

Consultation Response

UK Stewardship Code

February 2025





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Introduction

The Law Society of Scotland is the professional body for over 13,000 Scottish solicitors. We are a regulator that sets and enforces standards for the solicitor profession which helps people in need and supports business in Scotland, the UK and overseas. We support solicitors and drive change to ensure Scotland has a strong, successful and diverse legal profession. We represent our members and wider society when speaking out on human rights and the rule of law. We also seek to influence changes to legislation and the operation of our justice system as part of our work towards a fairer and more just society.

The Banking, Company and Insolvency Sub-committee welcomes the opportunity to consider and respond to the consultation on the UK Stewardship Code (the “**Code**”).

Consultation Questions

1. Do you support the revised definition of stewardship?

We note the 2020 expanded definition of stewardship that aimed to promote wider stakeholder interest is now being narrowed to support the delivery of financial returns and protection of capital for clients and beneficiaries. We view this as helpful in sharpening the focus on the benefits that effective stewardship can bring. We are far from against requiring asset managers, asset owners and corporate forms to consider wider social impacts, however do not think that stewardship is the right mechanism to achieve this goal.

In the proposed definition, we have concerns over the continued use of the word “sustainable”. We believe this term is ambiguous and can mean different things to different people. For some, sustainable can be understood in an eco-friendly sense whereby stewardship practices aim to reduce the impact that signatories have on the environment. This is reflected in prior consultation revealing that many interpreted the 2020 definition as meaning the pursuance of “*environmental and social objectives*”. For others, economic



and corporate sustainability may be understood as a focus on the long-term transparency of a signatory's operations, their financial performance and other business practices. Such practices focus on the underlying benefit that these bring to their clients and beneficiaries income and overall value of investment.

Given that varying interpretations exist as to what “sustainable” actually means, we would ask that further clarity is provided so as to facilitate a clearer understanding of the definition of stewardship. If the intention is to use the term sustainable in an economic/corporate sense then this might better be achieved by rephrasing so it reads “*create value for clients and beneficiaries that can be sustained in the long term*”. We see this as offering the best opportunity for signatories to accurately reflect stewardship in their annual reporting.

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 welcome any approach that strengthens an understanding of what a signatories long-term policy intentions are, and that attempts are made to ensure that these do not change on a frequent basis. Such measures will ensure clarity of a signatories core values meaning that investors can better understand how their interests are to be managed.

However, we request that further guidance is issued as to how this will work in practice. In support of this, we point to an example contained in the consultation document which refers to a signatory having to determine “*minor amendments and those that are more significant.*” In doing this, a line needs to be drawn between minor changes and those that are bigger in effect. In the absence of guidance (or provision of clear examples detailing the parameters of a “*significant*” change thereby triggering a reporting requirement) we are concerned that inconsistencies may arise in how, and when, each signatory detail a policy and contextual change.



Furthermore, we also question whether the burden of annual reporting will actually be reduced given that signatories are still required to submit a copy of their policies and contextual information on an annual basis (albeit we note that this would only be reviewed by the FRC every three years).

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

We welcome the introduction of “how to” prompts and see these as being extremely useful in assisting signatories with their reporting requirements. We believe the prompts will facilitate the clearer explanation as to how a signatory has applied a Principle in practice and view this as a beneficial addition to the Code in terms of transparency.

We also believe that “how-to” prompts will help to standardize reporting amongst signatories, enabling easy comparison by highlighting best practice as to how to report. We think that the key to their success will be in the content of these prompts.

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 note that attempts are being made to develop a tailored approach for asset managers and owners, of which we are generally supportive. However, we would request that further detail is provided as to when a Principle applies to an Asset Owner, an Asset Manager and those that are applicable to entities investing through external managers prior to confirming our agreement. We see this reform as a relatively big change and so are keen to avoid a situation where reporting against a Principle is missed as a result of misunderstanding as to whom a Principle applies to. Such inadvertent consequences need to be considered so as to avoid any over or under reporting as part of the disclosure process.



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 see answer to question 4.

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?

Please see answer to question 4.

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

We believe that the two examples provided are sensible in approach. However, we do not feel that they provide enough detail as to how such streamlined principles would work in practice and would therefore welcome further guidance on this.

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?

We believe that this is the most problematic aspect of the proposed reforms to the Code. Whilst we recognise an aim to improve the efficiency in reporting through the sharing of pre-existing information, and that this may help to ease the reporting burden on signatories, we have significant concerns as to how this will translate into practice.



Our concerns stem from the underlying tension that exists in stewardship reporting. This stems from the cost and burden associated with reporting under the Code versus those that rely on the Code as a means of evaluating signatories thereby safeguarding their investment.

On the one hand, we recognise that the use of readily available information in reporting may better assist some sophisticated investors to understand a signatory's stewardship practice, in a way that is cost effective to those that are reporting under the Code. However for other investors, we do foresee issues. For example, if external information is referenced in a stewardship report that is new or unfamiliar to the reader (and whom may be unable to appoint any external advice to explain this new information), we believe the use of additional information could lead to increased confusion rather than a better understanding as to a signatory's stewardship practice. Vague cross references to large documents available elsewhere, which are themselves open to updating/alteration, could make compliance hard to track.

Furthermore, the cross-referencing of documentation (and information contained therein) through the use of hyper-link documents and footnotes may expire or become out-of-date. This could render important information as either being lost, or potentially hidden, thereby weakening the quality of information that is contained in a disclosure report (rather than strengthening it).

We are of the view that the use of cross-referencing of external information could also serve to reduce the overall time and effort that signatories take in detailing their stewardship practice. Signatories may simply refer to other sources of information that they have already prepared and leave it to the reader to determine what this actually means in terms of their stewardship practice. This approach would therefore shift the burden onto the reader to navigate through sources of (what may be) complex information in evaluating a signatory's performance against the Code. We are of the view that the onus should be on the signatory, rather than the reader, to clearly outline (in as simple a way as possible) what their policies and practices are in terms of stewardship, and how these are implemented in the every day decisions they take.

Finally, we would also flag the cross-jurisdictional issues that may arise in the reliance on external information. We point to instances whereby those signatories with wider



portfolio's may inadvertently use information from overseas jurisdictions that are not relevant to investors looking at their stewardship reporting in Scotland.

In view of the above, we have concerns that the use of such publicly available information may create a number of unintended consequences. We therefore believe that the above noted points should be considered to better develop this approach.

9. [Do you agree with the proposed schedule for implementation of the updated Code?](#)

We do not have any comments to make on this question.

[For further information, please contact:](#)

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