

Summary media coverage for report: Tomorrow's Corporate Governance: bridging the gap through Swedish-style nomination committees

1. Professional Pensions

Institutional shareholders should join company nomination committees

Professional Pensions | 23 Mar 2010 | 12:08

By Jonathan Stapleton

Listed companies should invite major institutional shareholders to join their board nomination committees, a Tomorrow's Company report urges.

The think-tank's report - Tomorrow's Corporate Governance: Bridging the UK engagement gap through Swedish-style nomination committees - looked at how institutional shareholders should become more engaged owners through their participation in the process by which directors are nominated or removed.

It also recommended pension funds to re-examine their contracts with asset managers and specify the level of active engagement in the nomination process that they require.

And it said the Financial Reporting Council - the corporate reporting regulator - to promote the annual re-election of boards and chairmen on the basis that boards engage major shareholders in the nomination process.

It said schemes should pool their efforts through bodies such as the National Association of Pension Funds to ensure that fund managers are more effective in participating in the board nomination process.

Tomorrow's Company said such rules would emulate those in place in Sweden, where shareholders play a direct and leading role in selecting and removing the individuals who will make up their company's board.

It said Swedish board nomination committees typically comprise a company's four or five largest shareholders plus the board chairman. These committees act with direct authority from the shareholders' meeting, and report their findings and recommendations directly to the annual general meeting.

Tomorrow's Company founder director Mark Goyder said: "Following the Walker report and the FRC review, the difficulty now lies in identifying tangible measures that will have a direct impact on a stewardship revival, particularly in the UK economy where shareholdings have become so dispersed.

"The most important learning for the UK from the Swedish experience is that to take a leap forward, we need some formal process in which major shareholders engage with companies and start to work together in a more proactive way than at present."

Tomorrow's Company said it had submitted its report to the FRC with a recommendation that its decision next month is made in favour of the annual election of chairmen and directors of listed company boards.

This comes two months after the FRC began consultation on a stewardship code setting out good practice for institutional investors when engaging with UK listed companies (PP Online, January 19).

The consultation on the code - proposed as part of Sir David Walker's report on corporate governance (PP Online, November 26) - will look at whether the code is suitable in its current form and what arrangements should be put in place to monitor how the code is applied.

The code's principles were originally drawn up by the Institutional Shareholders' Committee - a body which includes the NAPF, Association of British Insurers and the Investment Management Association.

The FRC is seeking views on:

- Whether the code published by the ISC provides a suitable basis for the stewardship code, in either its existing or an amended form
- What the responsibilities for engagement of institutional shareholders and their agents are to the beneficial owners whose money they manage
- How adoption of the standards in the code by UK and foreign investors can be encouraged
- What information investors should disclose on their engagement policy and practice
- What arrangements should be put in place to monitor how the code is applied.

The consultation ends on April 16 and the outcome of the consultation will be announced in May or June.

2. Sky News

The Lessons Of Berndt Being Toast

Mark Kleinman

March 23, 2010 12:11 PM

A belated note on yesterday's announcement from Lloyds Banking Group that Wolfgang Berndt is to step down from the board at its annual meeting in May.

Berndt has elected to avoid an unseemly and potentially damaging shareholder revolt over his decision (as head of Lloyds' boardroom pay committee) to award the maximum bonus possible to Eric Daniels, Lloyds'

As I revealed last week, UK Financial Investments (UKFI), the body that manages taxpayers' 41 per cent stake in Lloyds, was to consider opposing Berndt's re-election.

So Lloyds didn't even try to claim yesterday that the departure was planned, given that the bank had told me last week that it wanted shareholders to support Berndt's re-election in May.

For Lloyds shareholders, there is a vivid sense of *deja vu* about the affair. It's nearly a year since I broke the story (in the pages of *The Sunday Telegraph*) that Sir Victor Blank, the bank's then chairman, would retire amid uncertainty about UKFI's support.

It's certainly better for Daniels that Berndt goes of his own accord; otherwise the focus would simply return to the chief executive's bonus (which he waived) and why investors felt he shouldn't have been awarded the maximum one.

There is a clear message here for Sir Win Bischoff, the Lloyds chairman. It might make a good story, but I'll be horrified if this time next year I find myself writing about boardroom problems at the bank for the third year running.

But the story is also in one sense an encouraging sign that UKFI is fulfilling the mandate that it was given at birth: to be an engaged investor in the part-nationalised banks. That said, I agree with Nils Pratley in today's *Guardian* that if UKFI wants any credit for its approach, it must become more vocal about its governance and investment decisions.

Today, the think-tank Tomorrow's Company has published a report advocating the Swedish governance model, which sees shareholders playing "a direct and leading role in selecting (and, where necessary, removing) the individuals who will make up their company's board".

If the Government is genuinely serious about reforming boardroom governance in Britain (and Lord Myners, the City Minister, has said enough on the subject to suggest it is), UKFI would not be a bad starting point to demonstrate that.

But that would mean leaving aside vested interests and the protection of individuals' reputations, and really telling it how it is. By that measure, the departure of Berndt suggests that Myners and co are not quite ready for that.

3. IPE

http://www.ipe.com/news/uk-should-look-to-sweden-on-investor-engagement_34467.php

UK should look to Sweden on investor engagement

UK/SWEDEN - Adapting the idea of shareholder-led nomination committees, as used in Sweden, could be one way of encouraging UK institutional investors to become more engaged in corporate governance issues, a UK think tank has claimed.

A new report from [Tomorrow's Company](#), supported by the Swedish activist investment firm Cevian Capital, examines developments in stewardship and engagement practices in Sweden over the last 15 years, including the use of board nomination committees where shareholders play a key role.

Tomorrow's Company highlighted UK boards of directors are appointed by a nomination committee that is a sub-committee of the board and made up of board members, which effectively gives them the ability to elect themselves.

In contrast Swedish shareholder-led nomination committees comprise of four or five of the largest shareholders and the non-executive chair of the board. The committee then reports their findings and recommendations directly to the annual general meeting, including the structure and amount of remuneration for each director, which is then voted on by investors.

The report '*Bridging the UK engagement gap through Swedish-style nomination committees*' points out there is nothing in the existing 'comply or explain' UK corporate governance code to stop UK companies from adopting similar arrangements for their nomination committees, And its main recommendation is for listed companies to invite major shareholders to join this committee to tackle the issue of "ownerless corporations" described by Lord Myners. (See earlier IPE article: [Myners says trustees must meet governance 'legal duty'](#) and [Myners wants legal governance duty for managers](#))

Tomorrow's Company argued active shareholder engagement in Sweden through nomination committees had increased confidence and trust in the board by improving transparency. However It admitted the key to the success of this process is the willingness of institutional investors to participate.

The report stated: "Suitably adapted, shareholder-led nomination committees could therefore play a part in the improvement of the quality of governance and stewardship in the UK." Although it added the most important lesson from the Swedish stewardship process is the need for a "formal process in which major shareholders engage with companies and start to work together in a more proactive way than is experienced at present".

The think tank therefore outlined an 'agenda for action' for UK listed companies, institutional investors, pension funds and policy makers to consider, including:

- Listed companies inviting shareholders onto the nomination committee
- Fund managers recruiting qualified people to sit on the committee as their representative
- UK Institutional Shareholders Committee to promote engagement in nomination committees
- Pension funds to re-examine manager contracts to specify the level of active engagement in the nomination process
- Pension schemes to pool efforts with NAPF to ensure fund managers are more effective in their participation
- Financial Reporting Council to promote annual re-election of boards linked with a recommendation that major shareholders are engaged in the nomination process

Harlan Zimmerman, senior partner of [Cevian Capital](#), said: "In both Sweden and the UK, shareholders delegate all important responsibility for day-to-day governance to board directors." But he noted while Swedish shareholders have taken responsibility for selecting the board, this is not the case in the UK.

"[UK] Shareholders not only delegate day-to-day governance to directors, they also effectively delegate to their delegates the responsibility to choose themselves. Within a UK governance environment that is otherwise lauded around the world, this seems a paradox."

Mark Goyder, founder director of Tomorrow's Company, said: "We all know the current stewardship vacuum is not an option. 2009 was the year for corporate governance reviews. Let's make 2010 and 2011 the year for corporate governance innovation."

If you have any comments you would like to add to this or any other story, contact Nyree Stewart on + 44 (0)20 7261 4618 or email nyree.stewart@ipe.com

4. Financial Times (Lombard)

Down with ad hoc activism

By Andrew Hill

The good news is that the debate about shareholder engagement is well under way. This week, for example, Tomorrow's Company will launch a provocative, if idealistic, effort to persuade UK companies to bring shareholders on to their nomination committees, as happens in Sweden. The bad news is that even if this debate leads to greater engagement by institutional investors, there may still be too few of them to make a difference.

Lord Mandelson's plea earlier this month to "absentee and transient" investors to lock in for the long term would then be as hollow as a Cadbury Easter egg. That at least is the overarching concern of the Association of British Insurers. In a letter to the business secretary, it cites stricter solvency rules for UK insurers, changes in pensions accounting and the dividend tax regime, and Mifid, which liberalised pan-European share trading, as measures that have either weakened incentives for long-termism or simply reduced the weight of institutional money in the stock market.

Some of these genies can't be put back in the bottle, however. Others, such as pension accounting changes, were conjured up specifically to deal with worse problems. Even trying to change them back would require a level of commitment from government that we are unlikely to see either side of a general election.

This goes beyond the narrow discussion of adjustments to the Takeover Code. Without a solution, there is a clear danger that active stewardship will wither away. It will be replaced by a muscle-bound ad hoc activism, evident in the recent boardroom coup at Mitchells & Butlers, of the sort that is triggered only in extreme circumstances and with uncertain consequences. andrew.hill@ft.com

5. Financial Times

Lessons to learn from Sweden

BY RUTH SULLIVAN

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GETTING THE COMPOSITION OF A COMPANY BOARD RIGHT IS ARGUABLY THE MOST IMPORTANT PART OF CORPORATE GOVERNANCE.

THE FINANCIAL CRISIS HAS HIGHLIGHTED MORE THAN EVER THE NEED FOR SHAREHOLDERS TO BE ACTIVELY INVOLVED IN THE SELECTION OF THE BOARDS OF COMPANIES IN WHICH THEY INVEST, IF THE PROBLEM OF "[ownerless corporations](#)", DESCRIBED BY LORD MYNERS, A UK TREASURY MINISTER, IS TO BE SOLVED.

INSTITUTIONAL INVESTORS HAVE FAILED TO DO THIS SO FAR AND GETTING THEM TO ACKNOWLEDGE THEY HAVE STEWARDSHIP OBLIGATIONS IS NO EASY TASK. SO WHAT IS THE NEXT STEP IN THE WAKE OF LAST YEAR'S WALKER REPORT REVIEW ON CORPORATE GOVERNANCE?

TOMORROW'S COMPANY, THE BUSINESS-LED THINK-TANK, HAS BROUGHT OUT A [report](#)*, BACKED BY CEVIAN CAPITAL, AN ACTIVIST INVESTOR, CALLING FOR UK-LISTED COMPANIES TO INVITE BIG SHAREHOLDERS TO JOIN THEIR BOARD NOMINATION COMMITTEES.

THE STUDY DRAWS FROM SWEDEN'S SHAREHOLDER-LED NOMINATION COMMITTEE MODEL OF ENSURING GOOD BOARD SELECTION THAT HAS WOKEN UP INVESTORS TO RESPONSIBLE STEWARDSHIP.

"ONE OF THE KEY INTENTIONS OF THE REPORT IS TO STIMULATE A REAL AND SUBSTANTIVE WAY TO DEAL WITH OWNERLESS COMPANIES. NOW WE NEED TO TURN WORDS INTO REALITY," SAYS MARK GOYDER, FOUNDER DIRECTOR OF TOMORROW'S COMPANY.

IN SWEDEN, SHAREHOLDERS PLAY A DIRECT ROLE IN SELECTING AND SOMETIMES REMOVING BOARD MEMBERS. SWEDISH BOARD NOMINATION COMMITTEES TYPICALLY COMPRISE FOUR OR FIVE OF A COMPANY'S BIGGEST INVESTORS, COMPANY REPRESENTATIVES AND BOARD CHAIRMAN, REPORTING THEIR FINDINGS TO THE ANNUAL GENERAL MEETING.

SIR DAVID WALKER, AUTHOR OF THE EPONYMOUS REVIEW, BACKS THE NEW REPORT'S RECOMMENDATIONS. "THE SWEDISH EXPERIENCE IS A SIGNIFICANT EXAMPLE OF A MECHANISM BY WHICH MAJOR SHAREHOLDERS CAN WORK TOGETHER, AND WITH THE COMPANY'S CHAIR TO EXERCISE STEWARDSHIP," HE SAYS. HE BELIEVES THE APPROACH RECOGNISES SHAREHOLDERS HAVE A LONG-TERM INTEREST IN AND RESPONSIBILITY FOR THE PERFORMANCE OF THE BOARD AND THE COMPANY.

ANY ADOPTION OF THE SWEDISH SYSTEM WOULD ONLY WORK IF PENSION FUNDS AND ASSET MANAGERS PLAY A PART, ACCORDING TO TOMORROW'S COMPANY. PENSION FUNDS SHOULD RE-EXAMINE THEIR CONTRACTS WITH ASSET MANAGERS, SPECIFYING THE LEVEL OF ACTIVE ENGAGEMENT THEY WANT IN THE NOMINATION PROCESS. POOLING LABOUR EFFORTS AND COSTS THROUGH THE NATIONAL ASSOCIATION OF PENSION FUNDS WILL ALSO BE IMPORTANT FOR TRUSTEES AND FIDUCIARIES.

FUND MANAGERS WILL ALSO NEED TO RECRUIT AND TRAIN SUITABLY QUALIFIED PEOPLE TO SIT ON THE NOMINATION COMMITTEES AS REPRESENTATIVES. THEY COULD BE DRAWN FROM FUND MANAGERS, GOVERNANCE SPECIALISTS OR FORMER CHAIRMEN OR DIRECTORS OF LISTED COMPANIES, THE REPORT SAYS.

"IF THIS DOES NOT HAPPEN THEN THE WHOLE SYSTEM OF GOOD STEWARDSHIP WILL NOT WORK," SAYS MR GOYDER.

ONE POSSIBLE DRAWBACK TO A SYSTEM WHERE LARGE SHAREHOLDERS GROUP TOGETHER TO HELP SELECT OR REPLACE BOARD MEMBERS IS THE POTENTIAL IT OFFERS FOR THE MISUSE OF POWER BY BIG PLAYERS.

HARLAN ZIMMERMAN, SENIOR PARTNER OF CEVIAN CAPITAL, SEES LITTLE POSSIBILITY OF THIS: "THE SWEDISH SYSTEM IS NO MORE OPEN TO ABUSE THAN THE EXISTING UK ONE WHERE SHAREHOLDERS CAN CALL AN AGM TO PUT THEIR OWN PEOPLE IN PLACE.

“AS SHAREHOLDERS WE ARE EFFECTIVELY OUTSOURCING RESPONSIBILITY FOR MANAGING THE BUSINESS TO THE BOARD, AND WE WANT THE MOST SUITABLE PEOPLE TO SERVE ON IT,” HE ADDS. THE REPORT ALSO CALLS ON THE FINANCIAL REPORTING COUNCIL - WHICH OVERSEES THE COMBINED CODE THAT GOVERNS BEST PRACTICE IN CORPORATE GOVERNANCE - TO GO FURTHER. IT SUGGESTS LINKING THE ANNUAL RE-ELECTION OF BOARDS AND CHAIRMEN, SUGGESTED IN THE RECENT REVIEW OF THE CODE, TO ENGAGING BIG SHAREHOLDERS IN THE NOMINATION PROCESS.

SWEDEN'S MODEL DID NOT HAPPEN OVERNIGHT. IT EVOLVED OVER 15 YEARS AND, CURIOUSLY, WAS

TRIGGERED IN PART BY A 1992 CORPORATE GOVERNANCE REPORT BY SIR ADRIAN CADBURY, FORMER CHAIRMAN OF THE COMPANY RECENTLY SWALLOWED BY [Kraft](#). PERHAPS UK SHAREHOLDERS COULD, IN TURN, LEARN SOME LESSONS FROM THEIR SWEDISH COUNTERPARTS.

*TOMORROW'S CORPORATE GOVERNANCE: BRIDGING THE UK ENGAGEMENT GAP THROUGH SWEDISH-STYLE NOMINATION COMMITTEES.

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6. Video on FTFM

<http://www.ft.com/ftfmvideo>

7. Extract from speech given by Sir David Walker to ICGN

Second, while there has been criticism, particularly from incumbent chairmen, of the proposal for annual election of the chairman, my own position on this has if anything hardened, and I would tend to favour moving toward annual election of the whole board. Discussion in the report by Tomorrow's Company on the Swedish model of participation by shareholders in the nomination committee of the board is plainly highly relevant in this context, and I commend it to those who may not yet have seen it. I am doubtful about the direct applicability of this model elsewhere, but the core feature is the compelling one that investors should have a close interest in the composition of the boards of their major investee companies and that, if they are unable to influence them directly in advance, as in the Swedish model, it is of correspondingly greater importance that they have effective means of changing board composition in a timely way, albeit after the event. It is this which leads me to favour moving toward annual election of the whole board; and I do not share the concern of some based on the supposition that such annual voting will lead fund managers to be short-termist in exerting their enhanced voting power.