

Linklaters

UK: FRC consults on investor stewardship and long-term sustainable value

13 November 2024

On 11 November 2024, the Financial Reporting Council (FRC) launched a consultation on its proposed updates to the UK Stewardship Code.

The proposals aim to maintain high standards, and the global standing of the Code, without saddling signatories with onerous reporting burdens.

The Code is relevant to a wide range of organisations with different rights, responsibilities and influence within the investment chain. They include asset owners (such as pension funds and insurers) and asset managers, as well as those providing services which enable stewardship activities (such as investment consultants and proxy advisors).

Approximately 40% of those signed up to the Code are headquartered outside the UK.

As the effects of stewardship activities are felt by businesses, the Code's revised recommendations are also relevant to large investee companies and issuers.

Purpose of the Code

The FRC states that the aim of the Code is to promote long-term value for UK savers and pensioners through the effective management of investments on their behalf. The Code seeks to achieve this by providing for signatories to explain their policies and practices and how these deliver good stewardship outcomes. The FRC, in turn, supports high standards by assessing those disclosures.

Importantly, the FRC has stressed in the consultation that there is no single approach to exercising effective stewardship. The Code allows for transparency around the different approaches and activities of investors and service providers.

The Code does not direct how signatories meet their fiduciary duties or how they invest their assets.

The definition of stewardship

In line with this statement of the Code's purpose, the FRC is also proposing to amend the introductory wording to state that: "*Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.*"

The new reference to "*long-term sustainable value*" would replace the existing definition which refers to "*long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the*

environment and society". Further wording states that stewardship "may" lead to wider benefits.

The FRC argues that these changes are necessary because some stakeholders interpret the existing wording to mean that the primary purpose of stewardship is to pursue environmental and social objectives in and of themselves, therefore, creating value for clients must always deliver wider additional benefits.

The FRC believes that each signatory should determine its specific investment objectives (which might include wider benefits). It is then also up to each individual signatory to take account of long-term risks and opportunities in making well-informed decisions which deliver returns that meet these objectives, without compromising their ability to do so in the future.

Retaining the reference to "sustainable" value is meant to emphasise the important role of investors in determining the issues that they deem to be material over the shorter and longer term.

The FRC believes that the new wording supports growth and investment, as well as being broad enough to apply across a wide range of asset classes and investment styles, without losing focus on the importance of sustainability.

Role of asset owners and managers

An overview of the development of the Stewardship Code, and other initiatives affecting asset managers and asset owners (in Appendix E), notes that government and stakeholder views on the role of the institutional investor community in capital markets and wider society continues to evolve.

Papers and reports specifically referred to in this context include the work related to the UK's Green Finance Strategy (2023), the Transition Finance Market Review (2024) and the Financial Markets Law Committee paper on trustee duties (2024).

Again, however, the FRC points out here that, although it has considered this work, the Code does not direct signatories on how they invest or how they interpret their duties. This is for investors to determine. The Code can be used to demonstrate how stewardship supports investors in meeting their fiduciary duties and their approach to green finance.

Engagement with companies and escalation of issues

The FRC intends to streamline existing principles referring to engagement of investors with companies.

This approach aims to clarify that, whilst collaboration amongst investors and the escalation of issues with companies are important stewardship tools, these will not fall to be deployed every year, and escalation should not become an end in itself.

Reporting processes

The proposed changes would significantly reorder and streamline the existing 2020 version of the Stewardship Code, as well as setting up a new process for FRC evaluations to focus on annual reports on activities and outcomes, rather than on areas of less frequent change, such as ongoing policies.

The FRC is also planning to include new prompts and guidance for signatories to the Code to help them to produce meaningful reporting.

Background

The most recent version of the Code was introduced in 2020 alongside a broader focus on stewardship from the FCA, as well as the FRC.

The FRC has been reviewing the quality of stewardship reporting over the last four years and committed to a fundamental review of the Code in 2023.

Interim changes and a statement of the FRC's intention to pursue a business-friendly policy, were published in July 2024.

Timing

The consultation runs until **19 February 2025**.

The updated Stewardship Code is expected to be published in the **first half of 2025** with an effective date of **1 January 2026**.

Current signatories to the 2020 Code should plan to report as usual in 2025 to maintain their status as acknowledged signatories. First reports against the new Code can then be submitted to the FRC in 2026.

More information

The **consultation** is available [here](#) and the **press release** [here](#).

The FRC intends to host a series of **engagement events** during the consultation period to gather feedback from stakeholders. A list of FRC roundtables is available [here](#).