

Material

2019.11.08

Financial Services Agency

UK Stewardship Code 2020

□ In the UK, a proposed revision to the UK Stewardship Code was released on January 30, 2019. After public consultation, the UK Stewardship Code 2020 (“the Code”) was published on October 24, 2019, which takes effect from January 1, 2020.

Structure of the Code 2020

- Structure of the Code has changed from Principles & Guidance to **Principles & Reporting Expectations**
 - * The proposed revision to the UK Stewardship Code consists of Principles, Provisions and Guidance. Provisions and Guidance were replaced with Reporting Expectations.
- **For each Principle**, the FRC requires **“apply and explain”**, instead of “comply or explain”
- **The Code consists of 4 sections, 12 principles and reporting expectations for asset managers and asset owners, and 6 principles and reporting expectations for service providers (including proxy advisors, investment consultants and those who provide data and research services)**

Main Points of the Code 2020

- The Code asks investors to explain how they exercised stewardship **across asset classes**
- New expectations about how investment and stewardship are integrated, including **ESG issues**
 - INTRODUCTION**
 - “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.”
- The FRC requires signatories to **produce an annual Stewardship Report explaining how they have applied the Code**
 - ⇒ **The FRC evaluates reports, and those that meet the reporting expectations will be listed as signatories to the Code**

Transition in the UK Stewardship Code

2012 UK Stewardship Code

(Established in July 2010
Revised in September 2012)

P1 : Disclose its own policy on how they will discharge its stewardship responsibilities.

P2 : Have a robust policy on managing conflicts of interest and disclose it.

P3 : Monitor its investee companies.

P4 : Establish clear guidelines on when and how they will escalate its stewardship activities.

P5 : Act collectively with other investors where appropriate.

P6 : Have a clear policy on voting and disclosure of voting activity.

P7 : Report periodically on its stewardship and voting activities.

Proposed Revisions to the UK Stewardship Code (January 2019)

Asset Owners, Asset Managers

S1: Purpose, objectives and governance

S2 : Investment approach

S3 : Active Monitoring

S4 : Constructive engagement and clear communication

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

S5 : Exercise rights and responsibilities

Service Providers

The UK Stewardship Code 2020 (October 2019)

Principles for asset owners and asset managers

Purpose and Governance

P1 : Purpose, strategy and culture
P2 : Governance, resources and incentives
P3 : Conflicts of interest
P4 : Promoting well-functioning markets
P5 : Review and assurance

Investment approach

P6 : Client and beneficiary needs
P7 : Stewardship, investment and ESG integration
P8 : Monitoring managers and service providers

Engagement

P9 : Engagement
P10 : Collaboration
P11 : Escalation
Signatories, where necessary, escalate stewardship activities to influence issuers.

Exercising rights and responsibilities

P12 : Exercising rights and responsibilities

Principles for service providers

P1 : Purpose, strategy and culture

P2 : Governance, resources and incentives

P3 : Conflicts of interest

P4 : Promoting well-functioning markets

P5 : Supporting client's stewardship

P6 : Review and assurance

Proxy Advisors (US)

- ❑ **The Securities and Exchange Commission (SEC) proposed amendments to its rules governing proxy solicitations** to improve the accuracy and transparency of **proxy voting advice** on November 5, 2019. The proposal would be subjected to a 60-day public comment period.

【Highlights on the amendments】

- Proxy voting advice businesses relying on exemptions from the information and filing requirements of the proxy rules would be subject to the following conditions:
 - (note) Under the current rule, proxy voting advice businesses are generally out of scope from the rules governing proxy solicitations (exempt from rule which prohibits materially misleading misstatements or omissions in proxy solicitations)
 - **include disclosure of material conflicts of interest**
 - **provide an opportunity for a period of review and feedback through which companies and other soliciting parties would be able to identify errors in the proxy voting advice before it is issued.**
 - (note) The review and feedback period would only be available to companies that file definitive proxy materials 25 days or more in advance of the relevant meeting.
 - **include in their voting advice a hyperlink or analogous electronic medium directing the recipient of the advice to a written statement that sets forth the registrant's or soliciting person's views on the proxy voting advice.**
- The amended rule would list failure to disclose information such as the proxy voting advice business's methodology, sources of information and conflicts of interest as an example of what may be misleading within the meaning of the rule.
 - (note) Derived from "Commission Interpretation and Guidance Regarding the Applicability of the Proxy Rules to Proxy Voting Advice", published on August 2019

<Reference>

- ❑ In August 2019, the SEC published the two Guidelines below for proxy advisors and asset managers.

- (1) "Commission Guidance Regarding Proxy Voting Responsibilities of Investment Advisors",
Division of Investment Management, SEC
- (2) "Commission Interpretation and Guidance Regarding the Applicability of the Proxy Rules to Proxy Voting Advice",
Division of Corporate Finance, SEC