Appendix 3

Consultation

FRC Financial Reporting Council

January 2019

Proposed Revision to the UK Stewardship Code

Annex A - Revised UK Stewardship Code

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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INTRODUCTION

The UK Stewardship Code ('the Code') has been reshaped to set new and substantially higher expectations for stewardship. The Code focuses on developing stewardship to deliver sustainable value for beneficiaries, the economy and society. It aims to stimulate greater demand for an engaged approach to stewardship and investment decision-making which is aligned to the investment time-horizons of beneficiaries, which are often long-term.

The Code reflects the changing nature of UK investments and builds on significant developments in sustainable finance, responsible investment and stewardship since 2012.[1] It makes explicit reference to environmental, social and governance (ESG) factors, and requires signatories to integrate stewardship into their investment approach. The Code also now states that signatories should report on their own purpose, values and culture, and use the resources, rights and influence available to them to exercise stewardship beyond UK listed equity.

The structure of the Code is now similar to the UK Corporate Governance Code, with numbered Sections, Principles and Provisions accompanied by Guidance. The Code is applicable to a range of different entities in the investment community – asset managers, owners and service providers. Finally, all signatories will be required to provide more detailed reporting on their stewardship activities and how effectively they have achieved their stated objectives.

The Code remains underpinned by the Financial Conduct Authority (FCA) Conduct of Business Sourcebook and incorporates the requirements of the EU Shareholder Rights Directive II (SRD II).[2] The requirements of the Code are more demanding than SRD II, and it is the intention of the FRC that in reporting against the Code, signatories to the Code will have regard to any relevant reporting requirements of the laws, rules, regulations and administrative provisions that transpose SRD II.[3]

1. Defining stewardship

Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society. Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues, and publicly reporting on the outcomes of these activities.

This definition identifies the primary purpose of stewardship as looking after the assets of beneficiaries that have been entrusted to the care of others. It also broadens the scope of the Code to be applicable beyond UK listed equity assets.

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1 The Code was last updated in 2012. In addition, see commentary on stewardship in *The Kay Review of UK Equity Markets and Long-term Decision Making – Final Report*, July 2012.

2 FCA COBS 2.2.3 requires any firm authorised to manage funds, which is not a venture capital firm and which manages investments for professional clients that are not natural persons, to disclose clearly on its website the nature of its commitment to the Code or, where it does not commit, its alternative investment strategy.

3 Directive 2017/828 of the European Parliament and of the Council of 17 May 2017, amending Directive 2007/36/EC. Laws, regulations and administrative provisions to implement the EU Shareholder Rights' Directive II (SRD II) must be put in place by member states by 10 June 2019. [At the time of publication, under proposals for the UK to withdraw from the EU, the UK intends to transpose SRD II into UK law and regulation. The FRC will amend references to SRD II that are currently in the Guidance accordingly.] Signatories should have regard to these when reporting against the Code.

2. Who the Code is for

The Code is written for asset owners, asset managers and entities providing services to the institutional investment community, including: investment consultants, proxy advisers and other service providers that want to demonstrate their commitment to stewardship.

The Code does not prescribe a single approach, but allows signatories to demonstrate high-quality stewardship that is aligned with each signatory's business model, objectives and activities to fulfil obligations to beneficiaries and clients.

Institutional investors cannot delegate their responsibility for stewardship. They remain responsible for ensuring those activities are carried out in a manner consistent with their own approach to stewardship. Accordingly, the Code requires signatories to explain how they have ensured service providers have supported their stewardship objectives.[4]

3. Key changes in the 2019 UK Stewardship Code

a. Purpose, objectives and governance

Signatories are asked to develop their organisational purpose and disclose their stewardship objectives and governance. A well-defined purpose will enable signatories to articulate their role in the institutional investment community and demonstrate how the alignment of purpose, values, strategy and culture enables them to fulfil their stewardship objectives directed towards the needs of their clients and beneficiaries. This focus on purpose aligns the Code with the 2018 UK Corporate Governance Code, builds on the FRC's observations in its report, *Corporate Culture and the Role of Boards*, and seeks to encourage embedding behaviour conducive to effective stewardship across signatories' businesses.[5 6]

b. Stewardship beyond UK listed equity

The Code has long been, and remains, closely tied to the UK Corporate Governance Code. Investors, particularly those with UK listed equity holdings, should engage constructively and discuss with investee companies any departures from recommended practice in the UK Corporate Governance Code. Holding companies to account through the exercise of shareholder rights remains core to the Code. Yet capital is allocated to a range of asset types over which investors have different terms, rights and levels of influence. The Code aims to encourage the application of the Principles across asset classes, including but not limited to listed and private equity holdings, bonds, infrastructure and alternatives. Signatories should use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

c. Inclusion of environmental, social and governance (ESG) factors

The Code now makes explicit reference to ESG factors. Signatories are expected to take into account material ESG factors, including climate change, when fulfilling their stewardship responsibilities. This change follows multiple developments to this end, including: clarification by the Law Commission that it is within trustees' duties to take account of material ESG factors;[7] amendments by the Department for Work and Pensions to the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 require consideration of ESG issues;[8] the growth of over 400 policy instruments in the largest 50 economies to support investors to consider long-term value drivers, including ESG

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4 For key terms see the Glossary.
5 FRC, [UK Corporate Governance Code](), July 2018
6 FRC, [Corporate Culture and the Role of Boards Report of Observations](), July 2016
7 The Law Commission, [Fiduciary Duties of Investment Intermediaries](), June 2014. See also The Law Commission, [Pension Funds and Social Investment](), June 2017.
8 DWP, [Clarifying and strengthening trustees' investment duties,]() June 2018.

factors;[9] and explicit reference to ESG issues in international stewardship codes issued since the last revision of the UK Stewardship Code.

d. Differentiation between roles

The Code is written for asset owners, asset managers and entities providing services to the institutional investment community, including: investment consultants, proxy advisers and other service providers that want to demonstrate their commitment to stewardship. The Provisions are tailored to different roles within the investment community.

e. Reporting on policies, activities and outcomes

Reporting will now be in two parts:

1) a Policy and Practice Statement upon signing the Code;

2) an annual Activities and Outcomes Report.

This will enable signatories to demonstrate the nature, extent and effectiveness of their stewardship more clearly to clients and beneficiaries for greater transparency and accountability.

4. Structure of the Code

The Code follows a similar structure to the UK Corporate Governance Code of Sections, Principles and Provisions. The Code is supported by Guidance.

Sections: numbered Sections of the Code group Principles and Provisions together under common themes.

Principles: to be followed on an 'apply and explain' basis. This means that all signatories are required to apply the Principles and make a clear statement to explain how they have done so, in a manner that will enable their stakeholders to evaluate how the Principles have been applied.

Provisions: to be followed on a 'comply or explain' basis. This means that signatories are expected to comply with the Provisions and explain how they have done so. Signatories that choose not to comply with a Provision should explain why and disclose what alternative approach they have taken. Non-compliance with a Provision is an opportunity to present a credible alternative approach to help the reader to understand the rationale and evaluate their response. This may include if, and when, the signatory expects to comply in the future.

Guidance: provides suggested ways in which the Principles and Provisions can be followed and how signatories can report against them. It includes links to the requirements of SRD II to be set out in UK legislation.

5. How to apply the Code

While most of the Code is applicable across different entities in the investment community, they have been tailored to three broad categories of Code signatories:

Asset owners: institutional investors responsible for protecting and enhancing assets on behalf of beneficiaries.

Examples of activities asset owners undertake related to their stewardship responsibilities include: setting investment beliefs, asset allocation, awarding investment mandates, designing investment strategies, and monitoring the performance and behaviours of service

[9] PRI, *Responsible Investment Regulation Map*, 2018

providers who act on their behalf. Some asset owners may also carry out the stewardship activities described below under asset managers.

Asset managers: individuals or organisations who have the responsibility for the day-to-day management of assets.

Examples of activities asset managers undertake related to their stewardship responsibilities include: establishing investment processes, monitoring assets, engagement, voting (for shareholders), as well as monitoring the performance of service providers who act on their behalf and reporting on how they have fulfilled their stewardship responsibilities.

Service providers: individuals or organisations that do not manage investments directly or do not have fiduciary responsibility, but play a key role in the investment community as they provide services that enable clients to deliver quality stewardship.

Service provider activity that is considered to fall within this scope includes, but is not limited to: engagement, voting recommendations and execution, research and data provision, advice, and provision of reporting frameworks and standards.

Signatories in more than one category

Some signatories will have responsibilities that require them to follow Principles and Provisions across multiple categories. To determine the most appropriate way to follow the Code, signatories should report against the Principles and Provisions that apply to their main activities.

6. Becoming a signatory to the Code

The FRC requires a named contact for stewardship to be publicly disclosed and all reporting against the Code to be approved by the signatories' board.

Signatories will not be accepted to the Code without providing a named contact and confirming signatories' board approval.

Policy and Practice Statement (the Statement)

Entities will be required to submit a Statement to the FRC which:

- confirms the primary category of Principles and Provisions that can best be applied against the signatories' activities (asset manager, asset owner, service provider);
- identifies any other Principles or Provisions that are relevant to them;
- discloses relevant policies and explains how their practices enable them to apply all the Principles and comply with the relevant Provisions.

Annual Activities and Outcomes Report (the Report)

After one year of being a signatory to the Code, and annually thereafter, signatories must submit a Report which:

- details compliance with their Statement and any departures from this;
- describes activities they have undertaken to implement the Provisions in the preceding 12 months;
- provides an evaluation of how well stewardship objectives have been met, and/or have enabled clients to meet theirs, and the outcomes achieved.

7. Reporting and assessment

The Code does not include a separate Principle or Provision on disclosure and reporting. Instead it is a requirement of the Code that, through their Statement and Report, signatories must provide public disclosures about their stewardship policies and practices, and their assessment of how effectively their activities have enabled them to achieve their stated objectives. Signatories' Statements and Reports will be made publicly available.

The FRC recognises that some signatories may follow other reporting frameworks or requirements which meet the reporting expectations of the Code. To avoid duplication and unnecessary burden, signatories may signpost to these reports to fulfil, in part, the reporting requirements for the Code. The FRC will to continue to monitor and assess stewardship disclosures against the Code.

1 PURPOSE, OBJECTIVES AND GOVERNANCE

Principles

A. Signatories must develop their organisational purpose and disclose how their purpose, strategy, values and culture enable them to fulfil their stewardship objectives.
B. Signatories must develop and disclose their stewardship approach and objectives, and how they serve the interests of clients and beneficiaries.
C. Signatories' governance, processes, resources and remuneration must support the delivery of their stewardship objectives.
D. Signatories must establish policies to manage conflicts of interest, which put the interests of beneficiaries and/or clients first.

Provisions

	Asset owner	Asset manager
1.	Signatories should clearly disclose if, and how, stewardship policies and practices differ across asset allocation.	Signatories should clearly disclose if, and how, stewardship policies and practices differ at a fund level or between asset classes.
2.	Signatories should explain what activities they undertake to interact with other stakeholders and exercise their role as stewards of the market.	
3.	Signatories should have appropriate governance policies and/or structures to enable the delivery of their stewardship obligations.	
4.	Signatories should ensure their workforce has appropriate experience, qualifications and/or oversight to deliver their stewardship obligations.	
5.	Signatories should explain how they ensure the organisation has appropriate incentives in place for the delivery of the investment strategy and stewardship objectives.	
6.	Signatories should explicitly state their stewardship objectives and their expectations of stewardship activities when inviting tenders, selecting service providers and designing mandates.	
7.	Signatories should disclose their conflicts of interest policy and how it has been applied.	
8.	Signatories should disclose how they review and assure their stewardship objectives, and policies, processes, activities and reported outcomes.	

2 INVESTMENT APPROACH

Principles

E. Signatories must integrate stewardship with their investment approach and demonstrate how they take into account material ESG factors, including climate change.
F. Signatories must actively demonstrate how prospective and current investments are aligned with their stewardship approach.

Provisions

	Asset owner	Asset manager
9.	Signatories should disclose the structures and processes they have in place to ensure that information gathered through stewardship activities is factored directly into investment decision-making.	
10.	Signatories should state their investment time horizon.	
11.	Signatories should ensure that the investment and stewardship mandates that they issue appropriately reflect the investment time horizon of their beneficiaries and demonstrate how they take ESG issues into account.	Signatories should align their investment and stewardship activities appropriately with the client's investment time horizon and demonstrate how the organisation takes ESG issues into account.
12.	Signatories should disclose their investment beliefs.	
13.	Signatories should provide clear and actionable criteria for managers to assess assets against, including prior to investment, to ensure they are appropriate investments to make in accordance with their investment and stewardship strategy.	Signatories should evaluate assets, including prior to investment, to assess whether they are appropriate investments to make in accordance with their investment and stewardship strategy.

3 ACTIVE MONITORING

Principles

G. Signatories must actively monitor the performance of the assets for which they are responsible and/or the managers and service providers that they use.

Provisions

	Asset owner	Asset manager
14.	Signatories should actively monitor issues that may impact the value of assets held over the investment time horizon of beneficiaries and/or clients, identify key priorities, and use this information to inform their stewardship activities and communication with managers and/or service providers.	
15.	Signatories should actively monitor asset managers to ensure that assets managed on their behalf are aligned with their investment and stewardship policies.	Signatories should actively monitor how assets are managed and aligned with clients' investment and stewardship policies.
16.	Signatories should actively monitor service providers to ensure that their services enable effective stewardship.	

4 CONSTRUCTIVE ENGAGEMENT AND CLEAR COMMUNICATION

Principles

H. Signatories must undertake constructive engagement to maintain or enhance the value of assets.

I. Signatories must communicate clearly with clients and beneficiaries.

Provisions

	Asset owner	Asset manager
17.	Signatories should establish and publicly disclose an engagement policy.	
18.	Signatories should describe how they integrate engagement into their investment strategy.	
19.	Signatories should describe what methods they use for engagement, and escalation if required, to enhance the value of assets.	
20.	Signatories should state the extent to which they participate in collaborative engagement.	
21.	Signatories should disclose engagement activity undertaken on their behalf and communicate to beneficiaries about how they have fulfilled their stewardship responsibilities.	Signatories should proactively communicate with clients about how assets managed on their behalf are aligned with asset owners' and the asset managers' investment and stewardship policies.
22.	Signatories should describe how they take account of beneficiaries' needs and the extent to which they seek to engage with beneficiaries to understand their views.	Signatories should engage asset owners to understand their needs, including their investment strategy, policy, beliefs and approach to stewardship.

5 EXERCISE RIGHTS AND RESPONSIBILITIES

Principles

J. Signatories must actively exercise their rights and responsibilities.

Provisions

<table>
<tr><th></th><th>Asset owner</th><th>Asset manager</th></tr>
<tr><td>23.</td><td colspan="2">Signatories should explain how they exercise ownership rights across different markets and asset classes.</td></tr>
<tr><td>24.</td><td colspan="2">Signatories should indicate which, if any, proxy voting adviser(s) they use, the scope of services procured and how advice/information received is used as part of the signatories' stewardship activities.</td></tr>
<tr><td>25.</td><td>Signatories should explain their policy on voting shares in listed assets, including:

• the extent to which the fund sets its own voting policies;
• the extent to which voting decisions are executed by another entity;
• how they monitor service providers' voting on their behalf;
• how the asset owner monitors the voting rights it has;
• the funds' approach to stock lending and recalling lent stock for voting;
• votes withheld if applicable.</td><td>Signatories should explain their policy on voting shares in listed assets, including:

• any house voting policy set by the manager;
• the extent to which voting decisions are executed by another entity;
• how they monitor voting on their behalf;
• how the asset manager monitors the voting rights it has;
• how the manager seeks to mitigate 'empty voting';
• the funds' approach to stock lending and recalling lent stock for voting;
• votes withheld if applicable;
• the policy on allowing clients to direct voting in segregated and pooled accounts;
• the use of default recommendations and the extent to which clients may override the house voting policy.</td></tr>
<tr><td>26.</td><td colspan="2">Signatories should disclose their voting records.</td></tr>
<tr><td>27.</td><td colspan="2">Signatories should explain their policy on bond engagement, including the extent to which they engage pre- and post-issuance of bonds.</td></tr>
</table>

SERVICE PROVIDERS

Service providers do not manage investments directly or have fiduciary responsibility; however, they play a key role in the investment community and, therefore, they must provide services that allow clients to deliver quality stewardship.

Signatories will also be required to make a statement upon signing and provide an annual report of their activities. The Provisions are broad and must be tailored to the services which the entity offers.

Service provider activity considered to fall within this scope includes, but is not limited to: engagement, voting recommendations and execution, research and data provision, advice, and provision of reporting frameworks and standards.

Principles

A. Signatories must develop their purpose and state how their purpose, strategy, values and culture enable them to promote effective stewardship.
B. Signatories must ensure they execute their role in the investment community in a manner that promotes and enables effective stewardship.
C. Signatories' governance, processes, resources and remuneration (including fee structures) must support them to promote and enable effective stewardship.
D. Signatories must establish policies to manage conflicts of interest, which put the interests of clients first.

Provisions

1.	Signatories must indicate the range of services they offer, and how they serve the interests of clients and enable them to deliver effective stewardship.
2.	Signatories must inform clients about the accuracy of their services and demonstrate service quality by providing information about how products and services are prepared to best support clients' stewardship.
3.	Signatories should explain what activities they undertake to work with other stakeholders and exercise their role as stewards of the market.
4.	Signatories should ensure their workforce has appropriate experience, qualifications and/or oversight to deliver their services.
5.	Signatories should disclose their conflicts of interest policy and how it has been applied.
6.	Signatories should establish a code of conduct.

GUIDANCE

Provides more detailed direction and examples of disclosure being sought under each Provision.

1 PURPOSE, OBJECTIVES AND GOVERNANCE

<table>
<tr><th></th><th>Asset owner</th><th>Asset manager</th></tr>
<tr><td>1.</td><td colspan="2">This Provision seeks to encourage clearer and more transparent disclosure on the scope of signatories' stewardship activities.

Signatories may have different investment approaches and stewardship practices across assets and funds. For example, some firms may only mandate and/or seek to undertake stewardship activities for a proportion of their investments. The scope of signatories' stewardship should be clearly disclosed.</td></tr>
<tr><td>2.</td><td colspan="2">In addition to their effective stewardship of assets, we expect Code signatories to fulfil their role as stewards of the market, meaning that they support well-functioning financial markets in whatever function they serve.
The effective implementation of stewardship requires constructive coordination of many market participants working towards positive outcomes for stewardship and sustainable financial markets.

Signatories should explain what activities they undertake to support effective stewardship and positive outcomes that contribute to building a sustainable financial system, which both manages systemic risks and drives capital towards more sustainable investments.

Activities may include, but are not limited to: engagement with other participants in the financial market, policymakers, regulators and other relevant industry initiatives.</td></tr>
<tr><td>3.</td><td colspan="2">Signatories should disclose:
• how stewardship policies and practices are developed and approved within the organisation;
• the level of authority and accountability of those with stewardship responsibilities;
• an overview of team size and structure, as well as how they are integrated with other functions and teams in the organisation.

Note: Provision 9 asks for further detail on specific processes and activities signatories undertake to integrate stewardship with investment approach and decision-making.</td></tr>
<tr><td>4.</td><td colspan="2">In disclosing against this Provision, signatories are expected to demonstrate that they have established the human resourcing, training and oversight required for individuals within their chosen structure to deliver their stewardship objectives.

Examples of information signatories may choose to disclose to demonstrate this can include an overview of relevant skills and experience held across the team, as well as responsibilities and their oversight.</td></tr>
<tr><td>5.</td><td>Reporting against this Provision should seek to satisfy requirements in SRD II: chapter 1b, article 3h, 2 (b).</td><td>Signatories should disclose that they are incentivised to align investment strategy and decision-making with the profile and duration of the liabilities of the asset owner, particularly with respect to long-term liabilities.</td></tr>
<tr><td>6.</td><td colspan="2">Signatories should explain how they integrate stewardship expectations in the tender and selection process, and how they design mandates for managers and service providers (as applicable) to deliver in the best interests of beneficiaries. This should include asking the recipient of Requests for Proposals for:
• the organisation's view/approach to stewardship;
• the processes and resources used to deliver stewardship activities at team level(s).</td></tr>
</table>

<table>
<tr><th></th><th>Asset owner</th><th>Asset manager</th></tr>
<tr><td>7.</td><td colspan="2">Conflicts of interest may arise from, but are not limited to:
• affiliations between the ownership structure of a pension fund and/or fiduciary manager and assets held (for asset owners);
• affiliations between the ownership structure of an asset management firm and assets held (for asset managers);
• business relationships between the asset owner and/or asset manager and assets, e.g. investee companies;
• cross-directorships, e.g. the director of an asset manager is also the director of an investee company.

Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3g, 1 (a) and 3.</td></tr>
<tr><td>8.</td><td colspan="2">Signatories should obtain assurance of their stewardship processes and reported outcomes. Assurance may be undertaken by an external party, or as part of the signatories' internal audit processes based upon relevant international standards. Signatories should make a statement that assurance has been undertaken and, if not, an explanation as to why. If requested, clients should be provided with access to assurance reports on the signatories' stewardship activities and reported outcomes.</td></tr>
</table>

2 INVESTMENT APPROACH

<table>
<tr><th></th><th>Asset owner</th><th>Asset manager</th></tr>
<tr><td>9.</td><td colspan="2">This Provision expects the signatory to demonstrate how their stewardship is integrated with their investment approach / decision-making. Examples of actions signatories could take and disclose include:
• regular cross-team meetings and presentations;
• sharing information gathered through stewardship activities across platforms that are accessible to stewardship/ESG and investment teams;
• encouraging stewardship/ESG and investment teams to join engagement meetings and roadshows;
• delegating some engagement dialogue to portfolio managers (if not already within portfolio managers' remit);
• joint engagement meetings between stewardship/ESG team and portfolio managers (where these functions are not already integrated);
• involving portfolio managers when defining an engagement programme and developing voting decisions.
Where funds have different approaches, signatories may wish to indicate the proportion of assets under management to which they integrate stewardship with investment decision-making.</td></tr>
<tr><td>10.</td><td colspan="2">Signatories should recognise their responsibility to preserve and enhance value that is aligned in the interest of beneficiaries over an appropriate time horizon; in most cases a long-term perspective is required.</td></tr>
<tr><td>11.</td><td>Signatories should explain how their approach to investment and stewardship is aligned with the investment time horizon of beneficiaries, including how they take material ESG factors into account.
Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3h, 1.</td><td>Signatories should explain how their approach to investment and stewardship is aligned with the investment time horizon of beneficiaries, including how they take material ESG factors into account.
Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3i, 1.</td></tr>
<tr><td>12.</td><td colspan="2">Signatories may have beliefs about how investment markets function and which factors lead to good investment outcomes. Investment beliefs, supported by research and experience, can help focus investment approach / decision-making. Signatories should develop and disclose the investment beliefs which set the direction for their investment principles, strategy, policy and practice.</td></tr>
<tr><td>13.</td><td>Signatories should explain how and what they communicate as criteria for managers for pre-investment monitoring.
Examples of criteria may include, but are not limited to:
• if investment in listed equity shares with no or dual class voting rights is suitable for their stewardship policies;
• the extent of engagement on ESG issues pre-issuance and issuer creditworthiness for bonds.</td><td>Signatories should explain how they assess assets prior to investment. Integrating criteria could result in adjustments to areas such as selection, weighting or asset allocation.
Examples of criteria may include, but are not limited to:
• if investment in listed equity shares with no or dual class voting rights is suitable for their stewardship policies;
• the extent of engagement on ESG issues pre-issuance and issuer creditworthiness for bonds.</td></tr>
</table>

3 ACTIVE MONITORING

<table>
<tr><th></th><th>Asset owner</th><th>Asset manager</th></tr>
<tr><td>14.</td><td colspan="2">Signatories should explain:
• what tools or processes they use to monitor issues* that may impact asset value over the investment time horizon of beneficiaries they serve;
• the rationale or method they use to prioritise issues and actions taken as a result. This may include how key issues feed into engagement or investment decision-making.

* Issues to monitor across different asset classes include, but are not limited to: company strategy and performance; capital structure, reporting and audit quality; directors' application of section 172 of the Companies Act 2006, adherence to the UK Corporate Governance Code and/or other governance codes; leadership effectiveness, risk and value drivers, material environmental, social and corporate governance factors (including culture, remuneration and diversity) debt to equity ratio, cash flows, compliance with covenants and contracts.

Reporting against this Provision should seek to satisfy requirements in SRD II: chapter 1b, article 3g, 1(a).</td></tr>
<tr><td>15.</td><td>Signatories' explanation should include, but is not limited to:
• Asset managers' assessment of investment risk and value drivers
• Portfolio composition
• Policy on securities lending
• Engagement
• Portfolio turnover costs
• Use of proxy advisers
• General description of voting behaviour
• Explanation of significant votes
• Vote disclosure

Reporting against this Provision should seek to satisfy requirements in SRD II: chapter 1b, article 3h (d) and chapter 1b, article 3g (b).</td><td>Signatories' explanation should include, but is not limited to:
• Assessment of investment risk and value drivers
• Portfolio composition
• Policy on securities lending
• Engagement
• Portfolio turnover costs
• Use of proxy advisers
• General description of voting behaviour
• Explanation of significant votes
• Vote disclosure

Reporting against this Provision should seek to satisfy requirements in SRD II: chapter 1b, article 3g (b).</td></tr>
<tr><td>16.</td><td colspan="2">Signatories should:
• disclose which services they procure to support their stewardship;
• explain what actions they take to monitor service providers;
• describe what actions, if any, they have taken because of monitoring.</td></tr>
</table>

4 CONSTRUCTIVE ENGAGEMENT AND CLEAR COMMUNICATION

	Asset owner	**Asset manager**
17.	A signatory's engagement policy may be part of another policy, such as a stewardship and/or responsible investment policy. A signatory's engagement policy should describe their approach to engagement as it applies to their assets and investment strategy.	
18.	This Provision is applicable to asset owners in instances where they have directly employed investment staff to undertake stewardship activities, such as voting, screening and engagement activities. Engagement should be undertaken with a clearly defined purpose, primarily based on an investment case to maintain or enhance the value of assets. Issues to engage across different asset classes include, but are not limited to: company strategy and performance; capital structure, reporting and audit quality; directors' application of section 172 of the Companies Act 2006, adherence to the UK Corporate Governance Code and/or other governance codes; leadership effectiveness, risk and value drivers, material environmental, social and corporate governance factors (including culture, remuneration and diversity) debt to equity ratio, cash flows, compliance with covenants and contracts. *Reporting against this Provision should seek to satisfy requirements in SRD II, Chapter 1b, article 3g, 1 and chapter 1b, article 3g, 2.*	
19.	Signatories should make use of methods of engagement which they consider effective to meet their stewardship objectives and disclose how they have done so. Signatories should engage with relevant entities to maintain and enhance value across asset classes, with clear, precise objectives and a constructive approach. Signatories should seek to engage with companies in advance of casting any votes against. Successful engagement is not a requirement of disclosure against this Provision, but signatories should be able to indicate their perceived success and how this has been measured against stated objectives. Progress of engagements to date should be reflected in annual activity reporting, recognising that engagements will often take place over years. Care should be taken when handling privileged material which could be considered as insider information. *For listed equity assets*: Where a major shareholder divests, the investor should disclose their reason(s) to the company's board. Engagement with companies may include, but is not limited to: one-to-one meetings, attending Annual and Extraordinary General Meetings, and collaborative engagements with other investors. *For bondholders:* Bondholders should initiate dialogue with the bond issuer to engage on covenant design, as well as work with equity holders as part of their engagement strategy. Examples of escalation may include: • holding additional meetings with management; • raising key issues through the company's advisers; • meeting with the chairman or other board members; • jointly intervening with other institutions; • making a public statement in advance of General Meetings; • submitting resolutions and speaking at General Meetings; • requisitioning a General Meeting; • proposing to change board membership in some cases. *Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3g, 1 and chapter 1b, article 3g, 2.*	

<table>
<tr><th></th><th>Asset owner</th><th>Asset manager</th></tr>
<tr><td>20.</td><td colspan="2">Signatories should state whether or not they participate in collaborative engagement with other investors and/or other market participants. Where signatories do undertake collaborative engagements, they should:
• disclose their policy on collaborative engagement;
• indicate to which markets and funds and/or asset classes the policy applies;
• indicate issues they plan to prioritise for collaborative engagement in the forthcoming year;
• state their objective(s) for collaborative engagements in which they plan to participate or have already done so;
• disclose the number of collaborative engagements they have participated in during the previous year;
• give an assessment of the effectiveness of the collaborative engagements they have participated in against their stated objectives.</td></tr>
<tr><td>21.</td><td>Signatories should indicate how, and with what regularity, they appraise their appointed managers and service providers and their satisfaction with the with the stewardship activities undertaken on their behalf. Signatories should communicate with signatories about how this activity enables them to meet the needs of beneficiaries.</td><td>Signatories should indicate how, the stewardship activities undertaken on behalf of their clients are aligned with their clients' investment and stewardship policies, as well as their own, and how this enables the signatory to meet clients' needs.</td></tr>
<tr><td>22.</td><td>Signatories should determine the extent and method of the engagement with beneficiaries as appropriate for the fund size, structure and approach.

Where signatories do not seek to engage beneficiaries, they should disclose their rationale for not doing so.

Where signatories seek to engage beneficiaries, they should disclose the methods they have used to gather member views and the extent to which member preferences are incorporated into the investment strategy.</td><td>Signatories should engage clients to understand their needs, including their investment strategy, policy and beliefs, and approach to stewardship.</td></tr>
</table>

5 EXERCISE RIGHTS AND RESPONSIBILITIES

23.	Signatories should explain how they use their ownership rights as stewards across asset classes in which they are invested, e.g. bonds, private equity and others as appropriate.
24.	Signatories should describe the services they procure, if any, from voting advisory services: including identifying the providers, the scope of services and extent to which they follow voting recommendations made by such services. Signatories should indicate which, if any, proxy voting adviser(s) they use, the scope of services procured and how advice/information received is used as part of the signatories' stewardship activities.
25.	This Provision expects disclosure to demonstrate that the asset owner and/or manager has processes in place to ensure that it knows what stock and voting rights it has and exercises them accordingly, which is made more difficult when there is separation of the economic and voting rights of shares. 'Empty voting' may occur when shares are bought and sold between the record date and the general meeting date, and when stock lending. Asset owners and asset managers may take different approaches to stock lending and recalling lent stock for voting. Signatories should also disclose their policies (if any) on empty voting, stock lending and recalling lent stock for voting. *Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3g, 1-2.*
26.	Signatories should publicly disclose voting records, including votes for, against, withheld and abstentions. Records should include rationale for voting decisions, particularly where: • there is a vote against the board; • a vote is withheld; or • the vote is not in line with voting policy. Records should be published regularly, on the signatories' website, and in a format that can be easily accessed and interpreted. *Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3g, 1(b).*
27.	This Provision expects disclosure to demonstrate the extent to which signatories invested in bonds seek to exercise stewardship. Signatories should describe what actions, if any, they take to engage with issuers as bondholders. Examples may include working equity with portfolio managers. Where the signatory does not seek to undertake bondholder engagement they should disclose their approach.

SERVICE PROVIDERS

1.	Signatories may provide a range of services, including: vote execution, voting advice, research and data analysis, and consultancy. Signatories should indicate which services they offer to asset owners and asset managers to support their stewardship objectives. We recognise also that some service providers are part of larger organisations, e.g. an investment consultant that is part of a larger consultancy firm. Where service providers offer engagement services they should set out an engagement policy and how this supports clients' stewardship.
2.	*Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3j, 2.*
3.	In addition to their effective stewardship of assets, we expect Code signatories to fulfil their role as stewards of the market, meaning that they support well-functioning financial markets in whatever function they serve. The effective implementation of stewardship requires constructive coordination of many market participants working towards positive outcomes for stewardship and sustainable financial markets. Signatories should explain what activities they undertake to support effective stewardship and positive outcomes that contribute to building a sustainable financial system, which both manages systemic risks and drives capital towards more sustainable investments. Activities may include, but are not limited to: engagement with other participants in the financial market, policymakers, regulators, representative bodies and relevant industry initiatives.
4.	Signatories should explain how they ensure they have the necessary resources in place, including teams with the appropriate levels of seniority, integration, qualifications and experience to deliver their stewardship objectives.
5.	*Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3j, 2(g).*
6.	*Reporting against this Provision should seek to satisfy requirements in SRD II, chapter 1b, article 3j, 1.*

GLOSSARY OF CODE TERMS

Asset manager	An individual or organisation to whom the responsibility for the day-to-day management of assets is delegated by an individual or institutional asset owner. The asset manager will act based on instructions given to them in an investment mandate, with discretion to buy and sell assets on behalf of another entity or person.
Asset owner	An institutional investor responsible for protecting assets on behalf of beneficiaries.
Beneficiary	An individual, natural person who derives an economic benefit from investments held with an investment intermediary or under a contract with a financial services provider.
Bond	A debt security issued by a company or national government and sold to investors.
Client	A person or organisation that receives a service from another person or organisation in return for payment.
COBS	Conduct of Business Sourcebook. The section of the FCA's Handbook that deals with business standards.
Engagement	Communication between different stakeholders, e.g. between asset owners and beneficiaries or investors and investee companies.
Equity	A share or stock in the share capital of an incorporated company.
ESG	An abbreviation for environmental, social and governance.
Fiduciary duty	The obligation to manage other people's money in their best interests, e.g. an asset manager executing their role in clients' and beneficiaries' best interests.
Institutional investor	Legal entities invested in funds or mandates, including pension schemes, charities, insurance companies and endowment funds.
Investment consultant	An individual or organisation undertaking consultancy and/or fiduciary management services. Investment consultancy is the provision of advice to institutional investors on investment strategy, asset allocation and asset manager product selection.
Investment strategy	Decisions and actions to implement investment beliefs, e.g. investors' decisions and subsequent actions to be taken on asset allocation, approach to risk, and use of risk hedging instruments.

Proxy adviser	A person or organisation that analyses, on a professional and commercial basis, company disclosure and, where relevant, other information of listed companies with a view to informing investors' voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights.
Service provider	Service providers do not manage investments directly or have fiduciary responsibility. However, they play a key role in the investment community. Service provider activity considered to fall within the scope of the 2019 UK Stewardship Code includes, but is not limited to engagement, voting recommendations and execution, research and data provision, advice, and provision of reporting frameworks and standards.
Stewardship	Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society. Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues, and publicly reporting on the outcomes of these activities.
Stakeholder	In the context of this Code, a stakeholder is an entity or person with an interest or concern in effective stewardship.
Responsible investment	An approach to investing that aims to incorporate ESG factors into investment decision-making to better manage investment risk and opportunities, as well as to contribute to a more sustainable economy.

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