



Association of Member  
Nominated Trustees

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Financial Reporting Council  
8th Floor,  
125 London Wall,  
London, EC2Y 5AS  
Via E-Mail: [codereview@frc.org.uk](mailto:codereview@frc.org.uk)

**Formal feedback regarding Proposed Revisions to the Corporate Governance and Stewardship Codes**

Dear Mr. Styles and Ms. Sisson,

The Association of Member Nominated Trustees (AMNT) appreciated the opportunity to meet with you in October 2017 to discuss the upcoming revisions to the Corporate Governance (CG) and Stewardship Codes (SC) planned for 2018. We also appreciated the acknowledgement of our letter highlighting our concerns regarding the asset owner-asset manager relationship.

Below you will find an Executive Summary of our key points.

We appreciate the opportunity to respond to this consultation. Should you have any questions or wish a meeting to discuss our responses, please do not hesitate to contact us.

Yours sincerely

Leanne Clements  
Campaign Manager, Red Line Voting, AMNT

Janice Turner, Co-Chair  
AMNT

## EXECUTIVE SUMMARY

### Corporate Governance Code

1. Proposed additional focus areas for Corporate Governance Code revision not included in this consultation:
  - a. AMNT welcomes FRC's reference to the importance of company culture in its consultation. We would recommend that the findings/lessons/best practice from FRC's corporate culture report be embedded into the Guidance and into the FRC's Board Effectiveness document.
  - b. A review of the internal audit function sections of the Code and Guidance in light of Carillion.
  - c. A review of the potential conflicts of interests regarding remuneration and audit advisors given the findings of the Grant Thornton report
  - d. Climate change should be explicitly referenced in the Code, highlighting best practice initiatives in the Guidance.
  - e. With regards to stakeholder inclusions, FRC should require companies to report on their stakeholder engagement processes (how stakeholders are prioritised and why) and outputs (activities undertaken during year under review), and how those outputs have added value to shareholders. We would also welcome better disclosure by companies on their engagement with shareholders.
  - f. Improved disclosure on the broader remit of Nomination Committees and their activities undertaken during the year under review
2. Regarding workforce representation, each of the methods there proposed by the FRC might be successful, provided that the culture of the board allows it to be. If present, trade unions need to be recognised.
3. With regards to voting results triggering further company disclosure, AMNT believes a 20% threshold is significant but would welcome a lower threshold of 5%.
4. AMNT recommends that a specific reference to ethnic– in addition to gender – diversity is included in the Guidance. We also welcome proposed disclosure of ethnic diversity data.
5. AMNT agrees that the remuneration committee should have a role in respect of oversight of the wider workforce policies on remuneration, as this ties the company's pay policies together and sets them in the context of top and bottom pay levels. However, trade unions need to be recognised accordingly as noted above.
6. To drive long-term investment performance, AMNT recommends that remuneration should require:
  - a. Senior management having a meaningful portion of their pension contribution from the employer in the same scheme as the rest of the workforce, to motivate them to show interest in the scheme.
  - b. The inclusion of environmental and social considerations as part of their remuneration targets, where considered material to their business strategy

- c. That culture key performance indicators be included (in light of 1a)

### Stewardship Code

1. Recommend alignment with Corporate Governance Code, move towards Principles and Provisions type style (refer to 2a for example of this alignment). FRC should engage in a robust stakeholder consultation to determine best practice across all dimensions of stewardship and disclosure such best practice accordingly in its Guidance.
2. Recommend following ICGN Global Stewardship Principles, most notably the addition of the following:
  - a) **internal governance mechanisms** – requiring transparency on how fund manager business models are in alignment with asset owners’ long term best interests.
  - b) **client reporting** – requiring fund managers to state the type of reporting they provide their clients: aggregate (firm) level reporting, mandate/fund-specific reporting, or both. In Guidance, asset owner initiatives such as RLVI and Guide to RI Reporting in Public Equity should be referenced as examples of best practice reporting.
3. Recommend additional principle of "integration of long term performance including ESG issues" similar to wording in ICGN Global Stewardship Principles. FRC should also outline in Guidance what they consider to be a minimum reporting on ESG issues, identifying best practice reporting initiatives such as RLVI, Task Force for Climate Change Related Disclosures amongst others.
4. Recommend inclusion of asset owners and investment consultants as requiring adherence to the Stewardship Code
5. Recommend continuation of tiering exercise, or more broadly, the FRC as a policer of the Stewardship Code.
6. Fund managers should include in their stewardship policy and associated reporting how they engage with stakeholders (justify which stakeholders are important to them) and how that benefits their asset owner clients.
7. FRC should roll out the Code to include other markets and other asset classes.
8. Fund managers should disclose their policy on directed voting in pooled funds at an absolute minimum. We would ideally like the FRC to go further, and state in their provisions what best practice is - which is that asset owners should retain the right to execute their own investment policies (including voting), in light of TPR ESG guidance.

## Introduction

AMNT's consultation response is underpinned by the following perspectives:

1. The Kay Review of equity markets found, in 2012, "that short-termism is a problem in UK equity markets, and the principal causes are the decline of trust and the misalignment of incentives throughout the equity investment chain."<sup>1</sup> With that perspective in mind, we believe that the purpose of the CG and SC Codes in relation to trust assets has to be the protection of the long-term interests of beneficiaries, and secondarily to address misaligned incentives in the investment chain. The principal relationship of concern to us as it relates to this consultation is between trustee bodies and their external fund manager – more specifically, **supporting the right of asset owners to set their own stewardship policies**. To support this aim, it is AMNT's view that the FRC should play a key role here to ensure the UK SC aligns and complements TPR ESG guidance. It is imperative that the respective policies of UK regulatory bodies serve to reinforce and not undermine each other, in order to prevent mixed signals to the marketplace.
2. We agree with Michael Porter that "the purpose of the corporation must be redefined as creating shared value<sup>2</sup>, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy." Therefore we welcome the strengthening of directors' duties under the Companies Act to ensure that they have regard to a wider group of stakeholders. Environmental and social considerations are important; we believe that embedding wider societal considerations into a company's business strategy will protect shareholder value over the long-term, and does not imply a trade-off against the achievement of sustainable profits.
3. The SC should focus on rebuilding trust between the asset owner and the fund management community, also highlighted as a concern in the Kay Review.
4. The link between the two Codes should be strengthened: if the FRC wants the CG Code (and the soon to be created CG Code for private companies) to drive businesses to think about the impact of the company on society and wider stakeholders, it needs the SC to encourage this too, otherwise shareholders and boards will not be well-aligned.

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<sup>1</sup> [http://www.ecgi.org/conferences/eu\\_actionplan2013/documents/kay\\_review\\_final\\_report.pdf](http://www.ecgi.org/conferences/eu_actionplan2013/documents/kay_review_final_report.pdf)

<sup>2</sup> <https://www.sharedvalue.org/about-shared-value>

Below you will find AMNT's responses to the consultation questions. Please note that there are several references to AMNT's Red Line Voting initiative (RLVI) which we believe provides a solid underpin to many of the themes identified in this consultation, as the UK's only comprehensive policy on environmental, social and governance (ESG) issues. Further details can be found here: [www.redlinevoting.org](http://www.redlinevoting.org) (under Download Red Lines).

We also draw substantially on a study of which you would be already aware, namely Grant Thornton's CG Review<sup>3</sup> (cited below as "Grant Thornton"), which provides useful data on FTSE 350 companies which may help to inform FRC priorities.

### **UK CG Code and Guidance on Board Effectiveness Questions**

#### **Q1. Do you have any concerns in relation to the proposed Code application date?**

No.

#### **Q2. Do you have any comments on the revised Guidance?**

Comments below also include recommendations regarding additional focus areas for FRC to consider regarding CG Code revisions.

#### **The importance of culture**

AMNT recommends that the content within FRC's 2016 report of observations on the Corporate Culture and the Role of Boards<sup>4</sup> should be reflected in its revised Guidance to Board Effectiveness. Grant Thornton notes<sup>5</sup> that 29% of CEO in FTSE 350 companies now discuss culture in their opening statements, up from 21%. FRC's report just cited concludes that while the chair and non-executive directors are influential, the CEO has most responsibility for setting and embedding a company's culture and values. We therefore agree with Grant Thornton that, while CEOs' direction of travel may be encouraging, their relatively low participation in this process is "disappointing". There is also little link between remuneration targets and culture, which is discussed further on in this document.

The toolkit for culture reporting published by Grant Thornton at page 25 could prove valuable re Guidance on this topic.

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<sup>3</sup> <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/corporate-governance-review-2017.pdf>

<sup>4</sup> <https://www.frc.org.uk/getattachment/3851b9c5-92d3-4695-aeb2-87c9052dc8c1/Corporate-Culture-and-the-Role-of-Boards-Report-of-Observations.pdf>

<sup>5</sup> <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/corporate-governance-review-2017.pdf>

## Internal Audit Function

AMNT recommends that consideration be given to conducting a review of FRC's audit work in light of recent developments with Carillion. In their report, Grant Thornton stated that for FTSE 350 companies they:

“found no improvement in the quality of reporting for either viability statements or internal controls – areas closely linked to risk management.... Thirty-four per cent of companies still keep their internal controls disclosures to a minimum, giving few insights into internal control policies and systems, organisational structures and reporting lines. Following various well-publicised frauds and accounting failures this year arising from inadequate internal controls, this should be fertile ground for investor enquiries of management and audit committees. Similarly, while the FRC's 2014 guidance states that boards need to say how they monitored and reviewed the effectiveness of their internal control system throughout the year, the quality of disclosure remains weak. Seventy-eight per cent of companies provide basic or general explanations, with only 22% giving good or detailed descriptions that might genuinely reassure an investor”.

This finding and others from Grant Thornton on disclosures in this area merit serious attention by FRC.

## The role of consultants/advisors and conflicts of interests

AMNT would request FRC to address the issues raised by Grant Thornton, set out as follows:

“In 2017, 248 companies disclose whom they consulted about their remuneration policy. Twenty-four remuneration consultants are named, with more than 92% of advice coming from just six of these firms. Of these six, two audit firms acted as consultants to 42% and one other consultancy advised a quarter of the FTSE 350 – no doubt giving rise to issues of conflict and limiting audit choice. “ [page 51 – AMNT's emphasis]

“There is little change in the detail provided on how audit committees reach their recommendation on the appointment, re-appointment or removal of external auditors. Just over half (55%) of FTSE 350 companies provide basic or general disclosures – either stating there was a tender, but giving scant further information, or outlining very generic information. Just under half (43%) provide good or detailed disclosures. The reporting tends to be slightly more detailed when companies have tendered in the past year. Given the EU directive's focus on audit tenders, this reporting area should be prioritised in the coming year, with organisations ensuring that the audit committee report includes specific information about their auditor appointment process. When looking ahead, companies should outline their plans to keep would-be tenderers free from professional conflicts of interest, possibly even disclosing their existing relationships with these firms”. [page 47 – AMNT's emphasis].

RLVI has the following voting instruction pertaining to this issue: *If competition for appointment as statutory auditor has been restricted to the “big four” accounting firms, vote against the re-election of the chair of the audit committee*

## Stakeholder Inclusion

With regards to consideration of stakeholders other than shareholders, AMNT welcomes the specific reference to workforce engagement. However, we would caution against sending a message to companies that the workforce should be considered disproportionately to such other stakeholders as customers/clients (this has relevance for the SC later on), shareholders, public policy makers and environmental stakeholders. Overall, AMNT believes that the FRC's role in this area should be to encourage companies to report on their stakeholder engagement processes (how stakeholders are prioritised and why) and outputs (activities undertaken during year under review), and how those outputs have added value to shareholders. Unilever is a good case study in how stakeholder engagement can add value to its business strategy. Through the identification of its key stakeholders, it uses that information to conduct a materiality assessment<sup>6</sup> to determine which issues are most important to the long-term success of the company.

Given AMNT's membership, we are particularly concerned about disclosures pertaining to shareholder engagement. We note Grant Thornton's report, at page 7, that:

"despite the increasing emphasis on shareholder engagement, disclosures are not getting any better. For the sixth year, the number of companies providing detailed accounts of how they engage with shareholders fell, a particularly strong trend among the FTSE 250. Only 33% of the FTSE 350 provide good or detailed explanations (2016: 36%; 2015: 55%), while 67% give generalised disclosures with no mention of the specific issues discussed. With the FRC planning to review the SC next year, this will need to be on companies' radars. Careful analysis of the forms of engagement do reveal some signs of improvement: 40% of companies discuss face-to-face communication between shareholders and directors, up from 33% in 2016. Surprisingly – given the increasing shareholder focus on executive remuneration – only 13% of the FTSE 350 report that the chair, or other members of the remuneration committee, held face-to-face meetings with shareholders".

We recognise that there may be plans to introduce requirements for companies to disclose what steps they took to engage with shareholders after a "significant" vote of dissent at the annual general meeting, which we welcome. However, we feel that more disclosure is needed, similar to what fund managers should be expected to disclose as to whom they engaged with on their clients' behalf and over what issues (thereby mirroring CG with SC best practice).

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<sup>6</sup> [https://www.unilever.com/Images/unilever-materiality-matrix-final\\_tcm244-476008\\_en.pdf](https://www.unilever.com/Images/unilever-materiality-matrix-final_tcm244-476008_en.pdf)

## Nomination Committee

We commend the FRC for specific references to disclosure on gender and ethnic diversity. However, improved disclosures on the broader remit of Nomination Committee activities are needed (whose remit is to drive the diversity policy). As highlighted by Grant Thornton at page 37:

- 53% of companies still provide only basic or general descriptions of the nomination committee's work
- The ratio of women on FTSE boards has stalled at 26%. 38 businesses have less than 25% female representation, including two with under 10% and one with none
- Only 14% of the FTSE 350 provide good or detailed descriptions of succession planning
- Gender diversity policy reporting has fallen, with more focus on wider kinds of diversity, particularly skills and experience
- Only 14% of nomination reports give good or detailed personalised introductions from the nomination committee chair, much lower than for audit and remuneration and remuneration committee chairs

Such limited disclosures on Nomination Committee activities hinder investors' abilities to assess board effectiveness. AMNT believes more work/guidance is needed in this area.

RLVI has the following voting instruction pertaining to this issue: *Vote against the chair of the nomination committee if the company does not have a policy of market testing of all board and senior management positions through an open appointments process for all vacancies.*

## The absence of environmental issues (climate change)

There is no mention of environmental issues in the proposed changes to the CG Code yet there are consultation questions pertaining to climate change within the SC– as identified above, expectations to address environmental and social issues should be aligned between companies and investors. We support the Task Force on Climate Change Related Disclosures and believe that these recommended disclosures should be embedded in the Code. The Task Force recommendations would better enable investors to address AMNT's RLV instruction E1, E2 and E4 which has been in place since 2015. Most notably, E4 states:

- *Year one: If the company has failed to introduce and disclose emission reduction targets vote against the re-election of the chair of the Environmental Sustainability Committee [or equivalent officer].*
- *Year two: If the company has failed to commit to introducing and disclose science-based emission reduction targets with a coherent strategy and action plan in line with a 2 degree scenario vote against the re-election of the chair of the Environmental Sustainability Committee.*
- *Year three: if the company has failed to introduce and disclose the above, vote against the re-election of the chair of the Environmental Sustainability Committee*

We note FRC's plans to introduce climate change into its strategic report guidance. However we believe that in tandem with this effort, it is essential that it is included in the CG Code.

**Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?**

Each of the methods there proposed might be successful, provided that the culture of the board allows it to be. The appointment of a single workforce director carries the risk that this person may be captured by groupthink or even be browbeaten into it on the basis of the director's legal liability to the company. Designating a single NED will by itself be of little effect unless the person appointed is both strong and committed. Probably the most appropriate mechanism will be a combination of one or both of such appointments with a workforce advisory panel.

We note that the consultation makes no mention of trades unions, despite the United Nations Global Compact making clear in Principle 3: "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining". Where there is a significant trade union presence in the workforce, AMNT believes the board must recognise it and work constructively with it, while not of course losing sight of its duties to other stakeholders.

**Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?**

AMNT's RLV1 is underpinned by UN Global Compact (UNGC) which is considered to be a best practice principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. They appear to be more widely used internationally than they currently are in the UK. To achieve alignment between what companies expect of themselves on these issues, and what investors expect of companies, AMNT would recommend that UNGC be championed, alongside other best practice standards, as a way for companies to shape their strategy on such issues in the Guidance. We note that 68 UK-based public companies are already UNGC signatories<sup>7</sup>. The Global Reporting Initiative and the International Integrated Reporting initiative are reporting frameworks that can be highlighted in the Guidance as useful in demonstrating performance against the UNGC

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<sup>7</sup> [www.unglobalcompact.org](http://www.unglobalcompact.org). Signatory numbers confirmed via email with UN GC UK Manager.

principles. For climate change, the Guidance should specifically reference the Task Force on Climate Change Related Disclosures<sup>8</sup>.

AMNT strongly supports the UN SDGs and notes with pleasure the momentum towards their attainment, to which FRC's proposals will contribute. However, we believe that in light of recent developments at a regulatory level, it may be premature to require companies to report against the SDGs. According to a recent UNGC report<sup>9</sup>, several businesses are already engaging with the SDGs on a broader level but are lacking in tools to implement them in a robust manner. To address this issue, the UK Government has provided a grant to the World Benchmarking Alliance (Aviva, UN Foundation, Index Initiative and Business and Sustainable Development Commission) to carry out a consultation around how an SDG Index could be established<sup>10</sup>. This index would comprise of a series of benchmarks which would rank the world's biggest companies against the extent to which they are helping to achieve the Goals. The consultation was launched during the UN General Assembly in September 2017. More specific requirements for company reporting may well be desirable once this process is further advanced.

Given the above developments, we would recommend that SDGs are referenced in the Guidance and therefore endorsed by FRC as the way forward to companies regarding their wider societal responsibilities but noting the current constraints re implementation mentioned above.

**Q5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?**

Yes, but we would welcome a lower threshold of 5% because we feel that it is "significant" given the low levels of dissent normally associated with votes (less than 1%).

We appreciate that the purpose of this threshold is to allow for greater accountability of companies towards their shareholders. However, we believe this only represents part of the investment chain problem. We would strongly urge action to bring about greater

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<sup>8</sup> <https://www.fsb-tcfd.org/>

<sup>9</sup> <https://www.unglobalcompact.org/library/5361>

<sup>10</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/616/61602.htm> Government response to The Environmental Audit Committee Ninth Report of Session 2016–17, on the *Sustainable Development Goals in the UK*, HC 596 on 26 April 2017.

accountability on the part of fund managers to their asset owner clients over how they vote, and further action to ensure that fund managers accept client policies and voting instructions in pooled funds which now represent almost 50% of funds under management in the UK.

**Q6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.**

Yes.

**Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?**

AMNT supports the principle which underlines the following Red Line Voting instruction (G4):

*Vote against the re-election of any non-executive director if it could result in that person's continuous service as a director of the company exceeding nine years, unless it is not intended that he or she be treated in future as an independent director.*

In the underlying guidance, it states that "As an initially independent director's tenure goes on, it may be expected to become more difficult to maintain that independence from the outlook of the company's executive which the shareholders need. If an individual was identified as an independent in the latest directors' report, it is to be assumed that he or she will continue to be so treated, unless documentation circulated to the shareholders in connection with the relevant meeting makes clear that this is not the intention".

As RLVI is Comply or Explain, we note that there may be circumstances where tenure beyond nine years may be appropriate. However, a robust justification would need to be provided, and in its Guidance, the FRC can play a role in highlighting what a robust justification(s) might be.

**Q8. Do you agree that it is not necessary to provide for a maximum period of tenure?**

In the light of paragraphs 51 to 55 of the consultation document, Yes

**Q9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?**

Yes, assuming that regulatory suasion results in a good level of compliance.

**Q10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.**

Yes.

**Q11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.**

We will take these three questions together. We welcome the proposed changes but do not feel they go far enough. In particular, we propose that you amend the final point of clause 23 of the Section 3 provisions to state that the annual report should include the gender balance **and ethnic diversity** of those in senior management and their direct reports".

While the consultation recognises the positive impact of ethnic diversity on performance it does not highlight the nature and scale of the problem. Four government-commissioned studies demonstrate this as follows:

- *A test of racial discrimination in recruitment practice in British cities – research report no 67* Martin Wood, Jon Hales, Susan Purdon, Tanja Sejersen and Oliver Hayllar, National Centre for Social Research on behalf of the DWP
- *The 60/76 report, the Business Commission on Race Equality in the Workplace – a report by the National Employment Panel*, published by the Department for Work and Pensions, October 2007

- *Increasing diversity on public and private sector boards* Dr Ruth Sealy, Elena Doldor and Prof Susan Vinnicombe, International Centre for Women Leaders, Cranfield School of Management, for the Government Equalities office
- Race in the workplace: The McGregor-Smith Review:  
<https://www.gov.uk/government/publications/race-in-the-workplace-the-mcgregor-smith-review>

(Further information regarding these studies are provided in the Appendix at the end of this submission. We note that Janice Turner has considerable expertise in this area given her profession, and thus we felt that relaying more detailed background on this burgeoning topic may prove useful).

These reports show that there is a long way to go; but public interest in the issue is growing, and failure of companies to respond to it will in due course add the risk of reputational damage to those already posed by the loss of opportunities to benefit from diversity. The financial services industry needs to be nudged into fuller awareness of this. Based on a recent review of select fund managers' voting policies, we could not find one explicit reference to ethnic diversity and how the fund manager would vote in the absence of a clear ethnic diversity policy and/disclosure around this issue. In less than three cases was ethnic diversity even mentioned in passing, but only as part of an overarching statement on their voting principle on diversity in general.

By contrast, AMNT members voted to adopt two RL policies in connection with diversity:

*S2.) Year one: If the company has not committed itself to publish within the next 12 months equality monitoring data for its workforce covering at minimum gender, race and disability, and including management and board, vote against the re-election of the chair of the committee responsible for corporate social responsibility or, in the absence of such committee, vote against the chair of the board.*

*Year two: if the company has not begun annual publication of such data, vote as above.*

*S3): If there is no diversity strategy in place to address a lack of minority ethnic representation at board or senior management level, and there is no visible minority representation at that level, vote against the chair of the nomination committee.*

Therefore, to support the asset owner's ability to hold their fund manager to account for their apparent lack of robust approach to ethnic diversity, it is imperative that companies are required to publish their ethnic monitoring data across the company at all levels, in alignment with the McGregor-Smith report requirements<sup>11</sup>. Without monitoring the workforce from the most junior levels to the most senior it would not be possible to identify areas that require further intervention. The executive pipeline starts at the bottom - it does not begin near the boardroom.

AMNT would strongly agree with extending the Hampton-Alexander recommendation beyond the FTSE 350.

**Q12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?**

Making the same point in different places often contributes to the anchoring of the message, but it is of course important that there is complete consistency between the various statements.

**Q13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.**

Yes.

**Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?**

We agree that the remuneration committee should have a role in respect of oversight of the wider workforce policies on remuneration, as this ties the company's pay policies together and sets them in the context of top and bottom pay levels. It is good that they will be required to report on this element. It is important that this wider remit not cut across successfully established mechanisms for collective

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<sup>11</sup> We note that the McGregor-Smith report disclosure requirements is in alignment with RLVI

bargaining within the workplace. This point should be made explicitly in the Code and/or guidance. The workforce and their representatives, such as recognised trade unions, should be involved in the discharge of this responsibility.

**Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?**

AMNT supports the principles which underpin the Red Line voting instructions G16 to G212 on remuneration. In light of the pension scheme failures at BHS and most recently Carillion, we particularly note in our RLVI guidance that senior management should have a meaningful portion of their pension contribution from the employer in the same scheme as the rest of the workforce, to motivate them to show interest in the scheme. The RLVI also calls for the inclusion of environmental and social considerations as part of their remuneration targets, in alignment with expectations to consider wider stakeholders in their business strategy. Of note, Grant Thornton's finding at page 49 that "37% < [of the FTSE 350]> make no use of non-financial metrics for performance-related remuneration".

Further, given the prominence of cultural change as a goal of this code revision, we believe FRC should strengthen the proposed Provision 40 the better to encourage the inclusion of remuneration criteria of contribution to company culture, in so far as that does not materially harm the transparency and simplicity of pay policy. Grant Thornton states that:

"demonstration of how remuneration links to KPIs – that is, to the achievement of clear strategic goals – is less impressive. Only 20% of the FTSE 350 show how KPI achievement aligns with remuneration and how specific strategic priorities connect with performance-based remuneration metrics". This indicates that more guidance is needed to ensure companies link remuneration to strategy. In turn however, companies need to provide better content in the strategic report, Grant Thornton states at page 8 that "62% of companies comply with all strategic report requirements but just 14% deliver high quality, business model-led content".

The above noted data point indicates that a more thoroughgoing review of the strategic report guidance is perhaps required.

We note Grant Thornton's remark at page 49 that "91% now have a clawback provision for bonuses and long-term incentive plans – but none have yet been invoked". Extending the

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<sup>12</sup> <http://redlinevoting.org/corporate-governance/#remuneration>

vesting period is helpful, but remuneration packages should be such that post-vesting clawback is feasible in appropriate circumstances.

**Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?**

Yes, so long as asset owners (and especially asset managers) play their proper part in holding boards accountable.

**UK Stewardship Code Questions**

**Q17. Should the SC be more explicit about the expectations of those investing directly or indirectly and those advising them? Would separate codes or enhanced separate guidance for different categories of the investment chain help drive best practice?**

Yes, AMNT believes that regulated asset owners and investment consultants should also be required to adhere to the Stewardship Code, like fund managers. Along with revisions to the CG Code, this will strength the entire investment chain and ultimately benefit savers. Further detail is provided below.

**Asset owners**

As a priority, AMNT believes that the SC should serve as a powerful tool for asset owners in their selection, appointment and monitoring processes of external fund managers. AMNT endorses the recommendations in the document *Fiduciary Duty in the 21<sup>st</sup> Century*<sup>13</sup> which highlights the need for the FRC to “scrutinise asset owners’ oversight of their external fund managers, as well as providing clear guidance to them as to their stewardship responsibilities”. The EU Shareholder Rights Directive also highlights the need for asset owners to demonstrate the robustness of their relationship with their external managers<sup>14</sup>. In doing so, we believe this will reduce the instances of asset owners using the phrase “we delegate the stewardship function to our external managers”, as a way to shun their ownership responsibilities within their Statement of Investment Principles<sup>15</sup>. However, we would add that this scrutiny needs to

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<sup>13</sup> [www.unepfi.org/fileadmin/documents/fiduciary\\_duty\\_21st\\_century.pdf](http://www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf) (Page 23)

<sup>14</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017L0828> (19)

<sup>15</sup> E.g., “Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).

occur in tandem with equal scrutiny of fund managers' adherence to their clients' best interests. We touch on these themes in the rest of the SC section.

### Investment consultants

AMNT concurs with the BEIS Select Committee on CG Reform that there are too many intermediaries involved in the stewardship chain. Most notably, they state that "the use of advisors has become too commonplace and the incentives of many of these advisors are not aligned with good outcomes for companies, shareholders, employees or broader society. We are concerned that the use of advisors can be detrimental to clear communication and engagement between companies and their shareholders"<sup>16</sup>. As a result, AMNT strongly recommends that investment consultants be required to adhere to the SC. We feel that this inclusion is appropriate within the current political landscape, most notably reviews of the industry by the FCA<sup>17</sup> and CMA<sup>18</sup>.

As stated in our October letter, AMNT and UK's Sustainable Finance and Investment Association (UKSIF) convened key UK investment consultants and secured a commitment from them to ensure that their clients receive the recent TPR ESG guidance. AMNT will continue to work with the investment consultants to ensure that they are held accountable for this commitment and in doing so, we hope that this will "raise the bar" on the quality of stewardship advice being provided by consultants. For stewardship to have the necessary take-up by trustee boards, their advisors need to include it as a board agenda item. We would be happy to keep FRC updated on this initiative as it progresses.

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Baillie Gifford, UBS and Kempen take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code". Source:  
<https://modgov.lbbd.gov.uk/Internet/documents/s98716/Agenda%20Item%205%20Appendix%203%20SIP.pdf>

<sup>16</sup> <https://publications.parliament.uk/pa/cm201617/cmselect/cmbeis/702/70211.htm>

<sup>17</sup> <https://www.fca.org.uk/publications/market-studies/asset-management-market-study-final-decision-mir>

<sup>18</sup> <https://www.gov.uk/cma-cases/investment-consultants-market-investigation>

## Separate codes versus guidance

AMNT feels that having different codes for different parts of the investment chain would be unnecessarily complex. However, a revision of the SC so that it can better accommodate the other investment chain actors would be required. Consideration should be given to using the International CG Network's Global Stewardship Principles<sup>19</sup> in this regard. Underpinning each principle, we would recommend separate guidance for each investment chain actor, noting the complexity of what an investment actor may mean (e.g., asset owners managing assets in-house versus one that is 100% externally managed).

**Q18. Should the SC focus on best practice expectations using a more traditional 'comply or explain' format? If so, are there any areas in which this would not be appropriate? How might we go about determining what best practice is?**

AMNT believes that the structure of the SC should move to a Principles and Provisions structure much like the CG Code, with as much alignment regarding expectations as possible. There are no ways in which we can see this approach would not be appropriate.

The content of the provisions – i.e. the consensus as to what constitutes best practice for stewardship – should follow a rigorous consultation process<sup>20</sup> with industry and wider stakeholders to ensure signatories are not asked to take irrelevant actions. Lessons from the tiering exercise would also provide useful here.

As regards the second and third limbs of Q18, AMNT would recommend RLVI which we consider to be a best practice ESG policy and as such sufficiently stretching.

Overall, from the asset owner perspective, taking a Principles and Provisions structure would greatly help their benchmarking when evaluating fund managers as part of their due diligence and monitoring processes.

**Q19. Are there alternative ways in which the FRC could highlight best practice reporting other than the tiering exercise as it was undertaken in 2016?**

AMNT strongly supports the BEIS Select Committee's recent recommendations<sup>21</sup> regarding the SC, in particular that for strengthening the policing function of the FRC, in alignment with

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<sup>19</sup> <https://www.icgn.org/sites/default/files/ICGNGlobalStewardshipPrinciples.pdf>

<sup>20</sup> Involving key stakeholders such as the UN-based Principles for Responsible Investment, who has a large database of information pertaining to the responsible investment approaches of the UK financial community

<sup>21</sup> <https://publications.parliament.uk/pa/cm201617/cmselect/cmbeis/702/70211.htm>

recent developments at the UN-backed Principles for Responsible Investment in relation to signatories to their principles<sup>22</sup>. We welcomed the recent tiering exercise and believe that its benefits would be solidified through the implementation of these recommendations.

AMNT does not therefore have any alternative recommendations to the tiering exercise.

**Q20. Are there elements of the revised UK CG Code that we should mirror in the Stewardship Code?**

What is required of companies by the UK CG Code should mirror what is required of fund managers by the SC where relevant (as they latter are companies), especially for those fund managers that are publicly listed (e.g., Legal and General, Schroders). AMNT refers to South Africa's King Code IV<sup>23</sup> and their section on *pension funds and institutional investors* as to how this alignment could work in practice.

We also note the recent convening of a UK industry group to develop CG principles for UK private companies (of which the majority of fund managers would form a part). We feel the findings of that exercise should in due course feed into the SC, but should not delay this revision of that code. As previously stated, alignment of what is expected of a fund manager as a private company (CG Code) and as a financial intermediary in charge of client assets (SC) will strength the investment chain and ultimately benefit savers.

**Q21. How could an investor's role in building a company's long-term success be further encouraged through the Stewardship Code?**

Going back to first principles, the creation of the SC was driven by the 2008 financial crisis. Investors were deemed to have not held companies sufficiently to account for their respective long-term strategies. This outcome is not simply about the failure of the investment community's stewardship approach but is also connected to investors' own internal governance arrangements which, in turn, drive the quality of that approach. With that perspective in mind and in alignment with ICGN Global Stewardship Principles, AMNT believes that asset managers should be required to outline their internal governance arrangements – including, but going beyond, the existing disclosure requirement of their conflicts of interest policy.

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<sup>22</sup> [https://www.responsible-investor.com/home/article/pri\\_serious\\_viol/](https://www.responsible-investor.com/home/article/pri_serious_viol/)

<sup>23</sup> [http://c.ymcdn.com/sites/www.iodsa.co.za/resource/resmgr/king\\_iv/King\\_IV\\_Report/loDSA\\_King\\_IV\\_Report\\_-\\_WebVe.pdf](http://c.ymcdn.com/sites/www.iodsa.co.za/resource/resmgr/king_iv/King_IV_Report/loDSA_King_IV_Report_-_WebVe.pdf)

The aim of this new provision is to highlight to asset owners the degree to which fund managers are in alignment with their long-term best interests. For further details as to what might constitute best practice in this space (e.g., long-term metrics), AMNT would recommend a review of ICGN's Model Mandate Initiative<sup>24</sup> and University of Cambridge Institute for Sustainability Leadership, Investor Leaders Group report on long-term sustainable mandates<sup>25</sup> under the relevant sections (see footnotes). This broad requirement is in alignment with that of the EU Shareholder Rights Directive<sup>26</sup>.

Given the creation of a UK industry group to evaluate the feasibility of a UK CG Code for private companies, this would serve to reinforce the inclusion of this principle (see also reference to South Africa's King Code IV).

Overall, given the findings of the Kay review regarding misaligned incentives, we believe our proposed additional provision is essential.

**Q22. Would it be appropriate to incorporate 'wider stakeholders' into the areas of suggested focus for monitoring and engagement by investors? Should the SC more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?**

#### Stakeholder Inclusion

In line with the proposed reforms to the UK CG Code and directors' duties under the Companies Act, the SC should require disclosure as to whether fund managers conduct stakeholder engagement beyond companies, including outreach to asset owner clients on their stewardship approach, and public policy makers regarding systemic barriers to effective stewardship. As part of its guidance, the FRC should highlight that their inclusion into the overall engagement strategy is considered to be best practice.

AMNT would particularly like to note the client aspect of their stakeholder outreach. The Kay review identified misaligned incentives in the investment chain, most notably between asset owners and their fund managers. Building trust between the two is an essential building block

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<sup>24</sup>[https://d3n8a8pro7vhmx.cloudfront.net/intentionalendowments/pages/27/attachments/original/1420777456/ICGN\\_Model\\_Mandate\\_Initiative.pdf?1420777456](https://d3n8a8pro7vhmx.cloudfront.net/intentionalendowments/pages/27/attachments/original/1420777456/ICGN_Model_Mandate_Initiative.pdf?1420777456) (Section: Long-termism and alignment)

<sup>25</sup> <https://www.cisl.cam.ac.uk/publications/publication-pdfs/taking-the-long-view-ilg-mandates-report.pdf> (Section: Stewardship, Investment process and organisational culture)

<sup>26</sup> Asset managers should give information to the institutional investor that is sufficient to allow the latter to assess whether and how the manager acts in the **best long-term interests** of the investor and whether the asset manager pursues a strategy that provides for efficient shareholder engagement. <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017L0828>

to a more sustainable financial system. To aid in this objective, fund managers need to demonstrate through the Stewardship Code, and in alignment with the EU Shareholder Rights Directive, how its business model is in alignment with clients' long term best interests.

#### Consideration of ESG factors and/or broader social impact

AMNT acknowledges the concerns raised in the October meeting regarding the explicit reference of ESG factors and/or broader social impact. However, given the findings of the Kay Review and in alignment with ICGN GSP, we believe that an additional principle requiring “investors to demonstrate how they are promoting the long-term performance and sustainable success of companies, including the integration of material environmental, social and governance (ESG) factors in stewardship activities” would be welcomed.

This is especially essential if changes to the CG Code include the inclusion of NGO principles or the SDGs (see our response to Q4 above). The reason why ESG risks should be singled out for the SC (as opposed to other risk factors) is that the integration of ESG is acknowledged to be of varying quality in the investment community, and thus requiring disclosure of their respective approaches should serve to drive up standards. That will ultimately benefit savers.

In the accompanying guidance/provisions for this principle, the FRC should also require that the investor clearly state how their stewardship function is integrated into the investment decision making process in order to reinforce the long-term view (this is in alignment with BEIS' April 2017 CG recommendations). With regards to ESG issues in particular, the FRC should signpost best practice frameworks such as AMNT's Red Line Voting initiative (which notably was highlighted in TPR's guidance on DC investment management in July 2016 and in that for DB Schemes in March 2017<sup>27</sup>), as well as the Task Force for Climate Related Disclosures<sup>28</sup>. In order to ensure a long-term view, the FRC should signpost the previously referenced documents from ICGN and Cambridge University's Institute for Sustainability Leadership regarding long-term metrics.

**Q23. How can the SC encourage reporting on the way in which stewardship activities have been carried out? Are there ways in which the FRC or others could encourage this reporting, even if the encouragement falls outside of the Stewardship Code?**

#### Firm-level reporting

Overall, the quality of firm-level, public stewardship reporting varies depending on the fund manager but on balance needs improvement. The EU Shareholder Rights Directive states that fund managers should publicly provide a robust justification of its stewardship approach. Given this landscape, the FRC and the FCA should work together to develop a set of best-practice standards for stewardship reporting in order to raise the bar. If the fund manager

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<sup>27</sup> <http://www.thepensionsregulator.gov.uk/docs/dc-investment-guide.pdf> (Page 10);  
<http://www.thepensionsregulator.gov.uk/docs/db-investment-guidance.pdf> (Page 20)

<sup>28</sup> <https://www.fsb-tcfd.org/>

does not meet these minimum requirements, then consider whether or not that should impact upon their tiering.

#### Mandate/fund specific reporting

AMNT agrees with the ICGN's Global Stewardship Principles section on Client Reporting which states that "investors should provide regular and appropriate reports to clients, which may be more detailed than public disclosure, regarding stewardship activities and performance. Such reports should include their major stewardship priorities and forward-looking engagement strategy". We believe this principle should be incorporated into the Code. The FRC should state in their guidance what the stewardship reporting should contain as a minimum standard. As part of this, the FRC should highlight the *Guide to Responsible Investment Reporting in Public Equity, 2015*<sup>29</sup> which provides a list of useful reporting metrics. This Guide was created by sixteen pension funds who felt it was necessary to signal to the market that mandate-specific responsible investment reporting (including stewardship) was poor. Of particular note, the FRC should require fund managers to report when they have deviated from client stewardship policies and to provide an appropriate rationale for doing so. Guidance as to what would be considered appropriate rationale for deviations from client policy should also be provided. This reporting requirement is also in alignment with what RLVI calls for.

#### **Q24. How could the SC take account of some investors' wider view of responsible investment?**

Stewardship, at its very basic level, is about effective oversight of assets over the long-term. This concept should be at the core of any mandate, whether it be equity, fixed income, or alternative asset classes. AMNT's members have a duty to take voting rights seriously – and this duty was the main reason the RLVI was developed – but there is a risk that an exclusive focus on voting of listed equities will create a fundamental misunderstanding of what stewardship is about. If stewardship is indeed effective oversight, no fund manager should be allowed to tell its asset owner client that the SC is not applicable to its operations. AMNT therefore strongly encourages the FRC to require non-listed equity fund managers to adhere to the SC and include non-UK assets.

Overall, the FRC taking the lead in this way and sending a strong signal to the market as to what stewardship is (i.e. not just voting and engagement, equities and UK focused), will go a long way to helping asset owners effectively engage with their external fund managers.

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<sup>29</sup> <https://www.plsa.co.uk/Policy-and-Research/Document-library/Guide-to-Responsible-Investment-reporting-in-Public-Equity-Published>

**Q25. Are there elements of international stewardship codes that should be included in the Stewardship Code?**

Yes, as noted in previous responses. Consideration should be given to using the ICGN’s Global Stewardship Principles as a broad framework for a “comply or explain” approach as recommended. AMNT’s references to South Africa’s King IV Code should also be noted.

**Q26. What role should independent assurance play in revisions to the Stewardship Code? Are there ways in which independent assurance could be made more useful and effective?**

We are not convinced that revisions to the SC should at this time pay much heed to questions of assurance, except in as much as it should be possible for a reasonable assessment of compliance with the code to be made. FRC should continue to monitor compliance, indeed should step up its efforts; but one should not be quick to encourage asset owners to pay for bespoke assurance on these questions.

**Q27: Would it be appropriate for the SC to support disclosure of the approach to directed voting in pooled funds?**

The SC should require disclosure of whether or not the fund manager offers pro-rated voting at a minimum. In addition, the FRC should clearly state in its provisions that it is considered best practice to offer the asset owner the right to vote its own shares in accordance with its own voting policy. As stated in our October letter, there is a disconnect between what the TPR ESG guidance<sup>30</sup> requires of asset owners, and fund manager unwillingness to vote in accordance with client policies.

**Q28: Should board and executive pipeline diversity be included as an explicit expectation of investor engagement?**

Yes. Stewardship should be set within the same context as the CG Code in order to align the expectations of shareholders with the duties of boards. This should be included in the Provisions section of the relevant Principles most notably:

- publicly disclose their policy on how they will discharge their stewardship responsibilities.
- monitor their investee companies.
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- have a clear policy on voting and disclosure of voting activity.
- report periodically on their stewardship and voting activities.

Refer to answer to Question 2 (Nomination Committees), Question 9, and 11 in CG Consultation for AMNT perspectives on this issue.

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<sup>30</sup> TPR states that ‘We expect you to assess the financial materiality of [sustainability] factors and to allow for them accordingly in the development and implementation of your investment strategy’: [www.thepensionsregulator.gov.uk/trustees/db-investment-strategy.aspx](http://www.thepensionsregulator.gov.uk/trustees/db-investment-strategy.aspx)

**Q29: Should the SC explicitly request that investors give consideration to company performance and reporting on adapting to climate change?**

Yes, same answer as for Question 28.

Refer to answer to Questions 2 (Absence of Environmental Issues) and 4 in CG Consultation for AMNT perspectives on this issue.

**Q30: Should signatories to the SC define the purpose of stewardship with respect to the role of their organisation and specific investment or other activities?**

Yes, but not as an additional principle within the Code, but as part of the guidance and provisions which underpin Principle 1. Stewardship policies are of varying quality (Principle 1) and as such, developing a set of best practice standards re stewardship policy content would be welcomed.

**Q31: Should the SC require asset managers to disclose a fund's purpose and its specific approach to stewardship, and report against these approaches at a fund level? How might this best be achieved?**

Yes

Please see AMNT's response to Question 23 under "Mandate/fund specific reporting"

## **ADDENDUM – RACE EQUALITY SUPPLEMENTAL INFORMATION (Q11)**

### **A test of racial discrimination in recruitment practice in British cities**

This study was commissioned by the Department for Work and Pensions to collect factual evidence to test the assertion that discrimination is a significant factor affecting labour market outcomes for ethnic minorities. The study was a field experiment in which matched pairs of job applications were submitted in response to job advertisements in the public sector and private sector in seven British cities. Ethnic identity was conveyed using names widely associated with the ethnic groups included in the survey. These names were randomly assigned to each application. The survey found that, looking at the pairs of applications in which either or both were called to interview, 39% of BAME applicants got through compared with 68% of white applicants. They concluded that ethnic minorities had to send 16 applications for one successful outcome compared to nine for white applicants. The survey found that 4% of public sector employers were likely to have discriminated on the grounds of race – but 35% of private sector employers were likely to have done so.

### **The 60/76 report, the Business Commission on Race Equality in the Workplace**

The report of the Business Commission which comprised top business executives and government officials from the Treasury and the DWP, concurs with this. It states that discrimination takes several forms: straightforward racial prejudice at the level of individual managers; less specific kinds of harassment or victimisation that drive ethnic minorities to resign or prevent their application; stereotyping and preconceived notions about ethnic minorities; workplace cultures that unintentionally result in discrimination; and in particular informal, word of mouth recruitment practices including hiring “who you know” rather than casting the net wider.

### **Increasing diversity on public and private sector boards, Cranfield School of Management**

A report by Cranfield School of Management for the Government Equalities office noted that employers attributed lack of ethnic minorities at board level to a lack of skills or qualifications to be on boards. The researchers found no evidence that any skills or qualification deficit existed.

The Business Commission concluded that employers’ response to this issue had been “inadequate”. Their survey of 1,000 businesses revealed that 42% could not articulate reasons for their company to take steps to promote race equality; 61% did not recognise a connection between diversity and business performance; 83% did not believe they would face formal investigation of their employment practices or that an employee would ever take them to a tribunal. Among the rationales they heard for why companies were not taking any action were that race equality is not an issue because they do not have any ethnic minority employees; white staff resent measures to tackle race inequality; and that all they want to do is “hire the best” and in promoting race equality they are being asked to lower standards.

## McGregor-Smith Report

In the last 12 months the authoritative McGregor-Smith report into race equality in the workplace, originally commissioned by the Secretary of State for Business Sajid Javid, points out that an integrated workforce has far wider benefits than companies and their shareholders: they substantially impact the economy as a whole.

It states: "The underemployment and underpromotion of people from BME backgrounds is not only unfair for the individuals affected, but a wide body of research exists that has established that diverse organisations are more successful. As McKinsey identified in 2015, companies in the top quartile for racial and ethnic diversity are 35% more likely to have financial returns above their respective national industry medians. The lost potential and productivity – both from these individuals being more likely to be out of work or working in jobs where they are overqualified (and under-utilised) – has a significant impact on the economy as a whole. If the employment rate for ethnic minorities matched that of white people, and BME individuals were in occupations commensurate with their qualifications,

the benefits are massive. The potential benefit to the UK economy from full representation of BME individuals across the labour market through improved participation and progression is estimated to be £24-billion a year, which represents 1.3% of GDP."

The McGregor Smith review concurs with the studies quoted by the FRC consultation on the need for transparency. It states: "We found that transparency in organisations is crucial. Career ladders, pay and reward guidelines, and how and why people are promoted are often opaque. Perhaps more importantly, many organisations do not even know how they are performing on this issue overall.....until we know where we stand and how we are performing today, it is impossible to define and deliver real progress. No company's commitment to diversity and inclusion can be taken seriously until it collects, scrutinises and is transparent with its workforce data. This means being honest with themselves about where they are and where they need to get to as well as being honest with the people they employ.....that is why I was disappointed that only 74 FTSE 100 companies replied to my call for data and shocked only half of those were able to share any meaningful information. One of the key recommendations I am making is for organisations to publish their data, as well as their long-term, aspirational diversity targets and report against their progress annually. I truly believe that making this information public will motivate organisations to tackle this issue with the determination and sense of urgency it deserves."

However, Baroness McGregor-Smith adds: "Businesses that responded to the call for evidence identified a range of business impacts from increased racial diversity in their organisations including attracting staff from a wider talent pool, improved employee engagement, more effective teams, increased innovation and improved understanding of their customer base leading to higher customer satisfaction. Businesses need to recognise the huge opportunity to harness the untapped potential of BME talent. Research by the Government on the business case for equality and diversity suggests that diversity of people brings diversity of skills and experience, which in turn can deliver richer creativity, better problem solving and greater flexibility to environmental changes.....the organisations we have spoken to take diversity seriously and I have no doubt will be keen to lead from the front and begin publishing data. However, to ensure that all companies do this, the Government should legislate, much as in the US, where companies employing over 100 people already have to provide this data, broken down by pay bands. This will allow everybody to see how ethnic minority staff are progressing through the organisation. I firmly believe that if organisations start to report publicly on the diversity of their workforce they will take action and we will see significant improvements."