THE TRANSPARENCY TASK FORCE

16th February 2017

Transparency Task Force Response to BEIS' Corporate Governance Green Paper

1. The purpose and status of this document

This document has been put together by members of the Transparency Task Force's Stewardship and Decision-Making Team to provide input to BEIS' Corporate Governance Green Paper; an inquiry that we are very pleased is taking place.

2. About the Transparency Task Force

The Transparency Task Force is the collaborative, campaigning community that is dedicated to driving up the levels of transparency in financial services, right around the world.

We believe that higher levels of transparency are a pre-requisite for fairer, safer and more efficient markets that deliver better value for money and better outcomes to the consumer.

Furthermore, because of the correlation between transparency, truthfulness and trustworthiness, we expect our work will help to repair the self-inflicted reputational damage the Financial Services sector has suffered for decades. We seek to effect the change that the financial services sector needs and the consumer deserves.

We also believe that high levels of transparency are a pre-requisite for good governance; and that the converse is true i.e. without high levels of transparency there is very unlikely to be good governance.

3. Our response

The UK Parliament and Government has for the past few months run a parallel enquiry with the Green Paper process, asking significant questions about the future of corporate governance and corporate social responsibility in the United Kingdom.

Our belief is that we cannot look at the behaviour of companies in isolation; they are just one actor in a complex interconnected web of relationships. Each of the actors has their own ambitions and their own conflicts. The role of portfolio managers to whom pension funds entrust their investments and hopes for their pensioners' futures, together with the investment consultants who advise the trustees, are part of that interconnected web of relationships.

As has been demonstrated by independent academic review and studies from the Prudential Regulatory Authority, if companies who sponsor those pensions are being encouraged by the City to pursue short-term objectives, which in turn damage not only pension fund prospects but the wider economy in general, it is clear that a review of the investment consultants is only a starting point. The failure of governance is a failure for pensions and vice versa.

Pension trustees have told the Transparency Task Force that fund managers routinely reject their requests for voting shares according to their preferred policy; and indeed companies themselves highlight discrepancies between what they are told by fund managers and their governance experts. This experience has been widely observed and reported by many bodies; for example, the Association of Member Nominated Trustees, the Financial Reporting Council and ICSA.

Just as there has been little movement in bringing down fees for pension funds and making them transparent, there has been a marked reluctance to be transparent in the responsible investment process. This was brought to light very clearly by the Kay Review, for example, but prior to that also by the work of Lord Myners, the Law Commission and others.

If the Financial Conduct Authority and others are concerned that there may be inappropriate incentives leading to perverse behaviours in portfolio management, it naturally follows that governance and corporate social responsibility - integral component of the investment process - may similarly be subject to the same kinds of conflicts and inappropriate incentives. We respectfully suggest, therefore, that in parallel with the Financial Reporting Council's over-arching review of the UK's governance system that the Financial Conduct Authority and the Competition & Markets Authority should consider bringing the governance activities of portfolio managers into their view.

We would be happy to discuss our views further.

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