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Sent via email: stewardshipcode@frc.org.uk

Dear team,

Railpen response | Financial Reporting Council (FRC) UK Stewardship Code Consultation

About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for c. £34 billion of assets on behalf of over 350,000 members. The Railways Pension Trustee Company Limited (the Trustee) is Railpen's only client, ensuring that all our activities are aligned with the interests of the schemes' members.

Railpen operates with a hybrid asset management model, with significant in-house asset management capabilities and resource that enable cost control and transparency, as well as ensuring that investment and stewardship decisions and activities are aligned to client needs. However, we also partner with external asset managers where this could improve outcomes for our client and members. As well as reviewing our managers' reports, Railpen has been a signatory to the 2020 Stewardship Code in our own right since inception.

Sustainable Ownership is Railpen's approach to incorporating material governance and sustainability considerations into the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance (ESG) factors is a significant driver of investment outcomes and part of our fiduciary duty." Our approach to stewardship, focused on long-term value creation and influencing corporate and policy behaviour on the most material idiosyncratic and systemic ESG issues, has long been supported by our senior stakeholders. We believe that financial and sustainability outcomes are not mutually exclusive – they are complementary and integral to protecting the interests of members of the railways pension schemes over the long term.

Our response builds upon initial discussions with the Financial Reporting Council (FRC) as part of its pre-consultation process, as well as views expressed elsewhere in our responses to the recent changes to the UK equity listing rules¹ and in those previous consultations that led

¹ See Railpen's responses to both: 'FCA CP23/10 – Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms' (available to read [here](#)); and 'FCA CP23/31 Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms' (available to read [here](#))

to the creation of the current (2020) Stewardship Code. We welcome the extensive discussions with asset owners and all that the FRC has undertaken throughout this process.

Summary

We have responded to the most relevant consultation questions below. However, we also address some broader points that, while formally outside the scope of the consultation, are relevant to the context in which the consultation is taking place.

We provide these comments from the perspective both as a *user* of the reports produced, from our asset managers, and as a *preparer* of our own stewardship reports. Our response also reflects our perspective as an organisation that manages most of its assets in-house and as a multi-asset, growth-oriented investor.

Our support for the current Code

We strongly support the work of the FRC and its excellent team. We are highly supportive of the UK Stewardship Code in its current format. We do not doubt that the latest iteration of the Code has helped raise the standards of stewardship practice by not just domestic but also international investors, through encouraging better outcomes-focused disclosure, which in turn supports better stewardship practice. We believe the Code has played a powerful role in shaping investor and company attitudes towards material corporate governance, environmental and social issues, as well as what it means to be an effective steward of assets in the ultimate interests of beneficiaries and everyday savers. This is emphasised by the Code's strong reputation across the world – our experience from engagements with international investors (both asset owners and managers) is that they want to be signatories to the UK Stewardship Code because they recognise it as world-leading.

As a user of reports, the stewardship reports produced by our asset managers are the most important and useful disclosure that we receive. For us, having a 'one-stop-shop' setting out an asset manager's approach to, and outcomes from, stewardship is very useful. We believe the space that the current Code provides for signatories to disclose how their unique organisational philosophy and governance shapes their approach to stewardship provides a framework for firms to express their idiosyncrasies. The information contained in managers' stewardship reports is fundamental to helping asset owners understand how meaningful an approach has been taken, and where any gaps may be. As a client, we take a pragmatic approach: we are very willing to consider departures from the Code from our managers, as long as the rationale is clear. Our experience has been that most asset owners are similarly pragmatic.

As a preparer of reports, the stewardship report takes time and resource to do well. However, we think it provides a useful additional opportunity for formal reflection of our stewardship work – alongside the review we do all year round – and we take pride in it as one of Railpen's (not just the Sustainable Ownership (SO) team's) flagship reports. To ensure we streamline our resources, we use the stewardship report as a basis for several other Railpen reports on SO. This includes our annual [SO Member Review](#) (our member-dedicated, highly accessible annual report), aspects of our Taskforce on Climate-related Financial Disclosures (TCFD) report as well as various blogs and case studies on SO topics on the member website such as [Governance | Investments case studies | Railways Pension Scheme](#).

Market developments and overlapping reporting requirements

Our response to this consultation includes constructive feedback in direct response to the proposed changes to the Code. This feedback is provided purely with the intention of ensuring

the FRC continues its good work supporting high standards of stewardship and transparency across the market through the Code. We here express some concerns about potential unintended consequences: we think that some changes might lead to a de-emphasis of the importance of effective stewardship or certain specific aspects of stewardship that evidence shows can be effective in achieving good outcomes for beneficiaries.

We appreciate the intention behind the FRC's proposed changes. In particular, we recognise that investors are struggling to deal with overlapping reporting requirements on ESG and stewardship. To this end, Railpen participated in the Equivalency Reporting Working Group for Principles for Responsible Investment (PRI) which concluded in December. Following this, PRI has committed to reviewing other reporting frameworks globally as currently constituted to see whether some such reports could be made equivalent to annual PRI signatory reporting. We hope that an outcome will be achieved which states that those investors who must prepare a report under the UK Stewardship Code are exempt from annual reporting to PRI. Our participation in this group emphasises our belief that while investors could benefit from a streamlining of overlapping responsible investment reporting requirements, this can best be achieved by other reporting being 'folded into' UK Stewardship Code signatory status – not through changing the Code itself.

Although we recognise the Code must evolve over time, we think it is too early to consider a full revision of the Code. Our experience is that it has taken time to agree and implement the necessary systems and processes to produce an annual Stewardship report in line with the current Code. Additional changes made now will require further adjustments to investors' existing processes, which is an additional cost for operations and ultimately for beneficiaries.

The wider context

While beyond the scope of this consultation, we wish to emphasise our wider concerns with developments in the UK that pit investor protections and effective investor stewardship against thriving UK capital markets. Our perspective that this is a false dichotomy with little basis in evidence is widely documented elsewhere². Given the wider policy developments on stewardship, we do not believe that it is the right time to implement a potential dilution of what is important 'soft law' on stewardship, as concurrently some of the stewardship tools available to investors are being taken away or diluted in the UK and elsewhere.

We recognise that this is not the intention behind the proposed changes to the Code. We also understand the desire to streamline reporting, and the wider policy push to reduce the corporate governance "burden" to support greater economic growth (we support the aim to boost UK growth, but as noted elsewhere, we think many of these recent changes do not take account of the available evidence base on the benefits of good corporate governance for saver outcomes). We remain concerned that certain changes to the Code could be perceived, given this wider market context, as a further de-emphasis of the importance of specific stewardship activities, which can – where used thoughtfully – be a useful part of the stewardship and influencing toolkit which helps achieve good outcomes for beneficiaries.

Our response - addressing the questions set out in the Stewardship Code Consultation

Q1. Do you support the revised definition of stewardship?

² See Railpen's responses to both: 'FCA CP23/10 – Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms' (available to read [here](#)); and 'FCA CP23/31 Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms' (available to read [here](#)).

We would prefer the definition of stewardship to remain as it is, but also present a potential alternative as a secondary option.

We recognise the need for the Code to evolve alongside market developments. And we also support the FRC in its commitment that “while the role of the Code is to set high standards for stewardship and make stewardship approaches, activities and outcomes more transparent, it does not direct how signatories meet their fiduciary duty or direct how they invest their assets”.

However, we think there may be unintended consequences from the proposed definition change and a risk that the definition change is out of alignment with what we think is a widely accepted premise of stewardship: that capital markets do not exist separately to the functioning of the real economy, but rather make a fundamental contribution to its success or otherwise. This is something we note the FCA emphasised in its Primary Market Effectiveness programme of work e.g. “Well-functioning public markets enable companies to finance their businesses, which in turn create growth and jobs for the UK economy³”. In turn, the work of investors to support long-term value creation through their stewardship activities is also an important contributor to the success of the real economy, wider society and the environment.

We would therefore prefer that the existing stewardship definition is maintained. However, a compromise that we would find suitable – as it explicitly maintains the link between long-term value creation for beneficiaries and the potential for wider benefits for the economy, environment and society – is as follows:

*“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries **having regard to** sustainable benefits for the economy, the environment and society”.*

We think that this definition aligns with what other UK policymakers and, we believe, the wider industry consider to be the role of capital markets in supporting the real economy, while also recognising that other factors are in play as regards the success of the wider economy, society and environment.

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?

We do – based on our understanding from further conversations that “Policy and Context Disclosures” will still be required to be included in annual reporting.

As an asset owner, we think one of the benefits of the stewardship reports produced under the current Code is that they allow managers the opportunity to tell a coherent story, demonstrating whether there is a clear line of logic from the issues a manager considers material and the nature of the assets under management, through to their policies, processes and incentivisation, and finally to activities and outcomes. These disclosures add significant value to the reports we read, and their inclusion reduces the time spent by asset owners in looking for additional material elsewhere. As such, we remain supportive of the continued inclusion of the Policy and Context Disclosure in future reports.

We understand that the proposal is for signatories to have the option to update the Policy and Context Disclosure every three years, when it will be formally assessed by the FRC, while still including such information in annual reporting. We are supportive of this approach.

³ [DP22/2: Primary Markets Effectiveness Review: Feedback to the discussion of the purpose of the listing regime and further discussion](#)

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

Should other changes to the Code go ahead as proposed, then we do. We think this would be helpful in offering clarity to respondents and ensuring that asset owners get the information they need from their service providers. We also think that the level and tone of the draft guidance sample was well-judged, providing useful support without encouraging a box-ticking approach to stewardship.

However, we think that due to the significance of the guidance in the proposed new Code regime, investors – and in particular asset owners as the main users of these reports and the only financial market participant whose needs are purely aligned with those of everyday savers and beneficiaries – should have the chance to review and comment on the full guidance, even if this is not undertaken through a formal consultation process. This is particularly the case given that, under the current proposals, the guidance will be the primary mechanism for clarifying the potential importance of activities like collective engagement and escalation.

The purpose of the guidance and how it is expected to function should also be made clear. While appreciating the flexibility to exercise stewardship how we see best, those preparing reports in response to the Code are ultimately looking to achieve signatory status, and so further clarifying the FRC’s expectations with regard to the guidance’s purpose would be very helpful.

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?

Our preference is for the Principles to remain as they are, with further guidance provided to users and preparers of reports – although we repeat that our experience is that clients are often pragmatic – that investors can have flexibility around no or minimal reporting on activities that are not relevant to their approach to stewardship.

For those investing primarily through external managers, without careful incorporation throughout the final guidance, we think the proposed changes to the Code could potentially risk de-emphasising both ‘Exercising rights and responsibilities’ and ‘Engagement’ in such investors’ reporting. This runs counter to current developments in the market for stewardship, particularly within the asset owner community, such as pass-through voting, expression of wish, and direct engagement with companies by those whose assets are mostly managed externally. We expect such developments to gather pace and it is not clear that they would fit within the updated proposed Code framework for these types of investors.

This proposal also does not appear consistent with the FRC’s stated intentions elsewhere, which (laudably) is not to direct how signatories meet their fiduciary duty or how they invest their assets. It may appear with the current proposals that e.g. for investors investing through external managers, the suggested approach is implicitly setting expectations regarding how they should exercise stewardship.

Finally, although we appreciate that this step has been taken to try to offer greater clarity, we would suggest that setting a threshold at 10% or indeed any proportion is not the right approach: if an investor manages even a lower proportion of assets internally then we believe they should reasonably be encouraged to meaningfully consider whether they may wish to report against the Principles around both ‘Engagement’ and ‘Exercising rights and responsibilities’.

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?

Please see our response to Question 4 above.

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?

We do not have a perspective to offer on this question.

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

Our preference is to retain the current Principles of the Code as they are. Although we support the principle of encouraging signatories to consider stewardship in a holistic and integrated way, we think that the current Code already allows for thoughtful investors to do so. One proof point is that Railpen and some others have successfully achieved signatory status each year despite merging some Principles and re-ordering in our reporting, to allow for what we consider to be a better flow⁴ and greater ease of reading by core constituencies such as members of the railways pension schemes.

Evidence shows that, where used in a relevant and considered way, both escalation and collaborative engagement can be important for outcomes-focused and effective stewardship. We were therefore supportive of earlier inclusion of these principles and think doing so helped raise the standards for both stewardship practice and Code signatory status. Instead of removing these Principles entirely, it could perhaps be clarified for those reporting that they are able to exercise their discretion as to what they report upon, and to those who use the reports that they should continue to be pragmatic (again, we do not get the sense that asset owners are looking at reports and being excessively demanding or taking a box-ticking approach). This could achieve the FRC's objective in its proposed approach, without running the risk of de-emphasising the importance of escalation and collaborative engagement even for those stewards for whom such activities should be important (but which may also be relatively costly in terms of resource).

Should the FRC's proposed changes go ahead, we believe the reporting guidance needs to make it absolutely clear that the updated principles are not intended to result in a de-emphasis, and that escalation and collaborative engagement remain important aspects of stewardship with reporting on them expected elsewhere in the report, where relevant.

We think that the current excerpt of the guidance does this well. However, we reiterate a point made previously in our response to Question 3, that investors – and particularly asset owners, as the primary users of these reports and those whose needs are most closely aligned with the needs of everyday savers and beneficiaries – should have the chance to review and feed back on the full guidance in advance of its publication, even if this is not through a formal consultation process.

⁴ For instance, we currently combine our disclosures / chapters on 2020 Code Principles 1, 2 and 5 in our stewardship reports, while reporting on Principle 4 at the end of our report. This has enabled us to avoid duplication and achieve a more logical narrative.

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?

As mentioned previously in our response to Question 2, as a user of stewardship reports, we think it is vital to retain the report as a 'one-stop shop' of an investor's approach to stewardship.

We therefore do not believe that references to publicly available external information should be used as a replacement for incorporating key details in the text itself. We are concerned that the proposed changes around cross-referencing would lead to unnecessary complexity for users of stewardship reports. Furthermore, this presents a potential issue with outdated links which might render older stewardship reports effectively incomplete. We believe that previously published stewardship reports retain significant utility as a complete 'snapshot', especially in demonstrating an investor's evolution in stewardship approach over time.

Although we appreciate the motivation behind this, to the extent that certain policies or wording exist publicly outside of a stewardship report, our experience has been that it is straightforward to transplant this wording into the report with minimal tweaks, particularly when the information has remained the same each year. This has taken minimal additional time, and we do not believe that our doing so has impacted the quality of our reports – in fact, our last report won the ICGN Award for Global Stewardship Disclosure⁵ – but instead ensures readers benefit from seeing all the relevant information in one place. Although our reports have been lengthy, we have found other ways to improve readability, for instance a digital-first format, glossary, digital tabs and hyperlinks to help readers to navigate within the document. We would encourage other investors to consider doing likewise.

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

If the proposed changes go ahead, we are supportive of keeping the existing principles for the upcoming reporting round and the timeline proposed. This will give investors a good runway to changing their systems and processes in time for reporting against the future iteration of the Code.

We hope that the views expressed in this submission will be helpful in your work going forward. We would welcome the opportunity to discuss any of the issues raised here, and once again we would congratulate the FRC for producing and maintaining a world-class Stewardship Code.

Yours sincerely,

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⁵ Asset owners under £60 billion AUM