

Sir Winfried Bischoff  
Chairman

**CONFIDENTIAL**

Councillor Mark Allan  
Chairman  
Lincolnshire Pension Fund  
West Yorkshire Pensions Fund  
PO Box 67  
Bradford BD1 1UP

June 2016

Dear Mr Allan

In December, the FRC announced it would write to all signatories to the Stewardship Code (the Code) with an initial assessment of the quality of their reporting against the Code. I now write to explain further our work on assessing how signatories are implementing the Code and how we wish to encourage better reporting against the Code.

As you know, the Code is voluntary<sup>1</sup> and operates on a comply or explain basis. Every year we assess a sample of the statements by signatories for our 'Developments in Corporate Governance and Stewardship' Report. The research and evidence suggests that the quality and quantity of monitoring and engagement has improved; nevertheless reporting continues to be inconsistent across the market. The FRC now seeks to stimulate better reporting by highlighting the signatories who clearly demonstrate their commitment to stewardship. Good reporting by signatories enables clients to assess managers and others based on their different approaches to stewardship.

The elements of this process are explained below.

*Communicating privately our initial assessment*

We have been assessing the more than 300 statements made by signatories to the Code, which has involved a detailed review by the Corporate Governance and Stewardship team, with internal moderation by other members of the FRC. The focus of our assessment has been to understand how each signatory approaches the recommendations set out in the Code.

We have assessed your organisation's public statement against the Code. Our initial assessment of your reporting indicates that you are likely to be considered a Tier 2 signatory to the Code in our final assessment.

*Engaging with you to promote improvement*

We are happy to discuss our initial assessment and proposed improvements to your reporting. Some elements of best practice reporting include that better statements give a complete description of how the signatory approaches their stewardship responsibilities. Where signatories do not comply with a principle of the Code, they give appropriate explanations as

---

<sup>1</sup> Asset managers under the Conduct of Business Sourcebook must make a statement about the Code or if such a statement is not appropriate (given the business model) may consider disclose an alternative investment strategy.

to why they do not and how their approach continues to meet the spirit of the Code. The overall disclosure is sufficient for the reader to understand how the signatory approaches the recommendations set out in the guidance of the principles, and that the signatory takes stewardship seriously. The language is clear, open and transparent.

We expect that in some cases signatories may find explanation difficult and this may lead to the conclusion that their business model is not supported by the Code. Others may wish to redesign or amend their statements and we are happy to engage in that process. If you would like to meet FRC representatives, please contact the Corporate Governance and Stewardship team at [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk). Evidence which supports how you undertake your stewardship responsibilities can also be sent to this email address. It will be treated confidentially unless it is already public. The deadline for providing revised statements to the FRC is 19 August, but there is some flexibility.

We would be happy to meet you to discuss your signatory statement. We will also hold a seminar specifically for asset owners to explain the process and purpose of our tiering exercise and gather your thoughts on the evolution of the Code. If you wish to attend please email [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk). The seminar will take place in October.

#### *Publicly tiering signatories*

Over the summer the FRC will assess revised statements against the Code. We will focus on clear, meaningful, evidence-based statements about signatories' approach to the principles of the Code and the related guidance, including appropriate explanations where an organisation has chosen not to follow a principle or disclose information. We will make our assessment public.

There will be two assessment tiers:

- Tier 1 – those that meet our reporting expectations, including clear and meaningful explanations for non-compliance. Asset managers in Tier 1 will have provided further evidence of their approach to conflicts of interest, engagement and the resourcing and integration of stewardship; and
- Tier 2 – those that do not currently meet these expectations.

After publication, new or existing signatories will be able to achieve Tier 1 by providing us with the information we require.

#### *Future review*

I encourage you to take this opportunity to reaffirm your commitment to stewardship in order to raise standards and ensure the UK remains at the forefront of stewardship practice. We will review the impact of this exercise and will consider if any updates to the Code are needed.

