Adam Gray
Long-term Focus Consultation
Corporate Law and Governance
Department for Business, Innovation and Skills
1 Victoria Street
London
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14 January 2011

Our reference:

Dear Mr Gray

Subject: Response to Long-term Focus call for evidence

Thank you for the opportunity to respond on behalf of PricewaterhouseCoopers LLP ('PwC') to the call for evidence on 'A Long-term focus for corporate Britain' ('the consultation paper'). We believe there is much to be gained from a thorough and pragmatic examination of the areas covered. At this stage we have provided some initial comments on key aspects of the consultation and we have also identified a number of ways in which we believe PwC is well placed to help in the process.

Basis of our response and how we can help

PwC is a leading intermediary and adviser working with 'corporate Britain' on many of the matters touched on in the consultation paper. Where we have provided comments at this stage they are based on our own direct experience. We have not sought to respond on behalf of investors, companies or other market participants though we do have access to an extensive network of contacts.

The consultation paper calls for evidence about '...the system in which our companies and their shareholders interact' and whether this system '...promotes long-term growth – or undermines it'. It is therefore very wide-ranging and sets out much preliminary background information in a relatively short document. At the next stage of the process there will be a need to focus on specific areas. As intermediaries and advisers, we are very willing to assist BIS with this; we are also in a position to gather and analyse the views of the groups with whom we work, if this would be helpful.

Initial comments

Q1 – Q10: Board of directors, shareholders and their role in equity markets

These areas in particular would benefit from deeper analysis in the next phase of the consultation process – for example to distinguish the many different types of participants in the markets and their different motivations and mandates, and to define the terms used. This, in turn, would allow more closely focused questions to be raised. There is a serious risk that changes arising from this consultation process could undermine the competitiveness of the UK corporate environment if there is not full clarity on what is being discussed and proposed.

The main specific observation that we can make at this stage, based on direct experience and past research projects, is that, everything else being equal, transparent and accurate corporate reporting reduces volatility in companies' share prices. In outline, this is because the greater the transparency,

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the greater the ability of an analyst to forecast with confidence. This reduces one element of the risk of investing in a stock and increases the propensity of long-term investors to take a position in a company. As the portfolio 'churn' of long-term investors is less than that of speculators, stock price volatility is lessened.

Recognising this, PwC has worked for many years to encourage more transparent and useful corporate reporting. We of course contributed to the recent BIS consultation on narrative reporting, and believe that the two consultation processes should be drawn together in this area.

Q11 – Q14: Directors' remuneration

As intermediaries in the executive remuneration field, our perception is that non-executive directors (being the only members of the remuneration committee currently) are aware of the pressure from 'stakeholders' and the media and are genuinely concerned to address perceived abuses of the system, as long as the measures proposed are workable and likely to achieve the desired effect.

From our experience and initial research, we believe that the key areas that the consultation should focus on are:

- Linkage of reward to long-term corporate strategy
- Greater transparency over the relationship between reward and performance
- Consistency of approach to executive reward with group-wide remuneration
- More meaningful and concise disclosure
- Improved means of dialogue between companies and shareholders.

Again, some of these may be addressed through the narrative reporting consultation process.

The question of whether companies are truly accountable to shareholders on executive pay could be addressed through a review of the advisory nature of the annual vote on the remuneration report. Ultimately, however, accountability depends on shareholder engagement and while the Stewardship Code may help with this, different market participants will always have different priorities.

Q15 – Q16: Takeovers

In our view, there is further scope to improve the balance between the positions of the offeror and the offeree, even after the changes to the Takeover Code.

We also agree with the consultation paper that there may be inherent factors that influence the actions of offeror and offeree boards and that these can conflict with the long-term interests of a company's shareholders as a whole. Examples of these factors include a tendency of offeror boards to focus on potential synergies instead of the level of premium being paid, or the personal motivation of a director on an offeree board who is also a significant shareholder. Such factors are difficult to counteract fully, but an independent view should be available to shareholders when significant transactions are involved.

Consistent with our comments above on the positive effect of good corporate reporting on share price volatility, we would always advocate proper, rigorous analysis of the pros and cons around bids and in particular of the associated valuations and prospects of the target, along with transparent communication of this information to shareholders on both sides. We would support practical proposals arising from the consultation process to supplement the present safeguards in these areas.

Specifically on Q16, we believe that the class tests work appropriately to determine when the shareholders of an acquiring company should vote on a takeover bid, at least in respect of the main market. On other markets, where regulation is consciously lighter-touch, mandatory voting is unlikely to be welcomed but in respect of a key corporate event such as a takeover we believe this should not preclude a proper consideration of the merits of mandatory voting at similar thresholds to the main market.

Should you have any questions in relation to our response, and particularly if you would like to discuss how we can assist with the process, please do not hesitate to contact me at the above address.

Yours sincerely

Sean O'Hare

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