

October 25, 2019

## The New Paradigm

With the adoption this week of [The UK Stewardship Code 2020](#), to accompany [The UK Corporate Governance Code 2018](#), the UK Financial Reporting Council has promulgated corporate governance, stewardship and engagement principles closely paralleling [The New Paradigm](#) issued by the World Economic Forum in 2016.

While the FRC codes are “comply and explain,” they fundamentally commit companies and asset managers and asset owners to sustainable long-term investment. As stated by the FRC:

The new Code sets high expectations of those investing money on behalf of UK savers and pensioners. In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital **to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society** (emphasis added).

There is a strong focus on the activities and outcomes of stewardship, not just policy statements. There are new expectations about how investment and stewardship is integrated, including environmental, social and governance (ESG) issues . . . .

The FRC Corporate Governance Code builds on the stakeholder governance provisions of Sec. 172 of the UK Company Law 2006 by requiring a company’s annual report to describe how the interest of all stakeholders have been considered. Of special interest is the Code’s provision with respect to employees:

For engagement with the workforce, one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

In broad outline, the FRC codes would fit very well in implementation of the World Economic Forum’s *The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth*.

*The Statement of the Purpose of a Corporation* adopted by the Business Roundtable in August of this year is likewise consistent with the FRC codes and *The New Paradigm*. Each of these initiatives recognizes that private-sector action is necessary to create a corporate governance regime suited to the challenges of the twenty-first century. And each recognizes that such action is possible within the structure of prevailing corporate law. The convergence of the FRC codes, the BRT statement of purpose, the 2016 BRT Principles of Corporate Governance, and the *New Paradigm* strongly suggest that the time is right for the BRT and the [Investor Stewardship Group](#) (which has similar principles) to create a joint version of *The New Paradigm* that could be adopted universally. See, [It’s Time to Adopt The New Paradigm](#).

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