



UK Government  
Investments

# **UK GOVERNMENT INVESTMENTS FINANCIAL INSTITUTIONS GROUP STEWARDSHIP CODE**

MAY 2019





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# UKGI FINANCIAL INSTITUTIONS GROUP'S APPLICATION OF THE UK STEWARDSHIP CODE IN ITS STEWARDSHIP OF LISTED COMPANIES

## **PRINCIPLE 1: INSTITUTIONAL INVESTORS SHOULD PUBLICLY DISCLOSE HOW THEY WILL DISCHARGE THEIR STEWARDSHIP RESPONSIBILITIES.**

All references herein to “UKGI” exercising the stewardship principles detailed, in relation to the stewardship of Royal Bank of Scotland Group plc on behalf of HM Treasury, refer specifically to the UKGI Financial Institutions Group (“FIG”).

The overarching objective of UKGI in relation to listed companies is to manage the government’s shareholding in The Royal Bank of Scotland Group plc (RBS) commercially to create and protect value for the taxpayer as shareholder, with due regard to financial stability and competition, and to devise and execute a strategy for disposing of the government’s investment in an orderly and active way over time.

UKGI’s stewardship responsibilities are focussed on how and when to dispose of shares in a timely manner, with no mandate for any new investments.

In managing the government’s investment for value, UKGI is an active and engaged shareholder and our actions are guided by two key documents in place between UKGI and HM Treasury.

First, the UKGI Framework Document sets out the objectives for UKGI and the framework within which UKGI will pursue them. The Framework Document gives a clear mandate to UKGI to manage the investment commercially with a view to achieving an exit.

Secondly, the Memorandum of Understanding drawn up between UKGI and HM Treasury relating to the management by UKGI of RBS and UK Asset Resolution (“the MoU”) describes the scope of UKGI’s decision-making responsibilities and the extent to which decisions require the prior approval of HM Treasury before being taken or implemented. It also makes clear that UKGI will not intervene in the day-to-day management decisions of RBS.

In line with the principles set out in these two documents, FIG has extensive engagement with RBS throughout the year on a range of issues such as governance, strategy, financial performance, board composition and remuneration. Appropriate to the level of holdings we have in RBS, we expect to be consulted on strategic decisions in a timely manner. This engagement assists UKGI in delivering on its objectives and provides UKGI with the opportunity to give feedback to RBS.

Given the nature of UKGI’s mandate, UKGI spends a significant proportion of its time focusing on stewardship duties, which are all carried out by its staff, rather than being outsourced. UKGI does, from time to time, procure advisers to provide specialist advice. In 2013, the then UK Financial Investments (“UKFI”) established a framework for appointing advisers (Framework for Specialist Financial Services) to help facilitate our objectives, which was novated following the merger of UKFI into UKGI.

The UKGI Framework Document is available on our website at:

<https://www.ukgi.org.uk/2018/05/11/ukgi-framework-document-2/>

The UKGI Government Shareholding MoU is available on our website at:

<https://www.ukgi.org.uk/2018/05/11/2653/>

## **PRINCIPLE 2: INSTITUTIONAL INVESTORS SHOULD HAVE A ROBUST POLICY ON MANAGING CONFLICTS OF INTEREST IN RELATION TO STEWARDSHIP WHICH SHOULD BE PUBLICLY DISCLOSED.**

With respect to RBS, UKGI is not a typical institutional investor as we have a single client, HM Treasury, which through UKGI, is also our sole shareholder. UKGI is independent of HM Treasury, and while UKGI will always try and align our objectives with our shareholder, it is possible this may not always happen.

UKGI takes the issue of conflicts of interest very seriously, and the MoU outlines the procedures UKGI must adopt for managing conflicts. UKGI has established procedures and compliance policies to manage conflicts:

- UKGI has a compliance manual which sets out how staff should manage conflicts, and UKGI staff complete an annual compliance return;
- the MoU outlines how UKGI will ensure preservation of the independence of RBS – this covers cross-directorships, handling of commercial information, and having procedures which do not result in a prevention, restriction, distortion or significant lessening or impediment of effective competition;
- UKGI has developed a rigorous control framework with respect to governance, compliance and risk procedures. Appropriate account of best practice has been taken; for instance, although UKGI's activities do not require regulatory authorisation, the Board has decided that UKGI should adopt policies and procedures that would meet the standard expected of a wholesale-market firm operating in the financial services market; and
- the UKGI Board has responsibility for maintaining a sound system of internal controls that supports UKGI's policies and the achievements of its objectives, whilst safeguarding the public funds and assets for which the Board is collectively responsible. The Audit and Risk Committee has responsibility for oversight of UKGI's governance, internal control, risk management processes and behaviours. It also has responsibility for agreeing internal and external audit work programmes and overseeing the reports associated with these programmes.

## **PRINCIPLE 3: INSTITUTIONAL INVESTORS SHOULD MONITOR THEIR INVESTEE COMPANIES.**

UKGI takes a commercial and active approach to managing RBS, including dialogue with other investors with an interest in the company. UKGI's role as an engaged shareholder is to ensure that the bank has a sound long-term strategy, and that it is effectively managed and properly governed.

As the body representing the taxpayer's interest in RBS stewardship is of critical importance to the work of UKGI and is at the heart of how we conduct our business – ultimately UKGI's performance with respect to RBS will be judged on the success of our stewardship and disposals programme.

UKGI maintains an active and regular dialogue with the RBS board and senior management, meeting with the senior executive management team on a monthly basis, in addition to ad-hoc meetings when required. Should we have concerns, for instance about strategy, operational performance, acquisitions, or disposals, we will discuss these with RBS at the appropriate executive level.

UKGI also interacts with RBS's board, through regular contact with the Chair and heads of board committees. Although UKGI does not get involved with individual appointments, we discuss with the Chair and relevant board members recruitment in light of the balance of skills on the board.

UKGI conducts thorough and regular valuations on what RBS is worth, and this work is shared with our Board. The Framework Document and our Annual Report and Accounts set out additional and specific monitoring, reporting and engagement activities which UKGI undertakes.

UKGI recognises that the Corporate Governance Code is intended to set out best practice rather than operate as formulistic rules. While we generally expect to see compliance with the principles of the Corporate Governance Code by RBS, we will consider explanations for why a firm has chosen not to comply. Any decision to depart from the principles of the Corporate Governance Code must be accompanied by a clear and reasoned explanation and UKGI will challenge a decision where we feel a suitable explanation has not been given.

UKGI has privileged access to sensitive information including information received under non-disclosure agreements with other entities. The MoU sets out how we will manage inside information. There will be times, where we may agree to be taken inside for a temporary period, and where required we have established protocols with RBS on how to manage this process. Receiving this information is a considered decision undertaken by UKGI in order to perform its responsibilities under the Framework Document. For example, it can arise where UKGI is engaging with RBS to enable a full understanding of the effects of a strategic decision.

In such circumstances, UKGI will make a decision as to whether it considers it necessary to receive the non-public information. We ensure confidential information is treated appropriately, and consideration is given to the timeframe over which such information will remain non-public.

#### **PRINCIPLE 4: INVESTORS SHOULD ESTABLISH CLEAR GUIDELINES ON WHEN AND HOW THEY WILL ESCALATE THEIR STEWARDSHIP ACTIVITIES.**

As set out in principle 3, UKGI has a regular dialogue with RBS, with engagement undertaken at many levels and dependent on the topic. For example, it is common to meet with newly appointed company directors and senior management outside of our regular meetings with RBS. UKGI's position allows for access to the board and senior management team when escalation is required. In the first instance discussion is undertaken with senior management of RBS; following this if an issue needs to be escalated to the board then this will happen either with the Chair of the board, the senior independent director (SID) or the Chairs of the board committees.

Topics which are likely to trigger any potential intervention by UKGI would be those in relation to the objectives set out in the Framework Document – these might be in relation to RBS's overall strategy, including major disposals and/or acquisitions.



**PRINCIPLE 5: INSTITUTIONAL INVESTORS SHOULD BE WILLING TO ACT COLLECTIVELY WITH OTHER INVESTORS WHERE APPROPRIATE.**

In respect of RBS, UKGI takes a commercial and active approach to managing the investments, working alongside other investors with an interest in the company.

Since UKFI's inception in November 2008, UKFI and UKGI have maintained an active and continuous dialogue with other institutional shareholders – both existing and prospective. Our aims through this dialogue include: emphasising our remit and explaining the arm's-length nature of our relationship with government; ensuring investors are clear that the company is being run on a commercial basis; and hearing other investors' views, so that we are aware of those views when considering the strategies of RBS.

UKGI is committed to continuing the policy of engagement with other shareholders and trade bodies (such as the Association of British Insurers and The Investment Management Association) around major business issues and in the deliberation on matters brought to vote at RBS's Annual General Meeting and other shareholder meetings. UKGI will continue this contact with investors, within the context of protecting and creating value for the taxpayer. UKGI will consider the possibility of acting collectively on a case-by-case basis.

Any shareholders who would like to contact UKGI regarding stewardship of RBS are encouraged to do so, and in the first instance should contact UKGI by email at: [enquiries@ukgi.org.uk](mailto:enquiries@ukgi.org.uk)

**PRINCIPLE 6: INSTITUTIONAL INVESTORS SHOULD HAVE A CLEAR POLICY ON VOTING AND DISCLOSURE OF VOTING ACTIVITY.**

UKGI has a clear policy on both voting and disclosure, and will exercise its stewardship role through its voting rights wherever practicable to do so (i.e. on all resolutions other than where the government has been a related party). The decision on how to vote is made by UKGI. UKGI does not make use of a voting advisory service – any recommendations on voting made to the UKGI Board come from analysis conducted by UKGI staff.

UKGI will inform RBS in advance of our intentions and rationale and we disclose publicly how we have voted. Disclosure of our votes is made on the UKGI website via a press release at: [www.ukgi.org.uk/category/press-release](http://www.ukgi.org.uk/category/press-release)

**PRINCIPLE 7: INSTITUTIONAL INVESTORS SHOULD REPORT PERIODICALLY ON THEIR STEWARDSHIP AND VOTING ACTIVITIES.**

UKGI is committed to being accountable and transparent. UKGI's Annual Report and Accounts contains information on the manner in which we have discharged our stewardship role. In respect of RBS, UKGI reports regularly to our sole client (HM Treasury). UKGI holds regular meetings with HM Treasury, with quarterly meetings as the centrepiece of our formal reporting relationship. UKGI also complies with Managing Public Money and, in addition, representatives attend Parliamentary Committee hearings upon request, generally at least once during the year.

UKGI also responds to requests under the Freedom of Information Act 2000 and to correspondence from members of the public, MPs, and other stakeholders. It is through these channels (the quarterly meetings, Parliamentary hearings and our adherence to Managing Public Money) that UKGI's stewardship is independently assured. In addition, the UKGI Board undertakes an annual Board evaluation exercise, which identifies areas for further improvement.

**NAMED INDIVIDUAL IN RELATION TO STEWARDSHIP MATTERS**

Please make any enquiries in relation to UKGI's stewardship matters to: Charles Donald, Head of Financial Institutions Group ([enquiries@ukgi.org.uk](mailto:enquiries@ukgi.org.uk))