

ADDING COLOUR TO STEWARDSHIP REPORTING: FRC publishes its Review of Early Reporting to the Stewardship Code

The [UK Stewardship Code 2020](#) published by the Financial Reporting Council (FRC) in October last year represented a significant overhaul of the original 2012 Code as it seeks to reflect and address growing expectations in relation to the stewardship practices of the investment community (including asset owners, asset managers and service providers)¹. Organisations applying the Code are required to submit an annual “Stewardship Report” which sets out how they have applied the Code in the preceding 12 months. This serves as the means by which the FRC assesses whether an organisation has met its expectations to become a signatory and thereafter to remain a signatory.

On 30 September 2020, the FRC published its [Review of Early Reporting to the Stewardship Code](#). The Review analyses 21 reports which have been submitted early and looks at how well prospective signatories are addressing the standards set out in the Code. As stated on its website, the purpose of the Review is “to support prospective signatories” in meeting the new reporting requirements under the Stewardship Code.

On the whole, the FRC noted that the Review “revealed good examples and case studies evidencing stewardship activity, with some reports identifying outcomes well, particularly in relation to engagement”, although they also highlighted areas for improvement. Some points to note:

- **Apply and explain:** As the Code operates on an “apply and explain” basis, the FRC expects organisations to report against all Principles and reporting expectations. If there are any reporting items which an organisation thinks is irrelevant or “does not fit” their practice, the organisation should offer an explanation and set out any alternative approaches taken.
- **Reporting across all asset classes:** The Code expects reporting to apply across all asset classes, not just listed equity. This may be more challenging for

certain asset classes. The Code itself does provide some steers, for example, on what is expected in terms of reporting on the application of stewardship principles to fixed income assets.

- **Fair, balanced and understandable:** The report should be “fair, balanced and understandable”. By “fair and balanced”, the FRC means that the report should be transparent about both “the positive and negative aspects of the organisation’s stewardship practice”. Organisations should be clear about how representative the activities reported are of their stewardship practice as a whole.
- **Explanation of purpose for context and interlinking Principles:** Principle 1 requires firms to “explain their purpose and outline their culture, values, business model and strategy”. This was important in setting the context for the rest of the report. The better reports are those that connect their stewardship practice to their overall purpose during the reporting period. Context-setting might also be especially useful for smaller organisations (which may be concerned that their resources cannot match those of larger organisations). For example, an explanation of how they have identified and prioritised their stewardship activities given the size of their resources and their client base would help the FRC better assess their commitment to stewardship. As the Principles are often interlinked, it would be helpful for organisations, as far as possible, to cross-refer and link each activity to the relevant Principle(s).
- **Focus on outcomes:** The Code is focussed on activities and “outcomes”, not on policies and procedures. To that end, prospective signatories should focus on their reporting of the “outcomes” of their stewardship activities, both from an external-facing perspective (for example, whether their actions have resulted in companies changing their

¹ Further details of the Stewardship Code can be found in our client briefing: [The UK Stewardship Code 2020: Some key points](#) (October 2019)

approach, or taking action, in respect to certain matters) but also from an “internal” perspective (for example, whether it has identified, or reflected on, shortcomings in its internal processes as a result of a particular activity and how it will address those shortcomings going forward).

- **Principle-specific expectations:** Details of good examples of reporting, as well as identified areas for improvement, on a Principle-by-Principle basis are set out in the Review (see Part 2). Particular areas which the FRC identified as needing improvement include reporting in relation to Principles 3

(management of conflicts), 5 (review of policies and assessment of effectiveness of activities) and 8 (accountability of managers and service providers).

There was a reminder on timings as well. Asset managers who wish to be included in the initial list of signatories must report by 31 March 2021 (for those applying the Code for the year beginning 1 January 2020). Asset owners have until 30 April 2021. Organisations looking for feedback on their draft reports from the FRC should advise the FRC of this and submit them by no later than 30 November 2020.

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