Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

February 2025

Sent via: stewardshipcode@frc.org.uk

Dear Sir or Madam,

Re: Stewardship Code Consultation 2024-2025

Minerva appreciates the opportunity to provide input to your consultation on the proposed changes to the Stewardship Code.

About Minerva

Since 1995, Minerva has provided independent, objective and expert sustainable stewardship support services to professional investors. Although some stakeholders may only think of us as a "proxy advisor", Minerva has, for many years, provided a range of complementary services to support clients in their stewardship responsibilities.

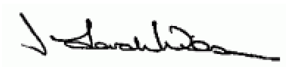
Vote Agency	Minerva pioneered secure, point-to-point electronic vote execution and management tools.
Shareholder Voting Research	Objective and independent analysis across the three critical dimensions – governance, sustainability and remuneration.
Stewardship Support	From policy development to vote reporting and manager vote audits, our expert analysts provide tactical support to institutional investors.
ESG Ratings and Data	In addition to the core governance analysis we also provide norms-based screening which together means that clients can create their own ratings to support their own individual investment thesis. Through our parent company, Solactive AG, Minerva's data is used to support the creation of bespoke ESG index solutions.

Minerva is uniquely able to offer clients a fully customised approach to stewardship which fully reflects each individual client's investment beliefs. We firmly believe that 'one size fits all' means 'one size fits nobody'. As such, Minerva has considerable practical experience of the varying standards of global financial markets disclosures and, critically, how best to align those market-by-market differences.

Should you have any questions about our individual responses, we would be happy to provide further background.

Thank you again for this opportunity to support informed stewardship.

Yours sincerely,



Sarah Wilson
Chief Executive

Consultation Responses

1. Do you support the revised definition of stewardship?

No.

The proposed redefinition of stewardship in the Code raises significant concerns which we believe do not align with our clients' legal requirements and legitimate investment beliefs. The insertion of the word 'may' in relation to stewardship's impact on the economy, environment and society introduces ambiguity. The shift weakens the key principle that responsible stewardship inherently considers systematic risks and opportunities.

Based on our long-standing experience of stewardship research and support, we recognise the critical role that stewardship plays in driving long-term value creation. By making the consideration of broader economic and environmental impacts appear optional, the revised definition risks de-legitimising these systemic factors and thereby diminishing the accountability of investors in shaping sustainable markets. Furthermore, the removal of explicit reference to 'environment and society' from the core definition has attracted widespread criticism[1], which we echo. This change is particularly troubling given that many UK pension funds, reflecting pensions regulations, and institutional investors have already embedded the 2020 definition and ESG considerations into their fiduciary responsibilities.

It should go without saying that companies operate in a social and ecological context. With the removal of direct references to sustainability, ESG and systematic risks such as climate change, the revised definition creates an unduly narrow focus on financial materiality alone, without providing a clear definition of financial materiality. The 2020 Code references "the sustainable benefits for the economy, the environment and society." This reference in the proposed update of the Code appears to have been removed and downplayed. Rather than weakening definitions, we believe that the Code should be underpinning the need for a systems level approach to investment which is inherent in the Pensions Regulation. At a time when investors and asset owners increasingly search for clear and standardised reporting on sustainability risks, the exclusion of these requirements in the Code puts capital providers at a significant disadvantage.

The removal of ESG references in the proposal Code could also impact the ability of signatories to demonstrate engagement and transparency on key sustainability issues. Asset Managers have growing fiduciary risks in relation to climate change, ESG

[1] Cautious optimism on stewardship code changes but definition challenges remain

challenges and wider sustainability issues, and the strength and effectiveness of their stewardship efforts is crucial to mitigate these risks.

The Code should aim to set clear expectations to ensure signatories explain how they integrate such factors into their strategies. Recognition of climate change as a systematic risk, particularly in the UK's regulatory context, is a key consideration driving long-term sustainable value creation. As frameworks develop globally the Code should seek to reinforce climate stewardship and incorporate this into the proposed changes, ensuring UK signatories remain competitive and aligned with best practice in complying with their fiduciary duty to manage environmental and social risks to a high standard. Failure to include ESG, climate change and sustainability matters in disclosure requirements risks inconsistency with global regulatory developments such as mandatory TCFD-aligned disclosures in the UK and risks weakening UK's leadership in responsible investment standards overall.

The 2020 definition provided clarity and alignment with global regulatory standards reinforcing the UK's position as a leader in responsible investments. The revised definition risks creating a perception that sustainability considerations are secondary rather than an integral part of long-term financial performance. We foresee potential challenges for signatories seeking to justify robust stewardship practices under a framework that no longer explicitly acknowledges their broader responsibilities.

The suggestion that this change supports growth and investment is not only counterintuitive, but lacks supporting evidence. High standards of governance, corporate reporting, and stewardship have long been a competitive advantage for UK markets, attracting global institutional capital. We acknowledge the sustained lobbying and campaigning in some political circles to address perceived weakness in the UK economy. The sound bites have attracted significant headlines, but simply do not stand up to rigorous scrutiny. The failings of, for example, the London Stock Exchange to attract listings, or wider economic challenges have their roots in political decision-making far removed from the informed exercise of shareholders' rights.

Weakening these standards would, we believe, lead to a two-tier system where some signatories maintain high stewardship standards while others can choose minimal compliance. This could lead to more performative 'box-ticking' activities rather than meaningful engagement, thereby weakening the Code's drive for high quality governance and sustainable investment practices.

The proposed revision also raises questions about who is advocating for these changes and whose interests are being prioritised. Stewardship appears to have been reduced to a partisan political issue, with the dilution of ESG-related commitments appearing to reflect pressure from groups resistant to transparency and sustainability-driven reforms.

2. Do you agree with 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?

Yes.

While we recognise the intention behind reducing reporting burdens, we believe that a three-year review cycle for policy and contextual disclosures may be too infrequent to capture meaningful changes in stewardship practices. Considering the rapid evolution of innovation, ESG and climate developments, regulatory frameworks, and investor expectations, we believe that a biennial review would strike a better balance between reducing compliance burdens and ensuring stewardship policies remain current and transparent. We agree with the proposed approach to reduce the frequency of assessments of policy and disclosures, if signatories remain responsible for updating relevant policy and context sections when material updates are made and do not delay updates until the third-year review cycle.

The Code is, however, more than a compliance stick; it serves to support a positive culture of good stewardship on behalf of underlying clients, the providers of capital. Looking to the requirements for Implementation Statements (IS), our experience with IS reporting highlights a concerning decline in some market participants' willingness to provide relevant stewardship information. This reached a new low in 2024, where a large platform provided us with this response in relation to a client's request for data: "While I appreciate, in the past, our colleague provided voting and engagement data on the externally managed funds on a one-off basis, we do not currently receive a feed of this information from other managers. The provision of this data is therefore not something which forms part of our service model…".

Platform managers perform an important fiduciary function, but without the corresponding duty to provide stewardship-related information, such as voting and engagement data - for all the investment funds on their platform. We were instead advised to seek such information directly from the underlying managers. We believe that this suggestion was unreasonable as the pension fund client had no legal or contractual relationship with the managers. The response was particularly disappointing as other platforms have been very positive and supportive. The refusal to be candid in relation to stewardship places an undue burden on clients, pension funds, investors and other third parties to source it themselves. Attitudes like this undermine transparency and effective stewardship. We believe that there remains a widespread belief that stewardship is an irritating afterthought rather than a holistic system-level investment necessity. The proposal for less frequent reporting could establish poor disclosure practices, leading to a deterioration in transparency. We recommend that while policy disclosures may be reviewed less frequently, signatories should be required to disclose any material updates biennially to maintain accountability. Additionally, if signatories wish to do so, we recommend retaining the combined one-report model, to provide flexibility and allowing signatories to align with the Code.

We acknowledge that the FRC does not regulate stewardship, and that there is a shared model between The FCA, The Pensions Regulator and DCLG, however we believe that the credibility and effectiveness of the Stewardship Code could be enhanced by randomised reviews or audits of Code reporting to ensure signatories are adhering to their stated commitments. Currently, once an organisation attains signatory status, there appears to be little follow-up to verify whether their stewardship practices align with their reported policies. This lack of oversight creates a risk that firms may maintain signatory status without demonstrating meaningful engagement or improvement over time. Some signatories provide detailed, transparent rationales for voting decisions, allowing stakeholders to understand their approach, while others offer minimal justification, making it difficult to assess their commitment to best practices. Without periodic reviews, there is no mechanism to address "stewardship washing" and differentiate between those who actively uphold stewardship principles and those who simply meet baseline reporting requirements. Introducing a formal review process — whether through random selection or targeted reviews — would, we believe, strengthen accountability, drive higher reporting standards and reinforce the Stewardship Code's role in fostering high quality stewardship across the industry.

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

Yes.

Stewardship reporting goes to the very heart of the purpose of investing, which is to provide sustainable returns that meet clients' expectations and requirements. It is not, as some might seem to believe, a blame game; all stakeholders need the entire ownership chain to succeed in that regard. We recognise the benefits of 'how to report' prompts and supporting guidance in improving clarity and consistency in reporting. Overall, we are in agreement with this proposal, however clarity and non-prescriptiveness are essential. The guidance must make a clear distinction between mandatory and voluntary disclosures to avoid the creation of a box-ticking approach being taken by signatories, where over-reliance on a set format encourages focus on baseline compliance rather than detailed high quality reports.

Overly prescriptive reporting guide or prompts could reduce the quality of disclosures by fostering minimal disclosure and reporting. Investors rely on nuanced, well-explained stewardship reporting to assess how managers and service providers are exercising their influence. Poorly designed prompts could reduce transparency rather than enhance it, if they discourage detailed insights in favour of standardised responses.

Reporting prompts and guidance may help new or existing signatories seeking to develop their disclosures to improve their reporting; it should be ensured that guidance is voluntary and non-prescriptive, outlining a clear distinction between minimum requirements and suggested best practice.

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?

Somewhat.

While direct and indirect investors operate with different levels of control over investment decisions, both play a key role in ensuring effective stewardship. Differentiating principles allow asset owners and managers to tailor their reporting based on their relevant stewardship activities, allowing more focused reporting and disclosures and providing each party with more flexibility.

Asset owners investing through external managers remain accountable for overseeing stewardship practices, engaging with managers and ensuring investments align with long-term sustainability and governance goals. Establishing distinct principles could create a two-tiered accountability system, potentially lowering stewardship expectations for indirect investors where they delegate investment decisions. A fragmentation of the Code requirements could allow asset owners an opportunity to distance themselves from responsibilities and pass these onto third parties.

We have observed numerous instances where asset managers provide insufficient stewardship disclosures to create meaningful Implementation Statements. The Code should therefore include principles that are aligned for all parties to have consistency and shared aims for the long term.

To address this, the Stewardship Code needs to strike a balance between flexibility and clear expectations, to ensure reporting reflects the specific circumstances of each signatory without creating windows of opportunity for weaker accountability. It is essential to encourage alignment across the investment chain, and recognising that asset owners, asset managers and service providers all play a role in pushing long-term sustainable value. Reporting requirements should support transparency for clients in a way that allows them to fulfil their own stewardship obligations effectively and meaningfully.

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?

Somewhat.

The proposed updated improves clarity and acknowledges the different ways stewardship is conducted between direct and indirect investors but does not address the decreasing transparency from some managers. It risks creating gaps in accountability. Asset owners remain responsible for effective stewardship, however weaker reporting requirements for external managers could reduce transparency on voting and engagement. The Code should outline clear expectations and requirements for investment platforms and asset managers to encourage data sharing and transparency for those who invest via third parties. Without this, signatories across the investment chain will face limitations in fulfilling their stewardship responsibilities.

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?

No.

The proposed separation misrepresents the varied nature of stewardship services and creates an artificial distinction where none should exist, and indeed does not exist within the context of the Pensions Act 1995, for example. With the exception of The Scheme Actuary or Auditor, "Professional Advice" can be provided by a variety of organisations, so long as those advisors conform to the requirements of the trustees[2].

If enacted, this proposal it would lead to an unfair dynamic where some providers are subject to more regulatory oversight than others, further perpetuating barriers to competition and innovation within the stewardship ecosystem. Not only do we not agree with the proposed distinction between proxy advisors and investment consultants, we believe that the proposals would not enhance accountability and transparency.

By way of explanation, Minerva provides stewardship services that have historically fallen within the domain of investment consultants, while investment consultants increasingly offer guidance on voting and engagement strategies. Additionally, the proposed framework overlooks and fails to acknowledge the growing role of ESG data providers, whose ratings significantly influence voting and investment decisions. If investment consultants are advising on voting, they should be held to the same

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[2] Pensions Act 1995

standards of transparency, methodological scrutiny, and accountability as proxy advisors.

Additionally, we are concerned that the proposals for separate principles for proxy advisors and investment consultants appear to be driven by the ongoing lobbying by investee companies[3] regarding the perceived influence of proxy advisors. While we recognise that transparency and engagement are important, this proposal risks giving credibility to unproven myths and rumours emanating from a small but vocal subset of the issuer community, further undermining the primacy of asset owners. We support fostering greater understanding, however the purpose of the Code should be focussed on prioritising the stewardship objectives of institutional investors, and in particular asset owners, the providers of capital.

Principle 2 of the Code being reserved for proxy advisors, requiring them to "*ensure the quality and accuracy of their research, recommendations and voting implementation*", appears to have been based on Article 3j of the Shareholders' Rights Directive II which was transposed into UK law in 2019. SRD was (and remains) flawed and was framed by conjecture about the role of shareholders as compared with actual practices. This is not entirely unsurprising given the complexity of investor relations and difficulties in communication created by the many layers of intermediation in the market. Research and data, should of course, be accurate, but a recommendation is an opinion or point of view. To promote the concept of an 'accurate' voting recommendation is therefore extremely dangerous as it undermines legitimate beliefs that investors are entitled to hold, even if they are at variance with management. Issuers may disagree with any given point of view but it cannot be said that an opinion is inaccurate. To require that recommendations must be 'accurate' in the same way as data inputs risks turning stewardship into a performative conformance exercise where only certain views are seen as legitimate. It undermines the fundamental right of shareholders, as property owners, to hold individual beliefs and exercise their judgement accordingly.

All service providers should be able to demonstrate high standards of transparency and accountability towards their clients. That is why Minerva is a signatory of both the Best Practice Principles for Shareholder Voting Research and the Stewardship Code. It is very disappointing that the critics of stewardship have, so far, been able to move beyond outdated and disproved mythology. Critics of the industry routinely ignore the significant differentiation between different service providers and based on the web statistics from the BPPG disclosure website, do not actually read or engage with the demanded disclosures.

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[3] UK Stewardship Code consultation – flexible principles not prescription

Principle 4 of the proposed amendments is focused on Investment Consultants' identification and response to systematic risks to support client stewardship. Stewardship is a fundamental responsibility, and all entities providing stewardship-related services should be expected to demonstrate how they incorporate systemic risks such as climate change, biodiversity loss, and governance failures into their frameworks and best practices. The FRC should therefore reconsider the effect of Principle 4 and who should fulfil the requirements of identifying and responding to systematic risks for all service providers.

Ultimately, we do not support the artificial distinction between proxy advisors and investment consultants, as it fails to recognise the interconnected nature of stewardship services. A more holistic approach is needed that holds all service providers, whether proxy advisors, investment consultants or engagement overlay providers, to consistent standards of transparency and accountability, as stewardship is a collective responsibility and frameworks should support the development of effective stewardship.

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

Somewhat.

The streamlined Principles improve clarity, but they risk oversimplifying key stewardship responsibilities. The removal of a standalone escalation principle could weaken accountability, especially when engagement is weak or fails to achieve the desired outcomes. If not built in effectively as a requirement, it can lead to asset managers viewing escalation as an option rather than a key step in responsible stewardship.

Without robust accountability measures, a risk develops where some signatories will only meet baseline compliance requirements rather than detailed, genuine stewardship efforts. The Code should aim to ensure all signatories comply with consistent standards of transparency, engagement and responsible oversight.

Furthermore, the examples we have provided show that many asset managers and service providers are already becoming unclear. The Code must be explicit in requiring transparency together with consistent and timely data sharing to prevent deterioration in stewardship standards.

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?

Yes.

We agree that external information resources should be cross referenced, as it can limit duplication. While cross-referencing external reports can help remove some reporting burdens, the Code should set out the types of information that can be sourced for this purpose and referenced reports should remain publicly accessible for a reasonable period of time. Additionally, stewardship reports should aim to provide a comprehensive overview of stewardship activities, even if external references are allowed, as a means to further elaborate and provide more detail and transparency in the reporting of stewardship activities.

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