A LONG-TERM FOCUS FOR CORPORATE BRITAIN
Call for Evidence Response Form

A copy of the consultation available at: http://www.bis.gov.uk/consultations.

Responses to the Consultation should be received by 14 January 2011.

Completed copies of the response form should be returned:

Via email to: clgconsultations@bis.gsi.gov.uk

Via post to:

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Organisation (if applicable):

Please tick the box from the following list of options that best describes you:

	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
tick	**Lawyer or accountant**
	Other (e.g. consultant or private individual)

The Board of Directors

<u>Question 1</u>: Do UK boards have a long-term focus – if not, why not?

Comments
Boards have different time horizons at different times. This question is too inaccurate to really answer. **In general Boards have a long term view in relation to their own corporate existence – ie they want to be there at the end of the 9 year term. The question is do they run the business to be survive every 3 year cycle or to thrive in the long term? Boards are incentivised by shareholders and remuneration and newsflow to focus on 3 year bites. Most Boards have a 3 year plan – virtually none do beyond that.** **Boards do not have a longer horizon because that is not how their active/high profile shareholders want them to behave, the tax system does not reward long horizon behaviour, neither does remuneration.** **We have to recognise that the system we have does not encourage long termism in any way and stop being surprised. If we want a longer term approach** **1.we must change the systems around shareholding :** **Separate the markets for the provision of long term capital from the markets that wish to speculate on volatility.** **2. Incentivise steady growth – reinvestment perhaps- r and d – by tax differentiation.** **3. change rem policies**

<u>Question 2:</u> Does the legal framework sufficiently allow the boards of listed companies to access full and up-to-date information on the beneficial ownership of company shares?

Comments

No comment

Shareholders and their role in equity markets

<u>Question 3:</u> What are the implications of the changing nature of UK share ownership for corporate governance and equity markets?

Comments
Significant impact. The speculative nature of some share holders/ betters works directly in opposition to the interests of other shareholders such as pensions, private holders etc. This is also bad for the company as it is constantly confused as to which group it is trying to deliver to. And of course the group can change very quickly. The company needs to raise funds in a stable environment – this is not the case. **We must separate the two markets and define corporate governance as appropriate for each market.**

<u>Question 4</u>: What are the most effective forms of engagement?

Comments
No comment

<u>Question 5</u>: Is there sufficient dialogue within investment firms between managers with different functions (i.e. corporate governance and investment teams)?

Comments
No comment

<u>Question 6</u>: How important is voting as a form of engagement? What are the benefits and costs of institutional shareholders and fund managers disclosing publically how they have voted?

Comments
No comment

<u>Question 7</u>: Is short-termism in equity markets a problem and, if so, how should it be addressed?

Comments
Yes there is a significant element of interest in only the short term movement of a share price. Yes it is a problem as the purpose of the capital markets is to provide a source of long term capital to a business which is rewarded by dividends and growth in share price driven by business success. A business planning for that deliverable is very different from one planning to drive short term share price variation. There is a conflict. **As stated earlier I think there needs to be 2 markets each with 1 type of capital. A mezzanine equity concept. 1 market is long term 'old fashioned' equity as we know it and it has rules on short term trading etc. Dividends go to that market. The other market is for speculators and is more similar to a bond market.** **The governance rules need to be different for each market (not the reporting rules).**

<u>Question 8</u>: What action, if any, should be taken to encourage a long-term focus in UK equity investment decisions? What are the benefits and costs of possible actions to encourage longer holding periods?

Comments
Perhaps to offer tax incentives for length of holding – eg tapering relief. **Encourage by tax favouring script dividends.**

<u>Question 9</u>: Are there agency problems in the investment chain and, if so, how should they be addressed?

Comments
No comment

<u>Question 10</u>: What would be the benefits and costs of more transparency in the role of fund managers, their mandates and their pay?

Comments
No comment

Directors' Remuneration

<u>Question 11</u>: What are the main reasons for the increase in directors' remuneration? Are these appropriate?

Comments
The increase has been driven by the use of benchmarking, publication, banking salaries, weak boards, self interest and weak fund managers. What has not been commented on is that the financial sector which represents large shareholders was at the vanguard of high salaries so why would they challenge the salaries of the directors when that just added justification for their own excess. It is very very simple what happened. **No they are not appropriate. The only appropriate driver is to attract the best person for the job for the lowest sum.**

<u>Question 12</u>: What would be the effect of widening the membership of the remuneration committee on directors' remuneration?

Comments
None

<u>Question 13</u>: Are shareholders effective in holding companies to account over pay? Are there further areas of pay, e.g. golden parachutes, it would be beneficial to subject to shareholder approval?

Comments
No – not really as most shareholders with a voice are also directors in another role and therefore have no interest in curbing what will become a useful precedent for them.

<u>Question 14</u>: What would be the impact of greater transparency of directors' pay on the:

- **linkage between pay and meeting corporate objectives**
- **performance criteria for annual bonus schemes**
- **relationship between directors' pay and employees' pay?**

Comments
We are managing the outcome not the problem here. **Please see final remarks.**

Takeovers

<u>Question 15</u>: Do boards understand the long-term implications of takeovers, and communicate the long-term implications of bids effectively?

Comments
Yes – in general

<u>Question 16</u>: Should the shareholders of an acquiring company in all cases be invited to vote on takeover bids, and what would be the benefits and costs of this?

Comments
no

<u>Question 17:</u> Do you have any further comments on issues related to this consultation?

Comments
Yes – in relation to remuneration **I think we are focusing on the wrong things here. Packages will cease to rise but will not drop except in relative terms. We need to encourage the change in thinking around senior salaries by requiring a percentage of amounts paid over £x to be paid by the company into a training scheme or new recruit scheme focused on the bottom 20% of salary earners.** **The idea of something like this would be to address the organisational imbalance by requiring spend on junior positions – it would create jobs – maybe not useful jobs but it would seed the organisation with new talent – it would discourage the overseas outsourcing etc.** **It would also help focus the shareholders on the senior pay packages because for every £ over X that goes out there would be the same spend on internal recruits/training.**