



Jo Swinson MP
Under-Secretary of State
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

16 September 2013

Dear Ms Swinson,

Transparency and Trust discussion paper

I write as Chair of the Institutional Investor Committee (IIC), which comprises representatives from the Association of British Insurers (ABI), the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF) - the main trade bodies that represent institutional investment in the UK. The members of these associations together manage/own in excess of £4 trillion of assets and are thus significant investors in UK companies.

We welcome your department's continued efforts to enhance transparency and increase trust in UK business; both these elements are important in creating a positive environment for investment.

While each of the IIC's constituent members has responded individually to the discussion paper, *Transparency & Trust: enhancing the transparency of UK company ownership and increasing trust in UK business*, the IIC wishes to express directly its significant reservations with regards to the proposal to amend directors' duties in the Companies Act for directors of banks.

The proposal to create a primary duty to promote financial stability over and above other interests, including shareholders is, we believe, mis-directed, sets a worrying precedent and could impact upon the investibility of UK banks. Directors' duties should be consistent for all companies.

We do not believe that there is divergence of interests between institutional shareholders and directors, including directors of banks - both wish to see the company succeed. Given that it is shareholders' capital which is at risk it is very much in their interest that any firm remains financially secure.

The Parliamentary Commission on Banking Standards suggested that it would be a mistake to expect greater empowerment and engagement of shareholders to lead to the exercise of profound and positive influence on the governance of banks. We disagree. Indeed, this proposal is at odds with the approach being taken by government and regulators in other areas. Recent measures are providing shareholders with greater influence over executive pay, through enhanced voting rights. In addition, the FRC was only given responsibility for the Stewardship Code in January 2010 and it is already

enhancing the quality of engagement between companies and investors. We believe it important to continue to encourage shareholders to engage on the important strategic issues of their investee companies.

The Companies Act does not at present distinguish between sectors. We believe that doing so in this instance would establish a worrying precedent. The concepts of 'safety and soundness' are as relevant to a retailer or a mining company bank as they are to a bank. While a bank's financial stability may be more systemically important to the economic system as a whole; concerns about this should be addressed through banking regulation.

We would instead encourage you to consider measures that build on the efforts to encourage investors to exercise their stewardship responsibilities.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Fawcett', with a long horizontal flourish extending to the right.

Mark Fawcett
Chair
Institutional Investor Committee