

Investor Relations Society

28, Neal Street, Covent Garden, London WC2H 9PS

Telephone: 071 379 1763 Facsimile 071 240 1320

21 August 1992

Nigel Peace esq
Secretary
Committee on the Financial Aspects
of Corporate Governance
PO Box 433
Moorgate Place
London EC2P 2BJ

Dear Mr Peace

Re: Committee on the financial aspects of corporate governance - draft report

It is with pleasure that I enclose a copy of the Society's formal submission in response to this draft report.

We fully realise that we have been unsuccessful in forwarding our comments to you by the closing date. However, we have given this report a considerable amount of thought and would therefore be most grateful if our submission could be still be considered, even at this late stage, for inclusion in your summary of main points made by respondees.

If this is not possible, an acknowledgement of our response on record would be welcomed.

We look forward to receiving a copy of the draft findings once they are available.

Yours sincerely



(signed in Mr Woods' absence)

Andrew C Woods
Vice-chairman

Investor Relations Society

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20th August 1992

COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

DRAFT REPORT ISSUED FOR PUBLIC COMMENT - 27 MAY 1992

Foreword

The Investor Relations Society ("the Society") was formed in 1980. Members comprise executives with management responsibility for investor relations. Current membership of 377 includes consultants and corporate representatives from 76 of the FTSE 100 companies.

The Society's principal objective is to enhance the profession and promote the role of investor relations. It also aims to improve the relationship between companies and their existing and potential shareholders.

Comments on the draft report

> Clear standards

1. The Society welcomes the draft report and fully supports the need for shareholders and companies to agree clearly - recognised standards for governing the manner in which boards of companies discharge their duties.

2. The machinery is in place for raising standards and expectations but what is needed is the will to deliver and ensure the effectiveness of the Code and promote good corporate behaviour. However, it is the Society's view that new legislation should only be introduced where existing frameworks cannot achieve the desired ends. We are not convinced that this is the case with corporate governance.

> Shareholder responsibility

3. There is an implication that non-executive directors do not always fully safeguard the interests of the shareholders, although the draft report in Section 4 recognises that shareholders are responsible for their election and for ensuring that the directors perform effectively and correctly. Our view is that if shareholders exercised their existing powers effectively and consistently, there would have been few of the recent calls for new legislation. However, institutional investors rarely attend AGMs or even vote by proxy. That such a mechanism is not used to any great effect or purpose is lamentable and in this respect the proposal in Section 6, that the institutional investors should make far greater use of their voting powers and take their position of influence more seriously and positively, is warmly welcomed by the Society. Active participation in the process of corporate governance should be encouraged, particularly by institutional shareholders, now that they own such a large

proportion of UK equity. The Society therefore strongly supports the initiatives by the members of the Institutional Shareholders Committee to encourage voting and to provide proxy voting support systems. Indeed, we believe that institutional shareholders have already demonstrated that they can effectively improve the governance of many companies through informal or covert action. However, by its very nature, this does not reassure the public; more active and open use of the official mechanism would do so.

➤ **Corporate responsibility**

4. The Society also accepts that companies must take much of the blame for the perceived problems, in that many of them are the result of poor or inadequate communication. The Society is dedicated to improving the relationships between companies and their shareholders and strives to redress such deficiencies and promote good practice, but we accept much remains to be done. Many companies have yet to recognise the importance of shareholder communication, let alone to practice it effectively.

5. The AGM is used by many companies as the principle means of communication. While the AGM gives all shareholders the right of access to their board, however, it is largely ineffective as a forum for dialogue, partly because of the legal nature of the event. Yet few companies take the opportunity either to address shareholders real concerns in lay terms or to provide a more appropriate forum.

6. We believe that executive directors' remuneration is one of the areas that has led to shareholder pressure for corporate governance reform. Yet we would argue that much of the public (and particularly press) outcry could have been avoided if more companies had given clear details of the payment of performance - related bonuses, and how they relate specifically to past accounting periods. This was a fundamental breakdown in communication, rather than an area requiring new regulations.

➤ **Accounting standards**

7. The Society also believes that the one part of the existing UK corporate governance machinery which has certainly been shown to be inadequate is the field of accounting standards, and particularly investors' faith in the results based on them. In this regard, we welcome the work of the Accounting Standards Board to improve these standards, and we believe that this alone will save much of the controversy.

➤ **Conclusion**

8. In summary, the Society believes that most of the corporate governance failings in the UK are the result of excessive faith in formerly inadequate accounting standards, which are already being improved, of shareholders failing to use their existing rights and of companies failing to communicate effectively. We believe that all concerned should strive to correct these failings before new legislation or regulation is considered. We would be happy to take part in any co-ordinated programme, by the existing bodies representing investors and corporates, to improve the situation.

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