VIEWPOINT

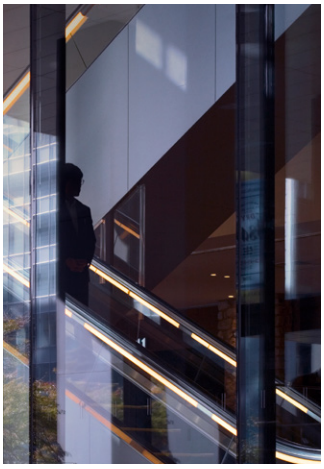
UK Stewardship Code: Proposed Updates and Consultation

MUFG Pension & Market Services recently hosted a webinar, with guests from The Financial Reporting Council (FRC), to discuss proposed updates to the UK Stewardship Code.

Danny Meehan, UK Growth Leader in MUFG Retirement Solutions, moderated the session, which featured insights from Andrea Tweedie, Head of Stewardship and Ruth Nash, Stewardship Project Manager of the FRC. This article summarises the key discussion points and proposed changes.

A Brief History and Overview

The UK Stewardship Code, first introduced in 2010 and substantially revised in 2020, aims to promote responsible investment by setting out principles for institutional investors on how to engage with the companies they invest in. The 2020 code broadened the scope of stewardship beyond listed equities, emphasised reporting on activities and outcomes rather than just policies, and highlighted communication throughout the investment chain. It also uniquely introduced principles for service providers. Currently, nearly 300 signatories, representing over £50 trillion in assets under management, adhere to the Code, demonstrating its significant influence.



Proposed Changes and Rationale

The FRC is consulting on several key changes to the Code:

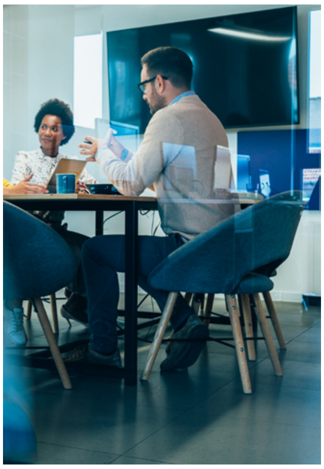
- **Revised Definition of Stewardship:** The proposed definition focuses on "the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries." This shift aims to clarify that the Code does not dictate investment objectives but rather emphasises how stewardship supports the achievement of those objectives. It is designed to encourage more transparent dialogue about investment beliefs and objectives throughout the investment chain and mitigate concerns about greenwashing.

- **New Reporting Structure and Frequency:** To reduce reporting burden and improve readability, the FRC proposes separating policy and context disclosures (covering governance, policies, and processes) from activity and outcome reports. The former would be updated periodically as needed, while the latter would be submitted annually. This aims to highlight the dynamic aspects of stewardship practices.

- **Streamlined Principles and Guidance:** The FRC aims to create more concise reporting prompts, encouraging signatories to explain their individual approach to stewardship. Crucially, the FRC will introduce guidance for the first time, offering examples and support without creating a rigid checklist.

- **Dedicated Principles for Different Entities:** Recognising the diverse nature of signatories, the FRC proposes tailored principles for different entities, such as asset owners and service providers (including separate principles for proxy advisors and investment consultants). This ensures the Code addresses the specific activities and challenges faced by each type of organisation.

- **Cross-Referencing to External Disclosures:** The consultation explores the possibility of allowing cross-referencing to external disclosures, such as those related to the Task Force on Climate-related Financial Disclosures (TCFD) or Sustainable Finance Disclosure Regulation (SFDR), to avoid duplication and improve efficiency. However, the FRC also acknowledges the value of comprehensive, standalone stewardship reports.



Impact on Institutional Investors and Asset Owners

The proposed changes aim to foster better communication between asset managers and asset owners. By articulating their individual approaches, asset managers can facilitate more meaningful discussions with asset owners about alignment with their stewardship goals. The FRC anticipates that the changes will reduce the reporting burden, freeing up resources for actual stewardship activities.

Addressing Key Concerns

The FRC clarified that the removal of the phrase "leading to sustainable benefits for the economy, the environment and society" from the definition of stewardship does not diminish the importance of these factors. Instead, it seeks to promote more transparent reporting on how signatories address these issues within their specific investment objectives.

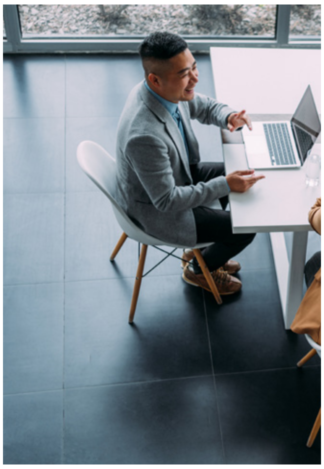
The FRC also emphasised that the assessment process will remain rigorous, with no lowering of standards. The new guidance will support signatories in their reporting, and the FRC will continue to provide feedback and highlight examples of good practice. The transition to the updated Code will be carefully managed to minimise disruption for signatories.

Alignment with Other Regulations and Frameworks

The FRC maintains close contact with other regulators, including the Pensions Regulator, to aim to ensure alignment and avoid conflicting requirements. The proposed changes consider the evolving regulatory landscape, including SFDR and TCFD, while recognising the entity-level focus of stewardship reporting compared to product-level disclosures.

Evolution not revolution

The FRC's proposed updates to the UK Stewardship Code represent an evolution, not a revolution. The changes aim to enhance transparency, improve reporting quality, and facilitate more effective stewardship practices. By streamlining principles, providing guidance, and tailoring requirements to different entities, the FRC seeks to ensure that the Code remains relevant and impactful in a dynamic investment environment. The consultation process is crucial for gathering feedback and ensuring that the final version of the Code effectively serves the interests of investors and beneficiaries.



Policy & Context Document Updates

Even if there are no substantial changes to a signatory's policy and context document, it should still be submitted annually to the FRC to ensure the website hosts up-to-date information. While the FRC will review it, there's no pressure on signatories to make unnecessary changes.

Support for Smaller Asset Managers

The FRC recognises that smaller asset managers and pension funds may have fewer resources. Support and guidance will be tailored to their needs, potentially through targeted sessions and resources, to ensure they understand and can implement the code effectively. Assessments will also consider the size and operational structure of similar organisations.

Tailored Principles for Proxy Advisors & Investment Consultants

The updated code introduces specific principles for these two groups, recognising their crucial role in the investment chain. This allows them to explain their specific functions, how they support stewardship, and address potential misunderstandings about their roles in the market. It also reflects the fact that the majority of service provider signatories are from these two groups.

Overall

The discussion emphasised making the code more accessible and proportionate, particularly for smaller firms, while ensuring its effective implementation across the board. The tailored principles for proxy advisors and investment consultants highlight the importance of their specialised roles in supporting stewardship. The focus is on clarity, understanding, and promoting good practice rather than imposing unnecessary burdens.

MUFG Retirement Solutions remains dedicated to engaging with policymakers, clients and industry stakeholders to develop solutions that drive better outcomes for members, the pensions sector and the broader UK economy.

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