

Financial Reporting Council
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Sent via email

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ShareAction response to FRC 2021/22 Strategy and Plan & Budget consultation

This submission is on behalf of ShareAction, a registered charity established to promote transparency and responsible investment practices. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters.

We wish to comment in particular on three of the planned outputs/initiatives for the FRC in 2021/22.

- 1) *'Undertake assessment of performance against the UK Corporate Governance Code, the UK Stewardship Code and the Wates Corporate Governance Code for Large Private companies.'*

We support undertaking these assessments. As you are aware, this will be the first assessment of the 2020 UK Stewardship Code, so this will be particularly important. The FRC should initially gather data to determine whether there has been a drop-off in the number of signatories to the Code.

The new provisions of the Code, in particular its requirement for signatories to publish an annual Stewardship Report, were one of the FRC's major achievements in 2020/21. The Code provides signatories with a clear definition of stewardship as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'. The performance assessment must judge whether signatories are applying the Code as a box-ticking exercise, or whether they are truly delivering stewardship as defined by the Code.

The performance assessment should focus on delivery against these new sections of the Code in particular, given performance in these areas under previous iterations of the Code was severely lacking:

- **ESG**
 - *'Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'* [Principle 1]
 - *'Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system [...] Systemic risks are those that may cause the collapse of an industry, financial market or economy, such as climate change.'* [Principle 4]

- *'Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.'* [Principle 7]
- Savers' views
 - *'Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.'* [Principle 6]
- Engagement
 - *'Signatories engage with issuers to maintain or enhance the value assets.'* [Principle 9]
- Exercise of rights
 - *'Signatories actively exercise their rights and responsibilities [...] disclose their voting policy [...] explain their rationale for some all voting decisions, particularly where:*
 - *there was a vote against the board;*
 - *there were votes against shareholder resolutions;*
 - *a vote was withheld;*
 - *the vote was not in line with voting policy.'* [Principle 12]

The updated Code also applies stewardship to a broader range of asset classes, including real estate, infrastructure and fixed income bonds. We would encourage the FRC to produce guidance for collaborative bondholder engagement. This guidance would help investors understand how they can participate in this without falling foul of rules on market abuse.

As the Code is voluntary, we believe the FRC needs to develop an enforcement mechanism for non-compliance. While we appreciate the first reporting cycle of the new Code is an experiment for the FRC and Code signatories, the performance assessment should consider how the FRC should respond to serious failures to uphold effective stewardship, and how signatories can be sanctioned for it. The overall aim should be rigorous engagement between the FRC and failing signatories to ensure their stewardship responsibilities are upheld. Consideration should also be given to how to attract firms to sign up to a more stringent Code. Over time, we would expect the FRC to develop its role on enforcement, or risk undermining the Code entirely.

2) *'Subject to the outcome of Government consultation, consult on revisions to the UK Corporate Governance Code and associated guidance ahead of legislation.'*

We would like the FRC to begin work on changes to the UK Corporate Governance Code, based upon those made to the UK Stewardship Code. The overall aim should be to establish a common standard of stewardship for company directors and their institutional investors, which they can work towards and be accountable to.

3) *'Deliver improvements for to the FRC's stakeholder engagement function, including through a refreshed communications strategy and increased use of digital platforms.'*

We are mindful that most ordinary pension savers are not aware of the work of the FRC and how it relates to their retirement income. There is a growing demand for responsible investment of pensions, and innovations such as the 2020 UK Stewardship Code will be an important part of meeting that demand. The FRC should do more to make ordinary savers aware of the new standards for asset owners under the Code, and the role the FRC to hold them to it. Fostering a three-way dialogue between the FRC, asset owners and ordinary savers would be beneficial to achieving the higher standard of stewardship as set out in the Code.

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