ASSOCIATION OF CONSULTING ACTUARIES

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Financial Reporting Council
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stewardshipcode@frc.org.uk

19 February 2025

Subject: UK Stewardship Code Consultation

Dear Financial Reporting Council,

I am writing on behalf of the **Association of Consulting Actuaries (ACA)**. We welcome the opportunity to respond to this public consultation regarding the proposed revisions to the UK Stewardship Code. We are responding based on our general experience in advising trustee clients and corporate sponsors of pension arrangements in the UK.

In summary, our key points are:

- We feel the revised definition of stewardship may dilute the potential impact of stewardship activities across the wider economy, environment and society.
- We are supportive of the proposed changes for the new reporting structure/frequency.
- We feel that further guidance alongside the Code would be beneficial for signatories though the content needs to be proportionate to prevent the guidance being used as a tick-box.

Our comments on your questions are set out in the Appendix. We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In this event, please contact either me at vanessa.hodge@mercer.com or Tessa Page, Chair of the DC Committee at Tessa.Page@mercer.com.

Yours sincerely

Vanessa Hodge

Chair of the Investment Committee
On behalf of the Association of Consulting Actuaries

Appendix – Association of Consulting Actuaries response to the UK Stewardship Code Consultation

1. Do you support the revised definition of stewardship?

In our view, the revised definition of stewardship is less impactful from a wider economy, environment and societal perspective. In the proposed definition, the word “sustainable” may be interpreted differently by multiple parties and may not effectively take wider systemic risks into account.

The revised definition of stewardship is more complete when read alongside the supporting statements but is less impactful as a standalone definition. Our preference would be for the definition to explicitly reference the “sustainable benefits for the economy, the environment and society”.

The FRC has proposed that signatories should “provide insights on how they interpret the [stewardship] definition.” This has the potential to increase the level of transparency and may allow others in the investment value chain to see how an entity incorporates ESG factors into their decision-making and stewardship processes. In addition, it would be helpful if the reporting entity was required to have a clear section at the front of a report to explain how they have interpreted the stewardship definition to avoid this becoming lost within the document(s).

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?

We are supportive of the proposed approach to have the Policy and Context disclosures updated less frequently than annually, when relevant, and are supportive of the proposed approach.

Having an annual report on the “Activities and Outcomes Report” provides readers with useful information in one place, rather than being potentially hard to extract from a single overarching report.

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

We are supportive on “how to” prompts so long as they are not overly prescriptive to prevent reports being drafted in a tick-box manner.

The longer timeframe perspective is beneficial to avoid the reporting entity having to feel they have to say something new against each Principle each reporting year.

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?**

We are supportive of the proposal though note that some Asset Owners who do not directly manage their assets, may still choose to engage and vote directly with the companies they own.

For Asset Owners or Asset Managers who allocate to third party managers, they should explain how they engage and escalate with their managers, but voting escalation and engagement with companies may not be in their direct control.

We do note that the ownership chain is further complicated in the case of defined contribution pension plans (both contract-based and trust-based, including master trusts) which typically hold assets in funds via a third party platform. Certain defined benefit plans may also have a similar arrangement. Technically, the pension plan holds a single policy of insurance with the platform provider and has no relationship with the asset manager. We have seen instances where the investment manager will not engage with the ultimate asset owner (in terms of providing stewardship disclosures, attending meetings, etc). Practical guidance for the fiduciaries of such arrangements would be helpful.

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?**

We are supportive of the updated Principles.

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?**

We agree with the proposal to have Service Provider specific proposals as the reporting will better reflect the stewardship activities carried out by different entities and their responsibilities. Overall, this proposal for Service Providers makes the principles more specific and relevant.

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

We believe the streamlined Principles capture relevant activities for effective stewardship however, we note the following:

- Principles 9, 10 and 11 are proposed to be combined into one Principle (Engagement) - The merged principles may dilute the role/importance of collaborative engagements. We suggest there is guidance that reporting against the Engagement principles should include collaboration and escalation. Escalation is a very distinct area which follows dialogue with companies so should have prominence in a set of stewardship principles.
- The proposal removes the requirement for Proxy Advisors to explain how they identify and respond to market-wide and systemic risks. We believe this is important as it may influence their advice and choice of engagement themes.

- We would support an emphasis on encouraging Asset Managers to report on failed engagements, which would greatly enhance the investment value chain in explaining the reasons why not all engagements have been successful. It will allow Asset Owners and Service Providers to hold Asset Managers to account for their actions following a failed engagement.

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?**

It is easier to have all content in one place, however we agree that publicly available external information should be allowed to be referenced. Reports should capture key points and be readable on a standalone basis, even where references are used. It would be helpful for the FRC to encourage clear signposting by signatories in their Stewardship Code report, so it is clear where to look when being referred to external information.

The use of landing page links for external documents rather than direct links to specific documents, would be preferred to ensure the referenced content remains relevant throughout the following reporting year.

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

We are supportive of the proposed schedule for implementation.

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