

By email: **stewardshipcode@frc.org.uk**

31st August 2025

To whom it may concern

The Chartered Governance Institute is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. They are therefore well placed to understand the issues raised by this consultation document. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

We are pleased to have the opportunity to comment on the draft guidance published by the Financial Reporting Council (FRC). We believe that stewardship is a critical part of the UK governance structure and one that is, too often, overlooked in practice. The Stewardship Code is a helpful contribution to UK corporate governance and we welcome both it and the associated guidance.

Our views on your draft guidance are set out below, together with some general comments on the issues raised.

General comments

We are strong supporters of the guidance issued by the FRC, both in respect of the Stewardship Code and also of the UK Corporate Governance Code. Help for organisations in how to demonstrate compliance with the Code and the considerations that they should bear in mind is always to be welcomed and it is helpful that the FRC has been explicit that guidance is just that and is not mandatory. It is hard to see how this could be phrased more clearly.

We support the overall direction of the Guidance, particularly its emphasis on streamlined, outcomes-focused reporting. However, we have made some suggestions below which will, we believe, ensure that it maintains credibility, offers clarity and proportionality for the wide range of signatories, aligns effectively with the FRC's statutory responsibilities and the broader regulatory environment, and mitigates risks such as greenwashing, boilerplate disclosures, and free-rider behaviour.

As you know, our concern with the Stewardship Code has always been the lack of effective 'teeth' by which it can be enforced. In the Financial Conduct Authority (FCA)'s Listing Rules, Rule 9 (Continuing Obligations), Rule 9.8.6 provides that

"In the case of a listed company incorporated in the United Kingdom, the following additional items must be included in its annual financial report: ...

(5) a statement of how the listed company has applied the Principles set out in the UK Corporate Governance Code, in a manner that would enable shareholders to evaluate how the principles have been applied;

(6) a statement as to whether the listed company has:

(a) complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code; or

(b) not complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code and if so, setting out:

(i) those provisions, if any it has not complied with;

(ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and

(iii) the company's reasons for non-compliance;"

In our view it would be helpful were the FCA to place a similar obligation on firms that it authorises or regulates. We appreciate that this is beyond the gift of the FRC, but it would create a real impetus for investors to 'comply or explain' against the Stewardship Code.

We have the following general observations:

A. Structure of Reporting: Policy & Context (P&C) and Activities & Outcomes (A&O)

The four-year P&C disclosure strikes a balance between stability and efficiency, while the annual A&O report provides timely insights into practice. However, there are no interim disclosure obligations, and material changes (e.g., to voting policy or conflict management) could remain undisclosed for years. This is inconsistent with the FCA's expectations for continuous disclosure under SDR.

Recommendation: Require signatories to disclose material mid-cycle changes, either via an addendum to the most recent A&O report or a standalone interim update.



B. Outcomes-Focused Reporting

Shifting the focus from activity-based narratives to measurable outcomes marks a positive step forward. However, reports will remain difficult to compare unless minimum disclosure standards are introduced. Without a clear structure, they risk reverting to case-study marketing.

Recommendation: Provide optional reporting templates, that includes a standardised voting disclosure table (covering rationale for significant votes, abstentions, and against management decisions). And a case study framework requiring description of objectives, actions, outcomes, and lessons learned. This preserves flexibility while raising baseline quality.

C. Interaction with Other Regulatory Regimes

Signatories face duplication with other legislator instruments for example the FCA rules (SDR, COBS), TCFD/ISSB standards, and global stewardship codes. This risks an increase in duplication and costs and dilutes focus, particularly for smaller signatories.

Recommendation: Publish a mapping table aligning Code reporting with SDR and international standards. Encourage reliance on disclosures already produced under mandatory regimes, to avoid repetition.

Broader Governance and Legal Considerations

- **Technology and AI in Stewardship:** The Guidance does not address emerging risks from AI-driven voting or engagement platforms. Expectations on transparency, auditability, and human oversight should be added.
- **Assurance and Verification:** The Guidance removes explicit references to assurance. Independent assurance of stewardship reports, even on a limited assurance basis, strengthens credibility and mitigates risks of selective disclosure.

Specific comments on the draft guidance

Policy and Context Disclosure Guidance for Asset Owners and Asset Managers

B. Describe how your resources enable effective stewardship.

Paragraph 7 states that “When giving information about your stewardship resourcing detailed, individual biographical information is not necessary.” We suggest adding here “... is not usually necessary, except where it provides specific assurance about the quality of service offered.”

Activities and Outcomes Report Guidance for Asset Owners and Asset Managers

Principle 3: Signatories engage to maintain or enhance the value of assets

Given our feedback on the Stewardship Code, you will be unsurprised that this is an area in which we would like to see greater clarity in the guidance. We believe that engagement is the duty of shareowners and so we are concerned about, for example, paragraph 32, which could be interpreted as allowing signatories to choose not to engage. We suggest adding here: “In particular, signatories should explain why they have chosen not to engage with investee companies, particularly where investee companies have requested such engagement.”



Paragraphs 42 and 43 address escalation and we welcome the requirement in paragraph 43 that “Effective case studies about escalation activities clearly set out why escalation was necessary i.e. what actions had been taken but proved ineffective, the approach to escalation taken and the reasons for this.” However, we believe that the guidance should be stronger – as drafted, we fear that it risks de-emphasising escalation, and so may discourage robust interventions (e.g. voting against directors, filing resolutions or public statements), which are critical tools of stewardship. We would suggest that paragraph 42 be extended to read “Signatories may decide to escalate their engagement if they are not satisfied with progress towards their objectives. Reporting of all cases of escalation will clearly support demonstration of compliance with Principle 3.”

We do not believe that ‘divestment’ is an appropriate form of escalation unless all others have been exhausted. Otherwise it is a ‘get out of jail free’ card for investors who wish to evade their stewardship responsibilities. It would also be helpful for signatories to provide an escalation point within their own organisation for use of investee companies.

Principle 4: Signatories actively exercise their rights and responsibilities

Paragraph 53 states that “In describing the proportion of shares that were voted on in the reporting period, signatories **may wish** to explain the reasons why any shares were not voted. Typical constraints that might prevent voting include custodial arrangements or share blocking, and these may be reported on.” The highlighted wording risks undervaluing the ownership responsibility to vote as an engaged steward. A signatory who does not vote without good reason cannot, in our view, be said to be demonstrating good stewardship. We would suggest replacing ‘may wish’ above with ‘will wish’ or even ‘should’.

Paragraph 57 considers vote reporting. Our view would be that signatories should always engage with the issuer prior to a vote against any of the board’s recommendations. Consequently, we would suggest the following amendment: “Voting on a resolution can serve as a critical component of a broader escalation strategy, particularly when voting against management or abstaining. Reporting may include an explanation of the circumstances surrounding the vote, such as whether signatories engaged with the issuer prior to the vote, especially where the vote is against the board’s recommendation, and any additional escalation measures that were undertaken.”

Principle 6: Signatories monitor and hold to account stewardship service providers

This is a good section, but the FRC cannot enforce standards on service providers directly, this can only be done by the signatory.

Consequently, we would like to see a clear reminder in the paragraph commencing this section, and before paragraph 63, to state that: “Service providers can play an important role in the facilitation of stewardship for many investors. Their offerings to clients may include voting research, engagement programmes investment advice and data on ESG issues, but although the work can be outsourced to a service provider, accountability cannot and signatories retain ultimate responsibility for stewardship outcomes, regardless of delegation. This Principle provides an opportunity for signatories to explain the service providers they have used, how they were selected, the quality of their services and how the signatory exercises oversight of the outsourced activity.”

This reflects the expectation that an investor would have of an issues disclosure of its relationship with principal service providers.



Policy and Context Disclosure Guidance for Service Providers

B. Describe how your governance and resources enable delivery of those services

Paragraph 70 states that “When giving information about your resourcing individual biographical information is not necessary.” We suggest adding here “... is not usually necessary, except where it provides specific assurance about the quality of service offered.”

Activities and Outcomes Report Guidance for Service Providers

Principle 4 Engagement Service Providers engage on behalf of their clients to maintain or enhance the value of assets

Paragraph 102 talks about the various forms that escalation can take. Again, we do not believe that ‘divestment’ is an appropriate form of escalation unless all others have been exhausted. Otherwise it is a ‘get out of jail free’ card for investors who wish to evade their stewardship responsibilities.

If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,

Valentina Dotto

Policy Adviser

The Chartered Governance Institute UK & Ireland

