

February 19, 2025

Richard Moriarity
Chief Executive Officer
The Financial Reporting Council Limited
8th Floor, 125 London Wall
London EC2Y 5AS

RE: CFA Institute's Response to FRC's Stewardship Code Consultation
Submitted by e-mail to: stewardshipcode@frc.org.uk

Dear Mr. Moriarity:

CFA Institute¹ appreciates the opportunity to comment and provide our perspectives on the Financial Reporting Council's (FRC's) *Stewardship Code Consultation* (the "Consultation"). CFA Society of the UK² has also responded to the Consultation. A copy of their letter may be found on their [website](#).

We appreciate the FRC's efforts in updating the Stewardship Code regularly and we agree with the comment in Paragraph 6, excerpted below, regarding the domestic and international reputation for supporting high-quality stewardship.

The UK Stewardship Code (the Code') has a strong reputation both domestically and internationally for supporting high-quality stewardship. There is significant international interest in the Code – approximately 40% of signatories are headquartered outside of the UK.

Similarly, we agree with the comments regarding the purpose (Paragraph 11 of the Consultation) of the Stewardship Code, which emphasizes the importance of effective stewardship.

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

² CFA Society of the UK (CFA UK) serves nearly 12,000 members of the UK investment profession. Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct. CFA UK seeks to help investment professionals build and maintain their skills and competencies so that they are technically and ethically competent to meet their obligations to clients. CFA UK advocates for high standards of ethical and professional behaviour and our work with regulators, policymakers and standard setters is focused on skills, knowledge, and behaviour. We are not a lobby group or a trade body. We are an independent, professional association whose mission is to 'educate, connect and inspire the investment community to build a sustainable future.' For more information, visit <https://www.cfauk.org> or follow us on X @cfauk and on LinkedIn (<https://www.linkedin.com/company/cfa-uk>)

The Code seeks to promote long-term value for UK savers and pensioners through the effective management of investments on their behalf. It helps to support an effective market for stewardship by increasing transparency and promoting the development of good practice and high standards of stewardship. The Code enables signatories to explain how they put policy into practice to deliver good stewardship outcomes.

The purpose and reputation of the Stewardship Code is why we are taking the time to respond to the FRC's Consultation. In the **Appendix**, we provide our response to the questions posed in the Consultation.

If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head
CFA Institute

RESPONSE TO SPECIFIC QUESTIONS
Revised Definition of Stewardship
1. Do you support the revised definition of stewardship?

Below is a comparison of the existing definition of stewardship as included in the 2020 FRC Stewardship Code and the revised definition proposed in the Consultation.

2020 Definition³	2025 Proposed Revised Definition
<p>Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</p>	<p>Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.</p> <p>Effective stewardship drives investors to take account of long-term risks and opportunities.</p> <p>This helps them to make well-informed investment decisions to deliver returns that meet the objectives of their clients and beneficiaries today, without compromising the ability to do so in the future.</p> <p>Stewardship that supports sustainable, long-term returns may lead to wider benefits for the economy, the environment and society.</p> <p>The stewardship activities investors undertake will depend on their role in the investment chain, as well as their investment approach and types of assets.</p> <p>The purpose of the Stewardship Code is to provide transparency around the different approaches and activities that investors and their service providers undertake to steward assets in their care.</p>

We support the revised definition of stewardship as proposed.

We believe it resolves the potential misinterpretation that stewardship involves meeting dual objectives of value for beneficiaries and value for the economy, environment, and society – which may have been interpreted by some as requiring the inclusion of environmental, social and governance matters and by others as aiming to achieve both outcomes across all time horizons. We believe the revised definition which focuses on sustainable value for clients and beneficiaries is more appropriate as that is the essence of an asset manager’s fiduciary duty to the ultimate investor⁴.

Additionally, while many interpret “sustainable value” to mean “sustainability” (i.e., which is sometimes used as a synonym for environmental, social and governance issues) the term

³ [The UK Stewardship Code 2020.](#)

⁴ We note that CFA Institute has included a definition of stewardship in context of responsible investment approaches in the following publication: [Definitions for Responsible Investment Approaches](#)

“sustainable” has been long used by our organization to mean *any* risks (e.g. interest rate risk) or opportunities (i.e., new products or markets) which may impact the value of the asset being considered for investment. The language you have added to supplement the definition of stewardship is clarifying in this regard.

We note that the FRC should consider rewording the supporting statement:

“Stewardship that supports sustainable, long-term returns may lead to wider benefits for the economy, the environment and society.” to make it clear that impacts on the economy, the environment, and society are within the scope of stewardship provided there is no conflict with fiduciary duty.⁵

Reporting of Policies and Contextual Information: Less Frequently Than Annually

2. 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?

While we appreciate and understand the proposed approach to have the policies and contextual information reported less frequently than annually – as they may not change annually and the perception is that this reduces the reporting burden – we believe the same work must be done to ensure that a review of the policies and contextual information is done to confirm there is no updating necessary. If not included with the remainder of the reporting, this may not occur as rigorously as is done now, and such information may inadvertently become stale.

Further, many do not believe the “policies and contextual information” should be extracted and reported separately because reporting of such information with the “activities and outcomes” is necessary to ensure that users have the context the information is meant to provide.

How to Report Prompts

3. Do you agree that the Code should offer ‘how to report’ prompts, supported by further guidance?

Generally, we support more standardization to ensure information can be compared between organizations, but we appreciate that there needs to be flexibility in portraying information. For that reason, we support the “how to report” prompts as they provide insight from the FRC’s reviewers regarding practices the reviewers have found effective in conveying information while allowing such flexibility. We presume the prompts are to be subject to a materiality filter. It may be useful to clarify that.

⁵ We note that consideration, care, and protection of the underlying systems upon which long-term, sustainable, financial returns depend (e.g., capital markets, legal rights and remedies, and ecological systems that underpin human society and economic activities writ large) are within the scope of stewardship and that doing so is permissible provided there is no conflict with fiduciary duty.

*Code for Asset Owners and Asset Managers:
Separate Principles for Directly vs. Externally Managed Assets*

4. *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 that are only applied by those who invest through external managers?*
5. *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?*

In assessing the changes made from the [2020 UK Stewardship Code](#) we found the following chart on [Page 29 of the Consultation](#) useful.

Updated Code for asset owners and asset managers	2020 Code for asset owners and asset managers
Policy and Context Disclosure	
A. The organisation, its clients and investment beliefs	1. Purpose, strategy and culture
B. Governance and resources	2. Governance and resources
C. Stewardship policies and review	5. Review and assurance
D. Conflicts of interest	3. Conflicts of interest
E. Dialogue with clients and beneficiaries	6. Client and beneficiary needs
Principles (Activities and Outcomes Report)	
1. Integration of stewardship and investment	7. Integration of stewardship and investment
2. Market-wide and systemic risks	4. Market-wide and systemic risks
3. Engagement	11. Escalation
4. Exercising rights and responsibilities	9. Engagement
5. Selection and oversight of external managers	10. Collaboration
6. Monitoring service providers	11. Escalation
	12. Exercising rights and responsibilities
	11. Escalation
	8. Monitoring managers and service providers
	8. Monitoring managers and service providers

Assets Managed Directly vs. By External Managers – We support the addition of principles that are applied only by those who manage assets directly and some that are only applied by those who invest through external managers in Principles 5 and 6 as different parties have been making this interpretation themselves, and have tended to report on all principles, leading to repeating responses from another section, or responses that are not aligned to the activity of that party.

The categories of asset manager, asset owner and service provider (with some sub categorisation of the latter) address this issue at the appropriate level, without becoming too granular or complex. We also agree with 10% as a reasonable threshold in determining which categories to report under. That said, we believe that threshold should be included within the *Principles* rather than in the *Sample Guidance*.

Removal of Principles of Escalation and Collaboration – Through review of the chart above from Page 29 of the Consultation, the [2020 UK Stewardship Code](#), and searching for the terms “escalation” and “collaboration” throughout the [Consultation](#), we are concerned that the notion of escalation has been virtually removed and collaboration significantly diminished as principles of the Stewardship Code. Escalation was an entirely separate principle (Principle 11) in the 2020 UK Stewardship Code, while in the proposed code, escalation is mentioned once on Page 22

under the “how to report” section of Principle 4 (Signatories Actively Exercise Their Rights and Responsibilities). Collaboration is only mentioned in Principle 3 (Signatories Engage to Maintain or Enhance the Value Of Assets) and in the “how to report” section of that principle whereas it was an entirely separate principle (Principle 10) in the 2020 UK Stewardship Code. We do not believe that Principle 3 (Signatories Engage to Maintain or Enhance The Value Of Assets) sufficiently stresses the importance of collaboration or escalation.

Further Enhancements Recommended – We also recommend making the following enhancements:

- **Disclosure of Responsible Persons (Policy & Context Disclosures)** – Under Policy and Context Disclosures, add disclosure of “Responsible Persons and/or Roles” within the firm. We believe this is important information to avoid diffusion of responsibility relating to stewardship (e.g. between investment teams and central stewardship teams) and aligns with enhancing individual accountability and Executive/Board line of sight within a principles-based framework.
- **Management of Conflicts of Interest (Activities & Outcomes)** – Within the Activities and Outcomes report, add a requirement to report on the Management of Conflicts of Interest. While this is included in the Policy and Context Disclosures, the description there is about a process and framework. An effective review of stewardship however requires information on the ongoing management of conflicts of interest, by way of statistics and examples where conflicts were identified, and how they were addressed.
- **Disclosure of Split of Asset Owner vs. Asset Manager (Activities & Outcomes)** – For firms with multiple activities who apply the 10% threshold to determine reporting applicability, we recommend disclosure of the % asset related activity split. For example, a firm could state it operates as an asset owner for 80% of its assets and as an asset manager for 20% and therefore reports under both categories. We believe this should be included in the Introductory Statement requirements in the Activities and Outcomes Report. (i.e., See the blue box on Page 20 of the Consultation).
- **Monitoring of Service Providers: Ongoing Usage of Proxy Firms (Activities & Outcomes)** – In the Activities and Outcomes report, under Monitoring of Service Providers, we recommend more detail is required on the ongoing usage of proxy firms. The use of proxies and proxy advice is a significant feature of stewardship and reports should include details on statistics such as % votes covered by proxies, cases of challenge and rejection of proxy advice, incidence of full delegation etc.

Code for Service Providers

Separate Principles Applied Only by Proxy Advisors

6. 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?

In assessing the changes made from the [2020 UK Stewardship Code](#), we found the following chart on [Page 30 of the Consultation](#) useful:

Updated Code for service providers	2020 Code for service providers
Policy and Context Disclosure	
A. The organisation and its services	1. Purpose, strategy and culture
B. Governance and resources	2. Governance and resources
C. Stewardship policies and review	6. Review and assurance
D. Conflicts of interest	3. Conflicts of interest
Principles (Activities and Outcomes Report)	
1. Communication with clients	5. Supporting clients' stewardship
2. Proxy advisors – quality and accuracy of recommendations	5. Supporting clients' stewardship
3. Investment consultants – integration of stewardship and advice	4. Market-wide and systemic risks
4. Investment consultants – market-wide and systemic risks	5. Supporting clients' stewardship

We agree with this proposal as “proxy advisors” are a distinct and increasingly important group within the stewardship framework. Similarly, “investment consultants” are in a key position to influence asset owners and asset managers.

That said, application of specific principles to activities of proxy advisors and investment consultants should not lead to a dilution of adherence to, and reporting of, principles that would or should apply to all firms.

Given the Principle 2 (Quality and Accuracy of Recommendations) only applies to proxy advisors and Principles 3 (Integration of Stewardship and Advice) and 4 (Market-wide and Systemic Risks) only applies to investment consultants, we are unsure how common principles and reporting areas would suffice to cover the activities of any “other” service providers such as rating agencies, investment research providers and investment platforms. Only Principle 1 (Communication with Clients) seems to apply to such other service providers.

Other service providers should be encouraged to provide additional information related to their activity, and obtain appropriate guidance provided by the FRC. In the absence of this, there is a risk that having only two subcategories of service providers may dissuade others from signing up to the code.

Streamlined Principles for All Signatories

7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

In our responses to Questions 4- 6 above we provide additional types of relevant activities which we believe are important for the FRC to consider in evaluating revisions to the Stewardship Code.

Given there is no marked version of the changes from the 2020 UK Stewardship Code to the proposed code included in the consultation and that there is significant reordering, revision and differences in presentation, it is challenging to assess whether all relevant activities have been carried forward. We note above our thoughts on escalation and collaboration as one example of this challenge.

Referencing to Publicly Available External Information

8. 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?

Despite understanding the desire for simplification and alignment with a trend to minimise reporting duplication and volume, we are concerned by this revision. Such cross referencing can result in information being removed or changed subsequent to the submission of the original reporting, which can change the nature and substance of the information provided. We have found in other jurisdictions that this may also create legal issues. We think the FRC must consider these types of issues in detail before allowing for this cross referencing.

Additionally, we believe the FRC should consider requiring the following recommendation to enhance the usefulness of the information:

- Purpose of reference: The main report should contain all the basic required information, and cross referencing should only be used for providing further detailed information so that reports do not become opaque and harder to assess.
- Clarity of information: Each cross reference and link should be briefly explained or introduced ahead of the link, within the body of the main report
- Ease of access: References to other public information should be clearly signposted, with links included, and links not having any barriers (e.g. firewalls or sign-in requirements).

Implementation Schedule

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

We have heard from signatories that they are concerned with an effective date of 1 January 2026 given the due date of the consultation responses is 19 February 2025 and that allowing only six months for adoption may be challenging.