

National Association of Pension Funds (NAPF)
Cheapside House
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London EC2V 6AE

Will.Pomroy@napf.co.uk

27 November 2014

Dear Will,

NAPF - Invitation to comment on draft NAPF 2015 Corporate Governance Policy & Voting Guidelines

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance Expert Group has examined your proposals and advised on this response. A list of members of the expert group is at Appendix A.

Response

Overall, we are supportive of the NAPF's draft 2015 Corporate Governance Policy and Voting Guidelines and believe that they encourage a focus on long-term shareholders and long-term performance from companies. We have a few comments on various sections of the guidelines:

1. Be more explicit about which companies this policy applies to and include a cross-reference to the NAPF's 2012 Corporate Governance and Voting Guidelines for Smaller Companies

We believe that it would be helpful for the document to note explicitly that these guidelines are intended to be for those companies who are reporting against the UK Corporate Governance Code.

Furthermore, we believe that it would be helpful for investors and proxy advisors, as well as for companies, to make note in the Introduction that the NAPF produces a separate policy and voting guidelines for small and mid-size quoted companies, in particular those that are standard listed, on AIM or on ISDX. This would remind the reader that the corporate governance needs of small and mid-size quoted companies are different to those of larger companies and that NAPF recognises this through a separate document.

2. Overview (p.3)

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

We believe that the overview is helpful and we agree with its contents.

We have one comment regarding the paragraph ‘A holistic and sustainable approach to governance’. This paragraph needs to be reworded to clarify that there are other Directors’ duties set out in the Companies Act 2006 (other than the only duty - to promote the success of the company (section 172) - mentioned at present in the draft) because, in our view, it could be misleading as currently worded. We believe that the paragraph should specifically include the reference to the interests of the members in section 172, and should also perhaps mention the duty in section 173 to exercise independent judgement. Suggested wording is set out below:

[...] These include, in particular, the duty to exercise independent judgment and the duty to promote the success of the company for the benefit of its shareholders as a whole, while having regard to, amongst other things, the likely consequences of any decision in the long term; the need to foster the company’s business relationships with its customers and suppliers, the impact of the company’s operations on the community and the environment, and the desirability of the company to maintain a reputation for high standards of business conduct.

3. UK Corporate Governance Principles – Boilerplate must be avoided (p.5)

We believe that it would be helpful for this paragraph to explain that the boilerplate explanations should be avoided, i.e. those not providing any data or insight. We agree with the sentiment, but believe that this paragraph could be worded more clearly.

As a more general remark, we believe that the word ‘boilerplate’ has been a little over-used throughout the document; it would be more helpful for companies if an explanation of what unnecessary boilerplate entails was provided on some of those occasions. A great amount of boilerplate disclosure is a statutory requirement.

4. UK Corporate Governance Principles – The Audit Committee (p.5)

We support a more active and transparent Audit Committee. However, we note that it may be difficult for smaller companies, especially those outside the FTSE 350, to staff their Audit Committees solely with independent directors. This is an area where there is a need for flexibility for growing companies.

5. UK Corporate Governance Principles – Smaller companies should seek to emulate best practice (p.6)

We disagree with the approach taken in this paragraph, as we believe that smaller companies can and should follow best practices in corporate governance which are suited for that part of the market. We, therefore, suggest that the paragraph is redrafted as follows:

Smaller companies should follow best practice for that part of the market. While the Code only applies on a mandatory basis to companies with a premium listing its principles are just as relevant to smaller quoted companies as they are to larger ones. Similarly, in judging practice investors should be mindful of the individual circumstances of the business, reflecting upon its size and complexity. A key focus for smaller quoted companies and investors in those companies should be to seek regular and constructive engagement between investors and companies. We would encourage small and mid-size quoted

companies to also assess the principles contained in corporate governance guidance designed for smaller companies.

6. UK Voting Guidelines (p.7-13)

We generally agree with and welcome the section on the UK voting guidance, particularly the guidance (p.9), which is clear and well structured.

7. Section D: Remuneration (p.12)

We note that some of the provisions regarding remuneration may not be appropriate for small and mid-size quoted companies. As such, it would be useful to mention the Quoted Companies Alliance's Remuneration Guide for Smaller Quoted Companies (February 2012) in that document, as our guide has been specifically written for smaller companies and offers detailed and practical guidance on remuneration.

8. UK Voting Guidelines –Appendix 1: Detailed Voting Guidelines – Resolution A. Annual Report & Accounts (p. 15)

We have a remark on A.1, first bullet point: the NAPF could suggest that the governance is subject to a vote as well.

As a general point, we note that the nine year rule (ie the point in time a non-executive director ceases to be independent) is somewhat illogic now, since the introduction of annual re-election of directors in the UK Corporate Governance Code, and perhaps should be revisited.

9. UK Voting Guidelines –Appendix 1: Detailed Voting Guidelines – Resolution D. Re-election of the Chair (p. 21)

We have a remark on D.3: we believe that NAPF should encourage a process of engagement between companies and investors and vice versa on a permanent basis. The NAPF should emphasise that this is a two-way process and comments should be advocated by both.

10. UK Voting Guidelines –Appendix 1: Detailed Voting Guidelines – Resolution E. Re-election of directors (p. 24-26)

We have a remark on E.18, last paragraph: we believe that the word 'non-executive' should be replaced with 'director', as this could occur with any director, not only non-executive directors.

11. UK Voting Guidelines –Appendix 1: Detailed Voting Guidelines – Resolution M. Memorandum and articles (p. 32)

We believe that the reference to the Memorandum should be deleted throughout Resolution M to reflect the legislature changes which came into effect on 1 October 2009. The resolution should make reference to the articles only, as the memorandum is now not capable of alteration.

12. UK Voting Guidelines – Appendix 2: List of relevant websites (p. 33)

We believe that reference to the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (most recent edition May 2013) should be made, as it has become a valuable reference for smaller companies wishing to follow good corporate governance examples.

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If you would like to discuss this in more detail, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', with a horizontal line extending to the right.

Tim Ward

Chief Executive

Quoted Companies Alliance Corporate Governance Expert Group

Edward Craft (Chairman)	Wedlake Bell LLP
Colin Jones (Deputy Chairman)	UHY Hacker Young
David Isherwood	BDO LLP
Nick Graves	Burges Salmon
Nick Janmohamed	Charles Russell Speechlys LLP
David Fuller	CLS Holdings PLC
Nicholas Stretch	CMS Cameron McKenna LLP
Louis Cooper	Crowe Clark Whitehill LLP
Nick Gibbon	DAC Beachcroft LLP
Andrew Hobbs	EY
Eugenia Unanyants-Jackson	F&C Investments
Melanie Wadsworth	Faegre Baker Daniels LLP
Rob Burdett	FIT Remuneration Consultants
Richie Clark	Fox Williams LLP
Michael Brown	Henderson Global Investors
Victoria Barron	Hermes Equity Ownership Services
Julie Stanbrook	Hogan Lovells International LLP
Claire Noyce	Hybridan LLP
Peter Swabey	ICSA
Andy Howell	KBC Advanced Technologies PLC
Nicola Green	LexisNexis
Eleanor Kelly	
Jane Mayfield	
Anthony Carey	Mazars LLP
Mebis Dossa	McguireWoods
Gabriella Olson-Welsh	
Peter Fitzwilliam	Mission Marketing Group (The) PLC
Cliff Weight	MM & K Limited
Caroline Newsholme	Nabarro LLP
Jo Chattle	Norton Rose Fulbright LLP
Julie Keefe	
Dalia Joseph	Oriel Securities Limited
Marc Marrero	
David Firth	Penna Consulting PLC
Kate Elsdon	PricewaterhouseCoopers LLP
Madeleine Cordes	TMF Corporate Secretarial Services Ltd
Edward Beale	Western Selection Plc
Alexandra Hockenhull	Xchanging plc