

## FRC Stewardship Code – IIGCC Consultation Response

### Executive Summary

The Institutional Investors Group on Climate Change (IIGCC) welcomes the opportunity to respond to the FRC's consultation on the UK Stewardship Code. Below is the IIGCC response, developed over extensive consultation with members, although it does not necessarily represent the views of its entire membership either individually or collectively.

IIGCC represents 400+ members, across 20+ countries, comprising a broad range of asset owners and managers, including many of the largest global and European institutional investors. IIGCC brings the investment community together to make progress towards a net zero and climate resilient future.

Stewardship and engagement across asset classes is fundamental to achieving real-economy emission reductions and mitigating the risks presented by climate change. It is a key feature of the Net Zero Investment Framework (NZIF), the most commonly used methodology for investors setting net zero targets. The FRC's UK Stewardship Code has long been a world leading exemplar. This consultation provides an opportunity to continue to set a high benchmark for stewardship.

IIGCC's response highlights:

- IIGCC does not support the revised definition of stewardship unless more robust supporting language is provided which gives sufficient regard to the economy, environment and society, including the financial risks posed by climate change, explores the relationship between fiduciary duty and stewardship, and outlines the roles of systems stewardship and collaborative engagement.
- If the supporting language is not enhanced, IIGCC would support revising the definition to: "Stewardship is the responsible allocation, management and oversight of capital, having regard to dependencies and impacts on the economy, the environment and society, to create long-term sustainable value for clients and beneficiaries."
- The importance of retaining the ambition of the Code and transparency leading to high quality stewardship.
- Support for streamlined reporting and a recommendation to require submission of the Policy & Context Disclosure only on a triennial basis.

- The need to better incorporate systems stewardship and collaborative engagement into Principle 3, across the Code and in the additional guidance.
- The need for practitioner input into additional guidance, including through the establishment of a dedicated and diverse stakeholder working group.
- Support for the distinctions between different participants in the investment chain, while recognising and allowing for nuances.
- Support for cross-referencing while stressing the importance of client- and beneficiary-facing transparency, supported by the standalone readability of Code reports.

## Q1. Do you support the revised definition of stewardship

IIGCC does not support the revised definition of stewardship unless more robust supporting language is included. The supporting language should:

- Have regard to investors' contribution to sustainable benefits, and mitigation of systemic risks, to the economy, the environment and society.
- Explicitly reference the relationship between climate change, other material sustainability risks and investors' fiduciary duty.
- Emphasise the role of systems stewardship, collaborative engagement, and good practice.
- Recognise wider regulatory and policy frameworks.

If the FRC does not adopt more robust supporting language, IIGCC would support revising the definition to: "Stewardship is the responsible allocation, management and oversight of capital, having regard to dependencies and impacts on the economy, the environment and society, to create long-term sustainable value for clients and beneficiaries".

IIGCC does not support the FRC's revised definition of stewardship without more robust supporting language<sup>1</sup>. While the revised headline definition represents a potentially powerful evolution for the FRC, the positives of the revised definition will only be realised through more robust supporting language.

The headline definition provides a good description of existing stewardship practices, removing the artificial distinction between long-term value and environmental considerations apparent in the previous definition. Instead, a clear link is created between stewardship and the creation of long-term

<sup>1</sup> We note that a number of investors reject the revised definition, even with improved supporting language. While there is consensus on the need to integrate the economy, environment and society, including climate change, fiduciary duty and systems stewardship, some members would support the integration of these elements into the headline definition through the proposed alternative definition provided below.

sustainable value for clients and beneficiaries. Ultimately, the revised definition integrates sustainable value where it belongs: at the heart of long-term value creation.

The welcome introduction of long-term *sustainable* value is critical. As noted in the FRC's supporting language, long-term sustainable value delivers "returns that meet the objectives of [investors'] clients and beneficiaries today, *without compromising their ability to do so in the future*" (emphasis our own). This necessarily entails consideration of the risks and opportunities across the economy, environment and society – in particular climate change risk – in line with investors' existing fiduciary duties, including impacts on the environment today that could compromise value in the future. This needs to be made explicit.

The introduction of supporting language for the definition presents an opportunity for the FRC to detail a compelling vision of stewardship without confusing the headline definition. IIGCC recommends that the supporting language:

- Have regard to investors' contribution to sustainable benefits to, and mitigation of systemic risks from the economy, the environment and society, including explicit reference to climate change.
- Explicitly reference the relationship between climate change, other material sustainability risks and investors' fiduciary duty.
- Emphasise the role of systems stewardship and collaborative engagement.
- Recognise wider regulatory and policy frameworks.

#### *Regard to the Economy, the Environment and Society*

Supporting language should make stronger reference to material sustainability risks, given their impact on long-term value.

It is worth further stressing the importance of addressing climate change and other material sustainability risks to the creation of long-term value, in light of the decision to remove all references to climate change from the Code. This comes at a time when climate change is more important than ever. The climate crisis – with its attendant physical and transition risks – is no longer on the horizon; it is already here. These risks will continue to manifest both over the short and long term: a recent study by EDHEC predicts global equity values to compress by about 40%, without more robust abatement policies and better direct capital to combat climate change, compared to about 10% if Paris-aligned actions are taken.<sup>2</sup>

Accordingly, IIGCC recommends that robust supporting language adopt a similar approach to Section 172 (S172) of the Companies Act 2006, whereby directors are required to conduct their duties "and in doing so have regard...to" the long-term effects and wider stakeholders, including "the impact of the company's operations on the community and the environment"<sup>3</sup>. Investors' stewardship activities

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<sup>2</sup> [Financial Markets Law Committee – Pension Fund Trustees and Fiduciary Duties: Decision-Making in the Context of Sustainability and the Subject of Climate Change \(2024\)](#)

<sup>3</sup> [Companies Act \(2006\)](#)

should likewise be conducted with “regard to dependencies and impacts on the economy, the environment and society” for long-term value.

It is critical that the FRC’s supporting language does not only consider the “wider benefits” that stewardship may lead to, as currently proposed, but embeds the risks posed by, and opportunities presented by, the economy, environment and society. To do so, the FRC should draw on, or explicitly reference, the PRI’s definition of stewardship, which emphasises the “common economic, social and environmental assets on which [investors’] interests depend”<sup>4</sup>. As noted above, stewardship for long-term value necessarily includes consideration of material sustainability risks. This needs to be made explicit. At present, this two-way relationship is underexplored in the supporting language. We also note that explicit reference to climate change is especially important in the context of the UK’s ambition to reclaim climate leadership.

### *Fiduciary Duty*

While implicitly addressed, the definition’s supporting language should make explicit the link between long-term sustainable value, climate change, other material sustainability risks, and investors’ fiduciary duties (see below). Currently, no reference to fiduciary duty is made in the supporting language. But as noted by the International Corporate Governance Network, “stewardship is a fundamental aspect of an investor’s fiduciary duty”<sup>5</sup>.

In line with this, IIGCC echoes the recommendation by the Transition Finance Market Review to align the definition with the Financial Markets Law Committee’s (FMLC) recent paper on *Pension Fund Trustees and Fiduciary Duties – Decision-making in the context of Sustainability and the subject of Climate Change*. The paper considers fiduciary duty in the context of climate change and the “consequent changes in behaviour and conduct, law and regulation, economies and finance, confidence and reputation which go directly to due consideration of financial risk and return”. In other words, fiduciary duty and thus stewardship requires regard to the economy, environment and society. This should be made explicit in the supporting language.

### *Systems Stewardship and Collaborative Engagement*

Supporting language should better reflect investor practices around systems stewardship and collaborative engagement.

Stewardship practitioners are increasingly looking beyond engagement with individual issuers to ‘systems stewardship’, specifically policy advocacy and stakeholder/market engagement (see our response to Q7 for further details). Future-proofing the Stewardship Code means recognising these developments and making space for their evolution.

The proposed definition’s focus on the “management and oversight of capital” could be read narrowly to not include such systems stewardship. Moreover, the revised Code reduces the emphasis in the 2020 Code on promoting well-functioning financial markets, which in turn creates long-term sustainable value for clients and beneficiaries. We therefore recommend that supporting language makes explicit

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<sup>4</sup> [PRI – About Stewardship](#)

<sup>5</sup> [ICGN – Global Stewardship Principles \(2024\)](#)

reference to addressing systemic risks such as the physical and transition risks posed by climate change, promoting well-functioning markets where appropriate, and provides an understanding of stewardship that includes engaging with the broad range of stakeholders, policymakers and regulators.

Secondly, it's important to stress the value, importance and efficacy of collaborative engagement. Not all investors will conduct collaborative engagement – nor do we believe they should be required to. But as conveners and secretariat for multiple initiatives, including Climate Action 100+, Nature Action 100, Net Zero Engagement Initiative, Finance Sector Deforestation Action and others, IIGCC has seen first-hand the real-world impact of collaborative engagement. It is an efficient and effective means of engagement, particularly for those organisations who may wish to fulfil an active stewardship role on behalf of their clients but are resource/time poor. Collaborative engagement has helped investors manage risks, improve disclosures and streamline engagement for issuers<sup>6</sup>.

For those that do conduct collaborative engagement, the support of regulators and standard setters is key. The FRC has historically played an important role in creating this space for collaborative engagement. As far back as the 2010 Code, the FRC argued that "institutional investors should be willing to act collectively with other investors where appropriate", noting that collaboration "may be the most effective manner in which to engage"<sup>7</sup>. This extended through Principle 10 of the 2020 Code. While IIGCC supports the creation of a single engagement principle (see our response to Q7), this should be counterbalanced by clear and explicit references to collaborative engagement as a legitimate form of stewardship in the supporting language of the definition.

## *Interoperability*

Finally, IIGCC emphasises the need for coordination and interoperability between definitions and concepts of stewardship across different aspects of the UK's regulatory and policy framework, as well as beyond the UK, recognising the international diversity of the Code's signatories. For example, the UK Financial Conduct Authority (FCA) highlights stronger investor stewardship as one of its core ESG priorities. The FCA has stated that a key outcome of its ESG-related work is to promote active investor stewardship that positively influences companies' sustainability strategies, supporting a market-led transition to a more sustainable future. Providing clarity on the links between stewardship and sustainability outcomes in the Code will also support investors seeking to use the sustainable investment labels developed by the FCA. Under the labelling regime, investors are required to identify and apply the stewardship strategy and resources needed to support the achievement of a product's sustainability objectives, including the activities undertaken and intended outcomes. We would welcome further clarity on the FRC's use of "sustainable" in the definition compared to the FCA under the Sustainability Disclosure Requirements.

## *Alternative Definitions*

While IIGCC broadly supports the proposed definition, contingent on more robust supporting language, the views we received on the exact formulation of the definition remain mixed. Given the consensus agreement on the importance of material sustainability risks to fiduciary duty and stewardship, all

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<sup>6</sup> [Climate Action 100+ – Progress Update](#)

<sup>7</sup> [FRC – The UK Stewardship Code \(2010\)](#)

outlined above, if the FRC does not opt for more robust supporting language IIGCC recommends the FRC consider revising its definition to the following:

- *Stewardship is the responsible allocation, management and oversight of capital, having regard to dependencies and impacts on the economy, the environment and society, to create long-term sustainable value for clients and beneficiaries.*

## *Purpose*

Consideration of the FRC's definition of stewardship also leads to broader consideration of the FRC's stated purpose. The Code has always sought to promote long-term value for UK savers and pensioners through effective stewardship. As the Walker Review noted at the time, quality stewardship and long-term returns are ultimately "a matter of public interest"<sup>8</sup>. The Code should not lose sight of this in the context of the FRC's own public interest purpose.

IIGCC is concerned by the FRC's perceived shift from investor practices to disclosures. For many investors, the value of signatory status has been its association with strong stewardship practices. The Code itself has spurred investor activity, for instance on stewardship in other asset classes. As a voluntary endeavour, signatory status should continue to be aspirational, judged on quality, rather than a potential race to the bottom. As discussed in our responses to Q7 and elsewhere, IIGCC recommends that the FRC continue to pay close attention to the quality of stewardship practices being disclosed, providing insights in guidance and enhanced expectations across the principles.

## **Q2. Do you support the proposed approach to have disclosures related to policies and contextual information reported less frequently than annually? If yes, do you support the approach set out above?**

Yes – IIGCC strongly supports proposals to streamline disclosure requirements. To fully realise the benefits of the policy/activity split, IIGCC recommends that the FRC require policy disclosures on a triennial basis.

IIGCC strongly supports efforts to reduce the reporting burden. As many have noted, unduly extensive reporting requirements may divert resources from the impactful work of stewardship. Secondly, beyond the reporting burden, there is a 'reading burden' for clients and beneficiaries. For the Code to support the creation of an effective market for stewardship, reporting needs to be decision useful. Reports need to be readable and digestible. Unnecessarily lengthy reports do not fulfil this function.

The FRC has correctly identified the distinction between 'static' and 'dynamic' information. As noted in the consultation, much of the 'static' information, "is often repeated from one year to the next as it does not change". This information about the organisation, governance, resourcing, and policies is best placed in the triennial 'Policy and Context Disclosure' (P&C) proposed by the FRC. IIGCC welcomes the formalised three-year review cycle for policies, noting that this should help ensure consistency of reporting in comparison to the interim changes made in July 2024.

Dynamic information, meanwhile, requires annual updates to understand the stewardship activities and outcomes achieved during the year, captured well in the Activities and Outcomes Report (A&Os).

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<sup>8</sup> [Walker Review \(2009\)](#)

Yearly updates on these are critical to ongoing oversight of asset managers, and a useful exercise for investors – an opportunity to take stock and evaluate the effectiveness of activity over the past year.

To fully realise the benefits of the policy/activity split, IIGCC recommends that the FRC require P&C submissions on a triennial basis, in line with the review process, excepting significant, material changes. While we recognise that annual submission ensures the FRC has the most up-to-date version on its website, IIGCC members have raised concerns that annual submission will dramatically reduce the proposal's impact on reporting burdens.

The FRC itself recognises that "requiring annual reporting can contribute to the burden of preparing reports"<sup>9</sup>. While in theory P&C disclosure need only be updated as necessary by the signatory, in practice members will be required to undergo many elements of the preparation and reporting process that create undue burden. Annual submission would not be as simple as resubmitting the previous year's document (which could itself be misleading to stakeholders and clients). Even if no major changes have occurred, it would require legal review (a year is a long time), revisions, shifts in framing, design and formatting changes, board/committee sign-off and more. Accordingly, we recommend that P&C submissions only occur every three years.

This approach would make the A&Os Introductory Statement all the more important and the FRC may want to consider whether this should be brought forward on a mandatory basis, even where it is not formally assessed. As discussed across this response (see, for instance, Q8), the internal coherence and standalone readability of different reports is crucial to creating a client-facing document. In addition to the prompts suggested by the FRC, IIGCC recommends that the Introductory Statement provides a very brief synopsis of the P&C and any relevant updates (for instance, revised voting policies).

Finally, to reduce the 'reading burden', IIGCC would welcome the FRC taking steps to ensure the machine readability of reports moving forward.

### **Q3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?**

*IIGCC is supportive of How to Report prompts and the provision of additional guidance. We stress the importance of practitioner input into additional guidance through the creation of a dedicated working group and the need to emphasise quality reporting and practices.*

#### **How to Report**

Stewardship works best when it is integrated into the investor's own processes, investment philosophy, and harnesses their unique characteristics. The FRC is therefore right that 'how to report' prompts should "encourage signatories to explain their individual approach to stewardship". IIGCC supports the shift from reporting expectations, which stated what investors "should" do, to 'how to report' prompts. We believe this creates the right balance between flexibility and guidance.

IIGCC stresses the importance of additional guidance a) promoting good practice as well as transparency, and b) being developed with practitioner input.

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<sup>9</sup> [FRC – UK Stewardship Code Consultation \(2024\)](#)

As noted in our response to Q1, it is critical that the FRC retains the Code's purpose of promoting high stewardship standards. This can be achieved in a more flexible manner than under the 2020 Code but remains no less important. Assessments should remain rigorous and robust, with the aim of creating a cohort of quality signatories, not simply increasing the number of signatories. As explored below, the FRC could provide more guidance and examples of high-quality stewardship. In particular, this would be helpful in less developed areas of stewardship where the FRC has identified gaps, such as stewardship in other asset classes.

As well as improving the quality of reporting, such guidance would further streamline the reporting burden. The current situation is one in which some investors, worried about failing to meet the Code in its entirety, may resort to 'throwing everything against the wall to see what sticks'. This may result, in the worst instances, in unduly bloated reports, aimed at the regulator rather than clients and beneficiaries. Additional guidance would help overcome this concern.

The FRC should also further clarify that signatories are not required to report on a sequential basis, principle-by-principle. A more flexible approach to reporting fulfils the primary purpose of providing readable transparency to clients and beneficiaries.

For further input on the proposed How to Report sections, please see our response to Q7.

## **Further guidance**

IIGCC strongly supports the proposal for additional guidance from the FRC. This would provide signatories (potential or otherwise) with much-needed insight into the FRC's rubric for assessment while retaining the flexibility that makes the Code adaptable to investors' idiosyncratic stewardship approaches, and the apply-and-explain nature of the Code. To retain this balance and to avoid boilerplate responses, further guidance will need to be practical (including the use of case studies) and highlight points of emphasis for the FRC. Guidance should ultimately aim to provide insight, not instruction.

### *Guidance Topics*

Additional guidance that would be welcomed by investors includes:

- Yearly review of reporting and points of emphasis for the year ahead
- Stewardship in other asset classes
- Approaches to multi-year engagement reporting
- Approaches to defining engagement, outcomes, and reporting on collaborative engagement
- Approaches to systemic risks across different investor types

The need for additional guidance on the FRC's stewardship expectations for other asset classes is particularly acute. IIGCC warmly welcomed the extension across asset classes in the 2020 Code. Meeting the challenges of the net zero transition is going to require efforts that extend well beyond listed equities. IIGCC is supporting these efforts, whether through additional asset class guidance across

infrastructure, private equity and private debt in NZIF 2.0 or through bondholder stewardship guidance and upcoming real estate stewardship guidance. To ensure that reporting on the stewardship of assets “reflects the investment market today”<sup>10</sup>, further guidance from the FRC should build on existing best practices and guidance already in the market.

Guidance on defining outcomes would also be well received. The August update from the FRC on this front was a positive step in the right direction, providing a more expansive and realistic understanding of outcomes, recognising the different forms that these can take. Climate engagements, for example, are often the result of relationship building and long-term dialogue, with outcomes materialising over a multi-year period. The adjustments made in August provide space for investors to articulate how engagements have shaped their own stewardship approach or even investment thesis, or to describe milestones achieved by companies on the journey to more substantial outcomes. Further work in this direction would be helpful.

### *Practitioner Input*

We welcome the FRC’s commitment to ‘live’ documents, updated on a regular basis. This will allow the Code itself to remain stable, with the updated guidance working to create a dynamic Code, alive to the rapidly shifting stewardship landscape and emerging best practice.

It is imperative that practitioners are involved in the development of such guidance to safeguard its usefulness and relevance to the market. We recognise that formal consultation on additional guidance may not be appropriate in the context of ‘live’ documents but urge the FRC to engage with practitioners throughout the development of the initial guidance and have clear and regular opportunities for engagement once published. The FRC’s approach to roundtables during this consultation could provide a helpful model.

We recommend that FRC creates a dedicated practitioner working group to help develop and maintain guidance, drawn from across the industry.

### *Further Engagement*

IIGCC would also welcome further opportunities for engagement with the FRC post-publication of the revised Code. For instance, investors have voiced their appreciation for qualitative feedback on draft reports. Qualitative feedback on early drafts is particularly important to supporting innovation in reporting, providing assurance where new ideas emerge, and for first time signatories. Given the commercial sensitivity of losing signatory status, or of failing to achieve it in the first place, advanced warning and/or clear feedback would be warmly received.

While we recognise that feedback to all signatories (prospective as well as failed) may not be feasible, we believe there are a number of options that the FRC could pursue:

- A dedicated Q&A platform where investors can submit questions and receive a public response from the FRC. This would serve as a centralised resource to address common challenges and foster a deeper understanding of the FRC’s expectations. This would have the added benefit of allowing

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<sup>10</sup> [Stewardship Code Consultation \(2024\)](#)

investors to see where others are facing challenges (while ultimately reducing the FRC's burden). We note that a similar approach has been successfully implemented by the CFA through its [Q&A database](#) on GIPS compliance.

- Continued qualitative feedback for first time signatories and the introduction of feedback for 'edge cases'. Members have noted that the feedback provided for first time signatories is beneficial and helps set the tone for future submissions. Meanwhile, given the ramifications of failure, and IIGCC's strong support for retaining the high standards of the Code, the FRC could provide tailored feedback for signatories at risk of losing signatory status if certain elements of reporting are not improved.
- A sandbox for investors to innovate in, similar to the FRC's already existing [audit and assurance sandbox](#) which provides a "collaborative and innovative approach to identifying and developing solutions to technical and policy issues in the audit and assurance space", here aimed at developing solutions to technical and reporting issues in the stewardship space.

## Specific Feedback to Sample Guidance

IIGCC welcomes the opportunity to provide feedback through the consultation on sample reporting guidance for Engagement (Principle 3). As noted above, further deliberation with investors on further guidance is critical to their usefulness.

A number of elements in the sample guidance are commendable, namely:

- The need for signatories to detail the links between their policies and concrete examples of engagement in practice.
- Emphasising that engagement practices may vary by jurisdiction, particularly given the growing industry focus on the best approach to stewardship across markets, notably emerging markets and developing economies.
- Specific guidance on case studies.
- Recognition that engagement occurs on a multi-year timeline. This could be further improved by reference to clear time-bound objectives and milestones, as recommended in [IIGCC's Net Zero Stewardship Toolkit](#).

The guidance could also be improved further by:

- Requiring transparency on approaches to engagement.
- Providing more detail on other asset classes and investment styles, including active vs index stewardship.
- Differentiating between public and private correspondence.
- Better capturing the multi-year nature of engagement and the firm's overarching engagement activities (not solely case studies). For example, by asking, "In the case of engagements lasting multiple years, how was progress tracked and monitored? What interim targets were used, if any?"

- Further guidance on policy, stakeholder engagement and systemic risks – see Q7 for further details on IIGCC's position.

## *Approaches to Engagement*

IIGCC would welcome further guidance from the FRC on approaches to defining 'engagement'.

Neither IIGCC nor the Net Zero Investment Framework (NZIF) 2.0 provides a definition of engagement, leaving it for clients and their investment managers to discuss and formalise. In line with this approach, we do not think the FRC needs to provide a narrow definition of engagement.

Instead, to increase transparency on the different approaches to engagement in the market, and to enhance comparability, the additional guidance could outline approaches to defining engagement, while the Code could ask signatories to provide their own definitions, strengthening the existing proposal to "explain the purpose of your engagements".

Engagement is conceived of in multiple different ways by individual investors and other parties. Engagement can, however, be broadly understood as being undertaken for "information" or for "impact". The latter is focused on meeting specific objectives. Both forms of engagement can and do provide value to the stewardship process and are seen as worthwhile exercises by investors, particularly at the initial stages of engagement where investors often need data or other reporting to be able to clearly judge the existing situation before pushing for change. Understanding what form of 'engagement' was pursued by investors would provide additional clarity across the investment chain.

## *Other Asset Classes and Investment Styles*

Engagement guidance provides an opportunity for the FRC to clarify its expectations around stewardship in other asset classes. The initial expansion of stewardship to include other asset classes in the 2020 Code was well received but requires further elaboration. As an example, the engagement guidance notes that engagement may vary depending on asset class, and "*signatories engaging on real assets or debt investments may prefer to engage prior to investment, when their influence is likely to be greater.*" It would be helpful for the FRC to build out a more developed approach to different asset classes that distinguishes the different cadences for engagement in different asset classes, while recognising that engagement is important across the financing lifecycle. Examples include IIGCC's [Bondholder Stewardship Guidance](#) and [Private Equity Guidance](#).

We also note differences in stewardship approaches by investment style. For instance, take the rapid growth of index funds. We note the challenge of engaging meaningfully with companies given the scale of securities in index portfolios and the low-cost structures of these funds. Index funds' diverse holdings, however, position them uniquely to drive market-wide improvements and address systemic risks. It would therefore be helpful to include reference to passive strategies within the additional guidance. Other challenges present themselves for further guidance: as an example, securities lending offers market benefits such as liquidity and incremental returns but can compromise voting rights and engagement. Aligning securities lending with active stewardship is important for long-term investors, particularly indexed funds.

**Q4. Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some that are only applied by those who invest through external managers?**

**Q5. Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?**

*Yes – IIGCC supports the distinctions in Q4 and Q5, which have been answered together. IIGCC supports distinguishing between different market participants, recognising the different roles each has in exercising stewardship but encourages the FRC to adopt a more nuanced and flexible position.*

IIGCC supports the distinction made by the FRC between those who manage assets directly and those who invest through external managers, with each benefiting from principles tailored to their position and ability to influence. It is critical that the Code considers the different role played by each party and provides a clearer conception of how the different parts of the investment chain can and should organise their stewardship activities – whether directly or in conjunction with chosen third parties.

For instance asset owners' goals and activities should align with those of their selected asset manager(s), be considered in the selection and monitoring of managers, and subsequently be clearly communicated and formalised in documentation, and supported by clear monitoring in place of engagement activities and outcomes. The proposals reflects this more effectively, for example, by asking in Principle 5 those that employ external managers to explain how stewardship is integrated into the awarding of mandates and how voting preferences are communicated.

However, this does not mean asset owners do not engage directly with companies or other stakeholders. For some asset owners, this is a crucial element of their stewardship activities. We therefore support the FRC's statement that certain principles relate "primarily" to one or other. We would welcome further clarification from the FRC that each investor is permitted to report against each principle as they see fit. For instance, in some cases, an investor who manages assets through third parties may still conduct some forms of direct engagement during the year and may therefore seek to report against Principle 3. To support this, the FRC should clarify that the 10% threshold is meant to be used as an indicative benchmark, rather than the determining factor in reporting.

IIGCC would also welcome further clarification on reporting expectations for asset owners and in-house managers with separate legal entities or where firms offer both investment and non-investment products and services. Such distinctions could be further elaborated on in the Q&A recommended above.

**Q6. Do you agree that the updated Service Providers' Code should have some Principles that are applied only by proxy advisors, and some that are only applied by investment consultants?**

*IIGCC supports the proposal with only minor comments on the principles, including expanding Principle 3 and applying Principle 4 to both proxy advisors and investment consultants.*

IIGCC supports the separation. We suggest a few minor amendments to the relevant principles.

*Principle 3 – Stewardship Integration*

This principle focuses narrowly on the important work investment consultants do to evaluate the alignment between managers and clients. It would benefit from being expanded to also include other elements of support for clients, including supporting clients' voting and engagement policies, delivery of stewardship reporting, direct engagement and the selection of other stewardship providers or outsourced chief investment officers.

#### *Principle 4 – Market-Wide and Systemic Risk*

IIGCC recommends that Principle 4 applies to both investment consultants and proxy advisors. Given its importance, both generally and to signatory clients in particular, we question whether it is appropriate to limit the systemic risk principle to investment consultants. All participants, across the investment chain, should be subject to this principle.

#### **Q7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?**

*While IIGCC broadly supports the streamlined Principles, we call for the FRC to deepen its consideration of systems stewardship and support for collaborative engagement for interested investors.*

IIGCC welcomes the streamlined principles. Below, we set out how the principles can better capture all relevant activities for effective stewardship, primarily through an increased focus on systems stewardship and collaborative engagement, recognising that not all investors will undertake either form of engagement during the year.

#### **Systems Stewardship and Principle 3 – Engagement**

One of the FRC's stated aims includes appropriately reflecting developing stewardship practices. A key area which remains overlooked by the proposals is systems stewardship, engaging with the wider ecosystem, from governments and policymakers through to key stakeholders and across the value chain. This has become an increasingly important tool in the investor stewardship toolkit and looks set to increase in importance in the coming years.

In the climate space, engaging with regulators and policymakers to advocate for the development and implementation of coherent and well-designed policies has the potential to address key barriers to decarbonisation across entire economies and create the incentives necessary to scale investment in climate solutions. Similarly, investors may struggle to assess the alignment of investments without the necessary disclosures, analysis, and data products.

This is why the Net Zero Investment Framework (NZIF) 2.0, the most commonly used methodology for investors setting individual net zero targets, revised in the summer of 2024, places increased emphasis on stakeholder and market engagement ("facilitating the availability of data, mandates and investment advice necessary to achieve net zero objectives") and policy advocacy ("addressing barriers to, and captures opportunities for, net zero alignment created by the wider policy and regulatory environment") alongside asset level assessments and targets. Accordingly, stewardship in the latter half of the 2020s will not be limited to direct engagement with issuers. For instance, IIGCC's Bondholder Stewardship Guidance emphasises the importance of engaging with other ecosystem participants, including banks. This is not only engaging on systemic risks but about using every lever available to deliver sustainable long-term value for clients and beneficiaries.

IIGCC recommends that Principle 3 (Engagement) be expanded to include investors' approach to broader engagement in line with systems stewardship, with the principle sub-divided into *Individual Engagement* and *Policy & Market-Wide Engagement*.

While the revised Code recognises that "engagement may take many forms, including directly with investee companies and other assets, with other relevant stakeholders or in collaboration with other investors", more could be done by the FRC to support these latter forms of stewardship.

As an example, the [2023 Swiss Stewardship Code](#)'s Engagement Principle includes three sub-principles: "Individual Engagement", "Collaborative Engagement" and "Public Policy Engagement". Each sub-principle sets out the value of the engagement form and provides How to Report guidelines that reflect the differences. For instance, public policy engagement disclosures should "define the engagement issues that affect responsible investment and corporate governance and for which public policy engagement is suitable" and "define the public policy engagement activities...and the rationale to do so"<sup>11</sup>. Guidelines also note the relevance of trade associations etc. Engagement with wider stakeholders may be on systemic risk, and therefore relevant to Principle 2, but can also be in line with engagement objectives and utilised as a form of escalation.

Engagement with policymakers, regulators and other stakeholder is also a key element in the stewardship of 'other asset classes' beyond listed equities. Investors in bonds are considering how they may engage with credit rating agencies, banks and SPOs as part of their engagement activities. Real estate investors are likewise considering how they engage with tenants. Engagement is happening up and down the value chain and needs to be better recognised.

This approach would be in line with the developing interest and importance of investor systems stewardship and engagement with regulators, policymakers, standard setters and other stakeholders.

### *Collaborative Engagement*

IIGCC supports the revision of the principles to subsume the collaborative engagement and escalation principles into an overarching engagement principle. This better reflects the realities of stewardship, where escalation and collaboration are part of the investor's engagement toolkit, to be used fluidly.

The proposal is an improvement on the FRC's previous clarification that collaborative engagement and escalation need only occur "where necessary". This risked framing both as tools of last resort. Many investors engage in collaborative initiatives or use escalation techniques as part of the day-to-day work of stewardship. From our perspective, collaboration is invaluable in its ability to facilitate transparency between investor and company.

This has not been wholly solved, however. We note that the sample additional guidance asks: "If you took part in a collaborative engagement during the reporting period, why did you do so"? While we see benefits to exploring why different engagement methods are selected during the year, singling out collaborative engagement here is unhelpful. Both individual and collaborative engagement are legitimate and effective stewardship tools, the choice to adopt one or other driven by a number of

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<sup>11</sup> [Swiss Stewardship Code \(2023\)](#)

factors. Requiring a justification for collaborative engagement again risks creating a perception that it should only be undertaken “where necessary” or requires a defence.

We recognise that not all investors will undertake collaborative engagement. Nor should they be obligated to. But we continue to see client demand for collaborative engagement, including in DDQs and RFPs. The FRC and other regulators play an important function in making space for collaborative engagement for interested investors through explicit support – as explored in our response to Q1.

The FRC may seek to provide this as part of its additional guidance. However, there is a strong imperative to better reflect the different forms of stewardship in the Code-proper, to act as a bulwark against arguments that collaborative engagement and policy advocacy are inappropriate.

## **Additional Feedback on the Principles**

While the majority of IIGCC’s feedback on the principles relates to systems stewardship and collaborative engagement, we also recommend the following minor amendments to the A&O principles and related How to Report prompts.

### *Principle 1 – Stewardship Integration*

Stewardship does not work unless it is integrated into the investment process. We therefore support the emphasis on this as the first principle.

However, the How to Report section does not adequately reflect the importance of how stewardship is integrated into the investment decision-making process, or vice versa. The corresponding principle in the 2020 Code, for instance, calls on signatories to explain the processes they have used to integrate stewardship and investment to align with the investment time horizons of clients and beneficiaries, including through the design and award of mandates, and differentiated by funds, asset classes and geographies.

We therefore urge the FRC to bolster the How to Report section of Principle 1 in line with the importance of integrating stewardship and investment. This should include systematic disclosure by asset class and consideration of how the needs and preferences of clients have been integrated, as per the 2020 Code.

### *Principle 2 – Systemic Risk*

IIGCC strongly supports the importance of including market-wide and systemic risk in the Code. There are a few areas where the proposed principle could be improved.

IIGCC is concerned that the principle remains large and unwieldy for investors. Reporting is expected to cover all the market-wide and systemic risks identified and to explain engagement. This has been understood by some as tantamount to asking for the investors’ entire risk register. In many cases, investors will not be engaging across all risks. Instead, the Code should make clearer the need to prioritise systemic risks for engagement based on long-term value and the objectives of clients and beneficiaries.

The corresponding principle in the 2020 Code also called on signatories to explain how they have aligned their investments with their identification and response to market-wide and systemic risks. This has been amended to “where they offer investment opportunities”. While risks do provide investment opportunities, the former wording was stronger and better captured the full range of investment decisions that might be taken in light of market-wide and systemic risks.

If the FRC adopts IIGCC’s recommendation to include systems stewardship under the engagement principle, it may want to consider whether Principle 2 is more appropriately included in the P&C disclosures on a triennial basis, with annual policy advocacy and stakeholder engagement reported under Principle 3.

### *Principle 3 – Engagement*

The How to Report prompt only covers prioritisation of issues for engagement. As set out in the IIGCC Net Zero Stewardship Toolkit, the first step in an effective stewardship strategy is identifying which companies to engage with. Investors may take a number of approaches to prioritisation – as in the 2020 Code, signatories should be expected to explain how they have selected and prioritised engagement, both by issue and related companies.

The prompt to explain the purpose of engagements could also be enhanced by explaining how the investor has developed time-bound objectives for the engagements and what they were, again in line with the 2020 Code’s “well-informed and precise objectives” requirement.

### *Principle 4 – Rights and Responsibilities*

We note that Principle 4 introduces a requirement for investors to “describe the rationale for some of your voting decisions”. This is unhelpfully vague. In the 2020 Code, this requirement was accompanied by examples, such as votes against the board. IIGCC recommends that the wording be changed to “describe the rationale for your *most significant* votes”. This is in line with the requirements in the EU’s Shareholder Rights Directive II and its transposition across member states, as well as in the UK through [FCA PS19/13](#).

In addition, the reference to other asset classes could be strengthened by shifting the language to ask for disclosure on the rights and responsibilities associated with the relevant asset classes and the extent to which they have been utilised during the year.

### *Principle 6 – Service Providers*

The How to Report prompts under Principle 6 encourage signatories to ensure service providers deliver a quality service. As noted in the Code, this is important to ensuring effective stewardship. While external providers often do provide quality service to clients, there will be instances where approaches are not aligned. The prompts should also capture the approach taken by investors in these cases.

## **Additional Feedback on Policy and Context Disclosures**

In addition to the above, we recommend the following minor amendments to the P&C disclosures.

### *P&C – A: Organisation, Investment Beliefs, Clients/Beneficiaries and Approach*

We would welcome the reintroduction of the purpose, culture and values of the organisation into the How to Report section, as previously required under the equivalent Principle in the 2020 Code.

The disclosure could also benefit from added information on the investors' approach to stewardship, differentiating between fund and firm level, noting that some investors take a more bottom-up approach to stewardship while others a more centralised approach. It would be helpful to understand these differences in approach and why they are deemed suitable/effective.

### *P&C – C: Stewardship Policies and Processes*

We note that the revised Code makes no reference to assurance, formerly including Principle 5 in the 2020 Code. Previously, signatories were required to explain what internal or external assurance they had received in relation to stewardship and how they had ensured their stewardship reporting is fair, balanced and understandable. We would welcome this being brought back into Principle C in the P&C, under the How to Report where assurance is provided, alongside a statement on the form of sign-off required by the signatory for its stewardship reports.

### **Q8. Should signatories be able to reference publicly available external information as part of their Stewardship Code reporting, recognising this means Stewardship Code reports will no longer operate as a standalone source of information?**

*IIGCC supports the ability to cross-reference publicly available external information but stresses the importance of clear guardrails to ensure that Stewardship Code reports remain readable on a standalone basis.*

The ability to cross-reference existing publicly available external information is critical to streamlining reporting and avoiding duplication, reducing the overall reporting burden. IIGCC warmly welcomed the FRC's interim measures to allow for cross-referencing of previous reporting in August but noted at the time that in order to be truly game changing, cross-referencing would need to extend to other reporting requirements, such as the Taskforce for Climate-related Financial Disclosures (TCFD) and UK Sustainable Disclosure Regulation, increasing interoperability between the plethora of sustainability reporting requirements facing investors. This would fit well with FRC's stated commitment to consider its 'positioning' alongside other regulators and standard setters. It is also worth noting that the FCA's Sustainability Disclosure Requirements Policy Statement ([PS23/16](#)) similarly allows cross referencing from the UK Stewardship Code.

We therefore welcome the ability to refer to information disclosed outside of the stewardship report as part of the FRC's assessment where publicly available and clearly signposted. However, we disagree with the FRC's assertion that "this would mean the stewardship reports are no longer a comprehensive 'one-stop-shop' that provides an overarching view of a signatory's stewardship". With appropriate guardrails, the FRC can allow for cross-referencing while maintaining the standalone integrity of reports.

First and foremost, each element of the Stewardship Report should be readable in its own right. Cross-references can subsequently be used to provide additional detail or colour to clients, reducing the bulk of the Report. Clear signposting to relevant pages/sections should be required to ensure readers are not left to trawl through multiple reports. As PRI's response notes, the International Sustainability Standards Board's (ISSB) S1 provides a useful example of clear guardrails for cross-referencing that the FRC may want to replicate.

This will help ensure that reports remain readable and decision useful. An index of links to other reporting may succeed in reducing the reporting burden but it would only serve to add to the reading burden, negating the decision-useful nature of reports.

**Q9. Do you agree with the proposed schedule for implementation of the updated Code?**

Yes – IIGCC supports the proposed schedule for implementation.

Investors need adequate lead-in time to develop first responses to the revised Code. Should the revised Code be published in H1 2025, this provides adequate time prior to 1 January 2026. However, should the publication of the Code be delayed, or any material feedback is not resolved through the current consultation process, this will need to be reflected in the effective start date.

To avoid confusion, further interim changes should be avoided where possible ahead of the launch of the new Code.

We would also welcome further clarity from the FRC on whether investors can be early adopters of the streamlined reporting proposed in the consultation.