

# The FRC Stewardship Code

BRIEFING  
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## BACKGROUND

It is now widely accepted that one of the causes of the financial crisis was the failure of many large institutional investors to adequately scrutinise the companies they owned. Risky business models and poor decisions went unchallenged, with devastating consequences for the economy - including for pension savers, whose funds lost an average of 17% of their value.<sup>1</sup>

In recognition of this fact, Sir David Walker's *2008 Review of Corporate Governance in UK banks and financial industry entities* recommended that the Financial Reporting Council (FRC) extend its remit to developing and encouraging best practice in stewardship by institutional investors and fund managers.<sup>2</sup> As part of this, the review recommended that the FRC adopt a 'Stewardship Code'.<sup>3</sup>

The first round of consultation on the Stewardship Code closed on 19 April. Further consultation is expected to follow.

## RESPONSE & KEY RECOMMENDATIONS

FairPensions believes that active and engaged ownership by institutional investors is essential to protect the interests of both their end-beneficiaries and the wider public. The Stewardship Code should therefore not only establish best practice for investors who choose to engage, but establish that engagement itself is best practice. Our key recommendations regarding the content of the Code are:<sup>4</sup>

1. Pension savers must be represented in the oversight of the Code. We recommend both meaningful representation of end-beneficiaries on any FRC bodies overseeing the Code, and the establishment of an 'Ultimate Owners Council' to ensure their voice is heard.
2. The Code must explicitly recognise the public interest in the functioning of investment markets, and confirm that long-term investors have a duty to take this into account.
3. The scope of the Code should be extended to cover investments in overseas companies. In 2008, just 21% of UK workplace pension fund assets were invested in UK equities, while 29% were in overseas equities.<sup>5</sup> A code that only applies to UK-listed companies will not protect the savings of end-beneficiaries.
4. The Code should stress the importance of the informed exercise of voting rights. Voting, including a willingness to vote against management, is a key element of stewardship.
5. The Code should do more to protect asset owners' right to instruct fund managers. Many small pension funds - particularly those who choose to invest in pooled funds - currently have no control over how the shares they own are voted.
6. The Code should require more disclosure to members & the public on stewardship activity - specifically on voting records, and on engagement with companies on environmental, social and governance issues which could affect a fund's long-term value.

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## ABOUT FAIRPENSIONS

FairPensions is of the operating name of the Fairshare Educational Foundation, a registered charity (no 1117244) established to promote Responsible Investment (RI) by pension schemes and fund managers, and to ensure that the ultimate beneficiaries are well served by institutional investors and other professional agents in the investment world.

In the case of pension funds, RI most often entails engagement with investee companies i.e. shareholder activism through dialogue, reinforced by the potential exercise of shareholder powers. We advocate a strategy of active ownership to manage environmental, social and corporate governance (ESG) risks with the potential to affect the long-term value of investment portfolios.

FairPensions counts among its members organisations representing the beneficial owners of pension schemes, such as the National Federation of Occupational Pensioners, UNITE and Unison, as well as thousands of individual pension fund members.

Further information about FairPensions and our approach to RI can be found on our website.

1. OECD: <http://www.oecd.org/dataoecd/52/52/42204972.pdf>
2. Recommendation 16 (p17): [http://www.hm-treasury.gov.uk/d/walker\\_review\\_261109.pdf](http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf)
3. Recommendation 17 (p17): [http://www.hm-treasury.gov.uk/d/walker\\_review\\_261109.pdf](http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf)
4. Our full response can be found at: <http://tinyurl.com/FairPensionsStewardship>
5. National Association of Pension Funds: Annual Survey 2008