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(Sent via email to stewardshipcode@frc.org.uk)

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UK Stewardship Code Consultation

Dear Andrea,

I am writing to respond to the FRC's consultation on the Stewardship Code on behalf of ShareAction, a UK registered charity that works to build a financial system that serves people and planet. ShareAction works to define the highest standards for responsible investment, mobilising investors to take action to improve labour standards, tackle climate change and the biodiversity crisis, and address global health issues. We have strong relationships with financial regulators, government departments, investors and asset owners including UK defined contribution pension schemes. ShareAction was previously called Fair Pensions and we have called for fiduciary duty reform and pensions reform generally for over 10 years.

Context

The world is facing unprecedented challenges across climate, biodiversity, and public health. The global economy must transform to address these challenges and institutional investors have a critical role to support that transformation by acting as responsible, long-term stewards of the capital they oversee on behalf of clients and members of pension schemes. To safeguard the wealth they manage and protect the interests of their clients, such investors must have effective governance and stewardship structures in place in order to adequately address social and environmental risks and impacts. We have significant concerns about several of the proposed changes to the Stewardship Code, which we believe would materially weaken its effectiveness in promoting responsible stewardship

ShareAction is deeply concerned that the proposed revisions to the Stewardship Code, particularly the removal of environmental and social considerations from the definition of stewardship, risk weakening the Code's ability to address systemic risks and deliver long-term value for clients and beneficiaries. While we welcome efforts to streamline reporting, we believe this can be achieved without diluting the Code's ambition.

Our key recommendations are that the FRC should:

- **Scrap the proposed new definition of stewardship** in favour of the existing one, which has already been adopted by many major international investors based in the UK and

makes a strong link between investor stewardship and the economy, society and the environment.
- **Retain and enhance the Principle on Escalation**, which rightly recognises the role of escalation in supporting firms to address and mitigate systemic risks in the interests of clients and beneficiaries.
- **Retain and enhance the Principle on Collaborative Engagement**, which rightly recognises the role of collaborative engagement initiatives and currently contains far more relevant and useful disclosure requirements than the proposed Code.
- **Publish implementation guidance** following the launch of the new Stewardship Code, which contains further information on how signatories should report, including case studies, to offset the more streamlined 2025 Code.

We have responded to questions 1, 2, 3, 6, 7, 8, and 9.

1. Do you support the revised definition of stewardship?

No, we do not support the revised definition of stewardship nor do we agree with the case set out for the definition to be revised.

The 2020 Stewardship Code defines 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."*

When the Stewardship Code was published in 2019, the FRC was clear that the above wording was deliberately chosen to clarify that 'the primary purpose of stewardship is to support delivering financial returns for clients and beneficiaries, while acknowledging that in doing so there may be positive benefits for the economy, the environment and society.' We agree that positive benefits for the environment and society may stem from stewardship activities, though this may not always be the case. Many market participants, including major investors in the UK and international markets have adopted the existing definition and integrated this into their investment processes, implementation and monitoring since 2020. A change to the definition is unnecessary and likely to lead to increased costs as firms revise policies and literature to reflect the new definition.

The removal of "environmental and societal benefits" from the definition of stewardship

The consultation paper states that 'some stakeholders' interpret this definition to mean the primary purpose of stewardship is to pursue sustainability outcomes 'in and of themselves' and that there may be an interpretation that 'creating value for clients must always deliver wider additional benefits'. This ignores the FRC's frequently-stated intention that any economic, social or environmental benefits should naturally flow from stewardship activities, rather than being ends in themselves. Indeed, the consultation paper confirms that that 'while some signatories may incorporate these wider benefits into their investment objectives, it is for each signatory to determine their specific investment objectives'. The Code itself already states that it 'does not prescribe a single approach to effective stewardship'. Nonetheless, if there has been a genuine misinterpretation by stakeholders, the solution is not to remove these considerations from the definition of stewardship but to provide greater clarity on their meaning and application.

The FRC has removed the critical connection between the investment world and the real economy. The finance sector does not operate in a vacuum, and recognising its impacts on the

real world are vital to managing the negative externalities of investment. The proposed definition represents a backwards step. This new definition simply reflects what most clients and beneficiaries would expect as a minimum from institutions acting on their behalf as part of their fiduciary duties. By removing reference to environmental and social factors from the scope of factors influencing long-term value for clients, the FRC is implying such factors are not financially material. This is in stark contrast to work undertaken by Government, financial regulators and industry over recent years, such as embedding TCFD in law, developing SDR and work to introduce corporate transition plans – all of which recognise sustainability risks as financial risks. We note the recent Asset Owner Statement on Climate Stewardship, which has been set up precisely to raise the bar on climate stewardship across the investment sector.

In omitting references to the broader economic, environmental and social aspects of stewardship, the FRC overlooks the materiality of systemic risks for investors. Climate change, biodiversity loss and health outcomes cannot be considered secondary matters; they are essential determinants of long-term financial value creation and sustainable economic growth. Earlier iterations of the UK Stewardship Code specifically incorporated sustainability considerations as a fundamental component, requiring investors to recognize and manage systemic risks. Taking out these sustainability references reduces the Code's power to push investors toward responsible practices and undermines its ability to support long-term financial stability.

Some stakeholders have argued that the inclusion of 'sustainable value' in the new definition should act as a catch-all and will help to balance the loss of explicit reference to the environment and society. We disagree with this assessment and note the FCA's new anti-greenwashing rule, which requires sustainability claims to be 'fair, clear and not misleading'. This is a test that may be increasingly hard to evidence given evolving trends in stewardship standards. For example, ShareAction research found that in 2024, overall support for social and environmental shareholder resolutions hit a new low, with only 1.4% (4 out of 279) of the proposals we assessed receiving majority support, compared to a peak of 21% in 2021. This downward trend is concerning, though all the more reason for a strong Stewardship Code that drives positive outcomes and shines a light on stewardship activities. We would welcome clarity from the FRC on how it considers the new definition of stewardship is likely to interact with the anti-greenwashing rule in respect of its signatories.

Finally, in our view the Stewardship Code should encourage stewardship standards that go beyond the legal minimum, and the new definition does not achieve that – indeed in some areas it makes it harder for signatories to meet their own legal obligations (see our response to Question 7). The FRC should be strengthening the link between environmental and social factors and financial materiality, rather than undermining it. Ultimately, this diluted definition of stewardship will reduce the positive benefits that stem from stewardship, at a time when it is essential that investors identify and address sustainability risks and impacts in their portfolios and align with long-term financial stability.

Removing "the economy" from the definition of stewardship

We disagree with the removal of the reference to economic benefits stemming from stewardship. One of the Government's stated missions over the past few years has been to promote economic growth. Statements from the Prime Minister and Chancellor since the general election have reaffirmed this priority, with officials viewing the financial services sector as a vehicle to drive growth.

In recent years, the UK has weakened investor protections, including changes to the Listings Rules and the Corporate Governance Code, and scrapped planned legislation on corporate governance following corporate failures like Carillion, BHS, and Patisserie Valerie. The proposed legislation would have required large businesses to disclose their resilience plans, distributable profits, fraud risk assessments, and the independent audit of certain metrics like carbon emissions—critical information for investors. However, these measures were dropped after lobbying by industry bodies. In light of these changes, including the weakening of stewardship standards in practice, a strong Stewardship Code is more crucial than ever for clients and beneficiaries.

As the Chancellor seeks increased investment of UK pension assets in the UK economy, it is essential that asset owners have confidence that their managers are delivering the stewardship necessary to manage risk and protect and enhance value over time, in the interests of clients and ultimate beneficiaries. Maintaining the standards of the Stewardship Code – including through the retention of the current definition – are essential to boosting asset owner confidence in long-term investment in the UK market.

Removing causation from the definition of stewardship

As we have outlined, our view is that no change to the definition is necessary or helpful. However, if the FRC remains of the view that the definition remains confusing for signatories, causing them to pursue social and environmental outcomes irrespective of financial considerations, we recommend removing the implicit causation between stewardship activities and the economy, society and the environment:

> *"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries* ***contributing*** *to sustainable benefits for the economy, the environment and society."*

We understand that the FRC will receive a substantial number of alternative definitions as part of this consultation, but we would re-emphasise the importance of retaining the environment and society in the definition. These are not optional extras, but factors that are intimately relevant to any long-term stewardship approach.

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 support efforts to reduce the reporting burden on signatories, though it's unclear separating policy and context disclosures from annual disclosures on activities and outcomes represents an effective way to do this. Our engagement with firms has suggested that, even where policy and context disclosures remain largely static, they still require sign-off from legal and compliance teams. As a result, the requirement to submit this information annually is unlikely to significantly ease the reporting burden on signatories, though it may nonetheless reduce the FRC's own workload. The FRC may also consider allowing for signatories to provide 'no change' declarations for these sections, sign-posting to the relevant previous report, reducing the need for annual reviews while maintaining transparency.

We would welcome further clarification from the FRC on what constitutes a "significant change" and a "minor amendment" to provide firms with greater certainty and reduce unnecessary updates.

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

We welcome the introduction of the 'how to report' prompts to encourage signatories to provide meaningful disclosures, rather than formulaic or compliance-driven reporting. We support efforts to drive transparency around firms' stewardship practices and outcomes in a way that reflects their own specific investment strategies, governance structures and market contexts.

The effectiveness of this approach – and the new Stewardship Code more broadly – will in part depend on the accompanying guidance, which we strongly support. While we recognise the value of maintaining flexibility in guidance rather than embedding rigid requirements, it is important that it provides practical support to signatories, particularly in asset classes where stewardship practices are still evolving, such as fixed income.

Stewardship in fixed income

The revision to the Stewardship Code offers an important opportunity for the FRC to encourage and support stewardship in other asset classes. Recent research shows that bonds (38%) represents the largest share of assets for UK pension schemes, followed by equities (33%). The increasing understanding of credit materiality of climate and transition risks for investors means the FRC can play a critical role in supporting signatories to act as good stewards of capital in fixed income and to drive more and better reporting of outcomes.

Debt plays a direct role in facilitating the transition to net zero because debt is the dynamic provision of capital to a company. A company generally already has the capital of their shareholders (at least for larger companies in mature industries), but is constantly approaching debt investors to provide capital. In 2023 debt issuance of $8trn was around 20 times the volume of equity issuance. Borrowers depend on that capital, which creates leverage for debt providers to engage companies to convey their expectations and to act as stewards of transition planning & implementation.

The choice to participate or not participate in a new bond deal is the bondholder's equivalent of voting rights. By making investor engagement on transition expectations a norm, the debt market can catalyse transition planning & implementation by borrowers. This engagement should be supported by the potential consequences of divestment or avoidance in order to reallocate that capital more effectively, for instance to support those companies with appropriate transition ambition. We see two clear benefits to this:

- Investors can help to mitigate idiosyncratic default risk that can result from a high-carbon borrower failing to prepare for and adapt to a transitioned economy, or resulting from physical risks resulting from climate damage;
- Investors help to mitigate systemic default risk resulting from an unstable or failed transition causing significant damage to the global economy and financial assets.

Stewardship across asset classes is mutually reinforcing: Bondholders engaging proactively with companies can complement and strengthen equity-led stewardship. Given the significance of bonds in pension portfolios and the enormous, unrealised potential for stewardship by fixed income investors, the FRC should explicitly reference the importance of stewardship in fixed income within the Stewardship Code.

References to stewardship in "other asset classes" was used as a catch-all term in the 2020 Code, but the FRC should expand on this in the new iteration. This would be particularly useful in the more frequently updated Activities and Outcomes report, where additional detail on stewardship processes in fixed income could be included across each sub-heading. For instance, under "How to report" on *Signatories actively exercise their rights and responsibilities,* the FRC could explicitly ask signatories to 'disclose information on how often they elected not to participate in primary corporate bond financing and to explain the rationale behind those decisions'. This information could be aggregated e.g. "we elected not to participate in £Xbn of primary corporate bond transactions due to concerns about their climate change strategy. Encouraging similar disclosures across the new principles, by strengthening references to fixed income, would reinforce the expectation that bondholders play an active stewardship role.

We also urge the FRC to provide clearer guidance for signatories on how to ensure stewardship with issuers is effective. As part of the planned implementation guidance, the FRC should outline specific expectations and best practices examples for bondholder engagement. This would help address the current gap in practical guidance and encourage more meaningful stewardship by bondholders.

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 welcome proposals to tailor the Service Providers' Code to specific signatory types. Additionally, we continue to urge HM Treasury to expedite the regulation of investment consultants.

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

We broadly support efforts to boost quality over quantity of stewardship reporting, including through streamlining the existing principles. However, we do have concerns with several of the proposed changes.

Removing the Principle on Escalation

Escalation is a core element of an effective stewardship strategy and we agree with the FRC that it should be undertaken 'whenever necessary to achieve stewardship objectives'. However, we do not support the proposed removal of the Principle on Escalation, nor do we accept that signatories have come to understand escalation as 'being seen as an end in and of itself'. We are disappointed that this appears to be the primary rationale for the removal of the principle, particularly given the freedom given to signatories through the overarching principle that the Code 'does not prescribe a single approach to effective stewardship'.

Escalation helps attach consequences to engagement with companies that fail to properly respond to investor concerns. It is a means by which the views and interests of the owners and funders of companies on strategically important issues can be taken seriously by those companies. Yet the insufficient progress by companies to address and mitigate systemic climate and nature risks is enabled by the haphazard under-use of escalation by asset managers to the detriment of their clients' interests. ShareAction research has found that, without an escalation strategy, engagement with companies can often be a "tea and biscuits" affair. Increasingly, investors are adopting escalation strategies, though in practice the use of

escalation is inconsistent and ineffective. Disclosure of escalation activities is often poor, which makes it difficult for clients and other stakeholders to assess how effectively it is being used as a tool.

The FRC has a key role to play in encouraging increased and better use of escalation strategies, particularly in the light of commentary from some in industry that stewardship is antagonistic, or cultivates mistrust. The most effective way to respond to that challenge is to shine a light on escalation to encourage a more effective and consistent regime, rather than to integrate it into other principles in the new Code, and risk sending a message that escalation is not important. Indeed, transparency on escalation approaches should reduce the need to escalate, because companies will be better informed on how their strategic choices will impact their relationship with investors and access to investor capital.

The FCA's new rules on sustainable investment funds recognise the role firms can play in accelerating action around sustainability challenges through stewardship activities. The new rules require firms to set out an escalation plan to take action when assets do not demonstrate sufficient progress towards a fund's sustainability objective. We also call on the FRC to publish implementation guidance following the launch of the Stewardship Code, which includes further support and resources for signatories wishing to set up or enhance their escalation strategies. ShareAction recently published a framework for escalating engagement with companies, which more detailed thinking on this point.

Deprioritising collaborative engagement

Collective action is not always necessary or possible, though it remains an essential element of an investor's stewardship toolkit. A manager that never engages on a collaborative basis is ystmuch less likely to be influential and to deliver real sworld change in the interests of ultimate beneficiaries. Collaborative engagement may also form a key part of investors' response to limited stewardship resources, particularly in the light of major global sustainability challenges. The FRC should consider how it will reflect new CMA guidance on environmental sustainability agreements. Emphasising the guidance and reassuring signatories that collaborative engagement is unlikely to infringe competition law would send a strong signal that collaborative engagement should remain a core element within investors' stewardship strategies.

Despite this, recent ShareAction research has shown that some asset managers have not been voting in-line with the collaborative initiatives of which they are members. For example, membership of NZAMi appears to have little impact on asset managers' voting record on climate resolutions. NZAMi suspended operations on 13 January 2025 to review the initiative in the wake of a mass exodus of NZBA members. However, voting data shows that even prior to this suspension, membership of NZAMi appears to have little impact on asset managers voting record on climate resolutions. For instance, members of NZAMi voted in favour of an average of 64% of climate resolutions, compared to 55% by non-members (this gap is largely as a result of the asset managers that had departed from NZAMi as at 16th December, who on average only voted for 35% of climate resolutions). Asset managers who have never been a member of the initiative voted in favour of 61% of climate resolutions, a similar proportion to current members.

As such, rather than dilute expectations around collaborative engagement, by integrating it into other principles, we urge the FRC to retain the existing principle, or to enhance its proposed expectations beyond *"Describe your methods of engagement, including whether you have engaged directly or in collaboration with others, and the reasons for your chosen method"*. We

note the existing expectations on signatories to describe the activities outcomes of collaborative engagement, including:

- *“Signatories’ role and contribution;*
- *Actions or changes made by the issuer; and*
- *How outcomes of engagement have informed investment decisions.”*

At a minimum, we believe these reporting expectations should be properly reflected in the new iteration of the Code. We would also encourage the FRC to go further by requiring signatories to

Internal and external assurance

We do not support the removal of references to internal and external assurance, which are essential for maintaining transparency, accountability, and robust governance. The 2020 Code recognised the important role of assurance in driving good stewardship, and in Principle 5 signatories were expected to explain:

- *“How they review their policies to ensure they enable effective stewardship*
- *What internal or external assurance they have received concerning stewardship*
- *How they have ensured their stewardship reporting is fair, balanced, and understandable.”*

Internal audit, board-level oversight, and external assurance currently play a role in helping firms demonstrate the effectiveness of their stewardship processes, practices and activities. Without defined assurance expectations, it is unclear how signatories should demonstrate that their stewardship processes, policies, and activities are robust and effective.

Furthermore, the 2020 Code explicitly acknowledged internal audit as a form of assurance within its Principle 5 guidance:

> *"Internal assurance may be given by senior staff, a designated body, board, committee, or internal audit and external assurance by an independent third party."*

The revised Code should retain an explicit reference to internal audit, as it provides independent assurance of firms’ stewardship practices. Removing this reference would also create inconsistency within the broader UK governance framework. The FRC’s UK Corporate Governance Code (Provision 29) requires boards to evaluate and report on the effectiveness of risk management and internal controls, underscoring the importance of assurance at the corporate level. We see no reason to diverge from this approach in the context of investor stewardship.

It is crucial for Code signatory firms to clearly disclose the internal and external assurance they have obtained regarding their stewardship practices. This transparency enhances accountability and supports ongoing improvements in stewardship standards. Without clear assurance requirements, independent oversight may be weakened, potentially diminishing the quality of stewardship activities.

Taking account of client and beneficiary needs

We do not support the removal of Principle 6, which requires signatories to “*take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them”*. Its replacement with the much weaker requirement in Policy and Disclosure section e), merely asks signatories to *“describe how you maintain a dialogue with*

clients or beneficiaries", which is a significant weakening of accountability. The new wording only requires signatories to:

- *"Explain how you maintain a dialogue with those whose assets you are managing including:*
  - *the methods you use to gather feedback from clients and/or beneficiaries;*
  - *how that feedback is used to inform your stewardship approach;*
  - *your process for sharing information about your stewardship activities with your clients or beneficiaries."*

We consider this to be a major obstacle in the flow of stewardship information from asset managers to asset owners, and has the potential to make it much harder for schemes to meet their own reporting requirements, as outlined in The Pensions Regulator's [Market oversight: Review of trustee compliance with ESG duties]. For instance, TPR requires trustees in scope of the 2018 ESG Regulations (around 3,500 schemes) to publish a compliant SIP that sets out:

- How ESG factors, including climate risks, are considered in investment decisions;
- The trustees' approach to stewardship, including engagement and voting policies; and
- How asset managers are incentivized to align with trustees' investment and stewardship policies.

Additionally, trustees of schemes in scope are required to explain in their implementation statements how and the extent to which they have followed the scheme's policies on stewardship, including in relation to the exercise of rights, including voting rights and in undertaking engagement activities, set out in their SIP over the scheme year, including the most significant votes cast by the trustees, or on their behalf, during the scheme year.

TPR is clear that trustees must take ownership of the scheme's policies in relation to ESG:

> *"It is not enough for trustees to report that they have delegated these matters to asset managers… we would still expect to see evidence of oversight by trustees including how they monitor and engage with their asset managers about relevant matters, including environmental and social impact and corporate governance."*

We note that the weaker requirements in the new Code, such as the deletion of any reference to how fund managers have managed the assets "in alignment with clients' stewardship and investment policies", means that managers would have no reason to consider aligning with them schemes' policies should they not wish to. The inclusion of section d) in the new Code requires fund managers to report on how they deal with conflicts of interest, though this is no substitute for ensuring alignment between stewardship of assets and clients' investment policies. We see a clear risk this will encourage managers to address potential conflicts of interest by simply stating that they manage the assets on behalf of all of their clients rather than just some of them and prefer to speak with one voice.

Requiring fund managers merely to explain how they "communicate with clients" and how clients' feedback is used to inform the fund managers' stewardship approach represents a dilution of the requirement to explain "how they have taken account of the views of clients and what actions they have taken as a result". By reducing reporting expectations for fund managers, while TPR's own rules remain in place, the new iteration of the Code introduces a clear disconnect in information flows that may lead to schemes breaching their own legal obligations. The new principle therefore poses major challenges for schemes, risks reducing

them to passive recipients of fund managers' reports, rather than active stewards of their assets and undermines the valuable work of TPR. We urge the FRC to reinstate the original requirements of Principle 6.

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?

Yes, this will help to reduce the reporting burden on signatories while maintaining and encouraging alignment with other disclosure frameworks (or at least helping to remove obstacles it). To maintain transparency and accessibility, any cross-reference information must remain publicly available and clearly signposted. We note that some asset managers require visitors to verify their status as institutional investors or investment professionals. This effectively blocks the general public from viewing these sites, making them not truly "publicly available." Since engagement and voting activities at public company AGMs can significantly affect society - both positively and negatively - there's a clear public interest in ensuring stewardship information remains genuinely accessible to everyone.

We welcome the FRC's commitment to developing a clear policy on cross-referencing to ensure that reporting continues to provide a comprehensive and high-quality account of stewardship activities.

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

Yes, we support the proposed schedule for implementation of the updated Code. We reiterate our strong support for implementation guidance to be published, supporting signatories to report against the Code. We would welcome clarification from the FRC that this guidance will be introduced, as well as on the timetable for publication, which should be well in advance of the first reports against the new Code in 2026.

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