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UK STEWARDSHIP CODE CONSULTATION

WeeFin is a French impact fintech founded in 2018 with a clear mission: to raise the standards of sustainable finance and make it the norm thanks to its SaaS technology.

We work with various types of clients (Asset Managers, Asset Owners, Wealth Managers, Asset Servicers, Pension Funds...) helping them to navigate their sustainability journey. After two rounds of fundraising and with over 50 clients (7530bn€) and more than 50 connected data sources, the company is now expanding across Europe, with a new office opening in London.

WeeFin holds a unique position in the market, standing between financial actors and data providers. Having worked with them for years, we believe that active ownership is one of the most impactful tools for financial institutions to drive real change.

WeeFin has been actively participating in conversations around stewardship as many of WeeFin's clients are signatories to the UK Stewardship Code and we have successfully implemented an Active Ownership Module on the platform. The company is acutely aware of the challenges posed by reporting burdens, particularly in light of the growing number of regulations and initiatives requiring compliance.

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Q1. Do you support the revised definition of stewardship?

In view of the number of signatories, the Stewardship Code is considered as a cornerstone between different sustainable financial stakeholders:

- Various geographical areas, each under a different regulatory regime, are represented as approximately 40% of signatories are headquartered outside of the UK;
- Different types of stakeholders have to report: Asset Owners, Asset Managers, Service Providers;
- The Stewardship Code is a source of information for multiple stakeholders: NGOs, final institutional or retail investors, regulators, etc.;
- Diverse teams within an entity are involved in the production of this report: portfolio managers, ESG analysts, risk and compliance teams, etc.

WeeFin's vision has been shaped by working with all these financial players for several years and by performing multiple analyses of market practices. We are therefore in favour of a change in definition considering that:

- With regards to the number of changes in the definition of the Stewardship Code since 2012, the upcoming evolution must enable financial actors to understand and apply a long-term vision moving forward.
- We agree on maintaining the concept of "sustainability" in the definition of the Stewardship Code. Nevertheless, the definition should not be too restrictive as we consider that there is no single vision of sustainability. Sustainability is complex and multifaceted, encompassing various dimensions in finance, different priorities, multiple local contexts and values. It should not be taken as a flawed concept as it brings flexibility and creativity, addresses complex issues and encourages collaboration.
- We also are in favour of removing from the definition the notion of "sustainable benefits" as it drives a more short-term perspective and it is indeed misleading for financial actors.
- We believe it is important to specify that the aim is to create long-term value for clients for two main reasons:
  1) A common basis is needed upon which stakeholders can rely to build a methodology aligned with their values and ambitions and
  2) To act according to the fiduciary duty principle in the interests of clients and beneficiaries, which lies at the heart of the stewardship definition.
- Lastly, we consider that the creation of sustainable value can only be effective in a context where the principle of double materiality is integrated by financial companies. This principle has been recognised by multiple stakeholders such as institutional investors who have emphasised the need to consider the impacts of investments[1] or the UKSIF. The latter offered to add the mention "*having regard to dependencies and impacts on the economy*".

  Applying this principle allows the development of robust investment strategies and increases the confidence of end investors and civil society in financial mechanisms. By incorporating this notion in its definition, the Stewardship Code would be a catalyst of greater transparency, both on the risks and the impacts of investment strategies. Indeed, such transparency requirements will allow comparisons between actors, helping identify the most virtuous methodologies, etc.

[1] Source: *A group of 26 financial institutions and pension funds [...], have asked their asset managers to more actively engage with the companies they are invested in about their climate risk.*

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Q2. Do you support 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?

Our asset manager and asset owner customers have contracted us to assist them with their quantitative and qualitative reporting needs. WeeFin has been working with financial actors for years producing SFDR documents in bulk, and assisting them with Article 29 ECL annual reporting (which has close ties with the Stewardship Code). In addition, our teams have performed several analyses of engagement approaches and published the results in an annual Barometer of Sustainable Finance. As such, we are fully aware of the difficulties encountered by financial players in terms of ESG reports.

We consider that freezing policies and contextual information over several years does not constitute a threat to disclosure quality since financial actors are committing for the long term. Allowing signatories to report less frequently on this information allows them to dedicate time and resources (human and technical) to the development and application of robust sustainable strategies.

This system is already applied as part of other regulations such as the SFDR in Europe, that requires to:

- publish once "pre-contractual" documents in order to formalise the strategy and sustainable constraints applied by a financial product,
- publish annually a periodic document that revisits the commitments made over the last 12 months.

This system is also applied by SDR with the ongoing disclosures as well as by the Principles for Responsible Investment (PRI) which requires its signatories to provide in an online platform information on their sustainable strategy that remains fixed from one year to the next to avoid the burden of reporting. In other words, these frameworks are aware that, from one year to another, strategic elements do not necessarily evolve.

In this regard, we agree on the defined 3-year duration for the “Policy & Context” section. When working with financial actors, in three years, there are typically no major changes in the engagement and voting policy, as the effects of these strategies are established over the long term.

However, any deterioration of sustainable commitments needs to be publicly formalised. Financial stakeholders need specific guidelines on what can be considered minor or significant amendments. Thus, it is important to clarify what the FRC considers as *"significant changes"* that trigger such modifications.

We have seen financial actors confused on similar issues and in the absence of clear guidelines, they dedicated a lot of time and resources to solve these complexities.
For example, SFDR requires *“specific information from the holders in case of deterioration following a modification.”* The cases of deterioration are cited but are not clear enough for actors to make informed decisions.

In brief, we are in favour of :

- Updating the policies and contextual information only every three years or in case of significant changes.
- Publishing the activities and outcomes results on an annual basis.

Our position relies on three major axes:

1. Resources of financial companies must be maximised in order to ensure a high level of transparency while allocating human and technical means to the development and implementation of robust sustainable investment strategies. Maintaining an annual report, even if context elements are frozen, helps build trust with investors and fight against greenwashing.

2. An annual report is required on how financial actors have exercised stewardship in the preceding year. In order to ensure the credibility of the commitments made, quantifiable data must be reported. It would increase transparency as quantitative data allows for clearer insights into how organisations are adhering to stewardship principles. By having clear, quantifiable metrics, financial actors and more broadly companies can be held accountable for their stewardship practices. More quantitative data enables better benchmarking between institutions, helping investors and stakeholders make more informed decisions.

3. It is important to provide financial actors with technical tools that do not add an extra burden and address financial actors' pain points when it comes to active ownership. We can mention the following pain points we noticed working with financial institutions: the lack of centralised stewardship information, the time spent on low-value tasks, the complexity of cooperation across multiple tool formats, and the difficulty of tracking commitment over time. A platform like WeeFin systematises the measurement, allowing for tracking, monitoring, and more advanced engagement campaigns.

Q3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

As already mentioned in previous answers, the Stewardship Code has been signed by various types of actors, regardless of their size or nature (AO, AM, AS), so that brief prompts create consistency in reporting practices across the financial sector. It would make it easier to compare and understand their stewardship activities for clients, public institutions and beneficiaries. Brief prompts then are necessary to enforce a plan, especially in such long reports (most have more than 50 pages).

We believe that without specific prompts, financial actors might interpret the principles in vastly different ways, leading to inconsistent or incomplete reports. Clear guidance ensures that all actors can follow a standardised reporting framework.

Furthermore, brief prompts could guide actors in adopting best practices for stewardship, including transparency and accountability. For instance, working with French actors on their Article 29 ECL (Energy Climate Law) annual reporting, we have seen how the settled prompts could lead to more meaningful consideration of climate or nature risks.

Moreover, on a more quantitative side, having minimum standards would allow for easy comparison of homogeneous elements, it would be a means for regulators to collect information, to identify and analyse market practices.

A one-size-fits-all approach may not be suitable for all investment types so we agree that the updated Code should seek to further support signatories' disclosure about their stewardship across a range of asset classes. By focusing on asset classes, the Stewardship Code can offer tailored guidance that considers the unique dynamics, risks, and engagement opportunities specific to each asset class. Reporting stewardship activities by asset class enhances clarity for both clients and beneficiaries, making it easier to understand how stewardship is applied. Additionally, as mentioned, many guidelines, such as the PRI's reporting framework, are already segmented by asset classes, making this approach consistent with existing standards.

Q4. 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 which are only applied by those who invest through external managers?

See our answer directly in Q5.

Q5. 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?

The body of the Stewardship Code should be the same for all types of actors. It is a standardised reporting, so we want to find a similar framework, a global way to respond to the principles. This is similar to Article 29 of the LEC, which does not differentiate between types of financial actors.

However, it makes sense to adapt the content because the activities and complexities are different between Asset Owners and Asset Managers (especially when actors have both roles). For example, ESG risks should not be taken into account in the same way, and when it comes to engagement, there are also different approaches between an Asset Owner and an Asset Manager.

It is necessary to make this distinction to ensure an efficient comparison and to prevent actors from producing numbers and data that are not representative of their activities.

We agree with the 10% threshold to determine which Principles apply. The financial market can be concentrated, and actors, 10% of assets under management can represent a significant amount of financial flows. If we take the example of the PRI's global standard, a financial actor must report on an “asset class-specific” module if they have 10% or more of these assets under management invested in that asset class during the reporting year.

Q6. 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?

Out of our scope

Q7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

Both bilateral and collaborative engagements are valuable and can be used by financial actors as complementary. In that view, we agree on bringing together Principles 9 and 10, on conditions that signatories are specifically required to report on these two types of engagements.

Considering Escalation as not a standalone Principle anymore will only be efficient if it is mandatory to clearly formalise the escalation process and its application in both Policy and Context disclosure and in Principles. The brief prompts mentioned earlier should bring it up, and further guidance should include concrete examples of these elements.

If we emphasise on Escalation, it is necessary to go into detail about the processes linked. The results of our annual *Barometer on Sustainable Finance* attest that escalation is a useful tool to strengthen the stewardship approach. Find below some figures from our study illustrating (i) that it is used by stakeholders and (ii) there are many approaches towards escalation :

- 84% (42/50) of funds incorporate shareholder engagement in their approach and evaluating the quality of engagement policies of financial players is particularly done through the analysis of the associated escalation process.
- With 89% (42/47) of asset management companies having defined such a process, the sector seems to have understood the importance of a structured approach.
- Different actions are included in the escalation processes such as disinvestment, collaboration, voting, weight rebalancing, grading drops, etc.

Moreover, initiatives and regulations have been pushing for more when it comes to escalation. For instance, the French SRI Label has introduced an emphasis on the escalation process, asking for labelled funds to have a formalised escalation process, distinguishing actions that constitute enhanced dialogue, public actions, and actions that constitute a management act. The escalation process must include a securities' weight drop if there is no improvement after a given period.

Q8. 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?

In general, cross-referencing has always been incorporated into our organisation's vision to mitigate greenwashing risk. WeeFin has been pushing this practice for SFDR disclosures as well as the SDR reports. We assume that a fund or an entity could reference publicly available external information as it ensures interoperability, it brings up other information contained in other documents (often at entity level in that case) and such practices allow to reduce the burden associated with reporting production.

In the specific context of the UK Stewardship Code, reference to the following documents could illustrate elements mentioned above:

- The Statement of Investment Principles (SIP) and the Implementation Statement for pension funds: much information on engagement, voting policy and outcomes is available in these reports;
- The French Article 29 ECL: this report contains many entity-level elements. Please find below a comparative table with both current principles showing that many intertwined:

Elements to report	Stewardship Code	Article 29
Overview	Principle 1: Purpose	I.General Approach
Initiatives	Principle 10: Collaborative work	I. General Approach
Resources	Principle 2: Governance	II. Dedicated resources
Governance structure	Principle 2: Governance	III. Governance
Engagement outcomes	Principle 9: Engage with issuers	IV. Voting & Engagement
Voting Policy	Principle 12: Rights & respo	IV. Voting & Engagement
Voting outcomes	Principle 12: Rights & respo	IV. Voting & Engagement
Engagement Policy	Principle 12: Rights & respo	IV. Voting & Engagement

The Stewardship Code needs to stay as a standalone source, no other documents are that specific. Clear examples of cross-referencing could be given by the FRC, as mentioned, when dealing with our clients, we've seen that leaving room for too much flexibility is leaving every actor confused.

Q9. Do you agree with the proposed schedule for implementation of the updated Code?

Financial actors are undergoing a period with a lot of changes (SDR, ISSB, TPT, etc.). So, as soon as a modification is required, we also need to consider the interoperability between the different frameworks so that actors can capitalise on what they have already done.

We recommend considering a transition period for the parties who signed the Code before its modification.

We recommend much pedagogy around the implementation of the updated Code. Publishing Q&A once in a while, organising webinars before and after the endorsement of the updated Code and if any update, proved to be great ways to answer the most prominent questions and highlight best practices for players.