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Dear FRC colleagues,

UK Stewardship Code Consultation

We welcome the opportunity to respond to your consultation on the UK Stewardship Code.

The Quoted Companies Alliance *Corporate Governance Expert Group* and *Investor Working Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, we support many of the proposed changes to the UK Stewardship Code as outlined in the consultation. The key areas we support are in relation to:

- The streamlining of the new definition of stewardship, which we believe will help to encourage a sensible approach to stewardship;
- The measures to reduce the reporting burden so that more time can be dedicated to implementation and to ensure that reporting is not as focussed on largely static information;
- The requirement under Principle 6 for asset managers and owners to report on their use of proxy advisors, including how they have monitored the quality of their services, which will help to increase transparency and accountability;
- Separating the principles for different service providers, including proxy advisors and investment consultants, recognising their different business models;
- The requirement to disclose engagement with issuers on key market-wide and systemic risks including any progress made, which will help companies understand the issues that matter most to their investors; and
- Streamlining Principles 9, 10 and 11, including the removal of the standalone principle on escalation.

However, we believe that the FRC could go further in several areas in order to strengthen the Code and the effectiveness of stewardship more broadly. This includes:

For asset managers:

- Introducing measures to encourage asset managers to vote in line with their published investment policies or mandates, and where departure from these have occurred, providing an explanation for the reasons for doing so; and
- Introducing measures to encourage better processes within asset management firms to ensure that those who are the decision-makers for allocating capital (the fund managers) have sign off on voting.

For proxy advisors:

- Implementing a proportionality principle to encourage disclosure on how governance policies and expectations accommodate companies of different sizes, and in particular for companies operating on unregulated markets such as AIM and Aquis;
- Providing a breakdown of the number of meetings and engagements with companies that have taken place and how this engagement filters into decision-making when issuing research reports and voting recommendations; and
- Setting out what measures have been put in place to ensure that all companies have an appropriate amount of time to review and respond to proxy reports and vote recommendations and that sufficient resource is allocated to allow for equitable access to analysts for smaller companies.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

James Ashton.

James Ashton
Chief Executive

Q1 Do you support the revised definition of stewardship?

Overall, we support the revised definition of stewardship and believe that the new version is more streamlined and allows for a more balanced approach to performing stewardship.

The purpose of stewardship is to achieve long-term, sustainable value creation for clients and beneficiaries. We recognise that a healthy issuer-investor ecosystem is vital for ensuring effective stewardship, which is conducive to achieving sustainable value creation. In recent years, this relationship has become more challenged as there has been a trend towards disproportionate engagement amongst certain investors with corporates on matters that are often immaterial to the individual corporate. We believe that the new definition will help to clarify the boundaries of sensible stewardship activity and help to foster an improved relationship between these two market participants.

We would also make a general observation that while there has been a growth in investor engagement resource in recent years, there has also been somewhat of a juniorisation of that resource. If stewardship is to be undertaken effectively, it requires those who are the decision-makers for allocating capital – portfolio managers and investment analysts – to be directly involved and for those acting on their behalf (dedicated engagement resource) to have sufficient experience to intermediate this relationship appropriately.

Despite our comments above and while we support the new definition, we consider that the corresponding benefits of sustainable value creation (those to the economy, the environment and society) remain important. The FRC could therefore consider strengthening its language in the supporting language section to ensure that these factors are not downplayed too much.

Q2 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 – we support the proposed approach to have disclosures related to policies and context reported less frequently than annually. This will aid clarity for the reader and means that the areas of the report that remain largely the same from year-to-year need less focus so that those producing the report can focus on the areas that have changed in the last year.

However, we would suggest that the policy and context disclosures are submitted every three years as opposed to annually unless there is significant development in the policies. Under the current proposals, signatories are still required to submit Policy and Context Disclosures each year, and whilst this will reduce the amount of content the FRC needs to review each year, it would not save much time or resource for signatories who would likely have to take it through a review and the usual governance and sign-off processes. In addition, as the proposed Activities and Outcomes Report will contain a summary of any material changes to the information in the Policy and Context Disclosure, this mitigates the need to update the Policy and Context Disclosure each year. Signatories could update the Policy and Context Disclosure voluntarily if they felt there were significant changes to warrant such an update.

Finally, we would suggest that the FRC clarify which reports need board sign-off and when. We would suggest that the Policy and Context Disclosure is only signed off by the Board every three years, in line with the FRC's review cycle.

Q3 Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

Overall, we are supportive of the approach to provide "how to report" prompts. This can help signatories to structure their reports. However, it is important that the Code retains its principles-based nature and that the prompts are not overly prescriptive as this may lead to a tick box approach to reporting.

It is also important that the Code and its supporting guidance maintain the focus on good practice, as opposed to just being a disclosure framework.

Q4 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?

Yes – we agree with the proposal to have some Principles that are applied by those who manage assets directly and those who invest through external managers. Given their different activities, this approach makes sense and will help in achieving simpler and clearer reporting.

Q5 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?

Yes. The FRC should also endeavour to update its guidance as good practice reporting emerges.

Q6 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?

Yes – we agree that the updated Service Providers' Code should have some Principles that are only applied by proxy advisors and some that are only applied by investment consultants. Proxy advisors and investment consultants have fundamentally different business models, and it is helpful that the proposed Code recognises that some Principles are not relevant for certain signatories.

We also welcome the new Principle 2 for proxy advisors on ensuring the quality and accuracy of their research, recommendations and voting implementation. In particular, the "how to report" recommendations on explaining how benchmark voting policy and other policies are developed, how the quality and accuracy of research reports is ensured and reporting on responses to stakeholder engagement are welcome. These measures will help market participants understand the processes behind the establishment of a proxy advisors' policies and the issuance of research and recommendations.

However, we consider that the Code could go further in its expectations of proxy advisors. We recognise that proxy advisors play an important role in the UK corporate governance and stewardship landscape by providing investors with insights into companies on a range of matters with the intention of helping them make better voting decisions.

There are, however, a variety of concerns within our membership on the role of proxy advisors and their practices. In a report issued last year on the findings of a survey with small and mid-sized quoted companies, the QCA highlighted several of the issues experienced by our membership[1]. In particular, these issues related to:

- **Low levels of engagement with smaller companies** – smaller companies experience more barriers to engagement with proxy advisors and especially outside the AGM season which creates challenges in developing an understanding of each individual company;

- **Translating the expectations applied to companies on regulated markets to companies on un-regulated markets (such as AIM and Aquis) where other codes exist and are applied** – there is evidence of proxy advisors judging companies quoted on AIM against the UK Corporate

[1] QCA Research Report, 2024, available at: https://www.theqca.com/wp-content/uploads/2024/08/QCA-Report_Publish-and-be-Damned-2024.pdf

Governance Code when they have been applying an alternative Code, such as the QCA Corporate Governance Code; and

- **The issuance of reports and timeline for response** – many companies are given less than 48 hours to respond to proxy reports, which gives no time to correct errors and inconsistencies or challenge the data used. It can often be the case that proxy advisors do not have the facilities for direct contact, and instead offer engagement portals, which can create further issues when attempting to dispute information contained in reports.

Therefore, and as a result of the above, we suggest that the FRC builds on Principle 1 and Principle 2 in the new Code (for proxy advisors) to strengthen some of the expectations in order to help address the issues raised above. This could include:

- Implementing a proportionality principle to encourage disclosure on how governance policies and expectations accommodate companies of different sizes, and in particular for companies operating on unregulated markets such as AIM and Aquis.

- Disclosing the number of meetings or engagements held with companies per annum (including a breakdown of the number of meetings per region and per market capitalisation) and an explanation as to how sufficient resource is allocated to allow for equitable access to analysts for smaller companies. Going further, this could include a description of how engagement with companies it has reviewed has taken place outside of the AGM season in order to ensure that contextual factors are taken into account when issuing research reports and voting recommendations. This will help to ensure a greater understanding of the unique circumstances of each company and the way it operates, taking into account its size, stage of development, business model, geography and sector. In turn, this will help to produce more accurate reports and recommendations.

- Setting out what measures have been put in place to ensure that all companies have an appropriate amount of time to review and respond to proxy reports and vote recommendations. A seven-day review window would allow an appropriate amount of time for companies to respond to research reports written about them. We recognise that tight deadlines are a challenge for all parties involved, including companies, investors and proxy advisors, and believe that, at a minimum, advance engagement/notice should be given to the company in order to provide an opportunity for response and to help manage tight deadlines.

Q7 Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

Yes – we agree with the streamlining of the Principles and believe it will help to simplify reporting and make it more coherent, and most importantly, it will help to enable a more integrated and effective approach to stewardship which will help to ensure a healthier issuer-investor relationship.

One area we believe the FRC should retain is in the Policy and Context Disclosure A (formerly Principles 1 and 6) around disclosure on purpose, culture and values. We believe that these are important areas that help readers in understanding more about a signatory's approach to stewardship.

In addition to the above, we welcome the streamlining of Principles 9, 10 and 11. We recognise that escalation and collective engagement are important elements of stewardship and should be conducted where appropriate in the context of individual engagements. Escalation forms a necessary part of stewardship by using structured methods to address and resolve issues with corporates, while collective engagement is an important mechanism and channel for issuers to be able to hear from a collective pool of investors (in particular from smaller shareholders where a collective view can be conveyed). However, the way they were set out in the previous Code has created issues that we believe the proposed updates will help to mitigate.

Under the previous Code, where escalation was set out as a Principle in and of itself, it encouraged investor signatories to escalate their engagements where it may not have been the best course of action. There was a sense that some investors felt pressure to record more votes against management than would otherwise have been the case as a result of asset managers being assessed and credited on their extent of escalation activity. This was a cause of some frustration amongst the issuer community.

Similarly, for collective engagement, from an issuer's perspective, the preference in most cases is for bilateral engagement between their shareholders wherein they can have a constructive and meaningful dialogue. It can often be the case that collective engagement meetings are unconstructive and uncoordinated which creates confusion and difficulties for the issuer in understanding investor priorities. We therefore support the proposals to streamline the Principles.

Q8 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?

Yes – we agree that signatories should be able to cross refer to publicly available information as part of their reporting against the Code. This approach is commonly used in reporting and would help to ensure that Stewardship Reports are more coherent and of a manageable size, whilst still providing for those that wanted additional detail as long as clear and specific sign-posting is provided.

We would suggest that when cross-referring to external information, a brief summary should be included in the Stewardship Report so that it still makes sense as a stand-alone document.

Q9 Do you agree with the proposed schedule for implementation of the updated Code?

We agree with the proposed schedule for implementation of the updated Code. However, if the publication of the updated Code is delayed beyond the first half of 2025, then we believe the implementation date should change to reflect this.

Appendix A

The Quoted Companies Alliance *Corporate Governance Expert Group*

Will Pomroy (Chair)	**Hermes Investment Management Limited**
Laura Nutall (Deputy Chair)	**ONE Advisory**
Anthony Appleton	BDO LLP
Aisling Arthur	Travers Smith LLP
John Britton	Computershare
Nigel Brown	Gateley PLC
Amanda Cantwell	Practical Law
Louis Cooper	Risk & Control Services
Lee Cooper	Link Group
Tim Copnell	KPMG
Madeleine Cordes	Prism Cosec
Edward Craft	Wedlake Bell LLP
David Fuller	CLS Holdings PLC
Nigel Gordon	Fladgate LLP
Ian Greenwood	Korn Ferry
David Hicks	Simmons & Simmons LLP
Kate Higgins	Mishcon De Reya
Tara Hogg	LexisNexis
Tyler Johnson-Cloherty	CLS Holdings PLC
Eleanor Kelly	LexisNexis
Kam Lally	Wedlake Bell LLP
Paul Norris	MM & K Limited
Jack Shepherd	CMS
Julie Stanbrook	Slaughter and May LLP
Nic Stratford	Mercer
Peter Swabey	Chartered Governance Institute
Chris Taylor	Young & Co's Brewery Plc
Camelia Thomas	Practical Law Company Limited
Melanie Wadsworth	Faegre Baker Daniels LLP
Karen Waldron	Link Group
Sarah Wild	Practical Law Company Limited
Shaun Zulafqar	Shakespeare Martineau LLP

The Quoted Companies Alliance *Investor Working Group*

Natalie Bell (Chair)	**Liontrust Asset Management**
Fraser Elms	Herald Investment Management Ltd
James Goodman	Schroders Investment Plc
Judith MacKenzie	Downing LLP
Katie Potts	Herald Investment Management Ltd
Richard Power	Octopus Investments
Eustace Santa Barbara	Canaccord Genuity
Paul Stevens	Business Growth Fund (BGF)
Gervais Williams	Premier Miton Group Plc