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

X	**Quoted company**
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant

☐ **Other (e.g. consultant or private individual)**

The Board of Directors

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

Comments
In my experience yes, unless the company is in crisis in which case the focus tends to shift to short-term survival.

Question 2: 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.

Shareholders and their role in equity markets

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

Comments

In my experience of large global institutional investors they are less forceful on pushing for ‘best in class’ corporate governance than leading UK institutional investors. They also have a different view on the role of brokers – more transactional than relationship.

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

Comments
Regular communication. Proper consultation with major investors.

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

Comments
In my experience the dialogue is highly variable. In some institutions the different functions are clearly joined – up in their approach while at the other end of the spectrum there can be a complete disconnect.

<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
It is unimportant except as a last resort for major shareholders to make clear their dissatisfaction when all other channels have been exhausted. Institutions and fund managers should be obligated to disclose how they have voted.

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

Comments
It depends on the institution and the circumstances. In my experience long-term investors (both UK and non-UK) tend not to be short-termist provided they have confidence in the management of the company and support the strategy it is pursuing. **Activist shareholders, driven only by short term share price movement considerations, can be a real problem.**

Question 8: 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
Penalise short-term gains via higher capital taxes and incentivise long-term holding via lower capital taxes

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

Comments

Yes. Greater transparency and symmetry of information, together with the above penalties & incentives in capital gains taxation.

<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
A more orderly investment market. I don't have the data to comment on the costs.

Directors' Remuneration

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

Comments
1. increased use of external remuneration consultants who focus on 'median' and 'upper quartile' statistics rather than help the Remuneration Committee understand which quartile is appropriate for their company. **2. Increased global competition for scarce talent (including until very recently) attractive remuneration packages from private equity funded businesses.**

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

Comments
I do not believe this will make any meaningful contribution.

<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
In my experience yes. There could be merit in making payments to directors for loss of office which are excessive (i.e. above a specified multiple of base salary) subject to shareholder approval to help avoid the worst excesses that have occurred.

<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
With some, but not all, institutional investors it would help an informed debate. It would be more likely to create a lot more noise than light in the media and with some private shareholders at AGMs.

Takeovers

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

Comments
I think boards of potential acquisition targets, together with their advisers, have every opportunity at present to set out their case both in defence documents and in private discussions with their major shareholders – however if an acquirer is willing to 'overpay' in the eyes of the target's shareholders it would be irrational for them to reject the offer. **There is a case for requiring acquirers to spell out in detail their plans for the long term implications of their bid on the target and for UK regulators to hold them to account on their plans (with potential penalties levied if the plans are not honoured)**

<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- there has to be some sensible level of materiality. It isn't clear to me how the UK could enforce the requirement onto a non-UK listed company. It should also be noted that the current requirements on UK-listed companies re Class 1 transactions can act as a disadvantage in an auction situation against a foreign company which is also bidding for the same acquisition target.

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

Comments
No