Dear Adam,

We welcome the opportunity to respond to the Consultation Paper '*A long-term focus for corporate Britain'.*

We strongly support a long-term approach to both the management of, and investment in, British companies. We believe that such an approach is vital to the continued efficient allocation of resources in the economy, and in turn to productivity, growth and future prosperity. With this in mind it is essential that the engagement between companies and investment managers promotes long-term success and that the incentives of company directors and those managing assets are aligned to company shareholders.

Engagement

'Engagement' is a two-way street and we recognise that boards have to be responsive to the wishes of shareholders – the onus is therefore on both boards and shareholders to maintain high standards of communication. We therefore support the FRC's recent work in relation to the UK Corporate Governance Code and the UK Stewardship Code; and BIS's own work in relation to narrative reporting. While such initiatives can't guarantee a long-term approach (and we would not expect them too), they do provide a framework in which both companies and investors have the opportunity to engage constructively and therefore an environment in which long-term behaviour can flourish. *(Question 1)*

There is, however, room for improvement. At least for some companies the piecemeal growth in reporting requirements has led to new requirements being 'bolted-on' to existing requirements and over time this has resulted in disjointed and therefore unproductive communications. In our view, at some point the whole structure of corporate engagement – interim management reports, half year reports, preliminary announcements, analysts' briefings, corporate responsibility/sustainability reports and shareholder meetings – as well as the annual report itself needs looking at to ensure each bit is playing its part as best it can. The work of the International Integrated Reporting Committee (IIRC) is relevant in this regard. *(Question 4)*

Notwithstanding the above, we note that short-termism cannot be avoided if short-term issues arise affecting a company or the shareholders, collectively or individually. Long-termism, can be encouraged, but it is unavoidable that shareholders and other market participants have different investment requirements and time horizons and we wouldn't wish to see rigid legislation or artificial barriers preventing legitimate decision making. *(Question 7)*

Directors' remuneration

We are not aware of any evidence that suggests directors' incentives routinely impact the quality of directors' relationships with shareholders, albeit it is an area that generates a great deal of dialogue between companies and their investors.

Directors' remuneration has been subject to detailed disclosure requirements for many years and there is an advisory vote on the remuneration report which places shareholders in a strong position to influence both the structure and quantum of director's remuneration. As a result, we are not clear what benefits could be gained from widening the membership of the remuneration committee or to whom membership might be widened; or whether shareholders wish to assume what has hitherto been considered a key part of the non-executive directors' oversight role. If investors wish to enhance their confidence in non-executive directors and their contribution to good governance, we suggest that their interests would be best served through greater focus on the initial selection of non-executive directors and through ongoing dialogue (as articulated in the FRC's recent Stewardship Code), rather than through membership of the remuneration committee. *(Questions 12-13)*

Nevertheless, the importance of maintaining a dialogue with major shareholders should not be underestimated and we would encourage remuneration committees (or boards) to engage with principal investors on remuneration issues. There is a corollary here with the FRC's recent proposal that audit committees discuss with principal investors the approach to be taken on the appointment or re-appointment of auditors. *(Questions 12-13)*

Notwithstanding the current detailed disclosure requirements in relation to directors' remuneration, we do believe that - at least for some companies - there is scope for more focused reporting. In particular, the linkage between remuneration and the achievement of corporate objectives is an area that might receive some attention and initiative instigated by the IIRC may be worth monitoring in this regard. *(Question 14)*

On a cautionary note, specific consideration should perhaps be given to the unintended consequences of any new measures that might be introduced as there is anecdotal evidence to suggest that the detailed remuneration disclosures adopted by the UK in 2005 (which are largely similar to today's requirements) have both stifled innovation in this area and contributed to the increase in director remuneration levels. *(Question 11)*

We hope that our comments prove to be useful and we would welcome an on-going dialogue. Please do not hesitate to contact me should you wish to discuss any of the points raised in this response.

Yours Sincerely,

Neil

Neil Sherlock

Partner, Public and Regulatory Affairs, KPMG LLP