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Dear Susannah

LGIM'S RESPONSE TO THE CONSULATION ON A STEWARDSHIP CODE FOR INSTITUTIONAL SHAREHOLDERS

I would like to give a response to this review on behalf of Legal & General Investment Management (LGIM). LGIM is the investment management subsidiary of Legal & General Group Plc, a FTSE 100 company. We are one of the UK's top fund management companies by assets under management (£315 billion as at 31 December 2009) and have a long standing commitment to raise corporate governance standards.

LGIM has £75 billion invested in UK shares which represents around 4.5% of companies in the FTSE All Share index. We therefore have very extensive experience of dealing with corporate governance issues at both large and small companies.

LGIM believes that a "Code" will provide an improvement in corporate governance practices. This improvement could be shown by demonstrating that there is more effective communication between companies, institutional shareholders and their clients.

While a direct link to improved company performance is the ultimate objective the near term aim is to identify best corporate governance practice and to promote it widely.

Calling it "The UK Stewardship Code" would be a closer description of its scope.

The responses to the specific issues raised in the consultation document are shown below.

I look forward to the publication of your report.

Regards


Andy Banks

Head of Corporate Governance

Section 1 - Introduction

LGIM supports the proposal that the FRC should be the body that has oversight of the Code, but it should be for the Institutional Shareholders Committee (ISC) to initially draw up the Code.

The process of subsequent consultation by the FRC can be used to provide further input and refinement.

The Code should be accepted in its current form as quickly as possible to get the process moving. This will generate the information for best practice to be identified.

Section 2 - Background and Recent Developments

It is significantly more difficult to engage with companies outside the UK and to engage on a collective basis with other investors. It takes time to establish trusted relationships with companies and other investors and so it is difficult to collaborate quickly on a specific issue. As a consequence the UK investment industry trade bodies have an important role in helping with engagement on international issues.

In the USA, the establishment of the Investor Advisory Committee to provide an investor perspective to the SEC mirrors how the UK's ISC could advise the FRC. The provision of extensive website information, for example Form 8-K on voting, is essential to disseminate good practice.

Even within a market there may be no generally accepted meaning for the term "engagement". Language will be a problem even with the USA. An example would be the policy entitled "A Draft Recusal Policy", which needs some explanation for the UK market. www.sec.gov/spotlight/investoradvisorycommittee.shtml

Section 3 - The Coverage of the Code

The Code should apply to institutional investors who are directly or indirectly represented on the ISC. There should also be consistency between the shareholders who report under the Takeover Panel disclosure requirements and the Code.

Voting Service Agents and Investment Consultants should also be included as they can have a significant influence on corporate transactions. The Code should be clear on what investments are covered. The Walker Review refers to UK listed companies, whereas the Principle 3 of the ISC Code refers to "their investee companies".

Section 4 - The Content of the Code

The responsibility of the institutional investor is to the client rather than the ultimate beneficiary. This should be to act in line with the agreed investment mandate, in a professional manner, and in the best interests of the client.

The responsibility to the UK listed companies is for Institutional Investors to clearly explain their investment rationale and to conduct engagement in a professional way. This should include providing contact details to enable companies to engage with the appropriate individuals and made clear in what professional capacity a person is acting and to whom they are accountable.

Improvements can be made to the understanding of each party's role and responsibilities. For example, there are clear commercial responsibilities to clients but less clear ones to the public. There is a responsibility to support public understanding of financial matters but this is not the sole responsibility of institutional investors.

LGIM believes that the ISC Code adequately covers the section E of the Combined Code.

Section 5 - Reporting, Monitoring and Review

The information that institutional investors disclose to their clients should be agreed as part of the overall service.

In LGIM's experience there is a wide range of requirements from clients on corporate governance matters. This extends from LGIM managing all the aspects of investment, to other clients who manage all of their own voting, engagement, and reporting. Some clients subscribe to voting agencies and others exclude particular stocks from portfolios. A prescriptive approach is not necessary in the competitive investment market in the UK.

The voting and engagement policy of institutional investors should be a public document. LGIM has been publicly disclosing this for the last two years as have other institutional investors.

LGIM believes there should be no regulatory requirement to publish voting data, however, LGIM does publicly disclose its votes at UK company meetings and has done for the past two years. There has been very limited use of this information, and there is nothing to support the regulatory impact assessment made by Margaret Hodge, Minister for State of State for Industry and the Regions (sic) 20 January 2007, that it could improve the rate of return to shareholders by £30m pa.

LGIM does support the proposal to demonstrate publicly, through the existence of the AAF 01/06 compliance statement on voting and engagement. There will be additional costs of verification but at a level that LGIM believes is justifiable.

LGIM believes the Code should be reviewed every two years and it should be expected that companies, as well as institutional investors, contribute to the review.

The public disclosure of documents should be on the institutional investor's website. The FRC should provide links to this information so that it can be easily found. This would be one tangible way of improving effective communication between companies, institutional shareholders and their clients.

LGIM believes there should be a single survey which provides an in-depth review of institutional investors' activities, with the access to the information used in the AAF 01/06 statement, which could be done over a two year period. The IMA survey has provided evidence of the activity of institutional investors over the years. The section on voting disclosure on selective companies is unnecessary as the information is available elsewhere. There is inevitably a problem in comparing one investor with another as they may have different definitions of "engagement".

The "comply or explain" approach should address the scope of the engagement that the institutional investor undertakes.