

RECORD OF MEETING WITH MR MIKE SANDLAND, CHAIRMAN OF THE
INSTITUTIONAL SHAREHOLDERS COMMITTEE, ON 15 JULY 1991

Present:

Mike Sandland
Sir Adrian Cadbury
Nigel Peace

1 Mr Sandland said that he had had initial doubts about the setting up of Sir Adrian's Committee. He had now modified his position somewhat, but he wanted the terms of reference adjusted to emphasise that the Committee would be concentrating on the financial aspects of the subject. He did not want it to try to do too much. He saw it as complimentary to the work of the FRC and ASB and commented that David Tweedie talked a great deal of sense. He strongly supported the latter's efforts to get accounting rules clearer and more universally applied.

2 Mr Sandland handed over the attached note about the role of the ISC. He said that it provided a channel of communication and forum for discussion between institutional shareholders and corporate management. The two important members were the Association of British Insurers and the National Association of Pensions Funds, in the shape of their Investment Committees. The NAPF had larger shareholdings but traditionally had little secretariat support. Third in importance came the British Merchant Banking and Securities Houses Association representing the asset management arms of the merchant banks. The other two member organisations were less significant. The five bodies represented virtually all the investing institutions, and the Statement of Best Practice on the Role and Duties of Directors was the first time that they had put their names to a single document.

3 Mr Sandland continued that relations with the Institutional Fund Managers Association (a trade association for fund management houses) had been strained but he was prepared to see give and take. There was some overlap in the issues which IFMA and the ISC were considering. He commented that the banking houses were reluctant to establish the mechanisms to enable them to vote their shares, because of the cost.

4 Mr Sandland went on to comment that intervention in companies had to be undertaken by the institutions that actually owned the shares - this was a responsibility that could not be avoided.

5 Mr Sandland said that the view of institutional shareholders was firmly that auditors should owe a duty of care for the whole area of their work.

6 Mr Sandland said that the new paper on the Responsibilities of Institutional Shareholders would be completed in the autumn, but not before the ISC's next meeting on 15 October. He would be prepared to make a report on progress to the September meeting of Sir Adrian's Committee, but might not be able to table the paper. He would be grateful if the Secretary would write to him well in advance about what was required of him.

NDP

19 July 1991

Institutional Shareholders' Committee

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The Institutional Shareholders' Committee

The ISC was originally founded in the 70s by the pension funds, insurance companies, unit trusts and investment trusts in conjunction with the Bank of England, its principal objective being to liaise with companies which were seen as having problems and which might need outside objective and knowledgeable help. After some initial success its level of activity fell off, and it became virtually inactive.

In recent years, problems of a wider nature have been identified in the context of City/Industry relations. In response it was decided that the ISC should be reactivated, with an enlarged membership and with a different set of objectives. Accordingly, the membership of the ISC was expanded in 1989 to include representatives of the merchant banks' investment houses, and it now represents virtually the totality of UK institutional investors.

The ISC's role has also been redefined to try to address the perceived problem of less than perfect communication between institutional shareholders and corporate management across UK industry. Whilst the ISC would not normally become involved in matters concerned with particular investments or companies, as it believes that here any dialogue should be between the company and the shareholders concerned (or the Investment Committee of the relevant member-Association of the ISC), it sees itself as the vehicle whereby wider issues can be considered. It aims therefore to provide, for such issues, a channel of communication and a forum for discussion between institutional shareholders, corporate management and any other interested parties.

In addition, the ISC seeks to identify or establish areas of common ground amongst its members and thereafter to promulgate those jointly held views in the relevant quarters. Here The Role and Duties of Directors - A Statement of Best Practice, published in April 1991, may be taken as an example of this type of output. Work has started on a second document, The Responsibilities of Institutional Shareholders, which the ISC hopes to publish in the autumn of 1991. Consideration is also being given to improving the quality of information disclosed on R & D as part of the general process of improving understanding between industry and investing institutions.

24 June 1991