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

Dear Mr Gray

A Long-Term Focus for Corporate Britain – a Call for Evidence

The Foundation for Governance and Research (FGRE) is pleased to comment on the call for evidence from the U.K. Department for Business, Innovation and Skills regarding a long-term focus for corporate Britain (the "Consultation"). The following brief comments are based on current work on Stewardship being carried out by FGRE and the CFA Institute, due for publication in March/April 2011.

The Foundation for Governance Research and Education is a charitable trust dedicated to thought leadership and best practice in governance. FGRE's core purpose is the development and promotion of the highest standards of effective and ethical governance in the U.K. and globally – for companies, financial institutions, public bodies and charities. FGRE's work is aimed at influencing public policy and regulation relevant to governance and is for the benefit of members and potential members of governing boards and investors, amongst others.

Comments in response to the Consultation

1. We are concerned that not all boards of publicly listed companies focus on the long-term success of the company. To some extent this is a reflection of the shortened tenure of chief executives which has become evident over recent years.

2. Dialogue between investors and boards is crucial to proper engagement and we therefore support any practical improvement that could be made to the legal framework to improve a board's access to the shareholder register.

3. The changing nature of U.K. share ownership has to some extent undermined the application of fundamental analysis to investment and also the thoughtful ownership of shares.

4. Engagement is important in holding corporate boards and management to account and should also be constructive, i.e. reflective of a "thoughtful ownership" approach.

5. The most effective forms of engagement are those where constructive dialogue takes place on a confidential basis on high level issues, determined by circumstances on a case by case basis, between board directors and investment managers. For this dialogue to be constructive investment managers need a sufficiently high level of technical and behavioural skills to effectively interact with board members. The dialogue should take place against a clear understanding of expectations on the part of both parties and should typically cover non-financial issues.

6. Within some larger institutions there is dialogue between corporate governance specialists and fund managers, and corporate governance is integrated into the investment process. However, this practice is by no means universal across the investment industry, leaving scope for improvement. Where there is a disconnect then issuers can receive different messages, but in these cases typically it is the fund manager's voice that prevails and corporate governance is not taken into account.

7. Voting is an important responsibility in the hands of investors to hold corporate boards and management to account. However, it is the second of three levels of engagement, the first being dialogue and the third the decision to buy or sell. The benefits of shareholders and fund managers disclosing their voting records accrue mainly to the ultimate beneficiaries and inform them of how their investments are being managed and how the trust vested in their agents is being respected. This is important. However, where a share owner requires the voting record of its fund manager to be kept confidential then this must be respected.

8. There is evidence to indicate that a portion of the investment management community has in recent years been adopting a shorter-term approach to fund management through trading, and that this has had a detrimental effect on the efficient allocation of capital. However, a balance needs to be struck because efficiently functioning capital markets need investors employing a range of investment horizons.

9. Encouraging a longer-term focus in U.K. equity investment decisions rests with the owners of shares instructing their fund managers or agents to take a longer-term approach based upon a thoughtful and responsible ownership mindset. However, this is not to be regarded as a panacea or universally relevant. The balance between short and long-term investment strategies must be respected.

10. There is evidence to suggest that the growth in executive compensation has outstripped the wealth generated for shareholders. This in part is due to the wrong basis for calculating remuneration which should more nearly be linked to "economic value" rather than share price movements, etc.

11. The influence of the ultimate investor needs further consideration in the interests of developing long-term styles of investment. The pursuit of short-term returns will always dominate long-term interests while performance is measured by the quarter and sometimes, by the month, relative to indices that do not capture the economic value created. Educating the ultimate investor to the benefits of taking a long-term perspective and demonstrating that this approach delivers additional value is the challenge for intermediaries, policy makers, and legislators.

The Department for Business, Innovation and Skills has asked for a presentation in the next few weeks on the preliminary results of the FGRE/CFA Institute Stewardship Project.

Yours sincerely

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