Andrea Tweedie
Head of Stewardship
Financial Reporting Council
125 London Wall
London EC2Y 5AS

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Stewardship Code Review 2024

Dear Andrea,

Thank you for meeting me last month to discuss the Stewardship Code review. It was helpful to hear more about the FRC's plans over the coming months to engage industry and other stakeholders. As you know, ShareAction is a long-standing supporter of the Stewardship Code as a driver of long-term responsible investment. Signatories to the Code now stand at 277 financial institutions or service providers, representing £44.6tn AUM, positioning it as a genuine force for good for companies, investors and savers.[1]

ShareAction remains concerned about weakening regulatory and policy maker expectations around stewardship, at a time of diminishing standards in practice, both in the UK and internationally. The UK Stewardship Code remains world leading. The investors we engage with tell us it represents a competitive differentiator and a key tool to help tackle greenwashing. We recognise that it is not perfect and would welcome the opportunity for further reflection on how to ensure it remains useful and workable by industry, e.g. by reducing reporting burdens on signatories. But this cannot come at the expense of a lowering of ambition of the Code overall. In fact, we see several areas where the code might benefit from increased ambition, including through enhancing the existing principles and by expanding the Code's scope to properly integrate other asset classes, such as private equity. We want to see an ambitious Stewardship Code, driving effective corporate engagement, housed in a strong regulator, and we will continue to support the FRC to achieve this.

The following views are based on discussions with colleagues, external stakeholders and members of ShareAction's asset owner networks.

The political context

The Stewardship Code review takes place in the broader context of weakening policy maker expectations around corporate governance and investor stewardship. We recognise an increasing perception that disclosure requirements and investor engagement activities are placing undue burdens on companies and undermining competitiveness. We do not believe this to be the case. In contrast, we see high corporate and investor expectations as part of the UK's

[1] https://www.frc.org.uk/news-and-events/news/2024/02/frc-announces-successful-signatories-to-uk-stewardship-code/

core strength, as well as an absolute necessity for increased competition and economic growth. Nonetheless, messaging from the current Government remains clear: such standards have succumbed to mission creep and are placing undue burdens on business, acting as a deterrent to listing in the UK.[2]

As you will be aware, in October 2023, the Government scrapped its own draft legislation to tighten up the UK's corporate governance regime.[3] These plans were largely in response to the collapse of businesses like Carillion, BHS and Patisserie Valerie. Specifically, they would have required large businesses (over 750 employees and turnover above £750m) to disclose annually how they were ensuring their resilience over the short, medium and long-term. The new rules would have also required disclosure on distributable profits, directors' assessment of the risk of material fraud and an explanation on whether disclosures on metrics such as a company's carbon emissions would be independently audited. All of these disclosures represent highly relevant information for investors, but were scrapped following industry pushback for being too "burdensome".

The timing of the Government's decision to withdraw its corporate governance legislation was unfortunate. As you know, in December 2023 the FCA published proposed new rules around the UK listings regime following consultation with industry.[4] These proposals are aimed at making the regime 'more accessible, effective and competitive' and to encourage companies to list in the UK, but in reality would result in diluted rights for UK shareholders. Specifically, this includes plans to scrap mandatory shareholder votes on (and FCA approval for) significant M&A transactions, to remove the premium listings category, and to weaken listing eligibility requirements. These would all result in a significant shift of risk to investors if implemented and increase the risk to pension and retail savers. More broadly these proposals represent a significant weakening of the UK's stewardship regime, only three years on from the Government-backed Asset Management Taskforce's stewardship report, which hailed the UK as a 'global centre of asset management excellence [and a] world leader in stewardship standards'.[5]

Voting standards in decline

ShareAction research has found a stark decrease in the number of sustainability-related shareholder resolutions passed over the last year. The world's four largest asset managers (three of whom are Stewardship Code signatories) are among the most culpable, backsliding on support for shareholder resolutions across ESG issues. We recognise that although robust stewardship encompasses more than simply voting, it remains an incredibly important tool for investors. Our research has found a significant lack of support from BlackRock, Vanguard, Fidelity Investments, and State Street Global Advisors, particularly around labour and human

[2] https://www.gov.uk/government/news/burdensome-legislation-withdrawn-in-latest-move-to-cut-red-tape-for-businesses
[3] https://www.ft.com/content/98ed368c-4240-419a-8038-0f69b0ea606c
[4] https://www.fca.org.uk/news/press-releases/proposed-new-rules-encourage-companies-list-uk-other-market-improvements
[5] https://www.theia.org/sites/default/files/2020-11/Asset%20Management%20Taskforce_proof7.pdf

rights resolutions. We also saw an increase in greenwashing amongst global asset managers, in particular amongst CA100+ members, risking further undermining public confidence in responsible investment practices. Our research highlighted the following concerning trends: [6]

A drop in successful shareholder resolutions. Globally, support for shareholder resolutions peaked in 2021, falling in 2022 and 2023. In 2023, only 3% of ShareAction-assessed resolutions passed, just eight out of 257 resolutions. This is down from 21% of assessed resolutions in 2021.

The big 4 only supported 1/8th of resolutions put forward, resulting in many labour and human rights resolutions failing. The world's four largest asset managers, who dominate the market, are among the most culpable, backsliding on support for shareholder resolutions. In 2023, the 'big four' only supported – on average – one eighth of those put forward, a marked drop since 2021.

More stringent rules in Europe improved voting performance of euro managers. On average, European asset managers voted in favour of 88% of shareholder proposals in 2023. Asset managers from every European country followed this upward trend, with the exception of the UK, where asset managers' support for resolutions has hovered around 64% on average. The relative strength of the regulatory environment in Europe suggests that regulation has had a positive impact on voting performance from managers in the region.

Weak excuses from asset managers on low support for resolutions. The largest asset managers say that resolutions are becoming increasingly "prescriptive". Yet three quarters (73%) of the resolutions we assessed related simply to increasing disclosure on environmental and social risks, a similar percentage to 2022 (78%). Indeed, asset managers identified lack of data as a major barrier to effective ESG integration, as outlined in our Point of No Returns assessment.

Rise of greenwashing amongst asset managers. Multiple CA100+ members voted 'against' all CA100+ flagged resolutions which would require companies to set stronger climate targets. Eleven CA100+ members backed fewer than half of CA100+ flagged shareholder resolutions for companies for which they have holdings. (Thirteen of the 55 CA100+ members in the sample voted in favour of all flagged shareholder resolutions for companies for which they had holdings). Asset managers that frequently supported shareholder resolutions also voted against directors on environmental and social grounds more often.

The need for an ambitious Stewardship Code

As we have outlined, ShareAction is a long-standing supporter of the Stewardship Code, which helps investors to undertake robust stewardship activities in the interests of clients and ultimate beneficiaries. Many financial institutions we engage with see the Stewardship Code as

[6] https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Voting-Matters-2023.pdf

a competitive differentiator that helps to drive competition and a "race to the top".[7][8] We are therefore concerned that this review takes place at a time when stewardship standards are declining in practice and regulatory initiatives, such as the Listings Review, propose a weakening of shareholder protections.

Tackling greenwashing

A critical aspect of the Stewardship Code review should be a focus on better disclosures. One of the key enablers of greenwashing is a lack of requirements on asset managers to disclose meaningfully on how they allocate or engage on client capital. The less asset managers are required to disclose, the more they can present themselves as being "all things to all clients", while in practice having little impact on investee companies. By focussing on improving disclosures, the next iteration of Stewardship Code can help to accelerate the race to the top, by empowering asset owners, and reduce the risk of greenwashing.

The Anti-Greenwashing Rule

Clients, consumers and savers are keen to know about a firm's sustainability approach, as well as understand where their money is invested. Under the FCA's new anti-greenwashing rule, firms should consider what information is necessary to include for sustainability claims to give a representative picture of the product or service. We welcome the new principle of not omitting or hiding certain information on firms' services including through stewardship activities as a step towards tackling greenwashing. We are aware of certain members of the Glasgow Financial Alliance for Net Zero (GFANZ) making public climate commitments, while ranking as some of the worst performers on responsible investment by ShareAction's assessment of 77 of the world's largest asset managers' policies and practices.[9] We are also aware of Stewardship Code signatories who have signed up to and subsequently quit initiatives like GFANZ and CA100+. The FRC should consider the introduction of additional disclosures in such instances, for example how previous collaborative engagements as part of such groups will be replaced with direct engagements by the signatory.

The FCA's new guidance also outlines that claims should not highlight only positive sustainability impacts where this disguises negative impacts. This is a vital regulatory measure to require increased disclosure from firms who are covering up their negative climate investment practices. We note that while 57% of managers have made net-zero commitments, these only cover 30% of investment strategies. As climate risks increase, the regulatory regime must be more rigorous, and the anti-greenwashing rule is a positive step toward eliminating

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[7] For example, Scottish Widows, which told managers to sign up to the Stewardship Code by 2024 or they would "unwind [Scottish Widows'] exposure to them over time in line with contractual arrangements" https://www.responsible-investor.com/sign-up-to-stewardship-code-or-lose-our-business-scottish-widows-tells-managers/

[8] Or, for example, P1 Investment Services Ltd, which successfully ran a two year engagement programme with its fund managers to encourage them to sign up to the Stewardship Code, evidencing the value they place on the Code

[9] https://shareaction.org/reports/point-of-no-returns-2023

misleading practices. We see an updated Stewardship Code, recognising an evolving regulatory landscape, including the anti-greenwashing rule, as a key part of consumer protection, particularly where the new rule falls short.

Collaborative engagement initiatives

It is valuable to draw attention to the contradictory behaviours of many firms who are part of collaborative initiatives such as GFANZ and Net Zero Asset Manager Initiative (NZAMI) but do not reflect the principles of such alliances through their voting and stewardship activities. As ShareAction's Voting Matters report found, many asset management companies who have net zero targets and policies often vote against climate resolutions; thus they are not supportive of, and are failing to meet, their own climate targets.[10] Specifically, four NZAMI members voted against more than 70% of climate resolutions at companies in which they had holdings.

While membership of NZAMI may be common amongst more prominent asset management firms, many members do not live up to the initiative's main goal of reaching net zero in terms of their voting performance. Such contradictory actions can be confusing for consumers who believe they are using the services of a firm with genuine interest and reputation for environmental and social protections but whose practices do not reflect their climate commitments. The Stewardship Code is a critical tool that should be harnessed to ensure firms uphold a responsible standard of investing through disclosures which help to tackle greenwashing.

Recognising existing challenges within the Code

Addressing reporting burdens

One of the biggest concerns we hear about signing-up to the Stewardship Code is the additional reporting requirements placed on signatories. We understand that signatories tend to be time-poor, and for many the Stewardship Code is one of a number of reporting frameworks to which they report. We see this review as an excellent opportunity to further align the Stewardship Code with other regulatory requirements to avoid having isolated buckets of information being reported. We understand the PRI is currently looking at the reporting burden placed on asset owners, through its Equivalency Proof of Concept workstream, to identify overlaps between existing initiatives, including the Stewardship Code.

We also see a clear need for better alignment between reporting by issuers, asset managers and asset owners to ensure relevant data is available and passed on at the right time. The review should include consideration of the following issues:

- Better alignment between the Stewardship Code and the Corporate Governance Code. This should include consideration of what data is available and what data (and breakdown of data) is appropriate for reporting.

[10] https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Voting-Matters-2023.pdf

- Ensuring companies understand what asset management firms (and ultimately asset owners) consider to be material impacts of their activities, as well as what constitutes a good 'outcome' which should be reported. Again, recognising the need to ensure consistency between the Stewardship Code and the Corporate Governance Code.
- Timelines, particularly to allow relevant data to travel up the chain from company disclosure to asset managers, through to asset owners. (Note previous issues with reporting timelines not aligning between AM and AO disclosures.)
- While the existing focus on stewardship impacts and outcomes is vital, these don't necessarily show withing a single reporting year, nor change on a yearly basis. The FRC should ensure this is more explicit within the Stewardship Code and encourage signatories to report against progress to achieving outcomes since the previous report.

The time-horizon mismatch

One perennial challenge for investor stewardship is the time-horizon mismatch. Environmental and social factors play out over the long-term, but investors tend not to be good at pricing them in. More importantly, they are often disincentivized from doing so. An asset manager who invested in a way that would cost some short-term underperformance in order to deliver some long-term outperformance would likely see fund outflows i.e. they would lose AUM before the long-term benefits / gains start to manifest. Equally, it is easier for asset managers to say, "Shell looks cheap on a valuation basis, so I'll buy today and hope it outperforms over one year", than "fossil fuel companies could cost my whole portfolio $[x]m over 20 years through negative economic impacts of climate, so I won't buy Shell". A recent report by the Financial Markets Law Committee (FMLC) regarding fiduciary duty in the context of climate change, recognised that for pension schemes, 'it may be necessary to consider whether a strategy should reject shorter term gains because they create identifiable risks to the longer-term sustainability of investment returns in the fund'.[11] It would be helpful for the FRC to consider whether and how to integrate evolving thinking around long-term, responsible investment into the Stewardship Code.

Balancing client preferences

We also recognise challenges around client preferences. Specifically, where asset managers aggregate varying interests of clients into a single engagement voice. They can put client capital into different funds to reflect their interests/preferences (though there is a question whether an AM is working against the interests of clients in a transition-fund if they are also managing an energy fund whose companies are working against transition for other clients). An asset manager can't engage on behalf of different funds differently e.g. engage Shell to phase-out fossil with their responsible investment-funds hat on, then come back in to engage to maximise fossil production with their general fund hat on.

It remains challenging to fairly represent all client interests in one engagement voice. Our research indicated that asset managers tend to greenwash their way around it, for instance by publicly making sustainability commitments, then in practice defaulting to the lowest common

[11] https://fmlc.org/wp-content/uploads/2024/02/Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf

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denominator of client interest. We see increased transparency around how investors represent client interests through corporate engagement as a positive and essential step, allowing asset owners to better understand how their managers operate, and allowing them to get a sense of whether engagement activities are genuinely in-line with their interests.

Asset owner perspectives

Foundations within ShareAction's asset owner networks are not necessarily signatories to the code themselves, but many do take a view that their asset managers should have a strong governance culture, which may include being a Stewardship Code signatory. For smaller asset owners, who may have a very small staff team, signing up to, and reporting against, the code can be a capacity challenge. Strong and robust voluntary codes that cover all asset classes can bolster an asset owner's asset manager due diligence process. It is the view of the asset owners we have spoken to that stronger regulation, and robust voluntary codes and standards, are both needed, and that the Stewardship Code should be retaining its current level of ambition.

Raising standards while reducing burdens

While we acknowledge calls from industry to reduce the reporting burdens on investors, we do not accept that this should necessitate an overall weakening of the ambition of the Stewardship Code. In fact, we see that there may be opportunities to reduce reporting burdens while maintaining, or even increasing, ambition. Our RISE #2 escalation paper gives one example of how this might be achieved through the introduction of a streamlined escalation reporting mechanism to minimise additional reporting burdens.

Specifically, we propose that asset managers publish their escalation toolkit, which shows which tools they'll use and how they progress in strength. A model toolkit is illustrated below:

<table>
<tr><th>Our model toolkit</th><th>1
Private persuasion</th><th>2
Broader challenge</th><th>3
From talk to action
Voting (3.1)</th><th>Intensified actions (3.2)</th><th colspan="2">Exceptional measures (3.3)</th><th colspan="2">4
Capital allocation decisions</th><th>5
Levers of last resort</th></tr>
<tr><td>Listed Equity</td><td rowspan="2">Unilateral private calls/ meetings (non-routine, more frequent, with board members)

Unilateral letter(s) to senior management and/ or the board</td><td rowspan="2">Collaborative calls/ meetings with the senior management and/ or the board

Collaborative private letters to senior management and/ or the board

Challenge management on earnings calls, corporate events or roadshows

Unilateral public statements/ letters to senior management and/or the board

Collaborative public statements/ letters to senior management and/ or the board

Be cited in the media challenging a company's position</td><td>Vote against standing items incl. director (re)election, audited accounts, management Compensation

Vote for shareholder resolutions on ESG topics, against mgmt. recommendation

Ask questions or making statements of intent at AGMs</td><td>Pre-disclose voting intention (private/ public)

(Co)Filing shareholder resolutions</td><td>Seek board seats

Call an EGM</td><td rowspan="2">Legal processes</td><td rowspan="2">Divest/ exclude from labelled funds*

Reduce exposure/ underweight in all funds*

Engage index provider to exclude company at next rebalancing</td><td></td><td rowspan="2">Divest and exclude (communicate privately to company)*

Divest and exclude (communicat publicly)*</td></tr>
<tr><td>Fixed Income</td><td></td><td>Reject documentation amendment request

Convene bondholder meeting (subject to holding threshold) and represent to company</td><td></td><td>Do not participate in primary issuance (new debt/ refinancings) for labelled funds*

Do not participate in primary issuance (new debt/ refinancings) for all funds*</td></tr>
</table>

STRENGTH

We have called on asset managers to report on their use of their escalation toolkit. Reporting in this way – by categorising escalation tools according to their strength – facilitates a more streamlined approach, where asset managers can group tools of similar strength rather than reporting on the use of each tool. For instance, instead of needing to report how many times a particular action was taken (e.g. voting against a standing item, or sending a letter etc), these actions would be grouped into steps. For example, firms would report "Step 3 was reached in escalations with 48 issuers, with 50% of issues reaching a successful outcome. We escalated to Step 4 with 12 issuers, 25% of which led to a successful outcome." This would help both to reduce the reporting burden on firms, but also allow stakeholders to assess asset managers' escalation activities and outcomes effectively.

Improving existing principles

Focus on escalation

The Stewardship Code rightly recognizes the important of escalation in Principle 11: *"Signatories, where necessary, escalate stewardship activities to influence issuers*." Our research has found that in practice, however, investors give little detail on escalation activities and outcomes. The Stewardship Code should require signatories at a minimum to:

- Publish their escalation policy, including their toolkit and framework, as well as a prioritisation methodology which details how companies are selected for escalation;
- Publish sectoral expectations on relevant environmental and social factors, with time-bound milestones;
- Report on the application of their escalation framework .

Collaborative engagement

Again, the Stewardship Code recognizes the importance of collaborative engagement in Principle 10*: Signatories, where necessary, participate in collaborative engagement to influence issuers* ¸ but concerns remain that investors are legally prohibited from collaborative stewardship. The Stewardship Code should be updated to reflect recent developments and provide much needed assurance to investors. In particular, the Code should reflect recent CMA guidance on environmental sustainability agreements to encourage and support investors to collaborate on stewardship activities. We note increasing evidence that collaborative engagement with companies is unlikely to infringe on competition law and that anti-trust arguments against such stewardship are often 'overstated'.[12]

ESG impacts

The 2020 Stewardship Code made vast improvements around sustainability in comparison to the previous iteration, but more can be done. The revised Stewardship Code should better integrate ESG factors by encouraging institutional investors to consider not just the risks and opportunities associated with ESG, but the broader impacts of the investments on society and the environment. The FRC should consider how recent publications, such as the FMLC report on fiduciary duty, might be better reflected in the Stewardship Code.

[12] https://www.wsgr.com/en/insights/antitrust-laws-and-esg-shareholder-engagement.html

Impacts should be reported on by signatories to enable clients and savers to make informed choices on the sustainability impact of their capital. This would follow steps taken in other jurisdictions, such as the EU, where measurement and management of investment impacts are increasingly considered a core part of responsible investing.

Diversity and inclusion

Currently, the Stewardship Code makes minimal references to diversity and inclusion (other than some broad references to thinking about diversity when resourcing stewardship activities). The revised Stewardship Code should emphasise the need both for diverse and inclusive stewardship teams embedded within asset management firms, as well as encouraging signatories to engage with investee companies around DE&I issues and to report on progress.

Broader focus on "S"

Increasingly, social factors are understood to be financially material, yet are not prominently featured in the Stewardship Code. Worker health, for example, is a material factor for investors: 2022 had the highest rate of sickness absence since 2004, with an estimated 185.6 million working days lost to sickness or injury. Investors can play a critical role in helping workers to live healthier, longer lives while at the same time supporting companies to access a thriving labour market and mitigate financial risks to their portfolios. The FRC should reflect the increasing importance of stewardship on social issues in the Stewardship Code and consider publishing broader guidance.

A focus on private markets

Following the launch of the 2020 Stewardship Code, we welcomed the broader focus on stewardship across different asset classes. This is one area where the new Stewardship Code should expand, in the first instance by recognising that for many asset owners, private market investments already make up a significant part of their total capital allocation.[13] Given last year's Mansion House reforms, which saw nine of the largest DC pension providers in the UK committing to allocating 5% of their assets to unlisted equities by 2030, this is an area we expect to see continued growth. Because of this, the next iteration of the Stewardship Code should more explicitly talk about stewardship in private equity.

We see a number of areas in the Code that could be updated specifically with regard to private markets, including private equity investments:

Investment beliefs and strategy

The new stewardship code should encourage asset owners to formulate their investment beliefs and strategy in a way that recognises the unique features of private equity investments, where investment is principally undertaken via a fund managed by a general partner (asset manager). The private nature of these investments results in fewer disclosures, which can make it challenging to monitor and report on stewardship outcomes. The Code should define

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[13] For example, in its 2023 Stewardship Report, USS capital allocation to private markets stood at 39.2%)

stewardship in private equity as creating long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society – and not just in terms of financial return. We recognise the potential risk of short-termism in private equity: limited partners (asset owners) acknowledge short-term considerations in private equity, particularly where investors are building a company to sell.

Governance and resources

Historically, many investors have focused their stewardship efforts primarily on public equities. It appears that the relative emphasis from asset owners on stewardship across different asset classes still heavily favours the public sector. The new Stewardship Code should encourage asset owners to disclose how their stewardship team is resourced, particularly across asset classes. For instance, the size of the team focused on stewardship of private equity in the context of the size of the private equity portfolio versus the number of persons focused on stewardship of public equities. ShareAction recently conducted research which found that only one limited partner in our survey indicated they have a dedicated ESG lead for private equity. The Code should encourage limited partners to take the stewardship of private market investments seriously, ensure it is properly resourced, and refrain from regarding it as merely peripheral.

Accountability

Despite the growing importance of private equity amongst investors, asset owners predominantly take a passenger seat in relationships with their private equity managers. The new stewardship code should encourage asset owners to be more active in their general partner (asset manager) oversight, and to develop and report on a more confident and assertive stance in stewardship practices in their private equity investments. Asset owners should be able to demonstrate a track record of engagement, and how that engagement escalated.

Engagement

The Stewardship Code should provide clearer expectations around how asset owners ensure their asset managers integrate and represent their views in engagements with investee companies. This should include setting specific objectives for engagement, as well as monitoring asset manager engagement activities, outcomes, and escalation. The Code should encourage asset owners to seek detailed reports from managers on all stewardship activities. In the case of direct investments, voting should also be disclosed where relevant.

Collaborative stewardship

The new Stewardship Code should encourage asset owners to participate in collaborative stewardship initiatives, recognizing the challenges individual owners may face in influencing change in private markets. The FRC should provide guidance on how owners can collaborate effectively, respecting antitrust laws and confidentiality agreements, to amplify their stewardship impact.

The FRC's broader work on stewardship

Guidance for best practice engagement reporting

Tracking and reporting on the effectiveness of shareholder engagement is crucial in understanding and enhancing the impact of financial institutions over investee companies. Yet engagement strategies are often inadequately articulated (if at all), reporting is inconsistent and vague, and activities and outcomes are rarely reported on. Redington's most recent Stewardship Code reporting analysis shows that 72% of engagements results in no clear outcome.[14] The FRC has a clear role to play in driving up standards of engagement reporting and should work with industry to publish best practice engagement reporting guidance. This guidance should include:

- **A definition:** Ideally purposeful, targeted communications with companies on specific matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide systemic risk, such as climate change. Investors may include collaborative engagements where they have played a passive role as part of their overall engagement, but this should be included separately.
- **Escalation:** The guidance should cover escalation activities firms should consider equipping themselves to undertake where engagement milestones are not met. Where the escalation strategy varies across regions or asset types, this should be articulated.
- **Monitoring:** Guidance should also include expectations on how firms should monitor and report on the status of engagements. At a minimum, firms should outline status categories for engagements i.e. "ongoing", "escalated" and "closed".
- Our "*Power in Numbers? An assessment of CA100+ engagement on climate change"* report includes further best practice engagement reporting guidance that could be used as a basis for this work.[15]

Guidance around escalation strategies

In practice, engagement with companies is often a "tea and biscuits" affair lacking an effective escalation strategy. Our recent RISE 2 report, 'Introducing a standardized framework for escalating engagement with companies', shows that escalation helps to counter this by attaching consequences to a company that fails to properly respond to investors' concerns. Our recent Point of No Returns paper notes that while the majority of firms surveyed make reference to escalation, little detail is provided about the application and outcomes of escalation

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[14] https://redington.co.uk/wp-content/uploads/2023/12/Redington-investment-manager-Stewardship-Code-reporting-survey-2023.pdf
[15] https://shareaction.org/reports/power-in-numbers-an-assessment-of-ca100-engagement-on-climate-change

activities, including on the speed of escalation. Shining a light on the outcomes of stewardship, and specifically escalation, is vital to ensuring engagement is effective.

Principle 11 of the Code states that "signatories, where necessary, escalate stewardship activities to influence issuers". Some regulatory initiatives in different jurisdictions also already encourage escalation practices by investors. The EU's SFDR rules on sustainable fund categorisation require relevant funds to have an escalation strategy. Some non-regulatory initiatives, such as NAZMI and CA100+ cite escalation strategies as an expectation for members. The FCA's new rules on sustainable investment funds (SDR) also recognise the role firms can play in accelerating the transition to a more sustainable future through stewardship activities. The rules will require firms to set out an escalation plan to take action when assets do not demonstrate sufficient progress towards a fund's sustainability objective.

ShareAction research has found that, while the majority (80%) of surveyed firms (50 of the largest global managers) mentioned escalation, only:

- 3 (6%) made reference to any time bound milestones in their expectations for investee companies
- 8 (16%) talked about the anticipated pace of escalation
- 7 (14%) included reporting on both failed and successful escalation outcomes.

One helpful step the FRC could take is to produce guidance setting out its expectations for firms' escalation policies. We have outlined some key characteristics of an escalation policy above.

Publish the list of asset management firms which are not Stewardship Code signatories
COBS 2.2.3 states that, "A firm, other than a venture capital firm, which is managing investments for a professional client that is not a natural person must disclose clearly on its website, or if it does not have a website in another accessible form:

- The nature of its commitment to the Financial Reporting Council's Stewardship Code; or
- Where it does not commit to the Code, its alternative investment strategy."

However, in practice firms rarely highlight this information and FCA enforcement remains opaque. For instance, in February TOBAM was delisted as an FRC signatory for failing to meet the regulator's stewardship expectations, yet its online literature implies it is a leader in responsible investment stewardship. We are aware of other investors for whom this is also the case. We see this as a form of greenwashing and something that should be addressed. One way would be for the FRC to publish in an annually updated register the list of firms with over £5bn AUM (to align with scope for existing disclosures regimes such as TCFD) who are not signatories of the Stewardship Code, with a link to the alternative investment strategy. Given firms are already required to publish this information, this should incur no (or minimal) additional costs to either firms or the regulator.

I hope the views expressed above are clear. Thank you for your continued engagement with

ShareAction on the Stewardship Code review. We look forward to responding to the public consultation in due course.

Yours sincerely,

Fergus Moffatt
Head of UK Policy, ShareAction
Fergus.moffatt@shareaction.org