

ICAS response to the FRC

19 February 2025



UK Stewardship Code consultation



Introduction

We are pleased to submit our response on the above consultation.

About ICAS

The Institute of Chartered Accountants of Scotland (ICAS) is a global, professional membership organisation and business network for Chartered Accountants. It's also an educator, regulator, examiner and a professional awarding body.

ICAS' diverse membership is made up of over 24,000 world class business professionals who work in the UK and in more than 80 countries around the globe with almost half our members living and working outside Scotland. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

ICAS members operate at the forefront of ethical and sustainable business. Educated, regulated, and led by the highest standards of ethical leadership since 1854, they are at the top of their game. They are trusted professionals, who transform business and support one another for the greater good.

Acting in the public interest is the guiding principle of all that ICAS does and we continually work to maintain trust in the finance profession. That ethos is enshrined in the ICAS Code of Ethics – which applies to all members, students and member firms, and is underpinned by our Royal Charter commitment.

ICAS is a member of the Chartered Accountants Worldwide Network, a global family that brings together the members of 15 leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

Any enquiries should be addressed to: atelfer@icas.com.

Key messages

We are generally supportive of the approach proposed for the revised Code.

However, we're concerned that some investors rely too much on proxy advisors to deliver their stewardship responsibilities. This can reduce direct engagement with the companies. We suggest that the Code should state clearly that it is investors who are ultimately responsible, and this cannot be delegated to proxy advisors.

Q1. Do you support the revised definition of stewardship?

We acknowledge the challenge in achieving a definition which is sufficiently broad and flexible so that it is fit for the future and serves global and national priorities, where appropriate. This includes the topics of the economy, environment and society. Good stewardship includes these wider perspectives.

Sustainability reporting and assurance is still developing. We also acknowledge that the Stewardship Code aims to encourage good practice application and transparency but without being prescriptive. We support the FRC's approach to focus on principles and direction with supplementary non-prescriptive guidance¹ to clarify expectations.

¹ FRC Consultation paper paragraph 19 "supporting language".

This balance is especially important on topics which are evolving in the reporting and assurance space. Further thought might be needed to make sure that the revised definition is not misinterpreted in a way that could reduce the focus on key issues, including those relating to sustainability.

We think that more is needed to signpost and align stewardship and company boards with existing statutory duties. In particular those which promote the success of the company and the wider responsibilities of directors, including relevant themes to achieve sustainable long-term value.

As a minimum, we believe the Stewardship Code should include a cross-reference to the statutory directors' duties in section 172 of the Companies Act 2006. This should allow for better understanding, consistency of interpretation and strengthening of awareness across asset managers/owners, investors and companies.

Q2. 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?

Yes. We agree that the focus should be on quality, not quantity or frequency of reporting. The investment beliefs and stewardship strategy should inform an appropriate timetable for measuring performance.

We suggest that the Code (or supporting wording) refers to "outcomes and impact". This better reflects the sustainability disclosures and would help improve evaluation of the success of stewardship activities.

In the section "How to report" on page 18 we suggest amending wording from "or" to "and" for the following: *"Your investment beliefs or stewardship strategy"*.

Q3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

Yes.

Q4. 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 which are only applied by those who invest through external managers?

Yes.

Some detailed wording points are noted:

- P20, under 1 "Systematically integrating stewardship into the investment process is essential to promote long-term sustainable value for clients and beneficiaries." The wording in this sentence could be amended to say, "*can be important to promote long-term sustainable value, depending on the type of investment*". It's not factually correct to state that stewardship is an essential component of sustainable value (for example passive investing).
- P21, under 2 "Describe any other activities you have undertaken to support well-functioning financial markets." This is a very high-level request. It is not very clear how this could be succinctly answered in the Stewardship Code report. Some guidance would be helpful to break this down from the high-level principle stated to help focus on how it applies within the context of the Stewardship Code report..
- P22, under 3 "Explain how you have selected and prioritised the issues on which you have engaged." We suggest this should clarify that the issues themselves should be disclosed, so it is more informative.
- P22, under 4 "While rights and responsibilities differ, depending on the type of asset, it is important that signatories seek to exercise rights where they can for effective stewardship". We think this needs further clarification. We understand that it's the choice of the investor to exercise these rights as part of their investment strategy and approach. Wording should reflect the investor's choice.

Q5. 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?

Yes.

Q6. 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 believe that the changes are a good start but, while we note the intention is to improve communication, there is still a question about how respective responsibilities are delivered. In our view, changes to the Code need to go further, to address the influence of proxy advisors and balance with investor responsibilities.

There is a particular concern that some investors rely too much on proxy advisors to deliver their stewardship responsibilities, which reduces their direct engagement with the companies. We believe that the Code should be clearer; that it's investors who are ultimately responsible, and this can't be delegated to proxy advisors.

Greater recognition of this responsibility and better engagement with proxy advisors is important so that investors make sure that they understand the rationale behind the recommendations they receive. The risk is that investors/asset managers allow the proxy advisors to get on with the job, but this mustn't be at the cost of investors abdicating their investor responsibilities. The current Code wording², is, in our view, too passive and doesn't fully address the risk of abdicating responsibilities.

We propose that:

- a) Investors should engage with proxy advisors before they vote, if they are recommending a vote against, and:
- b) Proxy advisors should engage with the companies they are reviewing if they are recommending a vote against and give sufficient time for a dialogue.

Q7. Do the streamlined principles capture relevant activities for effective stewardship for all signatories to the Code?

This is a challenging area. We don't believe that the arrangements for proxy advisors are sufficient – please see our response to question 6.

Q8. 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?

Yes.

Q9. Do you agree with the proposed schedule for implementation of the updated Code?

Yes.

² Section 6, page 23 of the consultation paper:

"If you use proxy advisors, describe how you do so and how you have monitored the quality of their services."



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