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19 February 2025

Ms Andrea Tweedie
Head of Stewardship
Financial Reporting Council
By email: stewardshipcode@frc.org.uk

Dear Andrea,

UK Stewardship Code Consultation

About ACSI

Established in 2001, the Australian Council of Superannuation Investors (ACSI) exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with more than $1.9 trillion in funds under management.

Through our research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership, which enhances the long-term value of the retirement savings entrusted to them to manage. ACSI members can achieve value for their beneficiaries through genuine and permanent improvements to the practices of the companies in which they invest.

Australian context

A number of ACSI's international members are UK-based asset owners and signatories to the UK Stewardship Code (the Code). In addition, the Code's influence extends beyond borders. The introduction of the Code generated global interest in stewardship, with many countries following suit to introduce their own versions. ACSI itself has supported the Code for many years, welcoming its introduction in 2010, alongside other UK and international asset owners, many of whom continue to play an important role in the implementation of stewardship in the UK and around the world.

In Australia, ACSI created the Australian Asset Owner Stewardship Code (AAOSC) in 2018 and ACSI members may choose voluntarily to report against it.

Australia's financial system incorporates a specific 'best financial interests duty' (BFID). The BFID was legislated in 2021 (replacing the previous articulation of the duty) and intended to clarify the way in which superannuation trustees' make decisions. Trustees' duties and powers must always be exercised in accordance with the best financial interests of beneficiaries, crystallising the approach already generally taken by trustees in Australia, including ACSI member signatories to the UK Stewardship Code.

ACSI's position

In accordance with the topics of most interest to our members, ACSI's consultation response addresses the definition of stewardship and the proposals on service provider reporting.

Definition of Stewardship

Overall, ACSI supports the current Code's definition of stewardship, however, recognises it could be clarified to avoid misunderstandings as to the overall aims and benefit of stewardship. The information disclosed in accordance with the current definition is helpful to asset owners, particularly those who may rely more heavily on market standards or the robustness provided by the regulator's assessment, in delivering their stewardship role.

The Code's removal of references to some of the key risks that long-term investors face (like climate change) alongside the amended definition, has the potential to imply a de-emphasis of the importance of exercising ownership rights and responsibilities. Climate change and other ESG issues can be key drivers of long-term value as asset owners aim to protect and enhance their members' investments. Asset owners engage in stewardship to protect and enhance investment value, which necessarily requires a consideration of the full range of risks and opportunities. Investment value is, and must be, the primary objective in undertaking stewardship activity.

As an alternative to the proposed definitional change, ACSI's view is that a different formulation may be more appropriate than the wholesale change proposed and could address any confusion in the market on the primary purpose of stewardship activity. For example, instead of removing the entire second half of the sentence from the current definition, the FRC could instead replace 'leading to' with wording such as 'that may support' or 'may lead to'. Such an approach removes the potential for confusion in the current definition, while clarifying the ongoing potential for wider benefit associated with some stewardship activity.

Moving or removing references to stewardship approaches may also be seen to de-emphasise reporting on important issues, for example, the proposed changes in the Code in respect of collaboration. Collaboration remains an important part of stewardship and can promote efficiency for both investor and investee. Of course, collaboration must always take place within the bounds of the law, in whichever jurisdiction the engagement is taking place. We note that in Australia, the Australian Competition and Consumer Commission has recently issued guidance on sustainability collaboration, which, helpfully articulates that there are many ways that interested entities can work together without contravening competition law.

Service Providers

ACSI engages with companies and policy makers to encourage the adoption of good governance, better disclosure and effective risk management practices and the outcomes of this engagement are reflected in our proxy recommendations. These recommendations, in turn, help our members exercise their own investment rights and responsibilities.

ACSI publishes an annual stewardship report outlining our approach to engagement, public policy advocacy and research, but is not a service provider signatory to the Code, given we do not operate in the UK. Despite this, we support the FRC's introduction of Principles to be applied specifically by proxy advisors and investment consultants, as a way to encourage more tailored and insightful reporting. We also encourage the FRC to support consistency with international codes, to the extent possible, to promote efficiency for those signatories subject to other codes.

We note the proposals to differentiate reporting requirements for asset owners and asset managers, As you will be aware, investment models will differ depending on the organisations' approach. Models for internal and external management of assets, plus approaches to the integration of material issues, will necessarily differ, and therefore cannot always be neatly segregated into asset management and asset ownership, and the Code should have sufficient flexibility to recognise these differences. Nonetheless, all parties in the investment chain must aim to protect and enhance investment value, which provides all parties in the investment chain the rights and responsibilities to undertake stewardship activities. We are aware that some in the market have interpreted this differentiation as de-emphasising some stewardship activity. We recommend that the FRC clarify that this was not the intention.

Thank you for the opportunity to respond to the consultation and I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manager Policy and Research (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully,

Louise Davidson AM
Chief Executive Officer, Australian Council of Superannuation Investors