

## Rating agencies

At the July meeting of the Forum, members received a short presentation from guest speaker James Longsdon of Fitch Ratings.

James gave an overview of how Fitch rate financial institutions, specifically banks. He outlined how banks are different to other finance companies, and the highly regulated and leveraged environment they operate in. Banking crises are not that uncommon and banks are allowed to take risks. He explained that a key factor in the rating of banks is how much support a bank is predicted to receive if it encounters difficulty. This aspect is given a 1-5 rating (1 the highest) and no bank with a 1-rating has failed. The Icelandic banks were a 2-rating for support.

Other factors taken into account include:

- economic/operating environment;
- market share;
- regulation;
- management;
- strategy; and
- financial measures.

Corporate governance is a factor, but is viewed more from a perspective of business risk, for example, where there is too much ownership control that may lead to conflict of interest. It does not extend to compliance with established codes.

The presentation was well received and was followed by a short but lively discussion.

## LAPFF Annual Conference

### Strengthening shareowner oversight post-crisis



Our 14th annual conference will be held this year on December 2, 3 and 4th. As usual it will be at the Bournemouth Highcliff Marriott Hotel.

To take up their two free places, Forum members should contact the Conference Organiser, Janice Hayward at [janiceh@pirc.co.uk](mailto:janiceh@pirc.co.uk)

Others wishing to reserve places or explore sponsorship opportunities should also contact Janice.

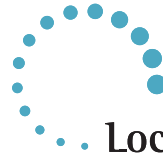
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[www.lapfforum.org](http://www.lapfforum.org)



Local Authority  
Pension Fund  
Forum

# the **f** the view from **forum**

LAPFF's M&S resolution, attracts twice as much support as any previous FTSE 100 shareholder resolution.

World-wide coverage of LAPFF's M&S achievement

Forum's profile now higher than ever

Review of engagement policies

**The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 49 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.**

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email [postmaster@keithbray.plus.com](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapfforum.org](http://www.lapfforum.org)

## LAPFF membership as at 1 September 2009

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- Aberdeen City Council
- Avon Pension Fund
- City of Edinburgh Council
- City of London Corporation
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Falkirk Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- London Borough of Brent
- London Borough of Camden
- London Borough of Croydon
- London Borough of Hackney
- London Borough of Haringey
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- Lincolnshire County Council
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Shropshire County Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

Walker Review team, so again LAPFF will have the opportunity for face-to-face input.

Photo: www.parliament.uk



- **The Financial Services Authority (FSA)**

The Forum responded to the FSA's consultation paper on reforming remuneration practices in financial services. In particular, it commented that remuneration committees have failed to demonstrate how their remuneration policies are aligned with the company's unique position, including its risk profile. The FSA looks likely to have a strengthened role in respect of oversight of the banking sector in future, but at present does not appear to have staff dedicated to consideration of governance and related issues. However, one of the members of the Walker Review team appears to have been seconded from the FSA, so in engaging with the Review team, this may be an opportunity for the Forum to develop stronger links with the regulator.

- **UK Financial Investments**

The Forum has held a series of meetings with the UK's banks during 2009. In the case of those where the state is a significant investor, it is clear that issues such as remuneration will be

significantly influenced by UK Financial Investments (UKFI), the vehicle responsible for the state's shareholdings. Anecdotal feedback suggests that UKFI is keen to hear the views of other shareholders on such issues. As such, LAPFF will seek to engage with UKFI as soon as is practical.

- **Investor bodies**

Finally, the Forum is also continuing to seek to extend its influence in the policy field by engaging with investor representative bodies. As members will be aware, LAPFF is seeking to be represented within the Institutional Shareholders Committee (ISC). The ISC currently consists of the Association of British Insurers (ABI), Association of Investment Companies (AIC), Investment Management Association (IMA) and National Association of Pension Funds (NAPF). The ISC has recently drawn criticism for its inactivity from Lord Myners. In addition, the ISC's recent statement on investors' role in governance, issued in response to the financial crisis is much more limited than the Forum's own intervention. The Forum will therefore continue to seek to influence the ISC and push for representation within it.

Separately, LAPFF is also increasingly engaging with the individual ISC members – specifically the ABI and NAPF – over policy issues. Having sought their support for the M&S resolution, the Forum is also seeking common ground over the issue of reforms to executive pension arrangements. Discussions with the NAPF in particular are planned over this issue in the near future.

# Policy engagement

As part of the Forum’s work to influence policy in respect of corporate governance and responsible investment, engagement is planned and has been undertaken with Government and the investment industry. At the July business meeting, Forum members received a briefing paper setting out the areas where the LAPFF has been active or has plans to be so. The paper covered engaging with:

- **The Treasury**

The Treasury is probably the most important government department in terms of policy affecting issues such as shareholder engagement. The Treasury is responsible for areas such as the Myers Review, Walker Review and policy issues such as voting disclosure.



© HM Treasury

- **The Department for Business, Innovation and Skills (BIS), formerly the Department for Business, Enterprise and Regulatory Reform (BERR)**

A number of policy initiatives that the Forum has put forward fall within the remit of the BIS. For example, LAPFF has argued that there should be greater

disclosure of information about remuneration across companies, and for better reporting in respect of directors’ pension entitlements.

- **The Department for Communities and Local Government (CLG)**

The Forum has good relations with CLG but has not regularly engaged with the CLG over pensions issues, though individual members have done so.

A more formalised approach to the LAPFF engagement with CLG will be considered. This may become a more pressing issue if further reforms to the LGPS are put forward in the future, as these may have ramifications for the investment arrangements of funds as well as the structure of the scheme.

- **The Financial Reporting Council (FRC)**

As part of its response to the financial crisis, the Forum submitted a response to the Financial Reporting Council’s most recent review of the Combined Code. This response was primarily based on LAPFF’s public statement on the crisis as well as drawing on previous policy work. Notably, the FRC is also participating in meetings with the

# Marks & Spencer – 40% of shareholders line up with LAPFF

M&S resolution attracts twice as much support as any previous FTSE 100 shareholder resolution.

The Forum achieved a landmark result at the M&S AGM on 6 July.

As most readers will be aware, the LAPFF filed a shareholder resolution at the 2009 AGM seeking the appointment of an independent chairman at Marks & Spencer by July 2010. The company, as it acknowledges itself, is currently in breach of the Combined Code as Sir Stuart Rose is executive chair, combining the roles of chair and chief executive and is proposing to continue in this role until 2011. In justifying this position last year, the company said that this was necessary as part of the succession-planning process.

The Forum has rejected this argument, since almost all other UK-listed companies have separated the positions of chair and chief executive, and do not require the roles to be combined as part of a succession plan. LAPFF's resolution in effect called on the company to revert to compliance with the Combined Code by next year's (2010) AGM.

However, most importantly, the Forum had repeatedly stressed ongoing support

for Sir Stuart himself, and emphasised that the resolution was intended to allow shareholders to express concerns about the company's governance without being drawn into a personal referendum on Sir Stuart, which could be damaging for both the company and its shareholders.

The resolution (no. 16) was filed by West Yorkshire Pension Fund and PIRC, utilising the 100 companies structure set up by the LAPFF for this purpose. It was filed as a special resolution and therefore required 75% support to pass (a very demanding hurdle). We called upon the company to take all reasonable and practical steps to appoint an independent chair by 2010. The company continued to argue that the combined roles are necessary for its succession-planning process, stating that reverting to best practice in 2011 "provides ample time jointly to develop internal candidates and evaluate the external market". It also argued that it has put in place balancing controls to

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mitigate governance concerns created by the three-year “temporary period of non-compliance”.

The company argued that the LAPFF resolution would not enhance the prospect of an orderly succession and might compromise the process. It also claimed that the resolution would be seen as a personal referendum on Sir Stuart, despite the fact that in the annual report the company had acknowledged LAPFF’s ongoing support for him.

The resolution appeared to find increasing support among concerned investors during the period leading up to the AGM. The LAPFF Chairman, Councillor Ian Greenwood, held a series of meetings with the largest shareholders in M&S and none of them disputed the Forum’s analysis of the situation, or its rationale for filing the resolution. In addition, a number of the proxy voting services which advise shareholders recommended that shareholders should support our resolution.



Ian Greenwood Chair, LAPFF



© Daily Mail

**Accordingly, as the AGM approached, LAPFF recommended its members to support the resolution which had been carefully drafted so as to be as supportive of the company as possible, by being focused solely on the governance issues.** In short, the resolution was framed so as to encourage the company to revert to best practice, and to give shareholders a safe means to express their concerns about the lack of separation of powers. The resolution made it absolutely and explicitly clear that LAPFF’s concerns were about the governance structure at M&S, not about Sir Stuart himself. **The Forum, therefore, also strongly urged its members to support his re-election so as to address the company’s misplaced assertion that the resolution was a personal referendum on his leadership.**

As the big day approached, media coverage intensified and on the day of the AGM (July 8th), the LAPFF notched up no less than 78 media hits. The LAPFF resolution was described in *The Daily Telegraph* live update blog as “the biggie”. Our case was

eloquently put by Councillor Ian Greenwood, and when the votes were counted, we had secured the direct support of 37.7% of shareholders. In addition, a significant number of shareholders rejected the M&S board's position by abstaining taking the level of effective support for the LAPFF position to 40%

The Forum's achievement at the M&S AGM has also been reported by the media in the US, Australia, France, Greece, Hong Kong, Ireland, South Africa, United Arab Emirates, the Czech Republic and the Virgin Islands.

**In summary, the LAPFF's resolution, although defeated, attracted twice as much support as any previous FTSE 100 shareholder resolution.**

**As a result, the Forum's profile is now higher than ever and we will make full use of this elevated position in promoting other cases and developing our campaigns across the increasingly wide range of issues taken up by the LAPFF.**



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## Other items

### **Engagement on executive remuneration**

Forum members have agreed to expand the scope of its engagement on incentivising executives.

This would include looking at non-financial reward and retention systems, employee representation, remuneration committee discretion and will explore cases of best practice.

### **Audit and financial reporting – after the crisis**

Members received a report outlining what LAPFF should be considering in addressing audit and financial reporting concerns. It emphasised the importance of challenging assumptions and when reviewing current practices.

### **International Securities Lending Association**

Members received an informative updating report by Gerard Moore (below) of Merseyside Pension Fund.

