Amnesty International UK & CORE Coalition joint submission to the Financial Reporting Council consultation on proposed revisions to the UK Corporate Governance Code, 28/02/2018.

This is a joint submission from CORE Coalition and Amnesty International UK to the FRC consultation on proposed revisions to the UK Corporate Governance Code and initial consultation on the future direction of the UK Stewardship Code. We welcome the opportunity to submit a response to this consultation.

CORE Coalition is the UK civil society coalition on corporate accountability. We aim to advance the protection of human rights with regards to UK companies' global operations, by promoting a stronger regulatory framework, higher standards of conduct, compliance with the law and improved access to remedy for people harmed by UK-linked business activities.

Amnesty International UK is the UK section of Amnesty International.

UK Corporate Governance Code Consultation

Q2. Do you have any comments on the revised Guidance?

1. The Guidance usefully reaffirms the importance of purpose for effective leadership as emphasised by the revised Code, and in doing so makes welcome reference to directors' duties under s.172 of the Companies Act 2006. Corporate governance practices of recent decades have been too focused on shareholder value and financial benchmarks to the detriment of long-term success and companies' wider stakeholders. Companies should instead focus on the idea of success informed by the notion of developing multiple capitals, including human, social and intellectual capitals. In this respect, however, paragraphs 10 and 11 of the Guidance are misleading, resulting in a restrictive interpretation of director's duties.

2. Paragraph 10 maintains that 'at the heart of a director's duties lies a focus on generating and preserving value for shareholders for the long-term', whilst paragraph 11 currently states that 'an effective board will have a clear understanding of how … [shareholder value] is dependent on relationships with its stakeholders, and will be able to explain how these relationships help deliver the company's purpose'. This leaves 'success' out of the equation. Directors' duties are to promote the success of the company *from which* its shareholders should benefit, but as presently phrased these duties are simplified in the Guidance. Focusing directors' duties on the generation of shareholder value, even whilst caveated by 'for the long-term', only makes sense on the erroneous interpretation that all shareholders' interests are aligned with the long-term success of the company.[1]

[1] See, *Corporate Governance for a Changing World: Report of a Global Roundtable Series*, pp. 30-34.

3. In general, equity markets are no longer characterised by the 'concerned investor', but by the 'anonymous trader'. The potential conflict between shareholder interests' and long-term success of the company needs to be made clear. There is substantial evidence that short-termism is pervasive in UK equity markets.[2] Other trends within equity markets have additionally heightened the disconnect between shareholder interests and companies' long-term success. For instance, the Investment Management Association has said that on average its members hold shares in around 450 different companies, reducing the capacity for effective scrutiny and engagement, even amongst those investors holding for the long term.[3] Over recent decades the proportion of UK listed shares held by investors outside the UK has also risen considerably, while the proportion of the market held by individuals and pension funds has fallen.[4]

4. The Guidance should therefore be reworded to emphasise directors' duty to promote the long-term success of the company as a means to benefit its members. This would include providing a definition of what the success of the company means, what is typically required to achieve this over the long-term, and explain the importance of ensuring proper capitalisation of the company across human, social, intellectual and other relevant capitals. Moreover, the guidance should emphasise that matters for directors to consider under s.172 are supposed to be considered from the perspective of the sustained success of the company in addition to the perspective of social responsibility.

5. This last point is important because integrating consideration of stakeholders' interests into decision-making processes allows for better management of ESG risks that threaten the shareholder value the success of the company is intended to promote. Using only shareholder value as the benchmark of success means adopting the time horizons of capital markets that rarely take these risks into account.

Q3. Do you agree that the proposed methods in provision 3 are sufficient to achieve meaningful engagement?

6. Efforts to improve worker voice on company boards are welcome. We agree that the Code and Guidance should encourage stakeholder advisory panels and appointment of workers to company boards through election by the workforce as best practice, in line with the support expressed for this in the UK Government's Green Paper consultation[5] and the Recommendation from the BEIS Select Committee. [6]

7. There are many good reasons for bringing workers onto boards. First, given the current state of the equity markets, as set out above, worker voice should be integrated into board-level decision making as they have an obvious interest in the long-term success of the company. This is particularly the case as workers' livelihoods are usually dependent on the success of a single company, whereas shareholders diversify their share portfolios to spread risk. Second, worker voice would provide a better understanding of how to improve the working conditions and

[2] *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-11, (2012).
[3] Investment Management Association, *Asset Management in the UK 2009-2010*, (2010).
[4] J. Williamson, *Workers on Board: The case for workers' voice in corporate governance*, pp. 11-12, (2013).
[5] UK Government Response to Green Paper, para 2.17.
[6] Business, Energy and Industrial Strategy Committee, *Corporate Governance: Third Report of Session 2016*-17, Paras 54 and 146.

therefore the productivity of the workforce. Third, the workforce has an especially good knowledge of the operations of the company, the market within which it operates and its key stakeholders, including customers and suppliers. Workforce voice at board level brings that knowledge into the board room. And finally, it promotes trust and commitment throughout the workforce.[7] As an effective workforce is in the interest of companies themselves it is essential that the Code makes these benefits explicit.

8. Bearing these benefits in mind, we believe that the third option specified in provision 3 – a designated non-executive director – lacks a clear rationale, and is not best practice. Company law does not allow directors to represent the workforce, and as such designated non-executive directors could not do so. Whilst they could act as a conduit for worker voice, this is clearly second best to having a worker voice on company boards. It is therefore unclear how designated non-executive directors would fulfil the Government pledge to put workers on boards or offer all the benefits of doing so.

9. To avoid workers on boards being a 'lone voice', unable to effectively have their view heard, the Code should specify that a minimum of two workers ought to be appointed to the board. Worker directors should also be elected by the workforce. If a company chooses the second option – a stakeholder advisory panel – it is essential that this does not cut across existing arrangements for collective bargaining. If unions are present in the company this could be prevented by having a union member automatically represented on the panel.

10. Considering that the Code operates on a comply or explain basis, an undue level of flexibility has been introduced into the adoption of a workforce engagement mechanism by the Guidance. Paragraph 35 dilutes the requirements under provision 3 by suggesting that 'these are not the only possible methods, and boards should be open to innovative alternatives … provided the method chosen delivers meaningful regular two-way dialogue and a means of listening to the workforce, the Code requirement will be met'. This flexibility undermines the Government's invitation for the FRC to 'consider and consult on a specific Code provision requiring premium listed companies to adopt, on a "comply or explain" basis, one of the three employee engagement mechanisms'.[8]

11. It is, on the other hand, useful for the Guidance to provide information on how directors can engage with and gather the views of the workforce beyond the three employee engagement mechanisms. However, the Guidance focuses primarily on individual engagement and says nothing about a two-way dialogue with the workforce. It does not explain the importance of collective consultation. In this regard, trade unions should be explicitly mentioned in the Guidance. There are nearly 6 million trade union members in the UK, and trade unions remain the most common mechanism for structured engagement between employers and workforces. Both paragraphs 27 and 35 should refer to trade unions.

12. It is encouraging to see the Guidance set out that boards must engage with 'workers', including 'remote workers, agency workers, and contractors', not just employees. Although from the perspective of bringing the Code in line with modern working practices this is welcome, both the Code and Guidance pay insufficient attention to other key stakeholders. Provision 3 makes no reference to stakeholders beyond the workforce, and identifying and

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[7] J. Williamson, *All Aboard: Making worker representation on company boards a reality*, (2016), accessed at: https://www.tuc.org.uk/sites/default/files/All_Aboard_2016_0.pdf
[8] UK Government Response to Green Paper, Action 7.

engaging with external stakeholders should go further than extending speak up arrangements and early warning systems as suggested in paragraph 33 of the Guidance.

13. As evidenced by the many recent corporate scandals both at home and abroad, businesses have serious impacts on a wide range of stakeholders, and the Code should offer more guidance on these matters. It should propose regular stakeholder forums open to those who consider themselves affected by the companies' operations, chaired by a non-executive director who can report back to the board. Another proposal would be for the Code to set out that it is good practice for companies to allow people affected by company operations or their representatives to attend and raise questions at the AGM. Those companies at risk of being connected to serious environmental and human rights violations should also perform adequate due diligence throughout their supply chains and business relationships using stakeholder engagement as part of the screening. This approach is recommended by the UN Guiding Principles on Business and Human Rights (UNGPs),[9] which were endorsed by the UK National Action Plan in 2011.[10]

14. Moreover, despite the Guidance formulating a number of expectations on how boards should consider stakeholder interests, and that they should explain how they have taken account of these interests in their decisions, it does not specify to whom they should explain their decisions. The Guidance should therefore include a specification to provide an explanation in the form of a statement in the strategic report. This statement should identify what issues and stakeholder interests the board considers material, why, and how they were identified and addressed.

Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?

15. International human rights agreements, conventions and law place legal and moral obligations on companies, and it is incumbent upon all business to incorporate these responsibilities in their decision-making processes. The UN SDGs call on business, in addition to states, to apply their creativity and innovation to solve sustainable development challenges. For this reason the Code should make reference to them. However, international frameworks are not mutually exclusive and are most effective when integrated. It would therefore be appropriate for the Code and Guidance to also refer to other international frameworks.

16. The UN SDGs are ambitious and set out useful guidance on how business can contribute, but they do not replace adherence to the specific legal obligations incumbent upon corporations set out in international law. More specific principles are also useful for developing practical recommendations for corporate governance actors. The Code and Guidance should refer to principles more specifically related to business and human rights and climate matters as a means to more effectively engage with the pressing issues addressed by the SDGs.

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[9] UNGP, pp. 17-19; accessed at: http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

[10] *Good Business: Implementing the UN Guiding Principles on Business and Human Rights*, (updated 2016); accessed at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522805/Good_Business_Implementing_the_UN_Guiding_Principles_on_Business_and_Human_Rights_updated_May_2016.pdf

17. The UNGPs lay out the scope of the corporate responsibility to respect human rights as found in international law. Many of the principles in this framework are material to the responsible and effective exercise of corporate governance. For example the UNGPs outline the corporate responsibility to develop a policy commitment to meet the responsibility to respect human rights, a human rights due diligence process to identify, prevent, mitigate impacts on human rights, and processes to enable the remediation of any adverse human rights impacts they cause or contribute to.[11] These principles are a restatement of the specific legal obligations already existing under international law and as such the SDGs should not be seen as an alternative to them. Instead, the two are complementary – one of the most effective ways of contributing to the SDGs is for companies to discharge their obligations under the UNGPs.

18. Provision 4 currently asks boards to explain in the annual report how matters set out in s. 172 influenced their decision making. Transparency with regard to how the board engages with wider stakeholders and integrates information gathered into their decision making could be improved by reference to principle 18 of the UNGPs. This states that ‘in order to gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships [which should involve] meaningful consultation with potentially affected groups and other relevant stakeholders’.[12]

19. Additionally, reference to the responsibility to carry out adequate human rights due diligence as laid out in the UNGPs could be made in Provision 1 and Section 3 of the Guidance. Carrying out adequate human rights due diligence is an important aspect of managing the ESG risks to the long-term success of the company.

20. Guidance on the application of these principles by business has been published by the Equality and Human Rights Commission.[13] It would be helpful for boards to be directed to this guidance.

21. As members of the OECD, the UK Government has made recommendations to business in the form of the OECD Guidelines for Multinational Enterprises. The Guidelines provide principles and standards of good practice and it would therefore be appropriate for the Code to make reference to them. The Code should also make reference to the Financial Stability Board’s Task Force on Climate-related Disclosures. The TCFD, set up by the G20’s Financial Stability Board, outlines how companies should consider the impact of climate-related risks on their business models.

Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

[11] UNGP, pp. 13-26.

[12] UNGP, p. 19, Principle 18. (b).

[13] Equality and Human Rights Commission, *Business and Human Rights: A five-step guide for company boards*, accessed at: https://www.equalityhumanrights.com/sites/default/files/business_and_human_rights_web.pdf

22. As explained in the Government Green Paper Response[14], the disproportionate increase in director pay over recent decades has been one of the causes of popular dissatisfaction with business. We therefore welcome the change introduced under provision 33 of the revised Code and hope that it leads to a greater alignment of pay policies across the workforce, senior management and boards.

23. It is important that the Code specify that remuneration committees justify their decisions to the workforce. The Government requested that the FRC 'consult on a revision to the UK Corporate Governance Code and its supporting guidance to give remuneration committees greater responsibility for demonstrating how pay and incentives align across the company, and to explain to the workforce each year how decisions on executive pay reflect wider pay policy'. In line with this invitation, paragraph 113 of the Guidance states that 'the remuneration committee should engage with the workforce to explain how executive remuneration aligns with wider company pay policy and promotes long-term value generation'. However, this is not reflected in the Code.

24. Provision 40 presently calls for 'clarity' in the structure of remuneration arrangements whilst Provision 41 provides that companies must include in their annual reports 'an explanation of the company's approach to investing in, developing and rewarding the workforce, and what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company policy'. Yet neither specifically require the remuneration committee to offer a justification of executive remuneration schemes and practices. The Code should include a specific provision to require the remuneration committee to offer a justification of executive remuneration schemes and practices, as per the Government instructions.

25. This could occur through the workforce mechanism established in the individual company. This should be a two-way process, and the workforce and their representatives should be involved in the discharge of the remuneration committee's new responsibilities. It would be useful in this respect to also have a worker representative on the committee. This could prevent the wider remit given to the remuneration committee cutting across established mechanisms for collective bargaining within the workplace.

26. Paragraph 104 of the Guidance should be amended to remove the option to delegate the remuneration committee's new responsibilities. The benefits of widening the remit of the remuneration committee, as expressed by the Government Green Paper Response, would be 'increased staff motivation, perceptions of fairness and a better sense of collective company purpose'.[15] However, these aims are undermined by paragraph 104 which permits remuneration committees to delegate responsibility for overseeing wider workforce remuneration to a sustainability committee or a corporate responsibility committee if appropriate. The result of this dilution would be to fail to address the concerns of both the BEIS Committee and many green paper respondents who felt that there must be 'meaningful engagement by remuneration committees with the wider workforce' and that wider pay and conditions must be 'taken properly and demonstrably into account in the setting of executive remuneration.'[16]

[14] Government Response to Green Paper, paragraph 1.1.
[15] Government Green Paper Response, para 1.22.
[16] BEIS Inquiry paras 107-109; Government Green Paper Response, para 1.48.

Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

27. The recent collapse of Carillion highlighted the problems with current pay related incentive practices. The use of complex long term incentive plans (LTIPs) and share options set very restricted performance metrics, often encouraging short-term decision making and financial engineering rather than responsible and effective governance. In Carillion's case, the collapse of the company has occasioned significant social costs.

28. Short-term incentives given to executives in Carillion appear to have incentivised high levels of dividend pay-outs despite the significant deficits in the company's pension scheme. To prevent this the Code or Guidance should recommend that directors and senior management have a significant portion of their pension contribution from the employer in the same scheme as the rest of the workforce to motivate them to show interest in the scheme and to improve unity across the company culture as a whole.

29. More fundamentally, the Code should encourage the adoption of different performance metrics. These should include metrics based on ESG factors, systemic risks and stakeholder satisfaction. This would promote remuneration practices that better align with the long-term interests of the company, its current as well as future shareholders, and its stakeholders.

30. As has been argued throughout this response, corporate governance practices of recent decades have been too focused on financial benchmarks to the detriment of long-term success and companies' wider stakeholders. The adoption of a wider range of performance metrics would more generally encourage companies to create strategic objectives informed by the notion of developing multiple capitals, including human, social and intellectual capitals.

31. In addition, remuneration committees should consult on remuneration design through the established employee voice mechanism, or through an employee representative on the committee in an advisory capacity. This would complement the suggestion made in paragraph 21 above, helping mitigate the fragmentation of the workforce and the current sense of injustice at the level of director pay.

Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

32. The revised Guidance states that remuneration committees should 'avoid designing structures based solely on benchmarking to the market or the advice of remuneration consultants'. The language used in this respect should be stronger. Moreover, boards will only exercise discretion in line with this advice if clearer guidance is given, as argued above, on appropriate metrics to use that reflect the multiple capitals companies need for sustained success.

33. It is also important that engagement with the workforce and wider stakeholders on the issue of director pay is strengthened. Boards will be given meaningful impetus to exercise discretion if they have to explain the rationale behind their remuneration decisions. For this reason, we reemphasise that the provisions regarding employee voice mechanism should not be weakened, as argued in paragraph 9 above.

UK Stewardship Code Consultation

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?

34. The Stewardship Code is predicated on the 'Enlightened Shareholder' model – the idea that investors are best placed to monitor the behaviour of boards and enforce best practice.[17] However, as expressed in our answers above, there is a divergence between the interests of short-term share traders and the long-term success of the company. Although not all investors have short time horizons or take a hands-off approach to stewardship, equity markets are such that this is overwhelmingly the case.[18] The Code should therefore focus its interest on the long-term shareholder with the aim of developing the engagement capacity of that category of shareholders.

35. From this perspective the Code could develop specific guidance for different categories of investor. This would, for example, allow the Code to establish a clearer link between the activity of asset management and the consultation of shareholders and end beneficiaries on their stated goals and to encourage asset owners to focus more clearly on the mandates they give to asset managers, their alignment with strategic goals, and to explain how those mandates reflect their approach to stewardship.

Q18. Should the Stewardship Code focus on best practice expectations using a more traditional 'comply or explain' format? If so, are there any areas in which this would not be appropriate? How might we go about determining what best practice is?

36. At present the Stewardship Code offers provisions relating only to disclosures and transparency. However, in the current system there is no equivalent to the role investors play overseeing and questioning compliance with best practice corporate governance for those who exercise stewardship duties. The Code can also often be complied with without much effort. For instance, Principle 5 requires only an expression of willingness to collaborate with other investors, but does not require signatories to actually do so. For these reasons, the Stewardship Code should offer a best practice model, including more specific principles and provisions to implement.

37. The first step should be to reframe the Code as an obligation. This would extend the reach of the Code to all relevant actors, not only signatories. Because of the 'comply or explain' format, those subject to the Code would still retain a great deal of flexibility.

38. Principle 1 leaves a great deal of discretion to signatories on what areas they disclose. Much of this discretion could be maintained, but a specific obligation should be added to require all

[17] See, for instance, the arguments for the 'Enlightened Shareholder' model in the Company Law Review: The Company Law review Steering Group, *Modern Company Law for a Competitive Economy Final Report*, pp. 48-9, (2001).
[18] J. Williamson, 'The emperor's new clothes – enlightened shareholder value and the UK Stewardship Code', Chapter 12 in, *European company law and the Sustainable Company: a stakeholder approach*. Vol. II, (2013).

institutional investors to draft and disclose their policy in relation to the ESG risks and social impacts associated with investments, or to explain why they have not done so. As part of Principle 7 a comply or explain principle could be applied for a requirement for the investors not only to report to, but also obtain feedback from, the end beneficiaries on key elements of the stewardship policy.

39. The FRC is well placed to determine best practice with regard to stewardship responsibilities because of its experience from its tiering practice and work with industry and wider stakeholders.

Q20. Are there elements of the revised UK Corporate Governance Code that we should mirror in the Stewardship Code?

40. The Code should be set within the same context as the UK Corporate Governance Code in order to align the expectations of shareholders with duties of boards. The Stewardship Code should therefore reflect the emphasis on long-term success, culture and benefit to society, align with directors' duties as set out under s.172, and make reference to ESG factors. If expectations do not align there could be tension between investors and boards.

41. More specifically, Principle 1 should be clearer about the purpose of stewardship. It would also be desirable to require institutional investors to report on and consult with their end beneficiaries on their investment and engagement strategies.

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

42. Investors have a crucial role to play in monitoring the responsible and effective exercise of companies' governance. As argued in our responses to the Corporate Governance Code Consultation, investors have not successfully carried out this responsibility in recent years. To help rectify this the Stewardship Code should follow the revised Corporate Governance Code in looking at workforce issues, long-term success and s. 172 obligations.

43. Presently the Code only makes reference to environmental and social issues under Principle 4, which asks signatories to disclose how and when they will escalate stewardship roles. But the reference to environmental and social issues is made only as an example of what might lead signatories to escalate their stewardship activates. It does not recommend or positively encourage signatories to engage more actively on those issues.

44. As discussed in paragraph 33 above, a comply or explain obligation in relation to the investor's policy on ESG issues and social impacts of investments – in particular with respect to systemic risks associated with them – would encourage more institutional investors to pay attention to these issues, and, as a consequence would be likely to lead to more engagement and strategic thinking.

45. Principle 3 should also encourage analysis of long-term success of the company from the perspective of integrated governance, considering the capitalisation of the company across all relevant capitals and relevant ESG issues.

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?

46. Disclosures of policy in relation to ESG factors should be accompanied by an assessment of ESG issues from the perspective of their materiality, as well as any other reasons (e.g. ethical) why the investor considers the respective issues important, and a description of policies and their objectives adopted with respect to these issues. The assessments should include an analysis of end beneficiaries' long-term interests and the interests of society.

47. Explanations of non-compliance should be required to explain why investors do not consider these issues material to their beneficiaries. Moreover, to aid prospective shareholders and end beneficiaries to choose funds according to their engagement on ESG issues, the Code should specify that the stewardship policy should include engagement profiles.

48. As a normative framework designed to encourage responsible stewardship, the Code should refer to international human rights norms as applicable to institutional investors. The UNGPs have been endorsed by UN Member States and are based on fundamental UN human rights and labour standards. They are not a voluntary standard. This is evidenced by their incorporation in a range of international frameworks, including the OECD Guidelines for Multinational Enterprises and the UN Global Compact, and by expressions of support from regional organisations including the European Union and the Council of Europe. The Code should therefore make reference to the UNGPs.[19]

49. In this respect, it could be useful for the Code to also refer to the OECD's Responsible Business Conduct for Institutional Investors.[20] The OECD Guidelines introduced new recommendations to better align with the UNGPs in 2011. The Responsible Business Conduct for Institutional Investors clarifies expectations of the financial sector under the updated OECD Guidelines. In particular, it focuses on how institutional investors can carry out their own due diligence processes to identify, prevent and mitigate 'adverse impacts' on matters covered by the OECD Guidelines.

Q23. How can the Stewardship Code encourage reporting on the way in which stewardship activities have been carried out? Are there ways in which the FRC or others could encourage this reporting, even if the encouragement falls outside of the Stewardship Code?

50. Better reporting practice will result from a clearer framework which the Code can achieve by introducing more specific expectations regarding stewardship policy and its implementation.

51. It would be desirable to encourage consultation with beneficiaries by means of a comply or explain obligation coupled with more extensive reporting to them. Whereas consultation is a preferred means in relation to funds, in investment chains - with the objective to prioritise the voice of shareholders over the voice of intermediaries - more can be done to counter the estrangement of votes in finance chains on the one side, and the enabling of practical means

[19] UNHR Office of the High Commissioner, *Frequently asked questions about the guiding principles on business and human rights*, pp. 15-6, Accessed at: http://www.ohchr.org/Documents/Publications/FAQ_PrinciplesBussinessHR.pdf
[20] Accessed at: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

for dispersed shareholders to engage with company and investment fund policy on the other side. Both types of engagement could be related to the use of specific investment profiles with specific risk profiles attached.

52. We submit that it is worthwhile for the Code to focus on the capacity for end beneficiaries in funds and shareholder vehicles to become involved in an engagement with the policies followed by these funds. This would be in line with a reconnection between actual share ownership and the capacity to vote and engage.

Q24. How could the Stewardship Code take account of some investors' wider view of responsible investment?

53. As part of the obligation to disclose stewardship policy, investors could be required to state whether they follow a policy of responsible investment, how they determine whether an investment is responsible, how they respond where they determine that an investment is no longer responsible, and so on.

54. It is desirable to bring responsible investment into the mainstream of stewardship, since the two concepts are inseparable, both bearing heavily on the outcomes for end beneficiaries and are required by investors' fiduciary duties to their beneficiaries. The Code can encourage convergence of these concepts by encouraging investors to carry out and disclose their assessment of ESG issues both from the perspective of their materiality and ethics.

Q25. Are there elements of international stewardship codes that should be included in the Stewardship Code?

55. Principle 6 of the ICGN requires investors to 'promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities'.[21] This provides a good starting point for the Code. However, we think that investors should be encouraged to integrate these activities into their policies and should disclose actions taken in these areas to their beneficiaries.

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For more information please contact William Meade, CORE Policy and Communications Officer at william@corporate-responsbility.org.

[21] ICGN, *Global Governance Principles*, Annex ICGN Global Stewardship Principles, pp. 33-4.