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Dear Baroness Sheehan,

FINANCIAL SERVICES AND MARKETS BILL: VOTING DISCLOSURES

Thank you for your contributions during the second Grand Committee debate of the Financial Services and Markets Bill on 30 January 2023. I committed to write to you regarding the questions you raised during the debate on amendment 42, relating to voting disclosures. Separately, I wanted to clarify one of my remarks to you during the same debate.

You asked about the effectiveness of the Vote Reporting Group, convened by the Financial Conduct Authority (FCA) in November 2022, in increasing transparency regarding voting disclosures. In particular, you raised its voluntary nature.

Existing FCA rules already make certain requirements regarding voting disclosures by certain FCA-authorized persons, which have helped to improve standards of transparency in recent years. For example, the FCA's Conduct of Business Sourcebook sets out Shareholder Rights Directive Rules that require all investment

firms to develop and disclose an engagement and voting policy. This policy must be made available free of charge on each firm's website, and updated annually.

The Vote Reporting Group brings together representatives from across the investment community, including pension funds and insurers, asset managers, proxy advisors and consultants. Its recommendations are expected to be published in April 2023 for public consultation.

As part of its work, the Vote Reporting Group will consider whether the framework it develops should, at least initially, be adopted as a voluntary set of industry guidelines, or alternatively be used to inform future regulatory rules for consultation by the FCA.

Once a common approach has been agreed by the Vote Reporting Group, the government and regulators anticipate that most asset managers, and certainly the largest ones, will voluntarily adopt public reporting in line with this consistent approach, rather than in their own way or only privately to clients.

You also asked about FCA rules that currently give effect to the Shareholder Rights Directive, and whether they would be automatically repealed by the Retained EU Law (Revocation and Reform) Bill. Rules implementing the Shareholder Rights Directive are already part of the FCA rulebook. Retained EU law which is already part of regulators' rulebooks will not be revoked by the Retained EU Law (Revocation and Reform) Bill, as set out in clause 22(5)(b) of that Bill. As a result, any decision to amend or repeal the rules relating to the Shareholder Rights Directive will therefore be a matter for the FCA.

I also wanted to take this opportunity to clarify my remarks to you during the debate on amendment 42 on 30 January. I incorrectly stated that the Treasury would be part of the Department for Work and Pensions' review of voting disclosures due to take place later this year. The review will be led by the Department for Work and Pensions, the Pensions Regulator, the Financial Reporting Council and the FCA because of their responsibility for stewardship disclosure frameworks.

I noted in the debate that the review will be conducted jointly with other departments and regulators, including the Treasury. I therefore wanted to clarify that the Treasury

will not be directly involved in the review, although the Treasury will continue to work closely with the Department for Work and Pensions and the relevant regulators to encourage effective and long-term stewardship practices.

I look forward to further discussing these issues throughout the passage of the Bill. I am copying this letter to other Peers who spoke during the debate, and I am placing a copy of this letter in the Library of the House.

A handwritten signature in black ink, appearing to read "Harlech", with a long horizontal line underneath it.

LORD HARLECH

The Baroness Sheehan
House of Lords