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Dear Minister

An update on the FCA's response to the Taskforce on Pension Scheme Voting Implementation's (TPSVI) report and recommendations

A year on from the publication of the TPSVI's [report](#) on pension scheme voting, I would like to update you on the work we have done so far in response to the TPSVI's recommendations and set out our next steps.

Effective investor stewardship is a key priority for the FCA. As noted in our [ESG Strategy](#), published last November, one of our target outcomes for the market is "active investor stewardship that positively influences companies' sustainability strategies, supporting a market-led transition to a more sustainable future".

As part of our work in this area, both independently and jointly with the Financial Reporting Council (FRC), The Pensions Regulator (TPR), DWP and other regulators and Government departments, we have considered the barriers to effective asset owner voting implementation highlighted by the TPSVI and assessed how well the group's recommendations can help to improve stewardship outcomes.

Our work to address the TPSVI's recommendations

Since the publication of the TPSVI's report, we have considered the issues identified and examined how we can most proportionately and effectively address the TPSVI's concerns. The recommendations addressed to the FCA are summarised in an Annex to this letter. We have progressed work in three main areas.

- **Expressions of wish.** The TPSVI recommended (Recommendation 8) that the FCA clarify whether there are any regulatory barriers to an asset manager's voting in accordance with an asset owner's "expression of wish". The FCA's

Executive Director of Markets, Sarah Pritchard, set out the FCA's position in a speech at the Pensions and Lifetime Savings Association (PLSA) Annual Conference in October 2021. The speech clarified that there is no regulatory barrier to pension scheme trustees' issuing an expression of wish to their asset managers, and no breach of fund rules where a fund manager takes the expression of wish into account when voting.

- **Asset managers' voting policies.** The TPSVI identified potential shortcomings in the general quality and completeness of asset managers' voting policies, and highlighted concerns with the extent to which asset managers make "private" voting policies transparent to all clients. The TPSVI recommended that the FCA undertake a review of asset manager vote reporting and the decision-usefulness of the information to pension scheme trustees (Recommendation 13) and also consider steps to broaden the scope of disclosure of voting policies to clients (Recommendation 11). We have examined the matters raised in the TPSVI report, alongside the findings of [ShareAction](#) and the [Association of Member Nominated Trustees](#).

We will shortly undertake a review of asset manager voting policies to better understand the state of play in the market. Additionally, we have begun a multi-firm review of funds that are marketed with various ESG credentials and how they are considering the [ESG Guiding Principles](#) that we published last year. Part of this review will include asset manager voting policies and their disclosure.

Depending on the findings, we will consider whether more analysis or intervention is required in line with the relevant recommendations.

- **Investment consultants.** We welcome the feedback from the TPSVI regarding recommended areas of focus in the future regulatory regime for investment consultants. As noted in the May 2022 Regulatory Initiatives Grid, HMT intend to consult on the CMA's recommendation to bring the activities of investment consultants within the FCA's remit. The timeline for consultation is to be confirmed.
- **Asset manager vote reporting.** The TPSVI identified shortcomings in current vote reporting under existing FCA rules that implement the Shareholder Rights Directive (SRD2), observing that they do not provide asset owners with the information they need to discharge their own duties. Under these rules, annual voting disclosures must include a general description of voting behaviour, an explanation of the most significant votes and reporting on the use of proxy advisor services.

The TPSVI made several recommendations with a view to addressing the identified shortcomings, encouraging more comprehensive vote reporting at fund or mandate level (Recommendation 8), reporting of vote rationales

(Recommendation 12), and the disclosure of minimum aggregate voting data (Recommendation 14).

We consider that these matters can best be addressed through development of a more comprehensive and standardised vote disclosure regime, which would be designed to deliver:

- i. more timely and complete vote reporting
- ii. disclosure at fund and mandate level
- iii. explanations/rationales for all votes cast

Our vision is for asset managers to publish a comprehensive set of disclosures covering their voting activity at the fund or mandate level. To ensure a fair, proportionate and practicable approach to vote reporting, we are convening a Vote Reporting Group, with an independent chair and representing key stakeholder groups. The Group will be tasked with defining the detail and parameters of a more comprehensive vote disclosure regime for the UK. We will be an active observer on the working group and provide secretariat support. TPR, FRC and DWP will also be invited to participate as observers. Details on the composition of the working group, the terms of reference and expected delivery timelines will be shared on our website in due course. We expect to initiate the working group by October 2022 with a view to having draft proposals by mid-2023 and a final by end-2023.

We believe that more comprehensive vote reporting will help to address some of the core issues that encouraged the TPSVI's review, and better equip asset owners to hold asset managers to account on their voting activity. Publicly accessible and comparable voting disclosures will shine a spotlight on the voting practices and stewardship behaviour of asset managers. To the extent that greater transparency improves stewardship practices across the industry, there should also be flow-on benefits to investee companies in the real economy through higher quality engagement and market discipline.

We appreciate the engagement we have had with DWP colleagues so far on these matters. And we look forward to working alongside the DWP, FRC, TPR and our other regulatory partners in delivering on the TPSVI recommendations and further improving the effectiveness of investor stewardship in the UK.

Yours sincerely

Sacha Sadan

Director, Environmental, Social & Governance
Financial Conduct Authority

Annex – TPSVI recommendations addressed to the FCA

Recommendation 8

Addressed by: DWP/ FCA / TPR

The DWP, FCA, and TPR should closely monitor delivery of vote reporting at fund or mandate level. If managers do not deliver by the end of 2022 the FCA should legislate or issue handbook guidance to deliver fund and mandate level-reporting.

Recommendation 10

Addressed by: FCA

The FCA should issue clarification – for example, via guidance – to indicate that there is no breach of fund rules in acting on an expression of wish.

Recommendation 11

Addressed by: FCA

The FCA should ensure that all asset manager customers are treated fairly, and that disclosures on “private” voting policies are made to all clients and not only a subset.

Recommendation 12

Addressed by: FCA

The FCA should bring forward handbook guidance at the earliest opportunity to set the expectation that all asset managers explain on request and in a prompt manner their rationale for all voting decisions, in particular where:

- there was a vote against the Board
- votes against and for resolutions laid by shareholders
- a vote was withheld
- the vote was not in line with the manager’s public policy

or to publicly disclose a clear and reasoned explanation of why they have chosen not to.

Recommendation 13

Addressed by: FCA

- (a) The FCA should carry out a review of the first year of asset manager vote reporting. If widespread use is found of the permission NOT to disclose votes that are deemed “insignificant”, FCA should produce handbook guidance clarifying expectations on insignificant votes or legislate to remove this easement.
- (b) The FCA should also carry out a study of the quality of asset manager voting policies to assess the extent to which they facilitate or impede trustees in making effective appointment decisions. Where adverse effect on market competition is found, the FCA should produce handbook guidance clarifying expectations on asset manager policies.

Recommendation 14*Addressed by: FCA*

The FCA should set out – working with wider industry and documenting in FCA handbook guidance if necessary – a key set of aggregate data which all asset managers should be required to report at firm level on their voting and engagement activity.

Recommendation 15*Addressed by: HMT / FCA*

We recommend that Investment Consultants should be regulated as recommended by the CMA to HM Treasury. The regulation should focus on: how they resource and undertake stewardship and voting work; how they support clients' integration of stewardship and voting into investment; and how they manage conflicts of interest between clients and asset managers