

ISC CODE – FREQUENTLY ASKED QUESTIONS

What is the ISC?

The Institutional Shareholders' Committee comprises the four leading investor associations: the Association of British Insurers, the Association of Investment Companies, the Investment Management Association and the National Association of Pension Funds. It enables the investment community to speak with one voice on key issues that affect the whole investment community. For example, it spearheaded investors' negotiations with the government on compensation for the Railtrack nationalisation. It has also set out a series of common positions on shareholder engagement.

Why has the ISC launched this Code?

The decision to launch the Code responds to the need to strengthen investors' approach to corporate governance in the wake of the banking crisis. Shareholders do not agree that weak governance was a primary cause of the crisis, but they recognise that they could play an important contribution by becoming more effective. By setting out best practice for investors that want to engage and encouraging them to follow it, the ISC hopes that shareholders will become more effective.

Who will apply it?

The Code is voluntary, and the ISC recognises that not all institutional investors have a strategy that includes an active approach to engagement. For those that do have such an approach, the Code sets out standards that enable them to benchmark their own processes against recognised best practice. They will be able to comply or explain how they apply the provisions of the Code. Those explanations will be public.

Where will we be able to see who has signed up?

The ISC will display on its website (www.institutionalshareholderscommittee.org.uk) a list of those who have signed up together with a hotlink to their own website where interested parties can read a full description of how the institution concerned applies the code. We expect this to be in place next spring, alongside the new constitutional arrangements being drafted by the ISC's newly created committee.

What difference will it make?

Having a formal Code with public disclosure will create a new focal point for efforts to improve the effectiveness of governance activity. This should in turn help us rebuild a critical mass of UK and foreign long-term investors in UK shares who are committed to high standards of engagement. The ISC believes engagement will become more effective as a result and the investor community will be less fragmented. Public disclosure by institutions will enable pension fund trustees and other beneficiary groups to make a fully informed choice of fund manager. Another innovation is that institutions who apply the Code are encouraged to organise independent verification of their compliance statements. This will add to the robustness of the process.

Why is the ISC looking at constitutional reform?

The current arrangements have served the investor community well by creating a framework for collaboration between the various parts of the investment industry, but this is little more than a loose collaboration agreement with a rotating secretariat. The ISC feels the creation of a self-standing body of committed investors would lend important weight in supporting the Code and carrying it forward. However, this needs to be organised in a way that does not cut across the work and contribution of the existing investor bodies.

How will the government respond?

Institutional investors have drawn up this code as their contribution to the general effort to improve the workings of the financial system in the wake of the banking crisis. It is capable of operating on a standalone basis, but we shall need to await the verdict of the current Walker Review and the government's response to that.