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FRC Launches Consultation on UK Stewardship Code

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On 11 November 2024, the Financial Reporting Council ("**FRC**") launched a consultation with significant updates proposed to the UK Stewardship Code (the "**Code**"). The aims of the consultation are to streamline reporting requirements and reduce burdens for signatories whilst ensuring there is a clearer purpose of the Code and the outcomes it is intended to deliver.

The popularity of the Code has grown substantially since the launch of the 2020 Code, including internationally with approximately 40% of signatories headquartered outside of the UK.

We cover below an overview of the consultation and its timing.

What does the consultation paper propose for the UK Stewardship Code?

- **Purpose: Revising definition of stewardship** – the new definition proposed is 'stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries". The FRC sets out that they believe this definition supports growth and investment without losing focus on the importance of sustainability and is sufficiently broad for the range of signatories across the investment chain and different asset classes.
- **Process: Streamlining reporting process** – the FRC proposes separating policy and activity disclosures to reduce reporting burdens. They propose that where possible reporting is in two parts:
    - **Policy and context disclosure**: applicants will need to submit information about their organisation, governance and resourcing, linking to relevant policies. This information will be reviewed by the FRC every three years, with the discretion to review earlier than this, and updated only as necessary by signatories (although it will need to be submitted annually to ensure the FRC always has the most up-to-date version). If there are significant updates, they should be reported in the "Activities and outcomes" disclosures — it will be for signatories to determine what are significant or minor updates; and

- **Activities and outcomes report**: applicants and then signatories every 12 months will need to submit a report that provides information on how they have exercised stewardship in the preceding year. This will include information on how they have sought to apply the Principles through the activities they have undertaken and the resulting outcomes.

- **Principles overhaul** –

  - **Restructuring of the principles**
    - **Asset owners and asset managers:** the FRC proposes revised Principles 1, 2, and 6 can be applied by those who invest through an external manager and those managing assets directly, Principle 5 for those who manage assets through third parties, and Principle 3 and 4 to apply to those who manage assets directly. They propose that 10% or more of a signatory's assets under management is the threshold to determine which Principles apply; and
    - **Service providers (including proxy advisors and investment consultants):** the updated service providers' code is proposed to have some Principles that are applied only by proxy advisors and some that are only applied by investment consultants.

  - **"How to" and "Guidance"**: next to each Principle the FRC proposes to include a "how to" with brief, high-level prompts on how to explain a Principle has been applied. The FRC also proposes to include "guidance" next to each Principle providing narrative and good examples for signatories to draw on to help them explain how they exercise stewardship in a way that is tailored to their organisation and approach.
  - **Engagement principles combined:** Principles 9 and 10 are proposed to be combined to reflect that collaborative engagement may be used by signatories as part of the overall approach to engagement. Equally, the FRC recognises that not every signatory will report on this annually and combining this therefore seems a more proportionate approach.
  - **Removal of escalation as standalone principle:** the FRC proposes no longer having a standalone Principle on escalation as the FRC considers that escalation should be undertaken whenever necessary to achieve stewardship objectives, rather than being seen as an end in and of itself.

- **Positioning:** the FRC proposes allowing signatories to reference publicly available external information as part of their Code reporting, recognising that this means that the Code reports will no longer operate as a standalone source of information.

What is the timing of the consultation?

The consultation will run until 19 February 2025. It follows extensive engagement with over 1,500 stakeholders during 2024 and the four years of analysis by the FRC of reporting against the 2020 Code. The consultation builds on interim measures announced in July 2024, which included reducing annual reporting requirements and providing greater clarity on stewardship outcomes.

Signatories and intended signatories can provide feedback in a series of engagement events the FRC will host in 2025, with the intention that the Code will be published in late 2025 for implementation and the first reporting cycle in 2026.

New guidance to support with the effective implementation of the revised Code and to help signatories with the transition to the new reporting arrangements will be provided.

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