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:

Adam Gray
Long-term Focus Consultation
Corporate Law and Governance
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Name: Professor Brian Main

Organisation (if applicable): University of Edinburgh Business School

Address: 29 Buccleuch Place
Edinburgh EH8 9JS

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
	Lawyer or accountant
x	**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
No comment.

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 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
No comment.

<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
No comment.

<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
No comment.

<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
These are discussed at some length in the attached paper which points to the unintended consequences of a series of institutional changes pertaining to the way directors' remuneration is determines and reported. See the attached <BIS Evidence Submission from Brian Main 14-01-2011.pdf> **While such developments are not in themselves inappropriate, the attached paper suggests a change to the design of long term incentive schemes ("Career Shares") which would go some way to reducing shareholder and public disquiet regarding practice in this area. See the attached < Career Shares as Long Term Incentives - 17-12-2010.pdf>** This submission argues that the rise in directors' remuneration in the UK over recent years has been, to a large extent, an unintended consequence of institutional change in the governance arrangements of UK companies. The increase in disclosure regarding the detail of what directors are paid and the adoption of transparent processes by which directors' remuneration is determined have combined to result in an outcome whereby the top management team of large publicly held companies are able to command an ever increasing portion of the quasi-rent (surplus after running costs) earned by those companies. This has taken place over a period during which a shift in shareholder attitudes has

brought about an increased emphasis on shareholder value which, in turn, has encouraged the uptake of payment-by-results arrangements for the remuneration of directors. These have made the reward stream more 'risky' as far as the individual director is concerned and, in recognition of this and to compensate for risk aversion, the actuarial value of remuneration has increased.

Runaway labour costs more generally would be expected to be held in check by competitive forces in the product market or, in the face of diminishing profitability, the market for corporate control, whereby companies are subjected to takeover. But while remuneration payouts to directors are large by many measures, they do not present a significant issue for the UK's larger companies. For reasons explored below, the upward pressure on directors' remuneration can be expected to continue. Some of the less desirable features of this trend (pay without performance, etc.) could in part, be remedied by a move to Career Shares – long term incentives which cannot be cashed out on vesting but must be held until some considerable time after the director has demitted office.

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

Comments
Changing in membership to include those beyond existing members of the board seems an unnecessary action, as remuneration committees, while not beyond improvement, generally function as well as can be expected. This point is explored further in the attached paper.

<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 comment.

<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
On the linkage between pay and corporate objectives, matters could be considerably improved by insisting on a retention of shares earned through long term incentive schemes (not-cashing them in) until a period some time after the director has demitted office in the company. This matter is considered at length in the two papers attached.

Takeovers

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

Comments

No comment.

<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 comment.

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

Comments