STANDARD LIFE

Mr A Gray
Long-term Focus Consultation
Corporate Law and Governance
Department for Business, Innovation and Skills
1 Victoria Street
London
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By email: clgconsultations@bis.gsi.gov.uk

Dear Mr Gray

A LONG-TERM FOCUS FOR CORPORATE BRITAIN – A CALL FOR EVIDENCE

I write on behalf of the Board of Standard Life plc (the 'Company'), a major UK FTSE 100 listed company with a significant percentage of retail shareholders and a market capitalisation of c. £4.85bn. The Company is the holding company for a Group which specialises in long-term savings and investments business. The Company's subsidiary, Standard Life Investments ('SLI'), is one of the UK's leading institutional investors and providers of equity capital to UK companies. The Company is fully supportive of the need to maintain a well functioning capital market in the UK, and agrees that "such a market is vital to efficient allocation of resources in the economy, and in turn to productivity, growth and future prosperity".

In the Call for Evidence document, BIS has raised the concern that capital markets may be "increasingly focused on the short-term and that that this may be having a detrimental effect on their efficiency and therefore on the return on investment". The Board does not necessarily support this concern, and has laid out some of the reasons for its conclusion in its answers to the questions below. As a customer-centric business, the Board emphasises the importance it places on building and maintaining long-term relationships with the Company's customers. Equally as a high proportion of the Company's customers are also shareholders, maintaining a balanced focus on long-term commitment, performance and shareholder return is of prime importance to the Board.

The Company wishes to respond to the Call for Evidence. The Board is supportive of the need to maintain a proper balance between regulation and best practice and also of the principle that companies and investors should work together. As the Board of an issuer, we have responded to the questions on the factors influencing Board decisions. However, as an agent for clients with long-term liabilities, SLI has also submitted a separate response to the Call for Evidence. Therefore, we have enclosed a copy of the SLI response as an attachment to this letter.

The Board of Directors

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

The Board's view is that it does maintain a long-term focus. Given the Company's strategy of being a long-term savings and investment business and coupled with its aim of providing product solutions for a customer's needs at all stages of his or her life, the principle of taking a long-term view is key to the Board's role and responsibilities. The principle of "long-term focus" is present in the Board deliberations. All Board Papers require the question "What are the likely long-term consequences of this recommendation?" to be answered as part of the executive recommendation brought to the Board. Equally the Board works to ensure that there is the appropriate level of disclosure in the Annual Report to allow shareholders to understand the Board's long-term focus and its performance against meeting this objective.

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?

The Company is not typical of most UK listed companies as the shareholder register is c.65% retail based and the level of institutional ownership generally sits at c.35% with no single owner holding >5%. Equally most of the retail shareholders hold their shares via a nominee account rather than on a certificated basis. The Company operates a process to support the relevant Companies Act beneficial ownership requirements and does not see any need to change the existing legal framework.

Shareholders and their roles in equity markets

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

As noted in the response to Q2, the Company's experience may be counter to the general trend noted in the paper. With such a high percentage of individual shareholders, the Company makes strong efforts to communicate with its retail shareholders, many of whom are also customers, in a way which clearly delivers key messages to them in an easily accessible way and allows them to build and maintain a strong link with the Company.

4. What are the most effective forms of engagement?

Given the Company's balance of retail and institutional shareholders, the Board believes that, to ensure that it is effective, engagement should be targeted to the needs of each audience. Therefore, the Company has established an Investor Relations team which leads engagement with analysts and investors through a programme of formal meetings and presentations. For retail shareholders, the engagement programme is targeted through ease of attendance at the AGM and focussed communications such as the "Shareholder News" publication. Equally, the Chairman's office has a team to respond to all shareholder letters addressed to the Chairman and the Company's Registrar runs a

dedicated shareholder support team whose performance is monitored closely by the Group Secretariat. The Board has also considered alternative forms of engagement with

retail shareholders such as shareholder roadshows. Equally, the Board has invested in electronic communications and website development to ensure that current key information of interest to all shareholders is readily and easily accessible.

6. How important is voting as a form of engagement? What are the benefits and costs of institutional shareholders and fund managers disclosing publicly how they have voted?

In terms of engagement, voting clearly gives the Board an impression of the views of shareholders, and allows them to gauge whether they should be focussing on any particular element identified via the voting pattern on a specific resolution. Disclosing voting records publicly allows the Company to engage with the governance teams within its institutional shareholders and to open discussion, in particular, on areas where there has been a vote against a resolution. In our experience, this discussion can inform future voting decisions, although it is helpful when the corporate governance guidelines of institutional investors are applied practically rather than rigidly.

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

As with previous questions, the Board's priority is that its focus on long-term performance for both customers and shareholders is communicated and understood fully, and that results are achieved to back this up. If this is the case, the Board believes that there is likely to be less of a short-termist approach with regard to investment in its securities. The Board also believes that investors need to spend time understanding the distinguishing factors between market participants in the same industry, rather than assuming that key risks and challenges are generic.

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?

As above, it is the Board's focus to link long-term customer focus and delivery with long-term shareholder return. The Board believes that if the Company's shareholders who are also customers understand this link and the returns it delivers, they will be encouraged to take a long-term focus. To this end, the Company has invested in preparing and mailing additional communications to its retail shareholders. As it has a significant number of overseas shareholders, the Board believes that such publications should be printed in local languages and currently translates all its shareholder communications (other than the Annual Report and Accounts) into German and French-Canadian. The Board also supports the payment of dividends in the local currencies of the countries where the Company has most overseas shareholders. Therefore dividends are currently paid in sterling, euros and Canadian dollars. Clearly, these decisions incur additional costs but the Board believes that they demonstrate effective governance and a desire to link the Company and its shareholders.

Directors' remuneration

11. What are the main reasons for the increase in directors' remuneration? Are these appropriate?

The Board acknowledges the general increases in executive director remuneration. However, the Board believes that the Company's people play a key part in the overall success of the business and so it is critical that the remuneration offer enables the Company to attract and retain high-quality people who will operate the business successfully and support the Company's goals. The Board believes that its remuneration policy and practice are in the best interests of the Company's shareholders and other stakeholders.

12. What would be the effect of widening the membership of the remuneration committee on directors' remuneration?

The Board believes that the current corporate governance principles and provisions regarding the membership and composition of the remuneration committee are appropriate and result in an efficient and effective supporting process.

13. 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?

The Board is supportive of the level of current disclosure required in the Directors' Remuneration Report, and also of the discussions which take place with advisory bodies in advance of proposed changes to remuneration practices. In terms of subjecting specific payments to shareholder approval, the Board recognises that the levels of payments for conditions such as loss of office must be reasonable and fully defensible, but from a pragmatic point of view, recognising the significant costs of implementing such shareholder approvals, the Board believes that it is appropriate for these payments to fall within the authority given to Directors. The Board believes that it is the responsibility of the Directors to exercise judgement in this area.

14. 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?

The Board believes that the current level of disclosure of director's pay is sufficiently informative and appropriate.

Takeovers

15. Do boards understand the long-term implications of takeovers, and communicate the long-term implications of bids effectively?

The Board believes that every potential takeover brought before the Board is considered from the point of view of long-term shareholder return. The Board has put in place

procedures to review the risks and mitigants relevant to any key corporate action so that the Board's decision is made on as informed a basis as possible; the Board believes that its strategic investment and corporate transaction policies have sufficient minimum standards in place to ensure that such decisions recognise the long-term implications. The Board also takes detailed advice from qualified advisers to support its disclosure responsibilities in this area.

16. 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?

The Board believes that it is not practical and cost effective to require the Company's shareholders to vote on takeover bids in all cases. Given the number of retail shareholders, it would be unnecessarily expensive to require shareholders to vote on non-material transactions and it is reasonable for this level of transaction to fall within the authority given by shareholders to the Directors.

Other

17. Do you have any further comments on issues related to this consultation?

The Board recognises that the Call for Evidence is likely to be first stage of this process, and is looking forward to seeing the outcome of the consultation and the Government's proposals in April 2011.

Yours sincerely

Malcolm Wood
Company Secretary and General Counsel
Standard Life plc