

Clients & Friends Memo

Financial Reporting Council Stewardship Code Early Reporting Review

6 October 2020

In November 2019, we reported that the UK's Financial Reporting Council (the "**FRC**") had issued a revised Stewardship Code (the "**Stewardship Code**") which came into effect from 1 January 2020 (see our previous memo [here](#)). The FRC will publish its first list of signatories to the 2020 Stewardship Code, based on reports for the period 1 January – 31 December 2020 in Summer 2021. On 30 September 2020, the FRC published its early reporting review including guidance for those entities who intend to submit applications to be included in that first list of signatories.

The review (the "**Review**", accessible [here](#)) analysed 21 reports (about 1/10th of the number they expect by the deadline), and assessed how well signatories are addressing the higher standards set by the revised Stewardship Code.

The Stewardship Code is a voluntary code applicable to asset owners, asset managers and service providers, setting out 12 principles (6 for service providers) for effective stewardship of investments. Institutions wishing to differentiate themselves on the basis of their stewardship may submit a Stewardship Report to the FRC, explaining how they have applied the Stewardship Code in the past 12 months. If that Stewardship Report meets the FRC's reporting expectations, the institution will be listed as a signatory to the Stewardship Code.

The FRC highlighted key observations in the Review:

- reporting needs to reflect on the effectiveness of approach rather than merely making general statements as to the approach adopted, and statements as to outcomes must be supported by specific evidence;
- reporting should address all asset classes and geographies covered by the reporting institution; even if the stewardship approach differs or is not as developed in some asset classes, this should be explained. The Review notes that explaining barriers or limitations in stewardship where they exist, as well as plans to address those, is good reporting; and

- institutions must report against all of the principles and reporting expectations, and the best reports will make links between them. Even though the principles are individually numbered, they are not merely a checklist and different disclosures and evidence may have links to several principles.

The FRC emphasises that there is no single approach to good Stewardship Code reporting, and reminds reporting entities it is important to avoid boilerplate language. The early reporting reflected this tenet, and reports varied in length from 25 to 80 pages. While this means Stewardship Code reporting may be less easily comparable across different institutions, their status as an approved signatory to the Stewardship Code is intended as a kitemark indicating investors can properly understand their stewardship credentials via their report.

Prospective first signatories must submit their final Stewardship Reports in respect of 2020, by (i) 31 March 2021 for asset managers and service providers, and (ii) 30 April 2021 for asset owners.

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If you have any questions, please feel free to contact any of the following Cadwalader attorneys.

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