PRI RESPONSE

UK STEWARDSHIP CODE CONSULTATION

February 2025

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Financial Reporting Council (FRC) consultation on the UK Stewardship Code.

ABOUT THIS CONSULTATION

The FRC has released a consultation on the UK Stewardship Code, setting out a revised code alongside proposals on the process for reporting. The current UK Stewardship Code has been in effect since 2020 and the FRC had committed to reviewing the Code after a few years in operation.

The revisions proposed in the consultation aim to ensure that the Code continues to drive effective stewardship by supporting high-quality disclosures, while reflecting evolving industry practices and maintaining its international standing, without imposing undue reporting burden on signatories.

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KEY RECOMMENDATIONS

The UK Stewardship Code, a voluntary policy measure, is an important element of the broader UK financial policy framework, driving advanced and effective stewardship practice and supporting high-quality disclosures. The UK's regulatory context has evolved significantly in recent years, reinforcing the importance of effective investor stewardship in managing sustainability risks, outcomes and opportunities. Pension fund trustees are now required to explain in their Statement of Investment Principles how they take ESG factors into account where financially material, with statutory and non-statutory guidance from 2022 setting new expectations for more proactive stewardship activities across areas such as climate change, biodiversity, and modern slavery. The Financial Markets Law Committee (FMLC) has provided clarification on the interpretation of law, emphasising that sustainability issues should first be considered as a financial factor.[1] Furthermore, the Competition and Markets Authority issued Green Agreements Guidance to ensure that competition law does not impede legitimate collaboration that is necessary for the promotion or protection of environmental sustainability.

The PRI welcomes FRC's efforts to review the code, since its last revision in 2020, including to streamline the principles and avoid placing onerous reporting burdens on signatories. As the UK pursues its ambition to become the world's first net zero financial centre and achieve net zero by 2050, the Code plays an important role in guiding investors on how advanced and effective stewardship can support sustainable, long-term growth.

The PRI's key recommendations include:

- Adopt a definition of stewardship that makes explicit reference to 'economic, social and environmental' assets or systems, to acknowledge the dependence of investment returns on these assets or systems, especially over the long term.
- Revise the definition's supporting language to qualify stewardship as an integral component of investors' fiduciary responsibility. Underscore the importance of considering how to act on systemic / system-level[2] or market-wide risks and recognise the range of mechanisms available to investors to use their influence in the interests of their risk-adjusted returns.
- Include direct reference to policy engagement and collaborative engagement in the "How to report" section of Principle 2 and Principle 3. The Code would then reinforce the possible use of key levers widely recognised as mechanisms to address system-level and market-wide risks, enabling investors to pool resources, amplify their impact, and effectively advocate for necessary policy developments.

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[1] Financial Markets and Law Committee (2024), Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change

[2] System-level risks: includes systematic risk and potential (financial) systemic risk, both of which have implications for investment performance. See Key terms p.39 in Legal Framework for Impact summary report

DETAILED RESPONSE

SECTION 1: CONSULTATION QUESTIONS

QUESTION 1: DO YOU SUPPORT THE REVISED DEFINITION OF STEWARDSHIP?

Revised definition

The definition of stewardship in the Code can influence the level of ambition and the overall interpretation of the principles. While the revised, FRC proposed definition provides greater flexibility by allowing organisations to interpret "long-term sustainable value" according to the spectrum of client mandates and investment beliefs, PRI signatories have expressed concern that the proposed definition would lead to lower expectations of the Code and risks diverging from its original aims.

The Code was first established in 2010 as recommended by the Walker Review. The intention was to enable and encourage institutional investors to engage with investee companies on long-term strategies and address system-level risks, particularly in response to the global financial crisis. The Code's foundational objectives sought to foster high standards of corporate governance, curb short-termism, and promote meaningful dialogue between investors and companies to drive sustainable growth and long-term returns.[3]

There is a continuous feedback cycle between the decisions taken by investors, the sustainability outcomes to which those decisions contribute (via the behaviour of investee enterprises), whether intended or not, and the ESG risks and sustainability opportunities that affect the financial performance of investments. Negative sustainability outcomes pose significant risks to the natural and social systems on which economic prosperity and investment returns ultimately depend, undermining investors' ability to generate long-term value for clients and beneficiaries.[4]

The 2020 definition reflects the corresponding duty on corporate boards set out in section 172 of the Companies Act 2006, which requires directors to consider the companies' impact on the community and the environment.[5] However, the 2020 Code definition blurred the line between normative expectations (what should be) and causal outcomes (what will be) by claiming that stewardship will or may "create long-term value for clients and beneficiaries leading to sustainable benefits".

For the 2025 revision of the definition of stewardship, the PRI recommendations are:

- The FRC should consider the Code's role within the broader policy framework, including regulations or guidelines set by FCA and DWP. The Code is a voluntary measure intended to promote advanced and best practice and should not be expected to address the demands of all segments of the market. As stated in PRI's 2023 Implementation guide for sustainable investment policy and regulation tools – Stewardship "key to driving long-term improvements in investor stewardship will be the gradual raising of the floor for stewardship practices established by regulation, while ensuring codes or other voluntary standards recognise best-in-class practices."[6] By doing so, the

[3] Walker (2009) A review of corporate governance in UK banks and other financial industry entities
[4] PRI, UNEP-FI, Generation Foundation 2024) A Legal Framework for Impact summary report
[5] UK Parliament (2006) Companies Act 2006, Section 172: Duty to promote the success of the company
[6] PRI (2023) Implementation guide for sustainable investment policy and regulation tools - Stewardship

Code can support meaningful progress in stewardship while maintaining its distinct function within the policy ecosystem.

- The Code should clearly articulate its normative expectations—what signatories should do to demonstrate effective stewardship. This should include addressing material sustainability risks, particularly system-level risks in line with the original aims of the Code.
- The FRC could consider the definition of stewardship developed by the PRI, the CFA Institute and the Global Sustainable Investment Alliance (GSIA) as part of a project to refine and harmonise terminology.[7]

  > **"***The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend."*

  While this definition does not specifically mention the use of asset allocation, it does acknowledge the multifaceted and temporal nature of investment value for clients and beneficiaries. It includes the market value of the entire portfolio (as opposed to individual holdings or individual mandates); the long-term value-creation capabilities of firms and economies (for future returns); and the common environmental, natural, social, and institutional assets that underpin all economies (again which influence future returns). The adoption of language similar to the definition above, specifically *'to protect and enhance overall long-term value for clients and beneficiaries, including economic, social and environmental assets on which their interests depend'* would resolve any implied causation between stewardship activities and broader societal and environmental benefits while retaining explicit reference to the natural and social systems on which economic prosperity and investment returns ultimately depend.

Supporting language

Stewardship and fiduciary duty

The supporting language in the code should position stewardship as an integral component of investors' fiduciary responsibilities. This alignment would help promote the appropriate use of stewardship by investors as part and parcel of discharging their duties and pursuing their objectives. The ICGN Global Stewardship Principles provide language that is well recognised by investors, identifying - "*stewardship as a fundamental aspect of fiduciary duty."*[8]

Furthermore, the FRC should consider referencing the FMLC's paper, which clarifies the interpretation of the law, underscoring that sustainability issues should first be considered as a financial factor, rather than as a non-financial factor, and then assessed in terms of materiality.[9]

Embedding system-level risk considerations

The consideration of system-level or market-wide risks should be applied consistently across all principles. In its current form, system-level risks are primarily addressed under Principle 2, which could result in their disregard under other principles. For instance, under Principle 3, without explicit guidance,

[7] PRI, the CFA, and GSIA (2023) Definitions for responsible investment approaches. This technical guide also inventories the mapping of other definitions of stewardship that were available at the time.
[8] ICGN (2024) ICGN Global Stewardship Principles
[9] Financial Markets and Law Committee (2024), Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change

it could be interpreted as focusing solely on maintaining or enhancing the value of invested assets, rather than considering broader investment impacts on economic, environmental and social systems that underpin clients' returns. Similarly, Principle 4 does not clearly link "effective stewardship" to addressing system-level or market-wide risks. Without this connection, the principle may be interpreted as focusing exclusively on idiosyncratic risks, missing the opportunity to promote stewardship that tackles broader system-level challenges. We recommend that the supporting language explicitly reference system-level risks, ensuring a comprehensive approach to stewardship that addresses both company-specific and market-wide challenges.

Recognising the breadth of investor influence

The PRI, CFA and GSIA definition recognises that investors have rights and responsibilities, as well as other means of influencing the behaviour of investees and other parties. Stewardship involves ensuring this capacity for influence is used to protect and enhance overall value for clients and beneficiaries. The current Code acknowledges investors' formal rights and responsibilities but should expand its scope to encompass their broader influence, such as providing input into industry research, market standards, public discourse, or policy and lawmaking. Drawing from the PRI, CFA, and GSIA definition, we recommend that the supporting language should recognise how investors can influence system-level outcomes and value creation through these diverse mechanisms.

QUESTION 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?

The proposed approach to separate reporting into two parts, "Policy and Context Disclosure" and "Activities and Outcomes", should provide a much clearer structure and enhance readability or reports. However, it is important to note that requiring the annual submission of the "Policy and Context Disclosure" section to be assessed every three-years (unless significant changes have been made), would not necessarily reduce the reporting burden for many signatories as it would still be subject to internal approval processes. For this reason, we recommend that the FRC only requires submission of the Policy and Context Disclosure triennially, whilst still providing signatories the option to submit both reports annually if this is preferred.

It is important that the Stewardship Code report remain a standalone document that provides the necessary information for readers to fully understand the "Activities and Outcomes" report. To ensure this we recommend following IIGCC's proposal to make the introductory statement of the Activities and Outcomes report a mandatory requirement that would provide a summary of the Policy and Context Disclosure report. This could also be aided through cross-referencing to the Policy and Context report or to specific policies provided on a signatory's website. The FRC should make clear that the Introductory statement is not in replacement of the Policy and Context Disclosure section and that it only provides the context necessary to read the Activities and Outcomes report as a standalone document.

Lastly, if the FRC maintains the proposed revised definition it will be important for signatories to disclose how they are interpreting stewardship, within the Introductory statement signatories should be required to explain how they are interpreting and executing effective stewardship.

QUESTION 3: DO YOU AGREE THAT THE CODE SHOULD OFFER 'HOW TO REPORT' PROMPTS, SUPPORTED BY FURTHER GUIDANCE?

The Code should offer clear 'How to report' prompts which are supported by further guidance to maintain the Codes**'** principles-based approach, allowing signatories the flexibility to adapt the principles to their unique circumstances. This approach can help foster best practices and ensure the disclosure of comparable and relatively standardised information. Such consistency and clarity are particularly important for enabling asset owners to effectively select and monitor investment managers. In the second section of our response (pg.15), we highlight a range of PRI resources the FRC could consider to inform the development of further guidance. We would also recommend that the FRC involves practitioners in the development of guidance to ensure that guidance is useful and relevant. This could be in the form of roundtables or the establishment of an ongoing advisory committee.

In addition, further guidance focusing on transition finance could be particularly helpful in terms of fostering market awareness and building capacity to conduct stewardship to support the economy-wide net-zero transition aligning with the UK government's growth ambitions. Research shows that the green economy grew 9% in 2023, against a growth rate of 0.1% in the rest of the economy. Stimulating green investment is the most effective way to grow the economy and create jobs in high-tech industries. The PRI has recommended that the UK government adopt a whole-of-government approach to the transition.[10] The FRC also has a vital role to play together with other policymakers in ensuring investor stewardship contributes meaningfully to these broader economic and environmental objectives and creates long-term values for clients and beneficiaries.

QUESTION 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?

Asset owners (AOs) are the ultimate fiduciary responsible for the stewardship of underlying beneficiary capital. The default position of the Code should be that AOs are expected, where it is aligned with their fiduciary duty, investment beliefs and client/beneficiary interests, to engage with investees. Whether this is discharged via service providers is an implementation point which can be captured by the accompanying guidance, as per the recommendations below. Responsible AOs who see themselves as universal owners, often seek to understand the environment in which their investee companies exist and may be more naturally inclined to bring a holistic, market-wide perspective to engagement. This may contrast with the investee-specific or idiosyncratic lens that asset managers (AMs) may be more inclined to take. However, the expectations set out in the consultation by this proposed change send a signal that this is not the case. Additionally, AOs have raised concerns that if there is no longer a requirement for them to respond to these principles, they may find it more difficult to access data from their AMs.

[10] PRI (2024) response to the UK Transition Market Review

The suggested change to exempt those with 10% or less assets managed in-house from Principles 3 and 4 creates unnecessary complexity in distinguishing between 'direct' and 'indirect' asset management. Furthermore, without specific methodology supporting this threshold, it risks being challenged. Introducing such nuances could distract from the code's key purpose, ultimately outweighing any benefits of differentiated reporting expectations.

Clarity of expectations will be important in achieving the FRC's objective of reducing the reporting burden whilst retaining the same level of stewardship practice. We recommend the following language**,** "*All principles are applicable to both AMs and AOs on a "apply and explain basis", noting that there can be a range of responses that the FRC deems acceptable depending on the investor's; size (by AUM), asset class exposures, and approach to stewardship (which can differ for internally and externally managed AUM)*." AO capacity varies and the Code should seek to incentivise sufficient resourcing for stewardship engagement and oversight that is aligned with their stewardship ambitions, consistent with their fiduciary duty, beneficiary interests and client mandates. To support this, we recommend that accompanying guidance clarifies what is deemed acceptable by the FRC for different types of AOs (e.g., by AUM).

Within the accompanying guidance the FRC may want to qualify any associated nuances such as:

- for a 'small AO' which discloses that their engagement with investees (Principle 3) is delegated to an AM (or other service provider), greater attention is focused on their reporting for Principles 5 & 6 and whether they have used collaboration to scale up any efforts.
- how the principles apply for AMs that deploy any client AUM in external funds (e.g. a Fund of Fund approach, or specialist LDI mandates)

Rather than remove the requirement for AOs to report on Principles 3 and 4, we recommend that guidance set clear expectations and provide examples for how AOs can incorporate their AM's case studies to demonstrate how the AO discharges their fiduciary duty of stewardship to avoid duplication of case studies between AM and AO responses.

QUESTION 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?

Please refer to our recommendations in Question 4 where we have outlined that the distinction and tailoring for different signatory context is better dealt with by clarifying that all principles apply. Expectations for implementation will differ and should be summarised in the accompanying guidance.

QUESTION 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?

The streamlining of reporting should be guided by the context of the signatory within the investment chain. However, any changes to the Code should reinforce the expectation that services provided across the value chain aim to support the objective of high-quality stewardship. We have the following recommendations on how the "Activities and Outcomes" report for service providers could be adjusted to help realise this.

Principle 1

This principle centres on communication but does not reflect that, in practice, clients may rely on service providers for education (e.g. Trustee training). Service providers, particularly investment consultants, therefore have a significant ability to inform and steer the preferences and investment beliefs of clients through the range of services that they offer. We recommend including language that recognises this for example including the bracketed text: *"Signatories play a vital role in clients' stewardship activities [and the range of services on offer can help inform the objectives set by clients]."*

The omission in Bullet 2 fails to recognise that investment consultants may service clients through both delegated/fiduciary and traditional advisory mandates, overlooking their potential impact on influencing client investment beliefs and ambition on sustainable investing matters. We recommend updating the language to include the bracketed text "*Investment consultants: give examples of how your [interaction with clients facilitates their understanding on the range of stewardship activity that could be employed and how the services offered (both delegated and advisory)] ~~advice~~ to clients incorporates their stewardship priorities and is tailored to their needs."*

Principle 3

The way principle 3 is currently drafted is suitable for the 'traditional' advisory services model offered by investment consultants but doesn't reflect that there has been a trend of delegated/fiduciary services becoming more prominent in the investment consultant market.[11] Under a delegated model, investment consultants take on an AM role similar to a fund of fund, and in practice they tend to be able to offer clients either service model. The wording should reflect that when servicing clients via a delegated model investment consultants have a responsibility to not just monitor underlying AM stewardship approaches but ensure the services they package up as a de-facto fund of fund AM are meeting client needs, with the investment consultant deploying their stewardship responsibilities at the client mandate level too.

We recommend updating the language to include the bracketed text:

- Adjusting the Principle: "*Investment consultants integrate stewardship considerations in their ~~advice~~ services [(both advisory and delegated)] to clients*."
- Adjusting the description: *"[Under an advisory service model], evaluating an asset manager's stewardship approach and its alignment with the stewardship objectives of clients is a key part of supporting clients' stewardship activities. [In addition, where clients are serviced through a delegated model the investment consultant should ensure that these services support its clients' stewardship aspirations.]"*

Given investment consultants can offer their clients different service models, the FRC should provide guidance to set expectations for how investment consultants structure their reporting e.g. the service provider components of the Code apply to assets under 'traditional' advisory services, and the asset manager component for AUM under a delegated model.

[11] IC Select (2024) Fiduciary Management Market Survey 2024

Principle 4

Practitioners are exploring how stewardship practices can evolve to target system-level risks in addition to investee specific interactions. We expect that the market will develop with a broader range of services offered by proxy advisors including market-wide and system-level considerations. We recommend that this principle is made applicable to both types of service provider to contribute to this market development.

Other types of Service Providers

By distinguishing Principles between proxy advisors and investment consultants the proposed Service Providers Code no longer addresses the broad spectrum of service providers; some of whose activities could support effective stewardship that are relevant to the Code.

QUESTION 7: DO THE STREAMLINED PRINCIPLES CAPTURE RELEVANT ACTIVITIES FOR EFFECTIVE STEWARDSHIP FOR ALL SIGNATORIES TO THE CODE?

Policy and Context Disclosure – For asset owners and asset managers

The separation of the "Policy and Context Disclosure" section from the "Activities and Outcomes" report, and the removal of the "Outcome" section from policy and governance-related principles may diminish signatories' imperative to evaluate how effectively their policies enable stewardship outcomes. Additionally, the three-year review cycle for policy and context disclosures may inadvertently reduce the emphasis on continuous policy assessment that was previously embedded in the 2020 Code.

b) Describe how your resources enable effective stewardship.

To strengthen the 'How to report' section the FRC should include a question asking signatories to explicitly identify the range of stewardship activities they seek to undertake. Currently, the points included transition directly from governance policies to specific roles and responsibilities, creating a gap in understanding the stewardship mechanisms that organisations are governing and implementing. We propose the FRC include the following language: *'Disclose, at a high-level, how you categorise the types of stewardship activity that are possible and those that you identify as priorities for your organisation to employ*.' This addition in the "Policy and Context Disclosure" section would provide signatories with a foundation upon which they can build their narrative in the "Activities and Outcomes" report, demonstrating the scope and scale of their stewardship operations.

c) Describe your stewardship policies and processes, and how you review them.

While the description for this principle acknowledges that "*Stewardship policies and procedures are essential to ensure an organisation takes an effective and consistent approach to stewardship,"* the current "How to report" section does not ask signatories to evaluate their policy effectiveness over time which creates a gap in accountability. We recommend reinstating similar wording to what was outlined in Principle 2 of the 2020 Code requesting signatories to explain "*how they have reviewed their policies to ensure they enable effective stewardship*."

Furthermore, given that escalation is no longer addressed as a standalone principle but rather integrated across multiple principles, when asking signatories to disclosure their main stewardship policies there should be specific reference to include their escalation policy or framework.

e) Describe how you maintain a dialogue with clients and/or beneficiaries.

How this principle has been re-written in the revised Code places focus primarily on communication with clients and beneficiaries, moving away from the previous Code's emphasis on incorporating their needs and preferences into investment strategy and decision-making. PRI's research shows that pension funds often struggle to effectively integrate beneficiary preferences into their stewardship approach, and beneficiary engagement with pension savings remains limited.[12] To address this gap, we recommend reinstating language from Principle 6 of the 2020 Code that asks signatories to explain *'how they have taken account of the views of beneficiaries/clients where sought, and what actions they have taken as a result*.' This addition would help ensure that dialogue with beneficiaries and clients leads to meaningful action rather than simply being a communication exercise

Activities and Outcomes Report – For asset owners and asset managers

Principle 1

The "How to Report" section of Principle 1 would be strengthened by incorporating the term 'systematically' more consistently throughout. This emphasis would reinforce that stewardship should be an integral part of investors' strategy and activities rather than ancillary to the core process of investment decision making as it is often viewed.[13] To further support this integration we recommend adding the following bullet points:

- *'Provide evidence of how you have carried out the different types of stewardship activity identified in the policy & context section, including examples of how this has differed across investment styles, asset classes or geographies'*
- *'Provide evidence of how these activities interact with the asset allocation decision-making aspects of the investment process, including how stewardship activity is informed by asset allocation (and vice versa)*'.

These additions would help demonstrate how stewardship is embedded throughout investment processes and showcase the interconnected nature of stewardship and investment decision-making across different contexts and strategies.

Principle 2

Policy engagement and collaborative engagement which are key levers for addressing system-level and market-wide risks, are not mentioned in Principle 2. Engagement with broader stakeholders on industry practices, standards and regulations can contribute to better addressing system-level or market-wide risks.

[12] PRI (2021) Understanding and aligning with beneficiaries' sustainability preferences
[13] PRI, UNEP FI, and Generation Foundation Legal Framework for Impact Summary Report (2024)

Signatories should be encouraged to extend engagement beyond investee companies to include a wide range of stakeholders. The “How to report” section should include direct reference to policy engagement as an activity signatories can consider undertaking to address market-wide and system-level risks. Additionally, the FRC should include alongside bullet 3 examples of other relevant stakeholders such as investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics as was set out in the 2020 Code.

The guidance for Principle 2 should explain how signatories may consider undertaking policy engagement, similar to how ICGN has set out their ‘Principle of public policy engagement’.[14] The guidance should also address how policy engagement can extend to investee companies, including monitoring how these companies engage with government (both directly and through trade associations) and assessing whether such engagement aligns with investment objectives.

Additionally, we recommend including direct reference to collaborative engagement in the “How to report” section. The scope and scale required to address system-level and market-wide risks extend beyond what any individual investor can achieve.

Lastly, in the How to Report section it asks signatories to “*Describe the key market-wide and system-level risks you have identified and how they related to your investments, including where they offer investment opportunities.*” We recommend removing the text “including where they offer investment opportunities as signatories should be considering the risks and opportunities associated with market-wide and system-level risks equally.

Principle 3

We recommend the “How to report” section to include the bracketed text *'Explain the purpose of your engagements, [including how you have developed well-informed and precise objectives, and whether you have a theory of change*.]' This addition would help signatories better demonstrate the intentionality behind their engagement activities. This principle should also recognise the potential for engagements to be conducted over several years, similar to IIGCC we recommend that the FRC ask signatories in the case of engagements being conducted over multiple years, how progress has been tracked and monitored, and what interim targets were used, if any.

Similar to our recommendation for Principle 2, we recommend that Principle 3 also include direct reference to policy engagement. The guidance for Principle 3 should then expand on the different types of engagement, like the approach taken in the Swiss Stewardship Code.[15] This would provide signatories with a clearer framework for understanding and reporting on their various engagement activities and their respective purposes. It would also be beneficial for the guidance to expand on how engagement can vary depending on asset class.

Principle 5

The current phrasing used in the How to report section of Principle 5 seems to place more emphasis on the policy or process a signatory has for the selection and oversight of external managers, rather than what actions signatories have taken. PRI data shows that while asset owners are increasingly making

[14] ICGN (2024) [ICGN Global Stewardship Principles]()
[15] AMAS and SSF (2023) [Swiss Stewardship Code]()

sure their managers' stewardship policies align with their own policies or expectations, more granular assessments of asset managers' approaches are less common – including assessments of the extent to which they prioritise system-level sustainability issues.

To address this gap, we recommend the FRC require signatories to provide specific information about what signatories have engaged their managers on, engagement activities managers are undertaking and how they prioritise system-level risks. This would help demonstrate how signatories are ensuring their stewardship objectives are being effectively implemented through their external managers.

Policy and Context Disclosure – For service providers

d) Describe how your governance and resources enable delivery of those services.

Mirroring the policy and context disclosure for AOs and AMs, we recommend that the FRC strengthen the 'How to report' section of principle b) by including a disclosure requirement for service providers to identify the range of stewardship services they offer. Specifically, we propose the FRC include: *'Disclose, at a high-level, how you categorise the types of stewardship services available and those that you identify as priorities for your organisation to deliver*.' This addition in the "Policy and Context Disclosure" section will provide service providers with a foundation to demonstrate the scope and scale of their stewardship support in the "Activities and Outcomes" report.

QUESTION 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?

Cross-referencing as a voluntary option in the Code presents both opportunities and challenges that warrant careful consideration. Feedback from signatories indicates varying perspectives on its potential utility and implementation.

Cross-referencing could serve multiple purposes, from linking to organisational policies that inform stewardship decisions to providing access to additional case studies that would otherwise significantly lengthen the report. Cross-referencing could also be valuable for dynamic content that requires frequent updates, such as voting records.

The Code report serves as a narrative tool for communicating stewardship activities and decisions. Cross-referencing, if not carefully managed, could fragment this narrative and potentially diminish the report's effectiveness as a standalone document. The readability and comprehensibility of the report are important to ensure that stakeholders can understand key information without excessive reliance on external sources.

The FRC would need to establish clear parameters around what types of external information would be appropriate for cross-referencing, and how this information would be assessed as part of the overall stewardship reporting framework. The FRC may want to consider how the ISSB's S1 (General Requirements) allows for cross referencing. We have included some of the requirements that the FRC may want to consider:

- [B45(a)] 'the cross-referenced information is available on the same terms and at the same time as the sustainability-related financial disclosures'
- [B45(b)] 'the complete set of sustainability-related financial disclosures is not made less understandable by including information by cross-reference'
- [B46] The information maintains the characteristics of quality expected by the standard (relevant, representationally faithful etc.)
- [B47(a)] the report in which the cross-referenced material is located is clearly identified and details are provided on how to access that report
- [B47(b)] 'the cross-reference shall be to a precisely specified part of that report'[16]

While cross-referencing could allow for more dynamic updating of information on signatories' websites, it also raises questions about the long-term accessibility and stability of referenced content. Any cross-referencing should primarily link to formal documents rather than general website content, with appropriate summaries provided within the main report to maintain its standalone value.

Careful consideration should be given to whether the benefits of increased flexibility through cross-referencing outweigh the potential impacts on report cohesion and accessibility. The FRC would need to consider how external information would be assessed as part of its evaluation process, ensuring that any implementation enhances rather than diminishes the effectiveness of stewardship reporting.

[16] IFRS Foundation (2023) IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

SECTION 2: RECOMMENDATIONS ON GUIDANCE

PRI has identified a number of resources that could inform the development of guidance for the relevant principles. We would welcome further engagement with the FRC on developing the guidance documents. We would be happy to discuss these resources in detail to identify specific elements that would enhance the guidance documents.

Policy and Context Disclosure – For asset owners and asset managers

- Understanding and aligning with beneficiaries' sustainability preferences -This guide seeks to help asset owners learn about and incorporate beneficiary preferences. Alongside this guide we have published a survey template which signatories can modify to fit their purposes and use to gather beneficiaries' views.
- Introductory guide to Responsible Investment: stewardship - This introductory guide explains the importance and relevance of stewardship within responsible investment and outlines the stewardship tools investors can incorporate into policies, processes and practices.
- Putting resources where stewardship ambitions are – this report was written by the Thinking Ahead Institute (TAI) and commissioned by the PRI as part of our Active Ownership 2.0 programme, which sets out a framework for the more ambitious stewardship needed to deliver against beneficiaries' interests and improve the sustainability and resilience of the financial system.

Activities and Outcomes Report – For asset owners and asset managers

Principle 1

- Investing for sustainability impact guidance - this guide is for both asset owners and asset managers on investing for sustainability impact (IFSI). This guide introduces a four-part framework for investors to implement IFSI, drawing on the findings of the report, A Legal Framework for Impact.
- Active Ownership 2.0: the evolution stewardship urgently needs - A framework for the future of stewardship where investors seek outcomes, prioritise system-level sustainability issues, and use collaboration as an integral tool to overcome the collective action problem.
- Stewardship in private equity: A guide for general partners - This guide aims to help private equity general partners execute stewardship of their portfolio companies, partly by highlighting best practices for both beginners and leaders in stewardship. It walks the reader through whom, when and on what to engage and provides a practical toolkit addressing the how of engagement.
- A practical guide to active ownership in listed equity - This report outlines concrete steps to make active ownership an effective tool to support long-term value creation in listed equity investing.

Principle 2

- A sustainable finance policy engagement handbook -This guide explains why investors should engage with policy makers, how they are doing so and how to get started.

Principle 3

- ESG engagement for sovereign debt investors - How existing communication channels can be leveraged to stimulate conversations around ESG topics through a multi-pronged process, which can be mutually beneficial for sovereigns and investor.

- ESG engagement for fixed income investors - This report offers guidance on how fixed income investors might structure their engagement strategies as an integral part of their approach to responsible investment.
- Engaging on plastic packaging - The PRI has published four guides to help investors engage with key sectors in the plastic packaging value chain including petrochemicals, containers and packaging, fast-moving consumer goods and waste management.

Principle 4

- A guide to filing impactful shareholder resolutions - This paper guides investors as to how they can use shareholder proposals to drive improvements at investee companies on matters related to environmental, social and governance (ESG) issues.
- Making voting count: principle-based voting on shareholder resolutions - This paper is relevant to asset owners and investment managers with active and passive listed equity exposure, as well as to service providers who assist in the proxy voting process.

Principle 5

- Elevating Asset Manager Net-Zero Engagement Strategies - Through this discussion paper, the Net-Zero Asset Owner Alliance creates a foundation for asset owner expectations of asset managers regarding climate engagement. Specifically, the Alliance sets out principles, requests and practices that are applicable to all Alliance members' asset managers.
- Evaluating managers' stewardship for sustainability - The PRI has created a tool to evaluate and compare managers' stewardship practices for sustainability outcomes.
- Stewardship for sustainability: Responsible investment DDQ - Alongside the above guidance PRI also created a due diligence questionnaire (DDQ) which they can use to discuss this topic with investment managers.
- Asset owner guide: investment manager selection - guidance to help asset owners address responsible investment principles and ESG factors in their relationships with their investment managers.
- Asset owner guide: investment manager monitoring - This guidance should also help asset owners in structuring and compiling information from several investment managers for the purpose of reporting on ESG performance to clients and beneficiaries.

Principle 6

- How to maximise the value of proxy advisers - Josephine Notaras, PRI Sustainable Financial System Team Manager, looks at the way investors use proxy advisers, where there are challenges in the voting chain, and how changes could be made.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of FRC further to support high-quality stewardship in the United Kingdom.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org