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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Corporate Law and Governance
Department for Business, Innovation and Skills
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Name: Mr. Jaffer Manek

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
x	**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
No for two reasons: **1 - Product life is getting shorter since new products/services/methods over-take outdated products.** **2 – The mind-set to make a quick buck and leave after a few years.**

<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. T is too cumbersome to look up Companies House information as to who owns shares. Many are able to hold shares in nominee names. Pension Funds are another smoke-screen for shareholding.

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

It is a quick buck culture as greed drives the casino-style investment where shareholders do not have any say in what the directors and managers do with the money paid to buy the share.

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

Comments
Open meetings where shareholders can have a say and follow up from directors about what the shareholders suggest.

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

Comments
It is perceived to be biased and selective.

<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
The small shareholder is left out and therefore can only invest as casino-style activity i.e. speculation.

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

Comments
Private Equity Funds should not be allowed to buy more than 19.99 percent of shares of any company and so they cannot then do asset stripping such as Cadbury. Surplus moneys that the Private Equity Funds hold can then be invested in small companies crying out for funding.

<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
There should be a legislation to reward longer-term shareholders more than shorter term shareholders.

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

Comments
pass

<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
They should be paid a basic salary that is based on a benchmark salary such as the average person's salary. Bonus should then be a fraction of that salary and certainly not more than a third of it. That would give an incentive to raise the average person's salary.

Directors' Remuneration

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

Comments
This is because of the freedom for directors to set whatever salary they want to award. That should be made illegal since a company may not be able to have commensurate rewards.

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

Comments

Each shareholder however small should be allowed to object and veto.

<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.

<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
Complexity creates a smoke-screen.

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, it is driven by what the directors can gain from it.

<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
They would be given promises that may or may not come through. Their greed will drive the situation.

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

Comments
AUDITORS' SELF-REGULATION TO BE MODIFIED **In contested cases of complaints against auditors, independent judges should be appointed by the Ministry of Justice, instead of Recognised Supervisory Body (RSB) bureaucrats, to oversee:** **o Whether there is a prima facie case against an accused auditor** **o rules of evidence are applied fully** **o cross-examination and subpoenas are available to the accused** **o uphold the concept of "innocent until proven guilty"** **o trials are conducted fairly and are seen to be conducted fairly** **o the final judgment is impartial**

o fines and costs are utilised for the benefit of auditor retraining not enriching the professional body.

RSBs are not answerable to courts of law since they operate under their Royal Charter. Under self-regulation, if RSB bureaucrats decide that their own accused member has a prima facie case to answer, a disciplinary hearing is conducted at the RSB's premises, facilitated by RSB's secretariat with a jury appointed by RSB and fines kept by RSB. Therefore, effectively, RSBs act as (a) prosecutor, (b) jury, (c) executioner and (d) benefactor of fines levied.

Smaller audit firms complain too often about experiencing harsh punishment over the most tenuous of accusations. This is particularly acute if the auditor is not minded to be subservient and/or deferential towards RSB's secretariat.

On the other hand, newspapers too often carry reports of large audit firms getting mild admonition or fines that are an incredibly small percentage of the audit fee in question. Whilst small audit firms experience financial and moral devastation over their self-regulated disciplinary hearings, big audit firms appear to be almost unaffected by their disciplinary hearings. BCCI, Barings, Maxwell, Equitable Life and many other are more prominent examples.

Self-regulation, a relic of medieval times, gives RSBs the type of latitude that does not sit well with EU laws and human rights legislation. This affects the current dilemma; "Can pension funds continue to pay pension to all who have invested in pension funds who in turn invest in shares of corporates, who in turn are audited by self-regulated auditors?"