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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Name:

Organisation (if applicable):

Address:

Email:

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
	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
What is the long run? Differs considerably from sector to sector. Building battleships takes a lot longer than opening new supermarkets. Technology changes faster in some areas than others, too. **UK boards – somewhat archaic category given the transnational nature of many of our biggest firms. No doubt there are variations between companies in how they focus, but most companies want to be here for the long term.** **Government policies don't help – subsidies are introduced and then withdrawn. Franchises on the railways are too short to encourage sufficient investment.** **Our very active market for corporate control is held to deter longterm investment, but I don't quite see this. America has similar environment. Unconvinced that a Japanese or German style corporate environment is really in the interest of shareholders.**

<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

I don’t think this is a real problem.

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

I am not aware of any research that suggests sovereign wealth funds are more or less active shareholders than other institutional investors. All are bound by corporate governance rules relating to the jurisdiction in which the company is registered.

The interpenetration of equity markets reduces the possibility of excessive regulation in any one jurisdiction.

Today’s markets show higher turnover of shareholding because of falling costs of transfer and rapid dissemination of information – both resulting from IT developments. This is not a bad thing.

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

Comments
I disagree with the analysis in the document. As a shareholder I want to be able to move investments around. I do not want to participate in running companies. Nor do pension funds etc really want to do this, though they may pay lip service to the notion as this is the conventional political wisdom. **Well-run companies which explain their policies and investment plans to shareholders, the media and the wider public will attract sustained investment. They respond to public criticism which will affect shareholders, but I do not understand what engagement means in this context or what it would bring to the party.**

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

Comments
This surely varies from firm to firm and I can't believe any outsider can generalise. However in my experience these groups draw from people with different backgrounds, training and mindsets.

<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

(They can’t spell “publicly”!)

This is the old question of voice versus exit in another context and I’m not sure voice is always the best solution!

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

Comments
No.

<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
The costs of requiring longer shareholding could be reduced rates of return to institutions and individuals. **Investors in publicly quoted companies are seeking the best possible return for themselves. Some (a) choose to hold shares in favourite companies for long periods. Others (b) prefer to move in and out of shares, hoping to exploit new information and analysis to make capital gains (ie arbitraging differences in streams of subjectively projected earnings).** **Incumbent management would no doubt prefer (a) to (b) but it is not clear that this would be in the interest of promoting a dynamic economy.** **Governments consistently seem to think that they know better what the long term holds than the collective wisdom of investors. I don't.**

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

Comments
Of course there are agency problems, but this is surely for firms themselves to seek the best possible solution – not governments.

<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
It might be useful to see what their mandates are. I don't know what details of their pay arrangements would add.

Directors' Remuneration

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

Comments

There is a free market, increasingly worldwide, for top businesspeople. Although pay rates are very high, companies believe that improved decision-making by top talent can improve returns by more than enough to cover the cost. This belief may of course be mistaken. Why is Wayne Rooney paid an enormous amount? Manchester United believe that he will help them win the Champions League. They may be wrong too, but as a major club they can afford it. What is the alternative?

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

Comments
If it is widened to include political activists, trade unions, quangos etc it would just lead to increased animosity and lose some good people to less troublesome jurisdictions.

<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

If you have to report and seek approval for directors' remuneration, all aspects should be disclosed I guess.

<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

It is very difficult to devise incentive pay schemes which do not produce some perverse results. I do not believe any outside "experts" can adjudicate on this.

The relationship between directors' and employee pay is a political issue. There is no economic basis for saying the ratio should be smaller than the market dictates.

Takeovers

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

Comments

Sometimes they do, sometimes they don't.

The well-known fact that a high proportion of takeovers/mergers are unsuccessful proves nothing at all. Many, probably most, decisions in business are wrong. Investments fail. The market decides. Putting further restrictions on takeovers is difficult to justify.

<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
You could argue that, for reasons of symmetry, shareholders of acquiring firms should vote.

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

Comments