CFA Society United Kingdom

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The Financial Reporting Council Limited
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Submitted by e-mail to: stewardshipcode@frc.org.uk

Dear FRC team,

CFA UK's response to FRC's Stewardship Code Review consultation

The CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the FRC's review of the Stewardship Code.

CFA UK's purpose is to grow talent, and many of our members work in various roles within asset managers, asset owners, and specialist firms, providing a practitioner's perspective on conforming to and reporting or reviewing under the stewardship code.

Our response to the questions, attached at Appendix II, has accordingly been informed by feedback from some of our members. Please note that the CFA Institute has also submitted a separate response to this consultation; a copy of their letter may be found on their website.

Our key points are recapped below.

- **The definition of stewardship**: We recognise there are diverse views on this, and advocate a definition that can align stakeholders under a common cause by being less ambiguous or open to interpretation. We therefore agree with the simpler definition proposed by the FRC, while noting that some of our members suggested going further by removing "sustainable" as that can mean different things to different stakeholders.

- **Simplifying reporting**: We question the practical benefit of FRC's proposal for signatories. If the FRC indeed wishes to deliver a material benefit, we suggest considering a more impactful or alternative change, while keeping in mind any risks or unintended consequences and ensuring all reports are maintained "in one place" and appropriately signposted.

- **Guidance prompts**: Having received mixed feedback from our members, we support the proposal but only if it is kept simple, non-prescriptive, and subject to a materiality filter.

- **Refinement of principles related to activity**: We support the proposal, but make some recommendations for the FRC to consider:
    - o Expanding the proposed principle of "Engagement" to read as "Engagement, Escalation and Collaboration".
    - o Under Policy and Context Disclosure, adding the disclosure of "Responsible Persons and/or Roles" within the firm.
    - o Within the Activities and Outcomes report, adding a requirement to report on the management of Conflicts of Interest.
    - o In the Activities and Outcomes report, under Monitoring of Service Providers, more detail be required on the ongoing usage of Proxy firms.
    - o For firms who apply the 10% threshold to determine reporting applicability, and report under both, requiring disclosure of the % activity split.

- **Service providers:** We support clarity for proxy firms and consultants, but are concerned that just the common principles and reporting areas will not suffice to cover the activities of any "other" service providers such as investment research providers, rating agencies and investment platforms, and recommend additional guidance for them, so they are not dissuaded from signing up to the code.

- **Cross-referencing reports:** We support the proposal, subject to the following "must have" requirements:
    - o Purpose of reference: Only used for further detailed information
    - o Clarity of information: Each cross reference and link should be explained
    - o Ease of access: Clearly signposted, links included, and no access barriers
    - o Changes to information contained in links: Also signposted

We hope our comments are useful to the FRC in its current review, and would be happy to meet and discuss or clarify our feedback.

Yours sincerely,

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With thanks for their contributions to our volunteers: Paul Lee CFA, Natalie Schoon CFA, Olivier Fines CFA, Suzanne Hsu, CFA UK Board member, and the oversight of CFA UK's Ethics & Professionalism Steering Committee.

APPENDIX I
About CFA UK and CFA Institute

CFA UK serves nearly 12,000 members of the UK investment profession. Many of our members analyse securities, manage investment portfolios, advise on investments, or are in roles responsible for investment operations or oversight.

Our role is to help investment professionals build and maintain their skills and competencies so that they are technically and ethically competent to meet their obligations to clients. We advocate for high standards of ethical and professional behaviour and our work with regulators, policymakers and standard setters is focused on skills, knowledge, and behaviour.

We are not a lobby group or a trade body. We are an independent, professional association whose mission is to 'educate, connect and inspire the investment community to build a sustainable future.'

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials. The institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Its aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org.

APPENDIX II

CONSULTATION QUESTIONS AND RESPONSES

1. Do you support the revised definition of stewardship?

We support FRC's initiative to review the definition, to address the perceived issues of:
- Dual objectives of value for beneficiaries and value for the economy, environment, society, which may have been interpreted by some as ESG first and by others as aiming to achieve both across all time horizons.
- The "leading to" wording that may imply a direct cause-effect relationship, and has caused some ambiguity in the practice of stewardship in relation to company actions and decisions.

However, we also recognise that this topic can divide opinion amongst stakeholders, and therefore advocate a definition that helps to align stakeholders under a common cause. ***We accordingly support the proposed revised definition, as it is simple and less open to interpretation.***

In order to reach this conclusion, we put together a working group constituted of members of CFA Society of the UK. The point of view expressed in this response is the consensus reached by this working group. We have also considered different current definitions of stewardship, itemised at the end of the response to this question.

Companies and fiduciaries face a variety of situations which may be particular to their specific circumstances and choice of business model. Therefore, the definition of stewardship should be broad enough to incorporate a variety of considerations and stakeholders to accommodate those various circumstances. We also suggest the FRC consider rewording the supporting statement (as the term "may" can be confusing), for example, to clarify that impacts on the environment, society, economy are within the scope of stewardship if aligned with fiduciary duty.

We note that some members expressed the further view that the term "sustainable" is in and of itself not necessary, as the expression "long-term returns" integrates a wholesome understanding of value for a range of stakeholders, including society and the environment, without imposing a particular perspective.

Footnote: Recap of some existing definitions:
Global Sustainable Investment Alliance (GSIA): "the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.
ICGN: "The responsible allocation, management, and oversight of capital, to protect and enhance long-term value for beneficiaries and clients". This contributes to capital market efficiency, integrity, and resilience, and to sustainable economic growth.

FCA's DP19/1: 'The responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society'.
PRI / CFA Institute: "The use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."

2. 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?

We consistently support any simplification of reporting that does not compromise key information. However, ***we question the practical benefit of the annual resubmission proposal for signatories***, even though it will be useful to reviewers to have everything up to date in one place.

For most signatories we expect that the proposed change will still require a full review process and sign off governance to validate that all information remains current and verified.

If the FRC's aim is to materially alleviate reporting requirements for signatories, we suggest considering a more impactful or alternative change, while ensuring all reports are available "in one place" and clearly signposted as current/latest, and the FRC issues annual updates on any changes to their reporting expectations.

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

We support guidance that dissuades a tick box or "put in rather than leave out" approach, and makes reporting easier for signatories and more insightful for reviewers.

However, this can be achieved in a number of ways, and we received the following feedback from our members on two broad approaches:

- "How to prompts" as proposed: This should benefit smaller firms with less resources, but runs the risk of the prompts becoming prescriptive, voluminous, and turning into templates or "cookie cutters" over time.
- Best practice output examples, such as the FCA often uses: This approach could be less prescriptive, but is considered too late now as reporting has matured over time and many signatories publicly available reports already serve as examples of good reporting to others.

In conclusion we support how to prompts, provided they draw a balance between a principles based approach and setting clear expectations. The ***prompts should be subject to a materiality filter, and not be prescriptive or complex or lengthy*** (the example provided in your appendix indicates prompts could become too voluminous).

In this context and related to your point under "Reporting across asset classes", we recommend specific guidance on reporting by non-voting asset classes such as fixed income, to encompass insightful reporting on engagement activities.

4. 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?

We support this enhancement, as different parties have been making this interpretation themselves, and have tended to report on all principles, leading to repeating responses from another section, or responses that are not aligned to the activity of that party.

The categories of asset manager, asset owner and service provider (with some sub categorisation of the latter) address this issue at the appropriate level, without becoming too granular or complex. We also agree with 10% as a reasonable threshold in determining which categories to report under.

However, we are concerned that oversimplification of the headings could lead to a narrower interpretation by some signatories, impacting the quality of reporting and dilution of two core aspects of effective stewardship – escalation and collaboration. We therefore ***recommend that the principle of "Engagement" is expanded to read as "Engagement, Escalation and Collaboration"***. This delivers simplification; while ensuring a key assessment area such as escalation is not missed out in reports simply due to perceived optics.

We further recommend the following enhancements:

- Under Policy and Context Disclosure, ***add disclosure of "Responsible Persons and/or Roles"*** within the firm. We believe this is important information to avoid diffusion of responsibility relating to stewardship (e.g. between investment teams and central stewardship teams), and aligns with enhancing individual accountability and Executive/Board line of sight within a principles based framework. This disclosure can be included in Section B.

- In the Activities and Outcomes report, ***add a requirement to report on the management of Conflicts of Interest***. While this is included in the Policy and Context report, the description there is about a contextual process and framework. An effective review of stewardship however requires information on the ongoing management of conflicts of interest, by way of statistics and examples where conflicts were identified, and how they were addressed. This disclosure can be included in Section 4.

- In the Activities and Outcomes report, under Monitoring of Service Providers, we ***recommend more detail is required on the ongoing usage of Proxy firms***. The use of proxies is a significant feature of stewardship and reports should include details on statistics such as % votes covered by proxies, cases of challenge and rejection of proxy advice, incidence of full delegation etc. This can be included in Section 4 and potentially also Section 1.

- For firms with multiple activities who apply the 10% threshold to determine reporting applicability, we ***recommend disclosure of the % asset related activity split***. For example, a firm could state it operates as an asset owner for 80% of its assets and as an asset manager for 20% and therefore reports under both categories. This disclosure can be included in introductory comments.

5. 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?

Kindly refer to the response under Q.4

6. 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?

We agree with this proposal as Proxy advisers are a distinct and increasingly important group within the stewardship framework. Similarly, Investment Consultants are in a key position to influence asset owners and asset managers.

However, similar to our concern under Q4., appropriate application of specific principles to the activity of a firm should not lead to a dilution of adherence to and reporting on common principles that would apply to all firms.

We also question how the common principles and reporting areas would suffice to cover the activities of any "other" service providers such as rating agencies, investment research providers and investment platforms – as only the 1st principle "Communication with Clients" seems to apply. ***Other service providers should be encouraged to provide additional information related to their activity***, ***and appropriate guidance provided by the FRC***. In the absence of this, there is a risk that having only two subcategories of service providers may dissuade others from signing up to the code.

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

Kindly refer to the response under Q.4 and 6 above.

8. 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?

We support this proposal in the interests of simplification and alignment with a trend to minimise reporting duplication and volume (for example climate disclosure typically allows such cross referencing).

However, we are concerned this should not create a barrier or increased burden for reviewers, and hence ***recommend that the following requirements are mandated***:

- Purpose of reference: The main report should contain all the basic required information, and cross referencing should only be used for providing further detailed information so that reports do not become opaque and harder to assess.

- Clarity of information: Each cross reference and link should be briefly explained or introduced ahead of the link, within the body of the main report

- Ease of access: References to other public information should be clearly signposted, with links included, and links not having any barriers e.g. firewalls or sign-in require

- Changes to information accessed via links : In the case of any material changes, this needs to be signposted, and if useful, the previous information also made available.

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

While the effective date of 1 Jan 2026 feels appropriate, we believe that allowing signatories 6 months for adoption is fairly tight, based on practical experience.

We recommend allowing more time to signatories, which can be achieved by publishing the update Code earlier, for example by 31 March 2025. This reduces the time available to FRC, but given the extensive engagement already undertaken, and closing date for this final consultation being 19th February, we hope this is achievable.