



Institute
and Faculty
of Actuaries

Initial consultation on the future direction of the UK Stewardship Code

IFoA response to Financial Reporting Council

28 February 2018

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Catherine Horton
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28 February 2018

Dear Ms Horton

IFoA response to the FRC's initial consultation on the future direction of the UK Stewardship Code

The Institute and Faculty of Actuaries (IFoA) welcomes the FRC's inclusion of high-level questions about the future of the UK Stewardship Code, alongside its proposed revisions of the UK Corporate Governance Code.

Members of the IFoA have extensive involvement in the institutional investment process and we have only responded to those questions where we have relevant insights based on our collective expertise and experience. We would highlight the following points in particular:

- We would welcome best practice guidance that clarifies the FRC's different expectations of how direct investors, indirect investors and service providers should carry out stewardship activities.
- We believe the Code should explicitly request investors to take account of issues relating to long-term sustainability, including environmental, social and governance (ESG) factors such as climate change.
- We support a requirement in the Code for disclosure of approaches to stewardship at a fund level. This would encourage asset manager signatories to translate their high-level commitment to the Code into practical actions.
- We support disclosure of the approach to directed voting in pooled funds.

Q17. Should the Stewardship Code be more explicit about the expectations of those investing directly or indirectly and those advising them? Would separate codes or enhanced separate guidance for different categories of the investment chain help drive best practice?

The IFoA believes that the Stewardship Code is relevant to those who are advising asset owners on matters of investment governance. We therefore do not consider it necessary to draw up a separate code for advisers as the principles in the Code apply equally to asset owners and advisers. We also suggest that it would be challenging to reformulate these principles to reflect the perspective of advisers, given their diverse roles (e.g. proxy voting advisers and investment consultants).

However, we would welcome specific guidance for advisers that clarifies the FRC's expectations of them and includes detailed examples of what constitutes best practice.

We also believe it would be helpful for the FRC to clarify, in enhanced guidance, the differences in its expectations between those investing directly and indirectly.

Q19. Are there alternative ways in which the FRC could highlight best practice reporting other than the tiering exercise as it was undertaken in 2016?

We welcome the fact that, however it is implemented, the additional requirements in the Shareholder Rights Directive are likely to lead to more asset managers and institutional investors reporting on their stewardship policy and activities. However, we recognise that this could make it impractical for the FRC to assess every compliance statement and so the alternative suggestion to highlight best practice seems sensible. In order to provide an evidence base to do so, the FRC could require, on an annual basis, a refresh to the statement of compliance and for signatories to evidence practice, i.e. supplementing the policy statement.

Q21. How could an investor's role in building a company's long-term success be further encouraged through the Stewardship Code?

There are few explicit references to the investor's role in building a company's long-term success in the current Stewardship Code. This could easily be addressed when the Stewardship Code is updated.

Q22. Would it be appropriate to incorporate 'wider stakeholders' into the areas of suggested focus for monitoring and engagement by investors? Should the Stewardship Code more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?

We are supportive of widening the scope for investor engagement. This could include scrutiny of how company management prioritises the interests of executives and shareholders against its obligations to current and past employees - for example, the level of dividends paid relative to pension contributions, or directors' compensation relative to average employee compensation.

With regard to broadening the Stewardship Code, as noted in our response to Q29 below, we encourage the FRC to consider asking investors to take account of issues relating to long-term sustainability, noting that this would include ESG factors.

The FRC should consider the interaction of such a request with other disclosure requirements and initiatives to ensure consistency. For example, the Government's interim response to the Law Commission report on Pension Funds and Social Investment proposes that trustees be required to state their policies with regard to long-term sustainability.

Q27: Would it be appropriate for the Stewardship Code to support disclosure of the approach to directed voting in pooled funds?

We support such disclosure. We understand that very few investment managers currently permit directed voting in their pooled funds. This limits the ability of pooled fund investors to influence investee companies. Improved disclosure would highlight the issue and could encourage a change in behaviour among fund managers.

Q29: Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?

Yes. This would place an obligation on signatories to the Code to have a policy on how adaptation to climate change was considered. The request should also cover responses to transition risks and opportunities i.e. responses to policy and technological changes associated with the low carbon

transition as well as adaptation to the physical impacts of climate change. It could refer to the recommendations made by the Taskforce on Climate-related Financial Disclosures which have been endorsed by many large financial institutions.

Such a request would be consistent with other guidance for long-term investors. For example, the Pensions Regulator made explicit reference to climate change in its Investment Governance guide for DC trustees (July 2016)¹ and its DB Investment Guidance (March 2017)². The IFoA also issued a Risk Alert on climate change³ to all of its members in 2017, which notes that 'All investors should consider the potential implications of climate-related risks on their invested assets'.

We encourage the FRC to consider if the request could be extended beyond climate change to other factors which could have a bearing on long-term sustainability.

The FRC could also consider if there should be a corresponding element in the corporate governance code regarding climate change.

Q30: Should signatories to the Stewardship Code define the purpose of stewardship with respect to the role of their organisation and specific investment or other activities?

Yes. Stewardship is interpreted in different ways by different organisations. Statements of compliance with the Code are often expressed in broad terms and it can be unclear how the signatory translates its high-level commitment to stewardship into specific actions in practice.

Q31: Should the Stewardship Code require asset managers to disclose a fund's purpose and its specific approach to stewardship, and report against these approaches at a fund level? How might this best be achieved?

Considering stewardship at a fund level would provide more useful information for asset owners. It would also encourage asset managers to reflect more deeply on how they implement their stewardship commitments and adopt consistent approaches for different funds. It would also address the comment in our response to Q30 that it can be unclear how the signatory translates its high-level commitment to stewardship into specific actions.

The Code could define minimum standards of transparency that are expected at a fund level, e.g. annual publication of how shares are voted.

Should you wish to discuss any of the points raised in further detail please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk / 020 7632 2121) in the first instance.

Yours sincerely



Marjorie Ngwenya
President, Institute and Faculty of Actuaries

¹ <http://thepensionsregulator.gov.uk/trustees/investment-management-in-your-dc-scheme.aspx>

² <http://thepensionsregulator.gov.uk/guidance/db-investment.aspx>

³ <https://www.actuaries.org.uk/news-and-insights/media-centre/media-releases-and-statements/ifo-warns-climate-change-financial-risks>