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Dear Susannah

## CONSULTATION ON A STEWARDSHIP CODE FOR INSTITUTIONAL INVESTORS

Standard Life Investments Limited is one of the UK's leading institutional investors. We have assets under management of £138.7 billion as at 31 December 2009. The majority of these assets comprise UK listed securities. As responsible investors of long standing, we welcome the increased focus on stewardship and we support the introduction of a Stewardship Code for institutional investors. We have a strong incentive to ensure that the stewardship responsibilities are discharged in a robust and cost effective manner.

We are grateful for the opportunity to participate in the consultation. We trust our comments will assist the FRC in its continuing deliberations. Let us comment on relevant topics using the order of issues for comment set out in Appendix A.

### Section 1: Introduction

#### Para A: Policy Objectives

We support the substance of the policy objectives set out in the Consultation. We would note:

- The terms 'institutional investors', 'shareholders' and 'institutional shareholders' are used interchangeably in the policy objectives (and elsewhere in the Consultation). These terms do not have the same meaning. We believe it is important that there should be no ambiguity. Therefore, we should prefer that the term 'institutional investor' were used consistently throughout, unless the context determines otherwise. Similarly, we suggest the term 'mainstream' be deleted from the first bullet point in the policy objectives.
- With reference to the objective that 'engagement is closely linked to the investment process', we should like to see a more definitive policy objective such as 'engagement is integrated effectively into the investment process'.
- Although the matter is addressed later in the Consultation, we believe it desirable that the policy objectives should incorporate reference that ensures that where stewardship responsibilities are delegated to third parties, who may or may not be an institutional investor, that specific provision is made within the objectives to capture the implications of such delegated responsibility.

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Para B: Should the FRC accept oversight of the Code in its current form?

We believe the FRC should accept oversight of the Code in its current form, subject to any relevant views and comments expressed in this letter.

Para C: Which institutional investors and agents should be encouraged to apply the Code on a 'comply or explain' basis et al?

We suggest that institutional investors with funds under management of over a certain designated amount invested in UK equity securities, say £25 billion, should be encouraged to apply the Code on the proposed basis. It would seem cost effective and consistent with the proposed objectives to focus on larger institutional investors. Also, it would help to ensure that economies of scale prevail when assessing the cost impact of the proposed Code. Smaller institutional investors who sign up for the Code should be welcomed.

With regard to disclosure and monitoring arrangements, see Section 5 for our comments.

## Section 2: Background and Recent Developments

### Insights on lesson which may be learned from experience outside the UK

We shall leave it to foreign institutional investors and others with more intimate experience than us of stewardship outwith the UK to respond in detail but we should like to submit the following observations.

- We noted with interest the creation of the SEC's Investor Advisory Committee in June 2009. Also, we are mindful of the increased globalisation of capital markets and the significance of the diverse geographic ownership of major listed companies, together with the likelihood that the trend towards increased globalisation and diversification will continue for the foreseeable future. Therefore, we commend to the FRC the suggestion that, together with other global regulators who have a responsibility for stewardship, it takes steps to set up a Global Institutional Investor Stewardship Committee to monitor and co-ordinate the implementation and application of stewardship principles on a global basis and otherwise provide a forum that enables cross-fertilisation of stewardship initiatives in a manner that is consistent with supporting sustainable economic growth. In this regard, the FRC should consider obtaining proactive support from the UK Government to promote this suggestion within the G20.
- In respect of other overseas markets, we suggest that particular attention is paid to the approach taken in certain Scandinavian countries to promote stewardship and long-term ownership by institutional investors. For example, it is interesting to note the significant involvement of Scandinavian institutional investors in the nominations process for corporate boards. Other jurisdictions, including the UK, do not have an effective mechanism to facilitate or encourage such involvement.

## Section 3: The Coverage of the Code

### Para A: Should the FRC encourage all UK institutional investors to apply and report on the Code?

Whilst general encouragement would be welcome, we suggest that the FRC should focus its efforts on larger UK institutional investors, as previously noted. For smaller UK institutional investors, compliance may not be cost effective and, in practice, may make little difference to the overall standards of stewardship amongst UK listed companies. Whilst it is acknowledged that the Code is intended to operate on a 'comply or explain' basis, it would seem inappropriate to put smaller UK institutional investors under implied pressure to comply.

Para B: Should agents such as voting services agencies and investment consultants be encouraged to commit to the spirit of the Code?

Such agencies and consultancies, including engagement and stewardship services agencies, should be encouraged to commit to the spirit of the Code. It is possible that their role and influence in respect of stewardship may increase over time. Therefore, it is vital that they are not overlooked. Whilst we would support, in principle, inclusion of such a commitment to the spirit of the Code in any wider Code for such agencies and consultants, we are unenthusiastic about a proliferation of codes: we believe that a more definitive commitment would be consistent with achieving the Code's objectives. Therefore, we suggest that the Stewardship Code provide that institutional investors who subscribe to the Code should ensure that all contractual arrangements with agencies and consultants who influence the institutional investor's compliance with the Code contain terms that provide them 'to have regard to the provisions of the Stewardship Code and to provide services consistent with the Code's spirit'.

Para C: Cross-border conflicts arising from implementation of the Stewardship Code

There are no such conflicts that we wish to cite at this juncture. However, mindful that there probably are conflicts and that further conflicts will arise in the future, we commend again our suggestion that steps be taken to encourage the establishment of a Global Institutional Investors Stewardship Committee. This should provide a mechanism which will not only enable convergence but also provide reconcilable flexibility over time.

**Section 4: The Content of the Code**

Para A: Does the ISC Code cover the relevant responsibilities for engagement of institutional investors to beneficial owners whose interests they represent?

Yes.

Para B: Does the ISC Code cover all the relevant responsibilities for engagement of institutional investors to UK Listed Companies in which they invest?

Yes.

Para C: Are the respective responsibilities of the different parts of the investment chain sufficiently clear and appropriate?

Yes. Inevitably, in applying the Code, some flexibility and discretion will need to be brought to bear on a case-by-case basis.

Para D: Does the Code strike the right balance between the need to avoid over-specification and the need for it to be effective with an appropriate degree of transparency?

Yes.

Para E: Are there any parts of the ISC Code where further guidance is required?

The ISC Code appears to be silent as to whether it applies to all investments managed by the institutional investor or whether it just applies to the UK listed securities it manages, as implied in the Consultation. We suggest that the guidance provided under Principle 1 of the ISC Code should include a bullet point such that the publicly disclosed policy should make clear the scope that the institutional investor concerned applies in respect of the Code.

Para F: Does the ISC Code adequately cover the content of Section E of the Combined Code?

Yes.

**Section 5: Reporting, monitoring and review**

Para A: What information should institutional investors disclose publicly and what should they report to clients?

Regarding public disclosure, the policy guidance set out in support of Principle 1 in the ISC Code provides appropriate and adequate guidance. In respect of what should be reported to clients, this is a matter for agreement between the institutional investor and its clients on a case-by-case basis. The level of stewardship reporting should be specifically referenced in the contractual or other documented operating arrangements that subsist between the institutional investor and the client.

Para B: What arrangements should be put in place to monitor how institutional investors apply and report against the Code?

The provision of an independent audit review opinion on engagement and voting processes, based on the AAF framework and as set out in the ISC Code, should provide a cost-effective basis for addressing this matter. The Auditing Practices Board or the accounting profession should develop and consult on authoritative guidance for independent auditors to assist them fulfilling their responsibilities in this respect. Such guidance should contain provisions to enable the independent auditors to inform the FRC in the event that there has been a serious misrepresentation by the institutional investor in respect of the Code or there has been a significant breakdown in controls pertaining to stewardship related activities.

Para C: How should the content and operation of the Code be reviewed?

We suggest that the FRC should undertake to incorporate a review of the Stewardship Code each time it undertakes a formal review of the UK Governance Code. This would provide an appropriate and timely basis for reviewing its operation and content.

Para D: Is public disclosure of the information summarised appropriate, useful and adequate?

The information to be disclosed, as recommended in the ISC Code and summarised in 5.4 of the Consultation, is fit for purpose. This can be reviewed and confirmed at subsequent reviews of the Code, as referred to in the paragraph above.

**Other Comments**

1. Commitment to the Code by Foreign Investors (1.8)

Commitment to the Code on a voluntary basis by foreign investors should be encouraged and welcomed. Provision should be made for foreign representative bodies and others to endorse the Stewardship Code, thereby lending their weight, individually and collectively, to its substance.

2. Likely Costs and Benefits (1.19)

The benefits to us from supporting the proposed Code are inherent within the Consultation and may, at the margin, assist us winning and retaining investment mandates. Anticipating the increased level of engagement and reporting envisaged by the Code it is possible that we would incur additional resource related costs of approximately £100,000 per annum.

3. Attendance at AGMs (4.9)

We believe that attendance at AGMs, albeit on an exceptional basis, can be important when exercising stewardship. We should like to see reference made to it on this basis in the Code. Failure to mention it would be inconsistent with the principles of good stewardship and could undermine the role and importance of AGMs.

4. IMA Survey (5.21)

We believe the IMA Survey provides a useful snapshot of engagement and stewardship activities. In addition it enables trends to be discerned. We encourage the FRC to support its continuance and use its findings to inform the Council's on-going deliberations. However, we emphasise that we do not regard the IMA Survey as a substitute for the independent audit review on engagement and voting processes, which is referred to earlier in this letter.

5. Review (5.22)

We support the intention to review the Code and its implementation. As previously noted, we should like to see the formal review undertaken in tandem with the review of the UK Corporate Governance Code.

### Conclusion

We are committed to fulfilling our stewardship and governance responsibilities as a major UK institutional investor. We believe the proposed Stewardship Code will assist us and other major UK institutional investors in fulfilling our responsibilities in a transparent, robust and cost-effective manner.

Yours sincerely

Guy R Jubb  
*Investment Director, Head of Corporate Governance  
Standard Life Investments*

cc. Mr S Haddrill, Chief Executive, FRC