

David Venus & Company Practice Note

The UK Stewardship Code

The UK Stewardship Code ('the Code') was issued by the Financial Reporting Council ('FRC') this month and aims to enhance the quality of engagement between institutional investors and companies, with the aim of improving long-term returns to shareholders and the delivery of governance responsibilities.



The FRC sees the Code as complementary to the UK Corporate Governance Code for listed companies as revised in June 2010. The Code is addressed to firms who manage assets on behalf of institutional shareholders such as pension funds, insurance companies and investment trusts. The FRC expects these firms to disclose on their websites how they have applied the code. Institutions that manage several funds need only make one statement.

The Code is made up of 7 principles and supporting guidance. The main principles state that institutional investors should:-

- **Principle 1** - publicly disclose their policy on how they will discharge their stewardship responsibilities.
- **Principle 2** - have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- **Principle 3** - monitor their investee companies.
- **Principle 4** - establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- **Principle 5** - be willing to act collectively with other investors where appropriate.
- **Principle 6** - have a clear policy on voting and disclosure of voting activity.
- **Principle 7** - report periodically on their stewardship and voting activities.

As with the UK Corporate Governance Code, the Code should be applied on a "comply or explain" basis. In practical terms this means providing a statement on the institution's website that contains:

- a description of how the principles of the Code have been applied; and
- disclosure of the specific information listed under Principles 1, 5, 6 and 7; or
- an explanation if these elements of the code have not been complied with.

The FRC recognises that not all parts of the code are relevant to all institutional investors and that small institutions may judge that some principles and guidance are disproportionate in their case. In these circumstances, advantage should be taken of the "comply or explain" approach and it should be set out why this is the case.

When a company publishes a statement of compliance (or explanation of non-compliance) with the Code, they should notify the FRC, who will retain on its website a list of those investors that have published such statement. The FRC also suggest that the statement should contain the name of an individual who can be contacted for further information.

For further information on The UK Stewardship Code please contact Susan Wallace susan.wallace@davidvenus.com or by telephone on 01372 465330.

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