THE 100 GROUP
Investor Relations & Markets ccommittee

Corporate Governance and Stewardship
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

29 March 2019

By email: stewardshipcode@frc.org.uk

Dear Sir/ Madam,

Proposed revisions to the UK Stewardship Code

We welcome the opportunity to respond to the Financial Reporting Council's (FRC's) consultation on the proposed revision to the UK Stewardship Code ('the Code'). UK financial markets are recognised 'best in class' and this revision should support the UK's positioning as an attractive and competitive market for investment.

We have not responded to the individual questions raised in the consultation document, as they are best left to individual companies or other stakeholder groups. However we have set out below some broader observations on the revisions. We have also reviewed a copy of the GC100 response to this consultation and are in agreement with all the points that they have raised.

We are broadly supportive of the revisions and most importantly the increasing level of transparency that the Code demands of asset owners, asset managers and service providers. In our opinion, the proposed revised Code represents a positive step change over the 2010 Code and will require greater proactivity by asset owners, asset managers and service providers, to ensure there is sufficient and timely engagement between themselves, business and wider stakeholders. It will be critical that the articulation of this engagement is clear, appropriately reviewed and regulated, for it to be as effective as the Code intends.

It is pleasing to see that the revised Code has taken into account some of the key concerns noted in the current environment, namely ESG, climate change and, to an extent, social impact investing, as these matters are becoming increasingly more prevalent and important in investment decision making. We note that there are a number of live projects and initiatives, both in the UK and globally, in relation to reporting on these matters, such as the work of the Social Impact Investing Taskforce and the recently completed update of the UK Environmental Reporting Guidelines. It is therefore important that any proposed reporting requirements are well-coordinated with other reviews. The FRC may want to consider issuing further guidance as this subject matter develops, to ensure there are no areas of contradiction or ambiguity in the reporting by stewards and businesses.

Whilst we are broadly supportive of the amendments proposed, we have some areas of concern in relation to the practical implementation of the Code. In reference to paragraphs 97 – 99 of the consultation paper, "*Constructive engagement and clear communication*", we have concerns over how investors may approach the completion of their annual Activities and Outcomes Report ('the Report') and the impact this may have on the demands on time of businesses. Assuming investors proactively engage with businesses throughout the year, we do not anticipate there being an issue. However, should, in some instances, investors see the Report as a 'box ticking' exercise, there is a risk that there will be an unmanageable volume of requests to meet with senior management of businesses as the Report statement falls due, in order for investors to 'tick' the 'participate in collaborative engagement' box. We are concerned that if this is the case, the quality of engagement will be poor, there will not be adequate time to accommodate all such requests for engagement and that the end users of the Code will not genuinely be receiving the benefits and insight that are meant to be gained through these interactions. Furthermore, from a business perspective, this could have the unintended consequence of placing undue time pressure and demands on businesses and, if not managed in an appropriate way, could not only lead to poor quality engagement but have a negative effect on the quality of stewardship reporting. We ask the FRC to ensure that the Code places greater emphasis on the importance of constructive engagement all year round, regardless of a firm's performance or in relation to paragraph 98 "*only when they have concerns to discuss*", to ensure that engagement is timely, considered and appropriate so that businesses are able to plan for and manage the process internally.

In its current format, the Code does not provide much guidance on the annual Report content or how it will be assessed. There is a risk that this could give rise to 'boilerplate' reports which state that investors have complied with their Policy and Practice Statement. It will therefore be crucial that the regulator has sufficient and appropriate resources to perform rigorous reviews on the Reports in order to determine whether or not what has been set out in paragraph 58 of the revised Code has been achieved. There is a potential risk that, if the Reports are not suitably reviewed and investors not held to account, then the Reports could become another 'tick box' exercise, which would undermine the purpose of the proposed revised Code. We would therefore suggest that the Report content should allow for qualitative reporting as well as quantitative. It is vital that the Report does not enable reporters to 'tick off' engagement simply by having a meeting. For example, a qualitative explanation of the engagement and benefits of it and what actions or insight they have gleaned in material interactions would be of more use than a simple KPI. Case studies may be a method in which real engagement can be conveyed to users of the Reports in a meaningful way.

It is not clear, in relation to question 14 in the consultation how introducing a mechanism for investors to escalate their concerns, as currently proposed, would work in practice. The definition of 'concern' has not been clearly defined. In our view, we would first want investors to discuss any concerns they have with business, through the existing channels of the Chair or Senior Independent Director for example, to provide the opportunity to understand and work through any concerns they have, rather than circumventing this important aspect of corporate governance. If this proposal were to be effectively adopted it would need precise terms of use to ensure that investors only report concerns of significant magnitude which cannot first be resolved through discussion with the business.

Who we are

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers

Please feel free to contact me at julia.wilson@the100group.co.uk should you wish to discuss our comments. I would be more than happy to meet to discuss these, or any other relevant items, further.

Yours sincerely,

Julia Wilson
Chair
Investor Relations and Markets Committee