UK Stewardship Code consultation February 2018 – Willis Towers Watson response

Below we have outlined our responses to select questions on the high-level consultation on the future direction of the UK Stewardship Code. We are happy to be involved further in the consultation process as it continues and would welcome such engagement.

Q17. Should the Stewardship Code be more explicit about the expectations of those investing directly or indirectly and those advising them? Would separate codes or enhanced separate guidance for different categories of the investment chain help drive best practice?

In our view, separate codes are not necessary, and could add complexity. However, we do believe it makes sense to recognise within the notes and guidance that while principles are applicable to all, how they are addressed will vary depending on an organisation's position in the investment chain, its purpose, and its relationship with other participants. Those investing directly or indirectly and those advising them will have different responsibilities and practical considerations, and additional clarity around the expectations of those different parties could be helpful to signatories.

At present, some signatories would argue that the principles and guidance are too broad, meaning that they may not resonate with a signatory's situation, and appear as though the Code is primarily designed or intended for others.

Some additional clarity on what good and leading practice looks like in practice may be helpful.

We would also suggest that a greater emphasis should be placed on the question of why stewardship is important and valuable. This may make the Code more engaging for some organisations (current and potential signatories).

Q18. Should the Stewardship Code focus on best practice expectations using a more traditional 'comply or explain' format? If so, are there any areas in which this would not be appropriate? How might we go about determining what best practice is?

Our view is that the 'comply or explain' format is most appropriate. It is extremely hard to define best practice for all signatories as context is vital. An attempt to define best practice across all different signatory types, strategies, and approaches could be very complex and contentious.

One way to present more information on what good and leading practice looks like may be via case studies. These could be separated from particular principles and presented at the end of guidance notes for example.

Q19. Are there alternative ways in which the FRC could highlight best practice reporting other than the tiering exercise as it was undertaken in 2016?

As above, some case studies may be helpful, mindful of different signatory context.

Q20. Are there elements of the revised UK Corporate Governance Code that we should mirror in the Stewardship Code?

The elements of leadership and responsibilities could be more strongly mirrored in the Stewardship Code.

Q21. How could an investor's role in building a company's long-term success be further encouraged through the Stewardship Code?

Case studies may be helpful here, highlighting examples of good and bad stewardship. It is important that the role of different signatory types (asset managers, asset owners, service providers) is shown, so that each can clearly identify and understand why stewardship is important in their situation, and the value of pursuing it.

One important hurdle that the Code may be able to help overcome, is giving asset owners the freedom to pay a little bit extra for stewardship, which many currently struggle to justify. Messaging around the importance and value of stewardship could be useful here.

Q22. Would it be appropriate to incorporate 'wider stakeholders' into the areas of suggested focus for monitoring and engagement by investors? Should the Stewardship Code more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?

One aspect to raise in this context is the link between the Code and other prominent initiatives and organisations. Many signatories face multiple such demands, and the benefits of these being aligned and coherent are substantial. Some examples to highlight or reference may include the PRI and TCFD.

Q23. How can the Stewardship Code encourage reporting on the way in which stewardship activities have been carried out? Are there ways in which the FRC or others could encourage this reporting, even if the encouragement falls outside of the Stewardship Code?

We note that there is a principle and guidance around reporting already in the Code. One caution is that high or prescriptive reporting requirements may be off-putting to several signatories (and potential signatories). Many asset owners would struggle with a high level of reporting requirements, for example. Perhaps, therefore, the encouragement may best fall outside of the Code's requirements, and again case studies may be helpful in effectively highlighting good practice for different signatory contexts.

Q24. How could the Stewardship Code take account of some investors' wider view of responsible investment?

There is the potential for the Code to extend beyond its core areas of focus, which could make the Code too far-reaching, duplicate other initiatives or programmes, and dilute the purpose of the Code. One option is to have an additional free comments section where signatories can elaborate on a number of issues they believe are important, potentially including their wider view of responsible investment, including links or references to other policies and documents.

Q25. Are there elements of international stewardship codes that should be included in the Stewardship Code?

The following principles from the newly launched US Stewardship Code are worth considering and integrating:

B.4 Asset owners who delegate their corporate governance-related tasks to their asset managers should, on a periodic basis, evaluate how their managers are executing these responsibilities and whether they are doing so in line with the owners' investment objectives.

D.1 Institutional investors that delegate their proxy voting responsibilities to a third party have an affirmative obligation to evaluate the third party's processes, policies and capabilities. The evaluation should help ensure that the third party's processes, policies and capabilities continue to protect the institutional investors' (and their beneficiaries' and/or clients') long-term interests, in accordance with their objectives.

D.2 Institutional investors that rely on third-party recommendations for proxy voting decisions should ensure that the agent has processes in place to avoid/mitigate conflicts of interest.

Q26. What role should independent assurance play in revisions to the Stewardship Code? Are there ways in which independent assurance could be made more useful and effective?

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Q27: Would it be appropriate for the Stewardship Code to support disclosure of the approach to directed voting in pooled funds?

Our view is that at present, directed voting in pooled funds may be too complicated to do practically. Such support may therefore be empty unless this is resolved. In our experience, there can be a disconnect between an organisation disclosing that it is possible or something that the organisation does, and the ability to show practically that it can be done, including at reasonable cost.

Q28: Should board and executive pipeline diversity be included as an explicit expectation of investor engagement?

We believe that whilst both are very important, it may be difficult to pick these out as explicit examples, given there are many other areas that could be deemed to merit similar attention, and these areas may change over time.

Q29: Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?

We believe that whilst climate change is again a single issue amongst many, there is sufficient volume and consistency of attention on this area that it deserves explicit mention. However, it is important to do so in a manner consistent with existing frameworks or industry groups, such as TCFD.

Q30: Should signatories to the Stewardship Code define the purpose of stewardship with respect to the role of their organisation and specific investment or other activities?

To the extent that signatories do not currently do this, then we would strong encourage that signatories make this context very clear in their statements.

Further, we believe that the Code itself could emphasis the purpose and value of stewardship (from all perspectives) more strongly, lending support to signatory organisations and those considering doing more in this area.

Q31: Should the Stewardship Code require asset managers to disclose a fund's purpose and its specific approach to stewardship, and report against these approaches at a fund level? How might this best be achieved?

Whilst this level of detail is important for investors to make informed decisions at a fund level, it may be impractical for many asset managers with very many offerings. However, an appendix could be added where signatories could describe the extent to which their activities differ across their various offerings, products or activities. Signatories could report here on an exceptions basis, highlighting particular instances where there is additional (or reduced) stewardship activity for particular funds, thereby making this level of granular disclosure more practical.

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