

## Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	10 DECEMBER 2010	AGENDA ITEM NUMBER
TITLE:	FRC STEWARDSHIP CODE	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Appendix 1 – Statement of Compliance with FRC Stewardship Code		

### **1 THE ISSUE**

- 1.1 This paper summarises the contents of the UK Stewardship Code, the background to its formation, and its relevance to the Fund.
- 1.2 A statement of the Fund's compliance with the Code is included in Appendix 1 and Members are requested to approve it.

### **2 RECOMMENDATION**

- 2.1 **That the Committee approves the appended Statement of Compliance with the FRC Stewardship Code.**

### **3 FINANCIAL IMPLICATIONS**

3.1 There are no financial implications.

### **4 BACKGROUND**

4.1 In response to the financial crisis, the Government established the Walker Review to examine the role of UK banks and other financial institutions. In order to improve the extent and effectiveness of shareholder engagement with companies, the review recommended that the Financial Reporting Council (FRC) have responsibility for a new Stewardship Code, setting out best practise with respect to shareholder engagement.

4.2 In July 2010 the FRC published the Stewardship Code which was largely based on the principles set out in the Institutional Shareholders' Committee - Responsibilities of Institutional Investors and Agents, Statement of Principles (ISC SIP). The ISC (SIP) was the industry standard for best practice and from 2005 onwards the Fund required its investment managers to adopt the ISC (SIP) in its own SIP.

4.3 The FRC has also taken over responsibility for the UK Corporate Governance Code, formerly the Combined Code. With the publication of the Stewardship Code, the FRC now has responsibility for both of the UK best practice codes on shareholder and corporate responsibilities.

### **5 THE STEWARDSHIP CODE**

5.1 The Stewardship Code is a set of best practice principles that are intended to frame both shareholder engagement with companies, and the disclosure of such activity. It is intended that shareholders adhere to the principles with the same 'comply or explain' approach used with the UK Corporate Governance Code.

5.2 The principles in the Stewardship Code are very similar to those of the ISC (SIP). The principles are as follows –

Institutional investors should:

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

- 5.3 Importantly, the FRC requires asset managers and other institutional investors (including pension funds) to report under the Code. The FRC ask that institutional investors publish a statement on their website on the extent to which they comply with the Code and to inform the FRC when they have done so.
- 5.4 The FRC has asked that such a statement consists of a description of how the principles of the Code have been applied and an explanation where elements of the Code have not been complied with. The Local Authority Pension Fund Forum (LAPFF) has issued guidance to member pension funds on reporting under the Code. The guidance included a 'model' statement, which has been adapted to reflect the Fund's own arrangements and practices, and is included as an appendix to this report.
- 5.5 This statement complements the Fund's SIP which sets out the Fund's policies on responsible investment, voting, and compliance with best practice governance principles (among other things). The Fund's SIP will be updated in due course to reflect the adoption of the FRC Stewardship Code.
- 5.6 As the Fund invests via external asset managers, the Fund's compliance with the Stewardship Code largely reflects the extent to which the Fund's external investment managers comply with the Code. The statement sets out the requirements the Fund has of its external asset managers with respect to the Code.
- 5.7 The Fund's appointment of an independent vote monitoring service provider will strengthen the Fund's compliance with the FRC Stewardship Code with regard to monitoring and disclosure of voting activity.
- 5.8 The Fund also achieves compliance with the Code through it's membership of the Local Authority Pension Fund Forum.
- 5.9 The FRC has stated that it will undertake annual monitoring of the take-up and application of the Code, as well as regular reviews of its content and impact. This is due to commence in the second half of 2011.

## **6 RISK MANAGEMENT**

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **7 EQUALITIES**

- 7.1 An equalities impact assessment is not necessary.

## **8 CONSULTATION**

- 8.1 This is reporting the outcome of a consultation process.

**9 ISSUES TO CONSIDER IN REACHING THE DECISION**

9.1 Are contained in the report.

**10 ADVICE SOUGHT**

10.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	FRC Stewardship Code LAPFF guidance on FRC Stewardship Code
<b>Please contact the report author if you need to access this report in an alternative format</b>	