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FRC PUBLISHES NEW STEWARDSHIP CODE 2026 - SUPPORTING LONG TERM SUSTAINABLE VALUE?

Following an extensive period of consultation with various stakeholders (for more details on the consultation, see our client briefing here), the Financial Reporting Council ("**FRC**") has finally published its new Stewardship Code 2026. This will replace the Stewardship Code 2020 (the "**2020 Code**"). Draft optional guidance to assist applicants with reporting against the UK Stewardship Code 2026 has also been published.

Background

The Stewardship Code is a non-binding code directed at the investor community (asset managers, asset owners and supporting service providers) intended to promote effective stewardship by improving transparency around firms' stewardship approaches and practices. The Code comprises a set of "apply and explain" Principles for asset managers and asset owners, and a separate set of Principles for service providers, supported by a number of "How to report" prompts and (new to the 2026 version) guidance that includes non-prescriptive suggestions on reporting.

Although voluntary, being a signatory is seen as demonstrating a commitment to good stewardship and a large number of asset managers (representing approximately £50+ trillion in assets under management), including many of the biggest global asset managers, are currently signatories to the 2020 Code. However, a common theme from stakeholder feedback both before and during the consultation was a concern on the significant reporting burdens imposed by the 2020 Code. The perception was that the detailed "reporting expectations" set out in the 2020 Code were driving requests for extensive information from investee companies, which, in some cases, did not serve any discernible benefit in terms of constructive engagement between investors and corporates or effective stewardship. There was also a general concern that the Code was treated as prescribing what constitutes "good" stewardship - and that the need to report annually against the detailed reporting requirements, can also lead to an unhelpful focus on short-term "successful" outcomes - which does not match the reality that effective stewardship can take many different guises and often requires engagement over multiple reporting periods.

Changes following consultation

The FRC has stated that the updated Code is intended to "*ensure that the Code continues to drive effective stewardship through high-quality disclosures, in a way that does not place onerous reporting burdens on signatories*". Overall, the changes since the consultation are not substantial, although a number of changes to simplify the reporting process and clarify some of the supporting language have been taken on board. The Principles applicable to service providers have been amended in order to streamline the Principles that apply to investment consultants and to include a new Principle that applies to engagement service providers (third party service providers appointed to provide services to enhance investor engagement).

Next steps and timing

The draft guidance remains open to input and may be refined and updated following stakeholder feedback, which must be submitted before 31 August 2025. The Stewardship Code 2026 will apply from 1 January 2026 and first applications to the updated Code will be accepted from Spring 2026. However, 2026 will be treated as a transition year - in other words, existing signatories submitting a renewal application will remain on the signatory list throughout this period.

The following table sets out a summary of the key proposals set out in the consultation and the final position adopted by the FRC following consultation.

	Initial Proposals	Changes in finalised Code
DEFINITION	Stewardship is defined as follows: *"Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries."*	While the definition remains the same, the supporting language for the definition has been amended. A previous statement in the supporting language that stewardship that "*supports sustainable, long term returns may lead to wider benefits for the economy, the environment and society*" (in line with the previous definition) has been replaced with language that more closely reflects section 172 CA 2006.
REPORTING PROCESS	Reporting is to be done in two parts: • **Policy and Context Disclosure** - containing information on the organisation, its governance, resourcing and stewardship processes, with links to relevant policies. • **Activities and Outcome Report** – providing information on how the organisation has applied the Code Principles in its stewardship activities and outcomes of those activities in the preceding year. Applicants are required to submit the Policy and Context Disclosure annually, but this will only be reviewed once every three years.	The proposed structure has been substantially adopted but the Policy and Context Disclosure only needs to be submitted once every four years (or when there have been changes at an organisation such that their Policy and Context Disclosure no longer aligns with their Activities and Outcomes Report).
STRUCTURE OF REPORT	Context, Activity and Outcomes sub-headings in 2020 Code have been removed. The Principles have been re-cast so that they are more clearly aimed at those that engage external managers (primarily asset owners) and those that manage assets directly (primarily asset managers) given different approaches to stewardship. For example, Principle 5 which relates to the selection and oversight of external managers would apply primarily to those that manage their assets through external managers. It is proposed that signatories can refer to information disclosed outside their	The FRC has dropped the proposal to allow cross-referencing to information outside of the stewardship report and will require all signatories to include all information necessary in the Policy and Context Disclosure and the Activities and Outcomes Report. The signatory's report(s) may link to information outside that provided to the FRC, but that will not form part of the assessment. The other proposals have been adopted, although the FRC has clarified that signatories should report on the Principle(s) in line with their operations and stewardship activities they undertake – in other words they should apply all applicable Principles even if certain Principles are targeted more at asset owners and others at asset managers. This was in response to some confusion expressed over whether organisations, including many asset owners, which

	stewardship report as part of their assessment rather than just having all information contained in a single, standalone report, subject to the appropriate use of cross-referencing.	manage certain assets directly but also through external managers, are able, for example, to report on their own (direct) stewardship activities. Guidance on Principle 5 also includes the suggestion that signatories include case studies of engagements undertaken on their behalf in response to a concern raised by those that engage external managers that the Principle does not make clear whether they can request case studies from external managers to use in their own reporting.
PRINCIPLES	The Principles have been streamlined and reduced to six Principles (from 12 in the 2020 Code) that apply to asset managers and asset owners and four (from six in the 2020 Code) that apply to service providers.	The proposals in the consultation have been adopted so Principles 9, 10 and 11 have been amalgamated. However, it is acknowledged that collaboration and engagement as well as appropriate use of escalation are, and remain, important tools in stewardship. The draft guidance includes suggestions on when and where to employ and report those tools.
SERVICE PROVIDERS	The six Principles in the 2020 Code have been reduced to four, including Principles specifically introduced to apply specifically to proxy advisers (Principle 2) and investment consultants (Principles 3 and 4).	Following feedback of the significant overlap between Principles 1 and 3 for investment consultants, those Principles have been combined. As amended, Principle 1 now applies to all service providers and Principle 3 (what was previously Principle 4 in the consultation) applies to investment consultants. A new Principle 4 relating to engagement service providers requiring them to "engage on behalf of their clients to maintain or enhance the value of assets" has been added.

Commentary

- **Definition:** As noted, the revised definition of stewardship has not changed since the consultation but the supporting language which provides commentary on the definition has been updated to reflect feedback received and in particular to clarify that investors can (and do) take into consideration a wide range of factors as part of their primary objective to deliver long-term [sustainable] value to their clients and beneficiaries. Some have raised concerns that the previous definition of stewardship as the "*responsible …oversight of capital…leading to sustainable benefits for the economy, environment and society*" has led to a (mis-)interpretation of the definition as meaning that wider benefits to the economy, environment and society should be seen as standalone objectives that always need to be delivered. The revised supporting language echoes the language in section 172 of the Companies Act 2006 (on directors' duties) in describing what is expected of investors by providing that they should "*take account of long-term risks and opportunities, having regard to the economy, the environment and society, upon which beneficiaries' interests depend*". It is for investors to weigh these factors appropriately when making investment decisions. Whilst responses to the updated definition have been somewhat mixed, the investment industry has been broadly supportive to date.

- **Purpose and flexibility in approach:** It is stated that reporting under the Stewardship Code "*provides* *transparency around the different approaches and activities that investors and their service providers undertake to steward assets in their care*". This makes it much clearer that the purpose of the Code (and reporting under the Code) is not to prescribe stewardship practices but to provide transparency around different approaches and activities. There is much emphasis throughout the narrative on the flexibility of the Code - and all these are intended to make clear that there is no "one size fits all" approach to an investor's stewardship activities and practices, which (hopefully) should lead to less of a tick-box mentality to their engagement with corporates. There is also welcome acknowledgement that stewardship activities may span a number of years and that disclosure need not just be about "successful" outcomes. Indeed, disclosures on stewardship activities that have not led to desired outcomes may be equally illuminating.

- **Streamlining of Principles:** The FRC has streamlined the Code Principles (reducing the 12 Principles from the 2020 version to just six high level Principles). Principles 9,10 and 11 of the 2020 Code (dealing with engagement, collaboration and escalation) have been combined into one Principle (**Principle 3**: *Signatories engage to maintain or enhance the value of assets*) in recognition that those activities form part of the range of tools that can be used for effective stewardship but are not ends in, and of, themselves. Framing the Principle as engaging to "maintain or enhance" value (with collaboration and escalation seen as some of the tools for effective stewardship rather than standalone Principles) would hopefully lead to a more constructive dialogue with a common goal of enhancing value of the company. Some explicit references to ESG matters in the Principles have been removed, for example, in Principle 1 (which now refers to "sustainable value" instead). These changes are reflective of the direction of the new Code in not specifically prescribing the range of factors that may be taken into account by firms in their different approaches to stewardship. In any event it is probably the case that, for many organisations, consideration and systematic integration of ESG matters already form part of routine decision-making processes, particularly in relation to long-term value creation (and as such may not need to be expressly called out).

- **Proxy advisers:** Both corporates and asset managers have pointed to the influence of proxy on voting and expressed certain concerns with proxy advisers' perceived lack of accountability or transparency when they issue their benchmark policies or [blanket] voting recommendations. While proxy advisers are outside the remit of the FRC's regulatory perimeter, the finalised Code (as proposed) includes an express Principle (Principle 2) that applies to proxy advisers' activities, requiring them to "*ensure the quality and accuracy of their research, recommendations and voting implementation*". This mostly translates into improving transparency of their methodology and explanations of how they have developed their voting recommendations and policies. Again, improved disclosures should allow both asset managers who use their services and corporates to better scrutinize the work of proxy advisers and whether there are deficiencies in their implementation of voting recommendations. Whether this moves the dial in practice in any meaningful way remains to be seen.

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