BlackRock

29 March 2019

Corporate Governance and Stewardship
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Submitted via email to: stewardshipcode@frc.org.uk

RE: Proposed Revision to the UK Stewardship Code – Consultation

Dear Sirs,

BlackRock[1] is pleased to have the opportunity to provide a response to the Financial Reporting Council's (the FRC) consultation on the Proposed Revision to the UK Stewardship Code (the Code).

BlackRock supports a regime that increases appropriate levels of transparency and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation (the Consultation) and stand ready to contribute further to the FRC's thinking on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

We have taken the opportunity in this response to comment broadly on some of the key changes proposed in the Consultation. Overall, we welcome the FRC's pursuit of principles and guidance that promote effective stewardship amongst asset owners and asset managers, and are supportive of the general design of the proposed revised Code with that goal in mind. We do see a number of issues, however, with the way some proposals are currently framed.

The FRC draws a tangible link between a signatory's ability to articulate its organisational purpose – and how its purpose, culture and values enable it to fulfil its stewardship objectives – and the effectiveness of its stewardship activities.

As our Chairman and CEO, Larry Fink, made clear in January this year, in his annual letter to the CEOs of our investee companies, BlackRock believes that a company's success begins with a clear embodiment of its purpose in its business model and corporate strategy. We see purpose as a company's fundamental reason for being – what it does every day to create value for its stakeholders. On behalf of BlackRock's clients, the shareholders in the companies to which we wrote, we look to understand the companies' strategic framework for long-term value creation and expect this to have been reviewed by the companies' boards.

BlackRock's own purpose is to create a better financial future for our clients. We therefore see a strong alignment between this and our stewardship activities, which are focused on protecting and enhancing the long-term economic value of our clients' assets through engagement (including proxy voting) with the companies we invest in on their behalf. The priority we give to our stewardship activities can be seen in the growth of BlackRock's Investment Stewardship team (which was discussed in Mr Fink's letter to CEOs in 2018), which we believe will foster even more effective engagement with companies.

We recognise, however, that we operate in a diverse industry. A wide spectrum of investment strategies (including alpha-seeking, indexing, or a combination thereof) is set by asset owners, in conjunction with their beneficiaries, and executed by asset managers, involving investment in a range of asset classes (from publicly traded equity and debt to real assets and private capital). For the industry as a whole to aspire to the goal of effective stewardship, it is our view that a revised Code needs to provide a framework for all these different investment strategies. We strongly believe that further thought should be given to some of the specific proposals:

- The proposed new definition of stewardship, with its focus on creating sustainable value for beneficiaries, the economy and society (with all three constituencies apparently on an equal footing) is not consistent with the fact that certain stakeholders have a specific duty to their clients or beneficiaries (for example, the duty that asset managers have to their clients, the asset owners) which requires them to put their interests first. While we recognise that effective stewardship which supports long-term value creation for beneficiaries can indirectly lead to long-term benefits for society and the economy, we do not see it as a correct aim for stewardship to seek to deliver such benefits in the same tangible way.[2]

[2] This aligns with the approach of the recently published stewardship code in another European market (the Netherlands). In the guidance to principle 1 of that code, it was expressly recognised that: "*Asset owners and asset managers have a fiduciary duty to act in the best interests of their beneficiaries and clients and for the exclusive*

- The FRC's definition, and its proposals in relation to signatories' "*investment approach*" are predicated on the expectation that signatories integrate stewardship with all aspects of investing.[3] We do not believe this is an expectation that can be practically applied by any potential signatory, and as a result do not agree with the current formulation of the definition or the way the proposals for signatories' investment approach are framed. The relevance of stewardship insights at any particular stage of the investment process will depend on the asset class (which we discuss in more detail below) and the investment strategy in question. We believe, for example, that there is an especially important role for stewardship to play in meeting the expectations of clients investing in index strategies, because there is no option to sell a security if you are dissatisfied with that investment. Stewardship can be, and is, performed therefore during the on-going management of the investment, but identified risks cannot be managed through the decision to buy or sell – i.e. it is not possible to integrate stewardship directly into the investment decision-making for index strategies. It is in any event not appropriate, in our view, to expect that stewardship will be integrated into investment decision-making in all circumstances. Investment decision-making must be aligned first and foremost to the choices made by asset owners, who as a group will reasonably have a range of desired approaches that need to be respected. If a revised Code were to take too rigid an approach to what it expects to be done across the entire investment process, it would fail to acknowledge the different factors that drive certain strategies like indexing. It would similarly undermine the principle that the UK Government has to date upheld that it is for asset owners to define their investment strategies and that it is not government's role to direct assets (e.g. pension scheme holdings) towards certain types of investment.

- By expecting potential signatories to demonstrate how ESG (environment, social and governance) factors are taken into account as part of the investment process, the current proposals also do not recognise sufficiently the variety of issues that different investors consider to be material. ESG factors are not the only material issues that investors consider in aiming to generate sustainable long-term value for clients or beneficiaries, which may also include consumer behavior and legal or regulatory developments. A revised Code will, in our view, only succeed if it recognises the legitimate differences in investors' views and sets out principles that can be demonstrably applied where they are appropriate, depending on their relevance at the different stages of the investment process to the investment strategy being employed.

- We support the proposed expansion of stewardship to asset classes other than listed equities, but we believe this also needs to take a flexible approach that emphasises explanations as to how signatories seek to exercise stewardship across asset classes. The current proposals do not acknowledge the significant differences in rights and responsibilities that accompany ownership of listed equity, as compared with other asset classes. If the aim of a revised Code is to set expectations around stewardship outside of the realm of listed

purpose of providing benefits to their beneficiaries and clients. Therefore, the stewardship policy [of signatories] should be aimed at preserving and enhancing value for their beneficiaries and clients."

[3] We note here that we do not believe the term "*investment approach*" sufficiently differentiates between the various aspects of investing. In this response, we use the phrase "*investment process*" to mean the full investment cycle conducted by asset managers, encompassing investment decision-making and the activities carried out during the life of an investment. These activities will include on-going monitoring and the investment stewardship activities typified by voting and engagement. This is separate from asset allocation and the setting of investment strategies which will be carried out by asset owners.

equity then greater guidance will need to be provided, so as to give signatories proper insight into what the FRC considers to be best practice.

- Proposals to increase the transparency of stewardship activities are some of the most important in the Consultation. We recognise the desire amongst beneficiaries of investments to understand not only approaches to stewardship (which have been the focus of reporting under the current Code), but also what bearing stewardship has on long-term value. It is nonetheless important to ensure that any new reporting requirements are framed in a way that leaves room for diverse approaches, and that also is not counter-productive by undermining the ability of stewardship efforts to have real benefit in the context of creating long-term value. There are differing views across a wide group of clients and beneficiaries on what constitutes effective stewardship, and on where stewardship efforts should be focused. The effectiveness of engagement activities also fundamentally relies on the responsiveness of the boards and management of companies, who (unlike shareholders) direct the company's business and determine how to address any shareholder feedback that comes from engagement or voting. For this reason, it may not always be appropriate to look at engagement activities in terms of specific impact, as the most important aspect of a particular engagement may simply be to improve understanding on both sides in order to facilitate future discussions. Where the purpose of engagement is to effect change, the differing nature of the issues under discussion mean that progress in some areas will take longer than in others, and may depend on more intensive private engagement. Requirements for public disclosures should therefore not be extended to the point where they begin eroding the trust on which engagement is based and through which real change in companies can be brought about. In this respect, we believe more consideration needs to be given to how the right balance between public and private reporting can be struck within the reporting requirements of a revised Code.

- The proposals around the development and communication of signatories' purpose (and the related proposals concerned with governance), need to be framed in a way that is consistent with the purpose and goal of the Code itself and the recognised role of the FRC (or its successor). We do not see it as the role of the Code to set principles, such as in relation to the development of an organisational purpose, that do not directly relate to the stewardship activities of signatories, and it should not stray into areas that are already subject to formal regulation overseen by signatories' existing regulators.

The rest of our response elaborates on these points. If our position on any of the specific questions remains unclear, or it would be productive to discuss any of our views in more detail, we would be happy to meet with the FRC to facilitate this.

<u>The definition and scope of stewardship</u>

The FRC proposes to enlarge the definition and scope of stewardship through four key expectations:

- The expectation that stewardship should be seen as creating sustainable value for beneficiaries, the economy and society.
- The expectation that stewardship responsibilities and activities should be integrated into the entire investment process (in other words, at all stages in the

investment cycle, including investment decision-making, and not limited to what has traditionally be considered the stage for exercising stewardship, namely the on-going monitoring of investments already made).
- The expectation that stewardship should involve taking into account material environment, social and governance (ESG) factors.
- The expectation that stewardship should be exercised in relation to a range of asset classes, not just listed equity.

As noted above, we do not endorse the written definition of stewardship put forward in the Consultation. While we support the desire to evolve the definition in a way that speaks to both asset owners and asset managers, we believe it should reflect a view of stewardship that more clearly differentiates between the two. It also needs to respect the fact that investors (including both asset owners and asset managers) demonstrate stewardship in different ways appropriate to their role and the choice of investment strategy or asset class. Our suggested definition is:

> "*Stewardship is looking after the assets of beneficiaries that have been entrusted to the care of others in a way that protects and enhances the value of those assets. This involves, on the part of asset owners, appropriate allocation of the assets and, on the part of asset managers, close and continuous oversight of investments. Effective stewardship is likely to lead to long-term benefits for society and the economy.*"

We look below at each of the four key expectations through the lens of our proposed definition.

Creating sustainable value for beneficiaries, the economy and society

The FRC's proposed definition of stewardship advances the view that the purpose of stewardship activities is "*to create sustainable value for beneficiaries, the economy and society.*" This contrasts with the position adopted in the current Code, which states that "*stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital [i.e. beneficiaries] also prosper.*"

As noted above, we see that effective stewardship which supports long-term value creation for beneficiaries can lead to long-term benefits for society and the economy. In his 2019 letter to the CEOs of our investee companies, our Chairman and CEO, Larry Fink, articulated BlackRock's view that many issues (including retirement, public infrastructure and preparing workers for the jobs of the future) cannot be solved without corporate leadership. We also believe that companies that fulfil their purpose and responsibilities to stakeholders (meaning not only shareholders, but also employees, customers and communities) reap rewards over the long-term. In our stewardship work, we speak to companies about their corporate purpose, how this informs their strategy and culture and how ultimately this underpins a long-term approach in their businesses.

However, we believe it should not be the role of a stewardship code to seek to re-balance the investment landscape in a way that gives equal importance to society, the broader economy and the interests of providers of capital. For this reason, our suggested definition of stewardship retains a focus on beneficiaries, while also recognising how stewardship may benefit society and the economy.

Integration of stewardship with signatories' investment approach

As already noted above, the use of the term "*investment approach*" is currently unclear in its application to both asset owners – who are concerned primarily with asset allocation and the selection of investment strategies – and asset managers, who are concerned with the investment process (as we have defined it above). Reflecting the changes we believe are needed to the FRC's definition of stewardship, it is our view that more meaningful distinctions between the role of asset owners and that of asset managers should also therefore be introduced into the expectations that signatories incorporate stewardship across their respective areas of responsibility. The rest of our comments in this section are limited to what we see as expectations on asset managers within the investment process.

In our view, the most significant point emerging from the FRC's proposals in this area is the expectation that signatories should integrate stewardship by factoring information gained from stewardship activities into investment decision-making. We do not see this as a legitimate expectation for all signatories, as the relevance of stewardship insights at this point in time depends entirely on the investment strategy that is chosen by the client.

BlackRock's view is that business-relevant issues that are identified through stewardship activities are amongst those that contribute to a company's long-term financial performance, and thus further incorporating insights gained from stewardship activities into the investment process – where relevant and to the extent possible – can enhance long-term risk adjusted returns. Examples of non-financial factors that could potentially have a financial impact include: board leadership, management's track record and current practices in areas such as health and safety, employee relations, product liability and development, mitigation of risk (e.g., physical risks, reputational risk, regulatory risk and legal risks) and general responsiveness to societal expectations. These risks may come from a variety of sources such as climate change, social trends, consumer behavior, or regulatory developments.

The ways in which stewardship insights can inform an investment process vary, however, according to both the investment mandate and the style of portfolio management. In practical terms, the nature of an asset manager's obligations under a client mandate is such that it would not be appropriate for the manager to allow the entire investment process undertaken for that client to be dictated by the asset manager's approach to stewardship. While it may be the case that an asset manager can take a broadly consistent approach to stewardship of on-going investments across different client mandates and strategies, investment decision-making will always be subject first and foremost to the key parameters set by the asset manager's client, the asset owner. Doing otherwise would not respect the choices that asset owners are entitled to make about how their assets are invested.

There are also practical differences between how stewardship insights can be integrated into all aspects of an investment style like index-tracking, as compared to alpha-seeking (often referred to as actively managed) strategies. With index strategies, clients are free to express their investment strategy through the selection of a particular index, and the range of products offered by asset managers reflects the range of potential options. Some products will track well-known indices like the FTSE 100, whereas others may seek to exclude or underweight certain companies or sectors (depending on the existence of a corresponding index), potentially to achieve specific values-driven investment outcomes.

Asset managers therefore have no discretion to decide on the constituents of an index chosen by the asset owner. They can, however, attempt to increase the long-term value of those constituents (to the extent they remain in that index) during the life of the investment through voting and engagement. The importance to many index clients of stewardship during this post-investment phase is clear, given that this is the primary way to protect and enhance their long-term economic interests.

To be successful, any revisions to the Code that aim to introduce expectations around integrating stewardship insights into the investment process must, in our view, recognise this variation. The challenge we see in the current proposals is that they do not appear to seek an appropriate balance in this respect. The current, relatively broad-brush, proposals appear to suggest that it will be incumbent on all stakeholders to integrate stewardship across their entire investment process, seemingly regardless of investment mandate or portfolio management style or client choice.

Looking finally at the proposals that both asset owners and asset managers state their investment time horizon and disclose their investment beliefs, it is difficult to understand how an asset manager might look to do this independently of the investment strategy set by the asset owner. This will naturally dictate to a large extent the approach that the asset manager will take when investing on behalf of the asset owner. Different clients will in turn have different expectations, making it potentially impractical for asset managers with a diverse client base to explain how it complies with the proposed provisions as currently stated.

We strongly recommend that greater flexibility which accounts for the differences in the roles of asset owners and asset managers be built into provisions of this nature. This is particularly important to ensure that, in circumstances where the FRC intends to carry out more in-depth, qualitative assessment of signatories' compliance with a new Code, appropriate expectations are set for the differing sets of stakeholders involved. In the absence of these, concerns will remain that what signatories consider to be necessary deviations from the Code could result in evaluations that misrepresent their work.

Taking account of ESG factors

Questions around whether the FRC's proposals would recognise and respect the right for asset owners to make differing investment choices (which will in turn shape the investment decision-making of asset managers investing on their behalf) also arise in the context of the proposed requirement to demonstrate how ESG factors are taken into account as part of the investment process.

BlackRock works to broaden and deepen the integration of sustainability-related insights and data into the investment process across all investment teams, where relevant and to the extent possible. This is not the same as an asset owner taking a values-driven approach (i.e. investing in support of a particular environmental or social goal), but the demonstration, in our view, that ESG information can have a material effect on financial value, and therefore accounting for ESG risks and opportunities can make us better investors. BlackRock's approach is to incorporate information that is considered material to a particular investment (which we believe should include material ESG-related information) so far as that is consistent with the client's or fund's risk and return objectives (which will in turn depend on the nature of the investment strategy the client chooses).

Asset owners may decide that the appropriate approach for them is to prioritise different material financial or non-financial factors to those that traditionally fall within the area of ESG. Ultimately, while asset managers seek to consider ESG-related drivers of long-term financial value in the execution of their mandates, the final decision as to which social, environmental or ethical values are appropriate for their investment portfolio remains with the asset owner. This is the essence of the duty always to act in the best interests of the client in managing assets according to the client's mandate.

To demonstrate the relevance of the investment strategy in this context, it is instructive to return to the example of index strategies discussed in the section above. BlackRock offers a range of index products that are based on specific ESG-focused indices.[4] Within these products, there is scope for the index providers to draw on ESG-related insights at the pre-investment stage, to the extent that they are relevant to the construction of the indices which investments will track. This is only one part of BlackRock's offering to clients, however, and other index products are naturally designed to track indices with no particular ESG-driven characteristics. There is limited ability for clients invested in, and managers managing, those latter strategies to demonstrate specifically how ESG factors are taken into account across the entire investment process. As already explained in the context of integrating stewardship, the window for taking ESG factors into account will be naturally confined to the post-investment phase in such strategies (the importance of which to many clients should not be minimised).

While we recognise that one option to demonstrating compliance with a revised Code in such circumstances would be to explain the various approaches that may be taken, concerns would remain about the practicalities of such a framework. It might also be said that, if a signatory is required (legitimately, on the basis of it fulfilling its duty to clients) to disclose a variety of different approaches to its consideration of material risks, it would not in effect be meeting the explicit expectation of the Code. The current proposals are framed in terms of requiring a demonstration of how ESG factors are taken into account, not explaining their relevance in a particular context. The implication of such a requirement is that ESG factors should be taken into account within the investment process, leaving the impression that – through a laudable intent to promote the adoption of ESG-driven investments – the proposals as currently drafted could reduce the diversity of approaches available to investors.

As already noted, there may in turn be some unease that, in its evaluation of signatories' compliance with the Code, the FRC will consider those who do not demonstrate the incorporation of ESG factors at all stages of the investment process not to be in line with best practice. We do not see this as an appropriate outcome of any assessment process, given our view that a revised Code should respect the right of asset owners to make differing investment choices (whether through index or alpha-seeking strategies).

[4] For example, in March 2019 BlackRock launched six new sustainable funds in its iShares range. The funds are designed to target carbon and greenhouse gas emissions reductions, while improving portfolio ESG scores and maintaining a tracking error to MSCI indices.

Stewardship beyond listed equity

We understand the FRC's desire to recognise that stewardship can contribute to the long-term financial performance of assets other than listed equity. We believe a revised Code will be most effective here by encouraging disclosure of the way in which signatories approach stewardship in relation to different asset classes. This will ensure a revised Code properly acknowledges the inherent differences between the rights (and potential influence) of holders of certain securities as compared to others, without seeking to impose a 'one-size-fits-all' approach that would not be suitable given these inherent differences.

To look at the issue in practical terms, alpha-seeking investment decisions are likely to be informed by an understanding and evaluation of material risks, which may include non-financial risks of the sort specifically referenced in the FRC's proposals, regardless of the asset class (be that public equity, public debt, or real assets, including infrastructure and real estate). Equally, we would expect that engagement with boards and management of investee companies with the goal of protecting and enhancing the economic value of those companies would contribute positively to the value of (for example) any fixed income securities issued by the company.

However, the rights of shareholders in publicly listed companies differ significantly from the rights of holders of other securities or assets. In particular, as shareholders of public listed companies, our clients can expect to have effective voting rights on a variety of issues affecting the companies (including, depending on the market, a say on significant capital transactions, director elections and/or the appointment of auditors). These rights have developed over time in response to evolving expectations around corporate governance and the accountability of boards and management, which are often then enshrined in law.

Public listed companies have broadly recognised how the rights held by their shareholders empower them to play an important role alongside other stakeholders, and the opportunities for meaningful engagement between companies and shareholders are facilitated in large part by this dynamic. Without significant review of shareholders' property rights and developments in the rights of other security-holders, which are likely to require wholesale legal and market-wide changes, the same dynamic will not exist within investments in other asset classes.

To the extent that a revised Code is seeking to introduce specific provisions that aim to set out best practice for asset classes other than listed equity (as, for example, Provision 27 appears to do for bonds), we believe there needs to be greater recognition of the fundamental challenge that investors in other asset classes face. In turn, a revised Code would need to contain more detailed guidance than is currently given in relation to such proposals, so as to ensure that clear and appropriate expectations are being set for potential signatories.

Reporting on stewardship activities

Another of the key proposed revisions to the Code is an extension of the public reporting expected from signatories.

Under the proposed approach, signatories would be expected to publicly disclose both a Policy and Practice Statement (which appears to be similar in nature to the statement that signatories are currently expected to publish) and also, on an annual basis, an Activities and Outcomes Report. This latter report would require signatories to make publicly available not only details of their compliance with their Policy and Practice Statement, but also an evaluation of how well stewardship objectives have been met (and/or enabled client to meet their own objectives) and the outcomes achieved.

We are supportive of this desire to increase transparency of stewardship activities, subject to the comments we have already made above about the different ways in which effective stewardship can be evaluated. We currently inform clients about our engagement and voting policies and activities through direct communication. In addition, we publish a significant amount of information about our stewardship approach and activities to our website. On a quarterly basis, we publish regional reports which provide an overview of our investment stewardship engagement and voting activities during the quarter, including market developments, speaking engagements, and engagement and voting statistics. Each year we publish an annual report, an annual engagement and voting statistics report and our full voting record. BlackRock has been recognised within the industry[5] for the quality of its disclosures.

Our approach seeks to provide a balanced mix of public and private reporting, reflecting our fundamental belief that keeping the details of our engagements with issuers private between the asset manager and the asset owner builds the trust necessary to support effective dialogue.

It is not clear how – with their emphasis on public reporting – the current proposals would permit such a balance to be struck. There is, in our view, a coherent distinction between what can reasonably be made public without undermining the trust on which engagement is based, and what is best kept private between the parties in order to best promote change. Were the Code not to make such a distinction, we would be concerned that the drive to more effective stewardship could be undermined. There is a clear need to encourage practices which support long-term effective dialogue with issuers, and if aspects of a revised Code are perceived as eroding the quality of engagement, this will impact the credibility of the Code.

It may in fact, instead of raising the bar across the market, prompt some market participants to opt out entirely. This could include companies considering whether to list in the UK. If such companies believe that, were they to become a public company, any attempts to engage on difficult issues with shareholders will become the next case study in those shareholders' public disclosures, there is a real risk not only that they will be disinclined to have those conversations, but also that they will not put themselves in a position of having to hold the conversations in the first place.

To preserve the benefits associated with a balanced approach, we believe the proposals put forward in the Consultation could be better informed by the reporting requirements that EU Shareholder Rights Directive II (SRD II) – which is due to be implemented by EU Member States and, under defined circumstances, the UK by June 2019 – will introduce for market participants falling within its scope.

While we are broadly supportive of the FRC's desire with the proposed revisions to the Code that SRD II should form a minimum baseline upon which the revisions would build, the approach taken in SRD II appears to be designed to respect the fact that

[5] BlackRock won the inaugural International Corporate Governance Network Global Stewardship Disclosure Award for Asset Managers in 2018.

certain information may be of wider public interest, but that it is appropriate for other information flows to be kept private between the parties directly involved (in this case, the asset manager and the asset owner).[6] We see this as supportive of what we consider to be a fundamental aspect of effective engagement. Were a new Code to require information that is best kept private within such relationships to be made publicly available, we would be concerned that it would not fully respect what we consider to be a coherent distinction between public and private information flows. It could also be seen as undermining the FRC's apparently parallel goal in the Consultation of recognising more clearly the respective positions of different entities in the investment chain linking beneficiaries, asset owners and asset managers.

There may also be questions as to how increased expectations around reporting go hand-in-hand with the expectations discussed above that stewardship be integrated within the entire investment process. By extending the definition of stewardship to include what is done at the investment decision-making stage, the proposals start to blur the line between what constitutes stewardship activities and the tasks traditionally associated with day-to-day investment analysis. Without proper delineation of what signatories may be expected to report on, potential signatories could feel that enhanced disclosure will necessitate discussing aspects of their investment analysis process which they consider to be proprietary.

Purpose, objectives and governance

As already noted, it is clear from the Consultation that the FRC sees drawing a tangible link between a signatory's purpose and its stewardship activities as being fundamental to the evolution of the Code. We understand and support this.

We feel it is nonetheless important in this context to retain a clear view of what the role and focus of a stewardship code should be. As can clearly be understood from the introduction to the Consultation, the FRC's focus for a revised Code is on encouraging effective stewardship. We agree that a signatory's ability to achieve this is likely to depend the development of a coherent approach to, and definition of objectives for, its stewardship activities, and the FRC will feel it is its role (or the role of its successor) to evaluate how well a signatory has done this. What is less clear is how the FRC would be appropriately placed to assess or comment on the development and articulation of a broader organisational purpose. It is not the direct regulator of any asset owners or asset managers that make up the potential signatory base for a revised Code, nor does it appear that existing regulators envisage such a role for the FRC.[7]

In these circumstances, our view is that caution should be exercised to avoid a revised Code straying into areas where the FRC's oversight role is not clearly defined. This would apply equally to other aspects of the governance provisions that have been proposed, notably in relation to ensuring that signatories employ individuals who have appropriate experience, qualifications and oversight and who are appropriately incentivised to deliver the signatory's stewardship objectives.

[6] Taken together, Article 3g and Article 3i in Chapter 1b of SRD II specify that certain, higher-level information should be made publicly available by asset managers, whereas other, more detailed information need only be disclosed by asset managers to their clients (i.e. not the general public).

[7] In the FRC joint discussion paper with the FCA (DP19/1, entitled "*Building a regulatory framework for effective stewardship*", a clear distinction is drawn in paragraphs 2.16 to 2.18 between the Code and regulation.

Conclusion

BlackRock sees genuine value in this initiative to bring the Code up-to-date and seek to ensure that it reflects global best practice in stewardship. Many aspects of the current proposals will help to fulfil that objective. We do believe, however, that success will lie in the ability of a revised Code to set expectations that speak to the many investment strategies and processes within the market. The industry remains a broad church, and we would not see any attempts to narrow this or to favour one strategy over another (even with the goal of encouraging what is perceived to be better informed capital allocation) as a positive development.

We see greater clarity in each of the areas discussed above, and in particular a greater recognition of differences in approach, to be fundamental to the good functioning of a revised Code. It is also critical to the success of more intensive assessments of signatories' reporting on compliance, to which the FRC (and its successor) are committed. Where there is a sense that the quality of a signatory's reported stewardship will be evaluated against a yardstick that does not acknowledge and cater for the spectrum of approaches that signatories might reasonably take, there will naturally be a concern that the signatory's work could be misrepresented. This could in turn diminish a revised Code's capacity to do the very thing on which there will no doubt be near consensus from respondents to the Consultation: to drive more effective stewardship.