LCP's feedback on the FRC's UK Stewardship Code guidance

28 August 2025

This document provides LCP's feedback on the Financial Reporting Council's draft UK Stewardship Code 2026 guidance published on 3 June 2025.

Thank you for the opportunity to provide our feedback on the draft guidance to the revised UK Stewardship Code. Our comments reflect our perspective as:

- A service provider signatory to the UK Stewardship Code,
- An investment adviser supporting a range of asset owner clients who are current or prospective signatories, and
- A user of asset manager stewardship reports, which inform our manager research and assessment work.

We recognise and support the FRC's efforts to enhance the quality, consistency and usefulness of stewardship reporting across the market. Overall, we are supportive of the guidance but have provided feedback focusing on areas where we believe further clarification, stronger guidance, or additional content would improve the practical application and impact of the guidance.

Who we are

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have over 1,100 people in the UK, including over 190 partners and over 250 qualified actuaries.

Our core business is the provision of actuarial, investment, covenant, governance, pensions administration, benefits advice and directly related services. About 85% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy and selection of investment managers. The remaining c.15% relates to insurance consulting, energy, health and business analytics.

Feedback on guidance

Clarification requested

To improve the consistency and accessibility of the guidance, we believe further clarification would be useful in the following areas:

- **Different types of signatories.** We recommend that the FRC clarifies the specific expectations for various types of signatories to make the guidance easier to navigate and to enable more focussed reporting, including:
    - Clearer guidance on how reporting expectations differ, for example between large commercial enterprises and smaller non-for-profit organisations.
    - Be clearer about situations where the asset owner and in-house manager are separate legal entities, for example whether they should produce separate or joint reports.
    - Reporting expectations for firms where investment forms only part of their services, such as whether reporting should relate to the whole firm or only services relevant to investment and stewardship. There are several places in the Code itself where the service provider principles do not explicitly reference stewardship, so it would be helpful if the guidance could clarify whether the intention is that reporting is limited to investment and/or stewardship services:
        - Service Provider Activities and Outcomes introductory statement: "Who your clients or beneficiaries are".
        - Service Provider Policy and Context Disclosure Requirement B: "Any systems or technology you use to deliver your services to clients",
        - Service Provider Policy and Context Disclosure Requirement D: "Examples of real or potential conflicts of interest related to the services you provide and an explanation of how you would manage them".

- **Engagement.** We suggest the FRC provides a standardised definition of engagement to enable better comparisons to be made between signatories' reporting, rather than encouraging signatories to "explain what they consider an "engagement" to be" (paragraph 39, Activities and Outcomes guidance for Asset Owners and Asset Managers, Principle 3). We would like to see a standardised definition that categorises engagements and encourages signatories to track progress over time. Such categorisation should distinguish substantial and non-substantial engagement and different levels of "quality" or "productiveness" of engagement, for example engaging to "…exchange information or share opinions…" (paragraph 33) being regarded less highly than engaging for a specific objective that (for example) addresses risks. The guidance on case studies should refer to setting time-bound objectives, including short-term milestones to measure progress, and linking outcomes to real world impacts.

- **Resources.** Where the guidance refers to systems or technology (paragraphs 8 and 71), more specific guidance on how signatories are expected to report on these areas would be helpful. We would also like the guidance to encourage signatories to be transparent about changes in stewardship resources and sources of expertise.

- **Proxy advisers.** In paragraph 64, in the context of asset owners, it would be helpful to clarify that, for asset owners, this is only applicable for assets where voting rights are retained and is not referring to external managers' use of proxies or where voting discretion is delegated (ie that reporting is only expected for asset owners' direct use of proxy advisers).

- **Supporting clients' stewardship.** In the Code itself, Service Provider Activities and Outcomes Disclosure Requirement C requires a disclosure on "…policies and/or procedures that relate to supporting your clients' stewardship". Paragraph 72 of the guidance implies that this could be interpreted to mean specific policies and/or procedures related to stewardship, rather than general policies and/or procedures (for example firmwide policies for review of client advice). Please would you clarify the intention in the updated guidance.

- **Communication.** Communication is an inherent part of consulting. We recommend the FRC clarifies whether Service Provider Activities and Outcomes Principle 1 is referring to "communication" in the relatively narrow sense of engagement with clients around shaping the services provided, or whether it includes all types of communication as part of service delivery.

  We believe that Paragraph 85 is intended to apply to all three types of service provider signatories. However, it is currently positioned as part of the "Engagement service providers" section. It would be clearer to move this to immediately after the reporting prompts section for Principle 1.

- **Market wide and systemic risks.** It would be useful to clarify whether asset owners are expected to comment on systemic stewardship undertaken on their behalf by managers (Principle 2).

- **Submission of the Policy and Context Disclosure**. The FRC website states that "Applicants are required to submit a Policy and Context Disclosure every four years", however it also notes that "If they choose to submit a combined [Policy and Context plus Activities and Outcomes] report, they are not required but may choose to update their reporting on Policy and Context in years two and three." This latter part seems to indicate that the Policy and Context Disclosure is required every 3 years (ie years 1 and 4). We suggest the wording is amended to "…update their reporting on Policy and Context in years two, three and four".

Stronger guidance requested

We also see opportunities to strengthen the guidance where we believe the FRC's expectations are currently too light or ambiguous, particularly in areas where signatory behaviour is most variable.

- **Stewardship strategy.** The FRC could encourage reporting on how individual stewardship activities connect to a signatory's broader objectives, moving beyond standalone activities to demonstrate cohesive stewardship strategies.

- **Escalation.** Paragraph 42 states that" signatories may decide to escalate their engagement if they are not satisfied with progress towards their objectives". In our view, the guidance should indicate that, if signatories are not satisfied with progress, then good stewardship would expect them to escalate, rather than imply it is optional. It would be helpful to provide clearer guidance on escalation strategies and expand the examples beyond listed equity voting to include activities relevant to other asset classes. In addition, we suggest signatories are prompted to explain why they view specific activities as escalatory rather than routine engagements, provide the rationale for the escalatory action, and indicate what the timeline and intended outcomes are. Where the guidance discusses escalating engagement with an asset manager who is undertaking stewardship on the signatory's behalf, we recommend it encourages reporting on ,what could happen if the escalation fails to achieve the desired changes in approach, for example disinvestment from the manager.

- **Collaboration**. We believe the guidance would benefit from putting more emphasis and expectations around collaboration:
    - For asset owners/asset managers. Paragraph 40 highlights that "collaborative engagement is an important tool" but paragraph 41 only expects signatories to explain the reasons for joining a collaboration. The guidance should also ask for signatories to explain the reasons if they have not joined any collaborations.
    - For investment consultants. We suggest paragraph 93 is strengthened to "If a signatory has not undertaken such activities [to support well-functioning financial markets], they **should** explain this". Similarly, paragraph 101 asks for an explanation behind joining a collaborative engagement. There should also be an expectation to explain the reasons if they have not joined any collaborations.
    - Paragraph 41 says "For those investing in real assets, collaboration maybe through a trade body". This should not be limited to real assets.

- **Market wide and systemic risks.** We would like to see stronger emphasis on systemic risk and on policy engagement as a critical lever for addressing market-wide challenges:
    - Signatories should be encouraged to consider their role in relation to systemic risks. The guidance could provide examples of methods for understanding investors' relationship with these risks, including both their impact on systemic risks and the impact of systemic risks on them.
    - Signatories should be encouraged to consider how such risks may impact their ability to generate long term sustainable value for beneficiaries and clients, and what actions they might take to mitigate them. In particular it would be helpful for the guidance to:
        - outline actions that could support the economy-wide low carbon transition, including engaging in transition finance and working with real-economy policymakers to align incentives across investment and supply chains
        - include more detailed information on methods of policy engagement that signatories can use.
    - Proxy advisors should be expected to consider market wide and systemic risks in the recommendations and research they provide to clients. This could form part of the guidance for Service Provider Activities and Outcomes Principle 2 ("Proxy advisors ensure the quality and accuracy of their research, recommendations and voting implementation").
    - There is an inconsistency between paragraph 25 and paragraph 89. We suggest paragraph 25 is amended to "Examples of market-wide **and systemic threats** include, but are not limited to…".

- **Summary statistics:** Paragraphs 45 and 104 state that "Statistics that quantitatively describe engagement methods over the reporting period can be helpful". We would like greater encouragement for signatories to provide summary information that gives an overall sense of how much engagement activity has taken place and how effective it has been.

- **Voting**. Paragraph 53 states that "signatories may wish to explain the reasons why any shares were not voted". We suggest changing "may" to "should" to encourage this to be reported.

- **Investment consultant services.** The range of services envisaged in paragraphs 81-83 seems quite narrow. We suggest the services referenced are expanded to include supporting clients on selection of stewardship providers, development of voting and engagement policies, and stewardship reporting.

Additional content requested

We suggest the following gaps in the guidance are addressed.

- **Incentivisation.** The guidance on Asset Owner/Asset Manager Policy and Context Disclosure Requirement B guidance does not mention incentivisation. We suggest adding "Good quality reporting explains how performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision making".

- **Actively exercise rights and responsibilities**
  - **Listed equities**. For Asset Owner/Asset Manager Activities and Outcomes Principle 4, there is no guidance on stock lending, the ability of clients to override house policy, or the ability of clients to direct voting in segregated and pooled accounts. We regard it as important that the guidance covers these points.
  - **Other asset classes.** We recommend expanding the information in relevant sections to provide more comprehensive asset class-specific guidance. The draft guidance sets relatively low stewardship expectations for asset classes other than listed equities.
  - **Case studies.** Under the effective voting case studies in paragraph 55, we recommended adding a bullet for "next steps", hence going beyond "noting any positive developments or areas that require further attention".

- **Oversight of service providers.** Paragraphs 64-66 should reference actions taken where signatories' expectations of their service providers have not been met, as it is important to understand how signatories have escalated any material shortfalls in service standards.

- **Data providers.** We suggest adding a bullet point in paragraph 71 for relevant data providers.

- **Asset Owner/Asset Manager Policy and Context Disclosure Requirement E** ("Describe how you maintain a dialogue with clients and/or beneficiaries"). There are important practical differences between engagement with institutional/experienced investor clients and retail clients or pension scheme beneficiaries, which could usefully be discussed in the guidance. It can be challenging to maintain a dialogue with the latter due to low levels of engagement and understanding. We believe that indirect information about beneficiaries' needs and preferences is important in these circumstances, for example industry-wide research and knowledge of beneficiary demographics. We encourage the FRC to permit use of such information to meet its expectations for this disclosure requirement. We note that paragraph 16 refers to "informing clients"; we assume this is intended to refer to "clients and/or beneficiaries".

Conclusion

We welcome the FRC's continued commitment to improving stewardship standards and transparency. We believe that greater clarity, consistency and alignment with the practical realities of stewardship will enhance both the quality and usability of reporting – and ultimately support better outcomes for end beneficiaries. After the first year of reporting in 2026, it would be helpful if the FRC were to publish a review on the state of reporting against the new Code to enable signatories to understand how well signatories are meeting the FRC's expectations and any areas for improvement.

We would be happy to discuss any of our comments with the FRC and welcome the opportunity to continue engaging with the FRC as the guidance evolves.

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