Financial Reporting Council.
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19th February 2025

Dear Consultation Team,

Thank you for the opportunity to respond to the Stewardship Code review.

The EIRIS Foundation is a research, advice and advocacy charity which seeks to pioneer the next steps in sustainable finance. Our relevant expertise to this review is as follows:

(a) Providing research for the Corporate Human Rights Benchmark to the World Benchmarking Alliance (based in the Netherlands) which is a free public benchmark that we helped to create, and which seeks to drive a race to the top in terms of corporate uptake of the UN Guiding Principles on Business & Human Rights and other relevant international instruments. This has been used by those investors who created it (and others) to advance the practice of human rights due diligence amongst their holdings as part of a drive to improve the governance of human rights risks.
(b) Producing an assessment of Common Investment Funds available to charities in the UK pursuant to our charitable objective of assisting other charities with their responsible investment approaches.
(c) For a little over 30 years we owned the Ethical Investment Research Service (EIRIS), an ESG ratings agency we created in 1983 when such things did not exist, and which we merged with Vigeo to create a larger one in 2015 before subsequently disposing of our shareholding in a transaction that led to the creation of Moody's ESG, although Moody's has subsequently closed much of this operation. In that context we assisted a number of investors in a variety of Stewardship engagement (and some voting) programmes.

Additional relevant experience is that our CEO was on the Board of the UNPRI for two terms and in that context participated in discussion about the PRI reporting framework and about extending those principles some of which found their way into earlier versions of the Stewardship Code.

First of all, we would like to welcome the open way in which you have approached this review and the opportunity to hear the range of other views that was afforded by attending one of the round tables that you organised.

Our responses to your consultation questions are as follows:

1. Do you support the revised definition of stewardship?

   Not without further amendment.

   The present wording seems to have lost the connection with the underlying truth that in the long term, and sometimes more immediately, all human activity depends upon ecosystem services and the natural environment, and that business success depends upon the capacity and capabilities of the society in which it takes place. In addition, it should be noted that beneficiaries' objectives may include "real impact" for a number of investors, such as those investing for charitable purposes, retail savers who take that view, or insurance companies facing mounting real world losses from climate change.

   We understand the desire to focus on the role of the investor and the primacy of meeting beneficiaries' needs and objectives. But this could be maintained while adding "***having due regard to impacts and dependencies on the economy, the environment and society***" which would leave signatories free to explain their particular approach and the weight which they give to this aspect of Stewardship.

   It is particularly strange to say only that Stewardship "may" have wider benefits for the economy, the environment and society. Stewardship activity ranges across micro and macro considerations and certainly include many elements not principally focussed on the economy, the environment or society. But wherever Stewardship does involve consideration of such factors, then the purpose and measure of success should remain net positive impact on the economy, the environment or society. To look busy in these areas while remaining neutral as to whether your actions led to real world impact would be a good working definition of greenwashing and should not be encouraged.

   You could say instead that ***Stewardship that supports sustainable long term returns for beneficiaries depends upon and can contribute to the sustainability of the economy, the environment and society.*** That would be "can" rather than "must", but also communicating clearly the importance of such contributions in delivering the long term returns for beneficiaries.

   We also strongly support the use of the word "sustainable" in this context of meeting today's investment objectives without compromising the ability to do so in future as the right overall framing for investor Stewardship.

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?

   Yes, as long as there are clear "triggers" for requiring more urgent updates to be provided. This is particularly true in the present circumstances where there are massive pivots in the approaches that people are taking to stewardship and the resourcing and responsibilities for it. These are likely to be accelerated by global politics and changing information eco-systems (for example data providers withdrawing information on Board diversity).

   Anything that materially effects the ongoing level of Stewardship activity or its focus should trigger an annual (or even mid-year) update. That would include strategic shifts in the range of topics covered by your Stewardship activities, moving the responsibilities across teams (e.g. between PMs and dedicated resources), material changes in the volume or nature of engagement cases or your approach to voting and so forth.

But it is helpful for you to emphasise that this is not about reporting a new member or the regular comings and goings in your team or the ebb and flow of priorities covered in the activities reporting.

There is a case to made for Service Providers to be required to update Policy and Context every year. They will not have any problem with resourcing to provide such updates as it is key to the promotion of their services. And given the significance of their role in the Stewardship chain, making sure that clients are aware of any changes in their approaches is particularly important.

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

   This is a helpful proposal, particularly in the context of wanting to broaden the Code signatory base and to help smaller firms. This may also create opportunities for further engagement with other Stewardship codes or equivalents around the world, which would also be helpful, and there may be opportunities to learn from others who go down this track as well.

4. Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some that are only applied by those who invest through external managers?

   It is definitely helpful to distinguish the Stewardship of external managers (including reviewing their own Stewardship activities), from the more direct variety of Stewardship. It's also worth bearing in mind that Asset Owners obviously have options and different strategies about when to engage with (or seek to votes in relation to) ultimate holdings themselves and when to delegate and exert influence on how the manager they appoint are doing that. The purpose should be clarity for their own beneficiaries and stakeholders and encouraging best practices along both dimensions rather than holding out one as better than the other.

5. Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?

   Principle 5 is helpful in this regard. But more may need to be done so that an asset owner operating entirely through appointing asset managers can distinguish clearly what they do themselves from how they monitor what managers are doing on their behalf. For example:

   a. Does Principle 1 mean how they have monitored the integration undertaken by their managers, or how they have integrated it with their own investment decisions (i.e. their decision who to appoint and how much to give them)?
   b. Is Principle 3 about cases where they have acted directly or about how they have engaged with their managers on these issues (or just an aggregation of what the managers have done on their behalf) on each of these points?
   c. Similarly, Principle 4 could distinguish the case where they have taken on the responsibility for voting themselves and where they have reviewed and engaged with their managers' activity in these areas.

It is possible that Owners are spending considerable time attempting to aggregate the activities of their managers stock by stock, that might be more usefully spent reviewing those activities at a slightly higher level against their own policies, identifying the degree of alignment and then providing robust feedback to the managers and reporting instead on the outcomes of those conversations and what has been agreed going forward as a result?

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?

   In principle Yes. But the Code also refers to data providers and they should also be included. Their role in voting is less significant (although with some proxy providers apparently removing data such as board diversity indicators, investors may need to turn to other sources for this Stewardship data). But in the field of Stewardship engagement these non-proxy data providers may be more important, and it should be clear where they would fit into the Code. Aside from any questions specifically on voting, they should most likely be treated the same as Proxy Advisors.

   As to the division of principles it's not clear why proxy advisors or data providers should have no role in relation to market-wide and systemic risks. Firstly, they have lots of useful data (some not readily available to others) about market practices and investors responses to them and their teams have lots of valuable human capital in that regard. So they are well placed to identify potential market-wide or systemic risks for their clients. And secondly, they have the opportunity to provide practical means for investors to act on their conclusions about market-wide and systemic risks through voting activity (as many have sought to do on issues including board diversity or environmental reporting over the years). So, they should be included alongside investment consultants for the market-wide and systemic risks section (with potentially differentiated prompts for reporting)

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

   So firstly, we welcome the retention of the market-wide and systemic risks principles and agree that these remain an important part of protecting the long-term interest of beneficiaries (and the economy, the environment and society).

   We understand the idea of integrating collaborative action and escalation strategies into the other principles rather than asking for the to be reported separately, but we believe both remain important elements of effective (and efficient) Stewardship. So, we would like to see:

   a. That the How to Report prompts on Policy and Context Disclosures should include "The role of collaborative engagement in your Stewardship strategy" and "Your approach to escalation in cases where engagement or voting is proving ineffective" as it remains important for investors to have general policies in these areas to guide their case by case decision making, and for users of the reports to be able to understand their general approach to both topics.

   b. Collaborative engagement should be a prompt in the Owners and Managers Principle 2 on market-wide and systemic risks reporting, including "describe your role and contribution in collaborative engagements of which you have been a part" (as you have done with investment consultants in their principle 4). It is important that users understand the extent to which signatories have played an active part of collaborative engagement beyond simply signing up (though that also remains a valid and often useful contribution too). We welcome the inclusion of escalation here.

c. Owners & Managers Principle 3 on maintaining and enhancing the value of assets should also include a prompt to explain the role a signatory has played in collaborative engagements (as above)

d. Principle 4 and other asset classes could helpfully include "and other means of exerting influence in favour of good Stewardship that you are seeking to apply" which could be seen as a form of escalation in the absence of the means usually available to equity investors.

e. Principle 5 the prompt on engagement with managers should include the potential for collaborative engagement with other clients of the same manager (we have in mind the model of charities with a common mission engaging with charity pooled fund managers on their particular area of expertise, but the principle would work equally well in other cases)

f. Principle 6 should also include a prompt to collaborative approaches to service providers by groups of their clients. We have seen this happening in the data provider arena with a group of investors working together to urge the provision of better more investor relevant human rights data, but the model is potentially effective in other cases as well to ensure that providers are hearing a clear voice from their clients.

Our other comments are:

g. Policy and Context disclosure for service providers section b) on governance and resources.

    i. The Governance Structure question should include prompting for disclosure of who (or which group of people) is responsible for signing off methodologies and the policies described in Section c) and the capabilities and experience of that person (or those people). This will help to maintain the independence of decision making and encourage service provides to ensure they appoint appropriate people for these important roles if they will need to account for their capabilities.
    ii. On resourcing more generally, there have recently been cut back in various agencies and this means that users of the services provided may be well served by prompts that ask for the number of qualified staff and the level or qualifications and experience that they bring to the roles and how this has changed over the last 12 months.
    iii. It would also be helpful to have a prompt for an organisation wide contact that clients or stakeholders can reach out to in order to provide feedback on the organisation's approach or to get clarifications on matters of concern.

h. In Section c it should be made clear that the policies and procedures referred to include any research or assessment methodologies that the service provider uses to provide their service. And the process for review should include "How you have engaged your clients and other experts in the process" as reviewing these approaches is a key moment for client engagement and it is very important to ensure that policies adopted benefit from client input and draw upon the best available advice from elsewhere. Our experience in the Corporate Human Rights Benchmark was that such input was enormously valuable in shaping the methodology and in reviewing it.

i. We have argued in Question 2 that there is a case for Services Providers to have to provide these Policy and Context disclosures every year, rather than only once every three, given their importance in the Stewardship chain.

j. We also welcome the references to diversity and inclusion in resources across multiple sections of the Code. Open minds and multiple perspectives are important to good Stewardship, and this will assist in that regard, as well as being a good thing in its own right.

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?

   In principle, yes. It is important to reduce duplication of effort and focus resources and bandwidth on delivering effective stewardship. However from our experience in the parallel field of researching companies human rights due diligence and other policies you will just need to find a practical way of resolving the "broken links" problem, particularly if the documents referred to were to change materially since the time when you judged the response to meet the requirements of the code.

   So, there are two sorts of challenge:

   i. Visibility: where you could require the continued visibility of certain documents or include copies of material documents in a publicly facing registry so that users can always go there to find them if they formed the basis for your decisions.
   ii. Continued Applicability: where you need to decide what should happen if an update to another reporting process on which their status depended were to render a signatory non-compliant (including whether there should be a notice period for them to return to compliance if they are willing and able). You could also make very clear which vintage of other documents a particular status depended upon.

   You might want to specify a list of other material documents that you are willing to depend upon (the purpose here being to reduce duplication between reporting frameworks for investors, not to regulate things like linking to your latest annual report). That would reduce the range of possibilities and also give you the opportunity to consider and be explicit about what should happen in different update scenarios.

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

   In the round table I attended people seemed content with this. The one timetabling point that they did raise was that it would be enormously helpful if a potential signatory was on the margins of being acceptable that they might be given feedback and an additional opportunity to provide further disclosures that could tip the balance in their favour within some brief time window. This did seem to have a lot of attractions: it would make it easier for the FRC to be more ambitious in some expectations because there would be a mechanism to put things right rather than just dropping signatories if people hadn't understood what was expected the first time around; it would also mean that people didn't have to put every last thing in their documents in case it made a difference to their status because there was a safety valve if they had shortened things too much.

Thank you again for the opportunity to contribute to this process. We would be happy to discuss any aspects of our response further or provide any other assistance we can to help you take the next steps on this important journey.

Yours sincerely,

Peter Webster

CEO

EIRIS Foundation