

# About the UK Stewardship Code 2020



Financial Reporting Council

## What is stewardship?

Stewardship is 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.

Investment is undertaken on behalf of UK savers and pensioners by intermediaries through the investment chain. Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital, the UK savers and pensioners, also prosper.

## Origins and development of the UK Stewardship Code

The UK Stewardship Code (the Code) was first published in 2010 to improve long-term returns to beneficiaries by enhancing the quantity and quality of engagement between investors and companies. It was introduced as a result of Sir David Walker's Review of corporate governance in UK banks and other financial industry entities. The Review recommended that the Financial Reporting Council's (FRC) remit be extended to develop and encourage best practice stewardship of UK-listed companies by institutional investors. In addition, the FRC is not the only party with an interest in stewardship – three other bodies, the Financial Conduct Authority (FCA), The Pensions Regulator (TPR) and the Department for Work and Pensions (DWP) set the regulatory framework that the Code operates within. The FRC and these authorities collaborate through the Stewardship Regulators Group (SRG) which also includes HM Treasury.

The UK Stewardship Code 2020 came into effect at the start of a period marking a broader recognition of stewardship and the stewardship roles and responsibilities across actors in the investment chain. The Code was changed significantly to reflect recommendations from Sir John Kingman's review of the FRC. He recommended that the focus of the Code should change from one which required policies and procedures, to one that instead drove high-quality stewardship outcomes.

## What is the UK Stewardship Code 2020?

The UK Stewardship Code 2020 ('the Code') is a voluntary, principles-based code of best practice, which provides a framework for asset owners, asset managers and service providers to report on their stewardship activities over a 12-month period.

Access to high quality information supports transparency in the market and the oversight of stewardship through the investment chain. Stewardship reports should be informative for a wide range of relevant stakeholders such as clients, beneficiaries or members.

The Code does not prescribe one approach to stewardship but allows organisations to explain their approach and showcase what they have accomplished in the past year.

## Which organisations can report against the Code?

- **Asset owners** such as pension funds, insurers, foundations, endowments, local government pension pools and sovereign wealth funds.
- **Asset managers** who manage assets on behalf of UK clients or invest in UK assets.
- **Service providers** such as investment consultants, proxy advisors, data and research providers that support asset owners and asset managers to exercise their stewardship responsibilities.

## Which organisations are currently signatories to the Code?

A full list of current code signatories can be seen on the [FRC website](#).

Current signatories span single-strategy boutique asset managers to large global asset managers with active and passive funds. Approximately one third of the total assets under management of signatories are invested in listed equity both in the UK and globally, and two thirds in other asset classes. Other assets include fixed income, private equity, real estate and infrastructure and others. The significant international interest in the Code is reflected by the two fifths of signatories who are head-quartered outside of the UK.

## How many current Code signatories are there?

There are currently 273 signatories to the Code, representing £43.3 trillion assets under management. This includes 188 asset managers, 66 asset owners, and 19 service providers.

## The Principles and reporting expectations

The Code comprises:

- 12 Principles for asset managers and asset owners; and
- 6 Principles for service providers.

Reporting expectations are also provided under each Principle to support signatories in providing reporting that meets the high standards required by the Code.

### Flexibility for different signatory types

Some reporting expectations are more relevant to asset managers or those investing directly, while others will be more relevant to asset owners or those investing indirectly. The Code allows some flexibility for different kinds of organisations to report in a way which reflects their business model or role in the investment chain. This means that applicants are able to determine which reporting expectations are most relevant to them.

### Stewardship across asset classes

The Code contains more detailed reporting expectations for listed equity assets in some areas, reflecting the relative maturity of stewardship activity in this asset class. However,

the Code does apply across a range of asset classes. Organisations should explain the use of resources, rights, and influence available to them to exercise stewardship across asset classes in which they are invested and illustrate with examples to highlight the depth and breadth of stewardship across their assets under management.

## Apply and explain

The Stewardship Code Principles require signatories to **'apply and explain'** them. This means signatories **must apply all of the Principles** and **explain** how they have done so guided by the reporting expectations that sit under each Principle.

## When do signatories report?

The Code has an annual reporting requirement. The FRC receives reports at two points in the year: spring and autumn. Organisations must evidence how their stewardship activities align with the Principles of the Code over a previous 12-month reporting period. Signatories can choose which 12 months the reporting will cover, with many signatories choosing to report in line with the calendar year or the financial year.

## Are there any regulated requirements of the Code?

Opting to report to the Code and become a signatory is entirely voluntary. However, the Code is underpinned by a wider regulatory framework for stewardship in the UK.

The FCA requires asset managers and insurers to state whether they comply with the UK Stewardship Code, or if not, their alternative investment strategy. The FCA also requires insurers, reinsurers and asset managers to develop and explain how they have implemented an engagement policy for their listed equity investments, including how they monitor investee companies, their voting behaviour, and their use of proxy advisors under the Senior Management Arrangements, Systems and Controls (SYSC) and the Conduct of Business Sourcebook (COBS) respectively.

The DWP's 'Investment Regulations' require relevant pension funds with 100 or more members to set out their policies on stewardship, including engagement and voting in their Statement of Investment Principles (SIP) and disclose how this has been applied in their Implementation Statements (IS). In 2022, the DWP issued further statutory and non-statutory guidance to clarify expectations of disclosures and explicitly cross-references alignment with the Stewardship Code.

TPR, having oversight of UK pension funds and recognising that effective stewardship is in the best interests of pension fund members, likewise references the Investment Regulations and the Stewardship Code in their guidance.