arising in every reporting year, where a robust policy is in place). Without discussing actual cases where they have dealt with conflicts, fund managers will miss the opportunity to reassure their clients appropriately that they have sufficiently robust approaches to identifying and dealing with conflicts of interest.
- We recognise the importance of collaboration in the context of stewardship. We would encourage further guidance from the FRC on the importance of such work, so that the industry does not feel that such activity is no longer expected.
- Most of the relevant activities for effective stewardship are referenced in the proposed and current Principles. However, we suggest explicit mention is given to policy advocacy



in relation to engagement and systemic risk Principles, as it is an important means to influence and support well-functioning capital markets, and healthy environment and society (for example, consultation responses). The FRC may wish to encourage transparency around lobbying activity with regulators.