



Statement on the revised Stewardship Code – A step in the wrong direction

The revised stewardship code published today marks a step in the wrong direction. With the new code downgrading social and environmental risks and removing escalation as a principle, responsible investors will rightly be concerned.

The code's origins lie in the aftermath of the financial crash. By setting the bar high on engagement, the code sought to engender good governance and improve the functioning of the market. The lessons learnt are now being forgotten. As with other recent capital market reforms, the standards set to avoid similar market failures and create a race to the top are now being chipped away.

While it is hard to disagree with the FRC's ambition to simplify reporting, the reforms go a step further. The change to the definition of stewardship risks the code being misaligned with company law and investment regulations which require consideration of social and environmental factors. It also diverges from investor-led organisations such as the ICGN, whose definitions encompass environmental and social risks.

Responsible investors will also be concerned about the downgrading of escalation within the revised code. Engagement without the potential for escalation undermines the aims of improving governance standards. By removing escalation as a principle, signatories can now be silent on the issue. This silence will not be readily apparent to other market participants.

Closer to home, it is disappointing to see proxy advisers singled out among a range of service providers. This has sadly been evident in the press release kicking off the consultation and in the briefing to the media ahead of today's publication. Our industry's independent advice is valued by investors. It supports both their stewardship activities and well-functioning markets. Investors are free to commission our services. They are free to have tailored advice. They are also free to follow that advice or not. Proxy advisers exist precisely to aid the stewardship activities of investors.

Taken together the revisions look set to lower the bar on stewardship. Meeting the stewardship code expectations was not straightforward. Not all investors passed and the risks of not meeting the grade were considerable. This meant the code was not just a kitemark to be obtained by investors. It was also a way to actively drive-up governance standards at companies. A weakening of the code is therefore to be regretted.

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