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# DWP Stewardship Regulations 2022

What you need to do as trustees

**isio.**

# DWP Stewardship Regulations 2022

The new guidance comes into force for trustees preparing Implementation Statements for Scheme years ending on or after the 1<sup>st</sup> of October 2022

There is recognition that exercising stewardship is in the best interest of members

Trustees are encouraged to take ownership of the scheme's stewardship. This means trustees are discouraged from simply reporting that they have delegated stewardship to their asset managers

The Department of Work and Pensions ('DWP') published [guidance](#) in June 2022 around reporting on stewardship, with requirements both for future Implementation Statements ('ISs') and for Statement of Investment Principles ('SIPs').

The guidance is split into non-statutory guidance applicable to SIPs and statutory guidance applicable to ISs. Non-statutory guidance is intended to indicate best practice and trustees are encouraged to follow it where possible.

The statutory guidance is effective for ISs being drafted for scheme year ends on or after 1 October 2022 while the DWP encourages trustees to consider the non-statutory guidance from now. This guidance applies to schemes with more than 100 members.

## Stewardship priorities and themes

A key part of the guidance introduces the concepts of **stewardship priorities and themes** with the non-statutory element of the guidance suggesting that trustees' stewardship priorities or themes relevant to their scheme are summarised in the SIP and stewardship activity relating to these priorities noted within the IS.

Stewardship priorities will be scheme specific and the guidance includes the examples of climate change, biodiversity, board remuneration and modern slavery. Stewardship priorities may need to reflect the extent of exposure and particular challenges of specific sectors and asset classes in which the scheme is invested.

We are supportive of the idea of setting stewardship priorities given the collective action needed to drive change across some of these ESG issues. However, we note it may be difficult to identify the highest priorities and to be able to sufficiently influence on these issues.

## Statement of Investment Principles guidance – non-statutory

**Current SIP requirements relating to stewardship** – SIPs must:

- cover the trustees' policy in relation to financially material considerations over the appropriate time horizon of the investments
- cover the trustees' policy in relation to the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments
- cover the trustees' policies in relation to arrangements with asset managers

**New SIP requirements relating to stewardship** – SIPs must:

- outline the policy on engaging with issuers of debt or equity, asset managers, fiduciary managers, stakeholders or other holders of debt or equity about 'relevant matters' (*relevant matters include (but are not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance*)
- cover the trustees' policy in respect of the exercise of voting rights attaching to investments

Trustees could also consider:

- setting their own voting policy or if they have not set their own policy, explain in the SIP how they will monitor their asset manager's voting policy, a good stewardship policy will include an escalation strategy
- summarising the trustees' stewardship priorities or themes in the SIP, as well as a brief explanation on why they believe these to be in the members' interest
- including links to their managers' policies on those stewardship priorities if available
- covering how they ensure that anyone conducting engagement activities on their behalf is aware of their approach to stewardship

In addition, the guidance provides a range of non-binding examples of stewardship activities that may be considered and covered in the SIP, including:

- selecting and appointing asset and fiduciary managers
- setting an expression of wish for how managers vote on their behalf
- explain collective voting policies, such as red lines for investments
- asset manager engagement and monitoring
- collaborative investor initiatives

### Implementation Statement guidance – statutory

Since 1 October 2020, DB and DC schemes have been required to produce annual ISs to feed into scheme report and accounts and published online on a publicly accessible website. The IS is to provide evidence that trustees continue to follow and act on the principles outlined in the SIP with a focus on stewardship activities, implementation of the trustees' main investment principles and ESG factors. Wholly insured schemes are exempt.

#### Original content requirements

The IS is to provide evidence that trustees continue to follow and act on the principles outlined in the SIP. All statements must cover:

- the extent to which the trustees have followed their policy on engagement
- voting behaviour over the scheme's reporting year by and on behalf of the trustees, including the most significant votes cast by the trustees or on their behalf

In addition, DC schemes must go further than this and include:

- how the trustees have acted on the principles outlined in the SIP including how the default strategy is in the best interest of members
- an explanation for any changes to the SIP

#### Additional requirements – to be included in ISs for Scheme years ending on or after 1 October 2022

A key focus of the updated guidance is to highlight that trustees need to understand what asset managers are doing on their behalf and consider how it relates to their stewardship priorities. Trustees should monitor managers, engage and where necessary intervene on matters that may impact investment performance.

#### Engagement

In the IS, trustees could consider including the following content on engagement, either in relation to the trustees or any asset manager acting on their behalf:

We expect most trustees to be reliant on their investment managers' stewardship policies including on voting and engagement. However, the DWP has encouraged trustees to take more ownership

- details of the engagement objectives that have been set
- examples of engagement with asset managers and companies or other issuers
- how engagement has differed for funds, assets, or geographies

### Voting behaviour

Trustees must state any use of a proxy voter during the year in their IS.

Trustees should include:

- relevant statistics to help describe voting behaviour and outcomes, with a breakdown across types of issues, including environmental, social and governance issues
- an explanation of whether the voting undertaken on their behalf was reflective of the trustees' voting policy (where trustees have their own policy)
- a summary of whether the asset manager's voting behaviour was aligned with the scheme's stewardship priorities
- detail on what information is missing and why the information is missing, for example, if it is missing because it was requested from asset managers but not provided
- detail on whether any expressions of wish in place have been taken into account by their asset manager
- links to their managers' voting policies if applicable
- an explanation as to whether, and how, they made clear to their managers what they considered to be the most significant votes in advance of those votes being taken

### Most significant votes

All statements must report all the "most significant votes".

- The IS should include a narrative explaining why each vote is significant, what the vote was, and why the scheme voted in the way it did. A vote may be deemed significant if it links to the scheme's stewardship priorities or themes
- Trustees should include the following information in relation to the most significant votes:
  - The company's name and date of the vote(s)
  - Why the trustees consider the vote to be most significant and if the vote relates to a stewardship priority / theme, which one?
  - Approximate size of the scheme's/ mandate's holding
  - A summary of the resolution
  - How the trustees, asset manager, or service provider voted
  - If the vote was against management, whether the intention was communicated to the company ahead of the vote
  - An explanation of the rationale for the voting decision
  - The outcome of the vote
  - Next steps, including any intention to escalate stewardship efforts

### Isio view

The DWP has clearly recognised that stewardship is an area where trustees could be doing more, but may not be, due to resource or data availability constraints. Meeting the DWP's expectations is likely to require additional resource and focus on ESG over the shorter term but can tie in with other ongoing regulatory discussions.

We believe that stewardship can genuinely make a difference to collectively drive action on ESG issues and to align activities with members' best interests.

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