



Pensions Committee

25 September 2013

Report Title	Combined Governance Activity April to June 2013	
Originating service	Pension Services	
Accountable officer(s)	Geik Drever	Director of Pensions
	Tel	01902 55(2020)
	Email	Geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting activity for the three months ending 30 June 2013.
2. The issues being raised and discussed by the Local Authority Pension Fund Forum (LAPFF) as described in the attached minutes of the Business meeting held on 19th June 2013. Also attached are the Quarterly Engagement Report and the Summer Newsletter.

1.0 Purpose

- 1.1 This report is submitted for Members' information.

2.0 Background

- 2.1 For a number of years, the West Midlands Pension Fund has adopted an approach of wanting to position itself by following good corporate governance practices. One way this is reflected in its approach to active proxy voting and the Fund aims to vote at the majority of company meetings both in the UK and overseas where it has a direct interest. The Fund's voting policy is summarized in the annual report and accounts and published on the web-site.

3.0 Voting Activity

- 3.1 During the period the Fund voted at a total of 1,747 company meetings – 208 UK, 187 European, 393 US, 415 Japanese, 438 Global and 106 Asian. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 6,820 resolutions out of a total of 21,962, representing approximately 31% of all resolutions. During this period there were 128 meetings where the Fund supported all the resolutions put forward by companies.
- 3.2 The Fund has a bespoke template for voting at UK meetings, however, the Fund currently follows the voting advice of the Pensions and Investments Research Consultants Ltd (PIRC) for European US and Japanese company meetings.

**(It should be noted that due to a combination of US state law and individual company bye-laws, votes pertaining to individual directors cannot be cast as "oppose" but have to be cast as "withheld").*

4.0 UK Voting Analysis

4.1 The major issues of contention during the period are typically illustrated in the examples in the table below:

Company	Meeting	Resolutions Causing Shareholder Concern	Shareholders Opposing or Abstaining
BUMI PLC	AGM	Issue shares for cash	74%
BUMI PLC	AGM	Issue shares with pre-emption rights	74%
Afren PLC	AGM	Approve the Remuneration Report	73%
Glencore Xstrata PLC	AGM	Re-elect Sir John Bond	72%
Glencore Xstrata PLC	AGM	Re-elect Con Fauconnier	67%
Glencore Xstrata PLC	AGM	Re-elect Ian Strachan	63%

Although the Fund may often oppose a resolution, it will support a resolution if it believes the company has followed best practice, even if there is significant opposition from other shareholders. Background details on some of these resolutions where opposition was significant are detailed below:

4.2 Bumi PLC (AGM)

Following on from the recent EGM, Bumi again found itself facing resilience from shareholders at the AGM.

As previously reported, information was received from a whistleblower that there were financial irregularities in the Group. Mr Rothschild who was a director at the time, made that information public.

It has now been confirmed that a "black hole" of \$201 million exists, which the audited accounts describe as "expenses without business purpose". The accounts also set out examples of related party transactions which are as yet unresolved by the Company.

On the basis that the auditors have qualified the accounts and a substantial sum of money is not accounted for and proper records have not been kept, the Fund was unable to support the approval of the annual report and accounts.

There are additional concerns related to payments made to the President of PT Berau, given the recent governance problems and the "black-hole" uncovered in the accounts. The Remuneration Committee claims not to have been made aware of these payments, which raises concerns about the remuneration practices at the subsidiaries, and the ultimate nature of the governance oversight of the BUMI remuneration committee.

The Fund opposed the resolution to approve the annual report and accounts

However, following the board reshuffle at the EGM, the new composition appears to be more favourable to shareholders, with a sufficient number of independent directors.

The resolutions for authority to issue new shares also received a high level of shareholder opposition, but the Fund was able to support these proposals as they were well within accepted limits and were accompanied by an acceptable level of director independence.

The Fund supported the resolution to issue new shares

4.3 Afren (AGM)

Afren's AGM saw the highest level of shareholder opposition so far at this year's meetings.

Investors' anger was again directed towards the company's remuneration policy and leadership. 80% of shareholders were opposed to the £3.4m pay package for the CEO and co-founder Osman Shahenshah. Considering a further 8% abstained, this was one of the biggest ever shareholder revolts over executive pay in the UK.

Afren's remuneration plans were opposed because it was deemed that the company's 2012 variable pay was excessive. Despite a historic shareholder revolt the vote remains nonbinding. Therefore, Mr Shahenshah is expected to receive his full package, comprising a £625,000 basic salary, generous benefits and a pension pot, as well as a cash bonus of £1.3m and £1.3m in shares under Afren's long-term incentive scheme.

Afren had previously lost the vote on its remuneration report at its 2011 AGM. This makes it the first company to lose such a vote in the UK twice. Incidentally, at the 2010 AGM its remuneration report only barely passed with little more than 50% approval, while 20 per cent of votes were withhold.

The Fund opposed the resolution to approve the remuneration report

4.4 Glencore Xstrata (AGM)

The re-election of various directors at Glencore Xstrata also attracted a high level of opposition. There were concerns with the proposed new board as some members could not be truly independent due to involvement with either company prior to the merger.

Sir John Bond received the most opposition with a vote against his re-election of over 80%. One of the reasons for Bond being voted off, was investor anger at retention awards provided to Xstrata directors.

The Fund opposed the resolution to re-elect Sir John Bond

Con Fauconnier, Peter Hooley and Ian Strachan were also unpopular with some shareholders and accordingly voted off. However, the overall level of independent representation on the board allowed the Fund to vote in favour.

The Fund supported these resolutions to re-elect directors

Bond's departure also means that former BP chief executive Tony Hayward becomes chair of the FTSE 100 constituent on an interim replacement whilst a replacement is sought. This in turn raises question over his time commitments due to ongoing legal wrangles.

The Fund opposed the resolution to re-elect Anthony Hayward

Overseas Issues

4.5 Deutsche Bank (AGM) – Europe

The biggest German bank witnessed significant opposition at its AGM.

The biggest oppose votes at Deutsche Bank's AGM were cast against the re-election of the prominent German industrialist Henning Kagermann. More than 26% of shareholders objected to his re-election, which included several institutional investors. The vote represents a clear sign of shareholder discontent with the past performance of the bank's supervisory board.

Mr Kagermann is one of a few remaining board members to have overseen the bank's haphazard search for a successor to Josef Ackermann, former CEO, as a result of which some strong candidates were deterred from applying for the position. Shareholders were also concerned that he sits on too many company boards. Several other supervisory Board members also received noticeable shareholder opposition.

The Fund voted abstained from the resolution to re-elect Dr Kagermann

Investors also voiced concerns about the high levels of pay at Deutsche Bank for staff below board level in comparison with the level of dividends paid to shareholders.

The compensation of the Management Board received 11 per cent opposition.

The Fund voted against the compensation system for Management Board members

4.6 Wal-Mart (AGM) – USA

Shareholders of Wal-Mart Stores also expressed significant opposition to the company's management at its annual meeting.

At its AGM, 12% of voting shares were cast against Chief Executive Mike Duke. Board chairman Robson Walton, son of the founder Sam Walton, received a 10% vote against them and Christopher Williams, chair of the audit committee, received a 12% vote against him. The votes reflect shareholders dissatisfaction with Wal-Mart's response to allegations of violations of U.S. law prohibiting bribery in foreign countries, its treatment of workers and its safeguards to ensure that its products are made in humane conditions.

The Fund opposed the resolutions

There was also a vote of more than 17% in favour of a shareholder proposal to empower the board to call for a special shareowner meeting in order to vote on important matters. The request for this arose in the shadow of the recent disasters at textile factories in Bangladesh, which supply also Wal-Mart.

The Fund voted in favour of this resolution

5.0 Shareholder Engagement

- 5.1 The Fund's second approach to responsible investing involves engaging with companies in partnerships with like-minded investors.

This approach is implemented through the Fund's membership of the Local Authority Pension Fund Forum. Joining with other pension funds that have similar views to the Fund, produces a large shareholding group which companies are more likely to take note of and respond to. LAPFF has a current membership of 56 public sector pension funds in the UK with combined assets of over £115bn.

The mission statement of the Forum is "to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations".

LAPFF members regularly meet together to discuss social, environmental and governance issues and ways to promote high standards of corporate behaviour at investee companies. A programme of shareholder engagement is undertaken and the latest issues and achievements in this area are highlighted in the attached quarterly engagement report.

6.0 Shareholder Litigation

- 6.1 In addition to voting, the Fund works in partnership with a US lawyer and a class action monitoring agent to return value back to the Fund through litigation where shareholder value has been lost through fraudulent or irresponsible corporate behaviour. These partners are able to identify where litigation has been successful and submit claims on behalf of the Fund. As a result, during the three months to June 2013 almost \$24,000 has been recovered.

7.0 Financial implications

- 7.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

8.0 Legal implications

- 8.1 The report contains no direct legal implications for the Authority.

9.0 Equalities implications

- 9.1 This report has no implications for the Council's equal opportunities.

10.0 Environmental implications

- 10.1 Environmental implications are addressed through the Fund's corporate governance policy.

11.0 Human resources implications

- 11.1 The report contains no direct human resource implications for the Authority

12.0 Schedule of background papers

- 12.1 There were no preceding background papers.

Local Authority Pension Fund Forum

Business Meeting Minutes

Wednesday, 19 June 2013

Minutes

1. Apologies

Received from:

Dylan Jones
Cllr Sian Thomas
Cllr Peter Brayshaw
Cllr Toby Simon
Cllr John Gray
Cllr Pat Glasman
Peter Wallach

Dyfed
Dyfed
LB Camden
LB Enfield
LB Newham
Merseyside Pension Fund
Merseyside Pension Fund

Present:

Cllr Mike Drew
Liz Woodyard
Cllr Doug McMurdo
Nick Buckland
Mark Lyon
Graeme Russell
Tom Harrington
Cllr Kieran Quinn
Cllr Caroline Roberts
Peter Taylor
Bridget Uku
Richard Law-Deeks
Howard Bluston
Cllr Alec Kellaway
Cllr Ann Jackson
Cllr Nick Buckmaster
Keith Bray
Cllr Cameron Rose
Mike Taylor
David Murphy
Robert Mayes
Alex Younger
Caroline Mann
Cllr Alastair Bews

Avon Pension Fund
Avon Pension Fund
Bedfordshire Pension Fund
Dorset CC
East Riding Pension Fund
Greater Gwent (Torfaen)
Greater Manchester Pension Fund
Greater Manchester Pension Fund
Gwynedd Pension Fund
LB Camden
LB Ealing
LB Hackney
LB Harrow
LB Newham
LB Tower Hamlets
LB Waltham Forest
LAPFF Officer
Lothian Pension Fund
LPFA
NILGOSC
Norfolk Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North East Scotland Pension Fund

Tim Bush	PIRC Ltd
Ashley Hamilton	PIRC Ltd
Janice Hayward	PIRC Ltd
Martin Marzidovesk	PIRC Ltd
Alan MacDougall	PIRC Ltd
Tom Powdrill	PIRC Ltd
Tessa Younger	PIRC Ltd
Jane Firth	South Yorkshire Pensions Authority
Melanie Stokes	Staffordshire
Andy Hill	Teesside Pension Fund
Geik Drever	West Midlands Pension Fund
Cllr Bert Turner	West Midlands Pension Fund
Rodney Barton	West Yorkshire Pension Fund
Ian Greenwood	West Yorkshire Pension Fund
Catherine Dix	Wiltshire Pension Fund

2. Declarations of interest

None.

3. Approve Minutes of LAPFF Business Meeting held on 20 March 2013

The minutes were agreed.

There were no matters arising not covered on the current Business meeting agenda.

4. Note minutes of LAPFF Executive meeting held on 5 June 2013

The minutes were noted.

5. Report of the Hon Treasurer

Geik Drever presented the report.

Alex Younger asked where the conference income was accounted for in the LAPFF accounts. GD advised that under the terms of the contract with PIRC, the conference was financially underwritten by PIRC so that LAPFF does not bear any financial risk and therefore it does not appear in the LAPFF accounts. GD added that each member fund has two free places at the conference as part of their membership subscription.

The report was noted.

6. Forum's officers report

Keith Bray presented the report.

The report was noted.

7. LGPS reforms: Review of developments

Rodney Barton presented a verbal update.

The LAPFF Executive had agreed to nominate Cllr Kieran Quinn, LAPFF chair, and Vice Chair Ian Greenwood of West Yorkshire Pension Fund as member nominees to the Investment and Engagement Sub-Committee

Also letters from the LGA were sent on the 14 June to the Heads of Pension Funds and copied to Administering Authority Chief Executives asking for nominations with regard to the election of officers to the Shadow Scheme Advisory Board and the five sub committees, including the Investment & Engagement Sub-Committee of particular interest to LAPFF.

Votes need to be cast by **21 June** and all information relating to the procedure for voting can be found on the LGA's website.

<http://www.local.gov.uk/web/lgaworkforcepensions/shadowsab>

Mike Taylor also advised that a consultation document calling for evidence on the future structure of the LGPS would be sent out to funds soon with a return date of around the end of September.

8. Quarterly Engagement report

TY presented the report and gave an overview of the quarter's achievements and also drew attention to the voting alerts that had been issued so far this year, on topics of Executive Pay, separation of powers, capital adequacy, carbon management and employment concerns. Outcomes from a Rio Tinto meeting on carbon management were discussed.

AH gave an overview of other engagement meetings and Executive members also reported on their attendance at meetings with ABF, L&G, Morrisons, Centrica, and Societe Generale.

AH reported that M&S is to tender its audit contract for the first time since 1926. They would not commit to a policy on audit rotation, but would consider adopting a policy of mandatory re-tendering.

It was agreed that a LAPFF AGM voting alert should be issued in support of the report and accounts. It was also agreed that a LAPFF representative should attend the M&S AGM on 9 July 2013.

TP presented on labour practices at Deutsche Post, National Express and Tesco.

TP also reported on two meetings that had taken place with earlier on 19 June with 'Hacked off' the campaigning group that had taken up the cause of the individuals whose phones had been hacked. TP also reported on a meeting with Trinity Mirror to discuss their exposure to hacking.

IG had attended the meetings and proposed that LAPFF should revisit those media companies LAPFF had previously engaged with on this issue.

IG also proposed that LAPFF should take a view on which model of regulations is the appropriate one for the press.

The report was noted.

9. Tobacco – verbal update on company meetings and meeting with Association of Directors of Public Health

AH reported on the meeting with Imperial Tobacco. IG also contributed as he had attended the engagement meeting.

AM reported on the meeting with the President of the Association of Directors of Public Health. KQ attended the meeting and reported that the association was very keen to have a dialogue on this issue and made a number of points on strategy.

10. Reliable Accounts – verbal update

TB updated the meeting and presented a powerpoint of the key issues relating to the report of the Parliamentary Committee on Banking Standards and on the QC Opinion on IFRS and true and fair view.

DM thanked TB for his work on this project for LAPFF.

11. Communications and Profile

TP presented the report.

The recommendations were agreed.

12. Investor Forum

AM advised that the IMA had now announced the representatives on the working party to consider the formation of an Investor Forum.

LAPFF had not been asked to join the working party, but will be interviewed by members of the IMA working party on LAPFF's engagement work. It was agreed

that LAPFF should write to the IMA to request a meeting to enable KQ to formally present on the work of LAPFF to the working party.

It was also agreed that LAPFF would continue to meet with pension funds outside of LAPFF regarding this initiative.

13. Charles Abel Smith – Investor action on carbon management: the role of the Green Investment Bank

Charles Abel Smith made a powerpoint presentation (which is available on the LAPFF members site).

KQ thanked Charles for his presentation.

14. Any other business

None

The date of the next LAPFF business meeting is Wednesday 16 October 2013.

QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2013



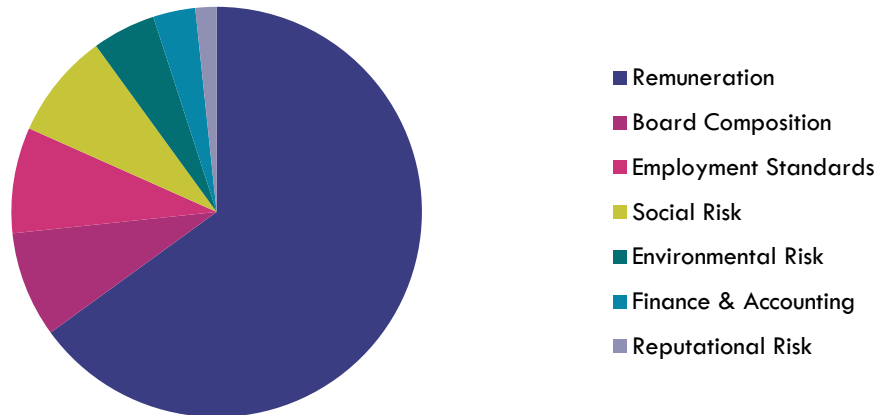
Local Authority Pension Fund Forum

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £115 billion.

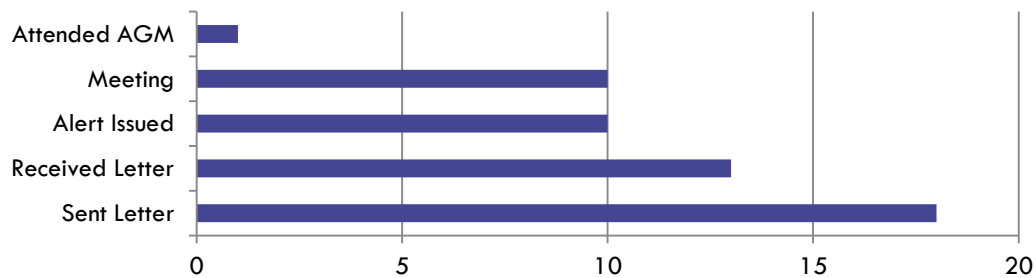
ENGAGEMENT SUMMARY

APRIL TO JUNE 2013

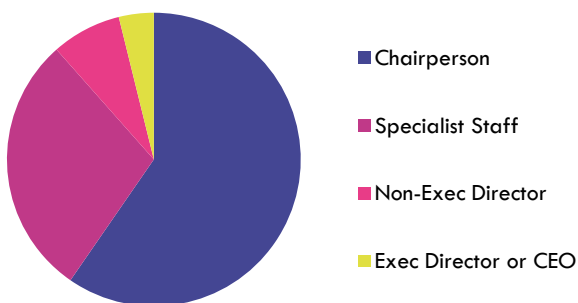
Topics



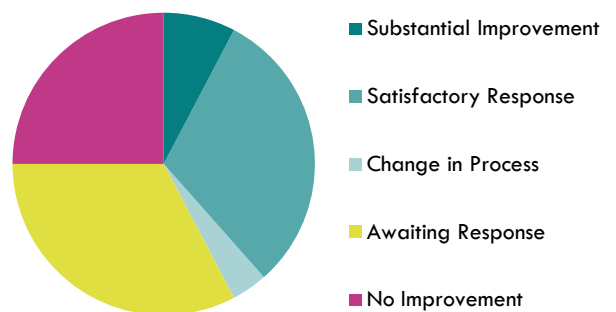
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Issued ten voting alerts in the proxy season on a number of issues including on executive pay, joint Chair/CEO and carbon management: **Carnival, AstraZeneca, Barclays, National Express, BAE Systems, Aviva, Royal Bank of Scotland, Prudential, Comcast, JP Morgan, ExxonMobil.**
- Met with the Chair of **Associated British Foods** regarding supplier employment standards following the Bangladesh factory tragedy. LAPFF also signed an investor statement calling for improvements to factory standards for workers' safety.
- Sent LAPFF's new **Expectations on Executive Pay** to the FTSE 350 seeking feedback from a list of 16 companies in advance of their AGMs.
- Held meetings with **Société Générale, WM Morrison Supermarkets**, and **Legal & General** on executive pay.
- Met with **Imperial Tobacco** to discuss the health risks of tobacco products and the company's harm-reduction strategy.
- Discussed climate change disclosure with representatives of **Rio Tinto**, and received feedback from **Centrica** regarding opportunities and risks in the UK shale gas market.
- Met with the Chairman of **Standard Chartered** regarding Board structure and renewal.

THE FORUM IN THE NEWS

LAPFF questions RBS' accounts

[The Times](#), [Financial News](#), [Bloomberg](#), [The Scotsman](#)

National Express questioned on labour standards

[EIN News](#), [PR Newswire](#)

Investors push for independent Chair at News Corp

[Professional Pensions](#), [The Guardian](#)

LAPFF opposes Barclays' accounts

[The Independent](#), [The Wall Street Journal](#), [Fox Business](#), [Bloomberg](#)

LAPFF recommends against AstraZeneca's pay

[The Telegraph](#), [Financial Times](#), [Reuters](#), [The Independent](#), [Bloomberg](#)

View more press coverage: <http://lapfforum.org/TTx2/press/in-the-news>

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

In response to member concerns regarding the social and public health concerns associated with tobacco companies, LAPFF met with representatives of **Imperial Tobacco**. The issues discussed included harm reduction initiatives, regulatory risks, marketing and advertising practices, and global supply chain standards.

LAPFF also met with the Chairman of **Standard Chartered** at the Company's request to discuss ongoing changes at the Board level. Increasingly, companies are approaching LAPFF to initiate proactive discussions regarding governance, which demonstrates the progress LAPFF has made in terms of developing mutually beneficial relationships with the companies our members invest in.

PROMOTING GOOD GOVERNANCE

Global Focus List Engagement

Engagement with our focus list of companies on governance issues continued this quarter. Our activities focused more on issuing voting alerts in the run up to company annual meetings. We issued an alert on **JP Morgan**, recommending members vote for a shareholder proposal to appoint an independent Chair, and to vote against the re-election of Jamie Dimon, the Company's Chairman and CEO. The shareholder proposal received support from 32% of shareholders. LAPFF first initiated engagement with JP Morgan in 2012 in relation to the joint Chair/CEO role and on executive pay.



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LAPFF issued a similar alert on the joint Chair/CEO role at **Comcast Corporation**, a 2013 Global Focus List company. In this case, LAPFF recommended a vote against the Chairman and CEO, and against the Chairman of the Nomination Committee.

Financial Reporting & Audit

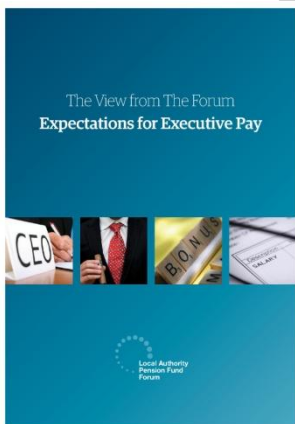
The Forum continues to be one of the leading advocates on the need for accounting standards to properly reflect a true and fair view of companies' financial position. The Forum is concerned that the true and fair view has been misrepresented, equating it to proper reporting against the accounting standards, rather proper reporting in line with the spirit of the law.

This quarter, we issued voting alerts at **Royal Bank of Scotland** and **Barclays**, recommending members vote against the report and accounts on the basis that the companies' true financial position is not accurately reflected in their reports due to the use of International Financial Reporting Standards (IFRS). The Forum is concerned that the banks' reporting has implications for capital adequacy, noting that the Financial Policy Committee is making material adjustments to the public accounts. Press reports on the true capital positions of the banks are very similar to numbers LAPFF published in its [Bank Post Mortem](#) in 2011. RBS which has the largest capital gap by both LAPFF's calculations and press reports, has not made any public disclosure of the company's estimate of the size of the gap.

LAPFF is also closely monitoring the outputs of the **Parliamentary Commission on Banking Standards**, which is expected to report in June. We have submitted evidence to the Commission, which we consider will be significant in highlighting the serious concerns LAPFF has regarding IFRS. A special bulletin will be sent to LAPFF members once the LAPFF evidence is made public, as it is currently subject to Parliamentary embargo.

Executive Pay

In April, LAPFF launched its "Expectations for Executive Pay" document, which outlines LAPFF's new strategy on executive pay. There are a total of fifteen "expectations" set out for companies, some of which reference several long-standing LAPFF policies, such as "no golden hellos," the provision of fair pension arrangements, and exercising "reasonableness" with regard to the quantum of pay. The document also sets out several new policy positions, including the phase out of long-term incentive plans, the consideration of employee views, transparency in the executive recruitment process, and the publication of pay ratios.



Copies of the document were sent to the Chairmen of the FTSE 350 for their information, and a subset of 16 companies was asked for their specific response to our new proposals. Thirteen companies from the FTSE 350 list responded to indicate they had circulated the document to their Remuneration Committees, with two companies (**Centrica** and **Dunelm Mill**) indicating their Committees would specifically consider the document at upcoming Board meetings.

Four voting alerts recommending a vote against companies' remuneration reports were issued on the back of the launch of the Expectations document. At **AstraZeneca**, concerns were raised regarding a golden hello payment to the incoming CEO. For **Aviva**, **BAE Systems** and **Prudential**, LAPFF had concerns regarding the overall quantum of awards. On **Barclays**, LAPFF recommended an abstain vote on the remuneration report, in recognition of the Company's intention to review pay practices next year with a mind to simplifying the bank's pay strategy.

LAPFF also held meetings with **WM Morrisons Supermarkets** and **Legal & General** to receive feedback on the Forum's new approach to pay.

MANAGING ENVIRONMENTAL RISK

Climate Change

LAPFF was joined by the Church Commissioners and the Church of England at a meeting with **Rio Tinto** to discuss the company's approach to carbon management. This is part of a wider investor initiative, 'Aiming for A' which aims to support companies working towards a transition to low-carbon production and to encourage improvement in CDP (carbon disclosure project) scorings. Rio Tinto agreed to continue communications regarding its business strategy for long-term sustainability.

"Adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations and report to shareholders...on its plans to achieve these goals"

- Shareholder Resolution at ExxonMobil

In keeping with previous years, LAPFF issued a voting alert at **ExxonMobil** recommending a vote in favour of a shareholder proposal asking the Company to set out greenhouse gas emissions reduction goals. The proposal has been filed at the Company for several consecutive years, and last year received 27% shareholder support. A recommendation was also made to vote for a proposal asking Exxon to appoint an independent Chair.

Environmental Risk Management

LAPFF met with **Centrica** this quarter to understand the Company's views on the potential risks and benefits of developing a UK shale gas market. Shale gas has been discovered in the UK and many believe it has the potential to provide a stable source of energy that will help bring energy prices down. However there are a number of risks associated with the extraction process, which uses hydraulic fracturing. Centrica shared its views on the potential for large scale shale gas development in the UK, and how it believes the environmental and social risks can be managed.

TARGETING SOCIAL ISSUES

Employment Standards

Following the tragic factory collapse in Bangladesh, LAPFF wrote to **Associated British Foods (ABF)** to seek a meeting to discuss the Company's response. ABF and LAPFF have a history of engagement on the issue of overseas supply chains, and met with the company several times between 2005 and 2011. After several improvements in the Company's reporting and disclosure, LAPFF determined it was satisfied with the Company's progress. However following the tragedy in Bangladesh, clearly there was a need to re-initiate our discussions in an effort to support the Company as it works collaboratively with other companies to improve overseas factory standards.



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In response to a complaint about labour practices filed by unions under the OECD multinational enterprises guidelines, LAPFF held a conference call with the head of investor relations at **Deutsche Post DHL**. The company agreed that employment practices in some markets, such as Turkey, had fallen short of its expectations, and it was looking to roll out global standards across the group. Dialogue will continue once the response to the OECD is clear.

As part of its continuing engagement with **National Express** over employment issues in its US schoolbus business, LAPFF signed a statement calling on the company to improve oversight and reporting of human capital issues. LAPFF issued an Alert ahead of the AGM, and vice-chair Ian Greenwood attended and spoke at the meeting. The company continues to defend its stance and has offered a further meeting with the LAPFF chair.

The Forum held a meeting with **Tesco** to discuss the announced review of its US business Fresh & Easy. LAPFF had previously engaged with Tesco over employment issues, and the former chair met with Fresh & Easy employees in the US, at which point it became clear that the business was in difficulties and a further meeting was sought. LAPFF asked whether the company had learned lessons from the US experience and could have engaged with employee concerns earlier. The company agreed that earlier engagement may have been beneficial and said that lessons had been learned, but that there had also been benefits to the US experience.

CONSULTATIONS & PUBLIC POLICY

CONSULTATION RESPONSES

The Forum submitted several consultation responses this quarter. We expressed support for the **Financial Reporting Council's (FRC)** proposed reforms to require the auditor's report to address risks of material misstatement, materiality and a summary of the audit scope. LAPFF also issued a response to **The Sharman Enquiry** on Going Concern. In its paper, LAPFF highlighted that assessing going concern requires prudent accounting policies, and that this assessment is not consistent with IFRS in several material respects. LAPFF co-signed a paper to the **UK Competition Commission** to advocate in favour of mandatory audit rotation, and backed a letter to the **Financial Conduct Authority (FCA)** raising concerns regarding the failure of the listing regime to provide basic corporate governance protections for investors.

All consultation responses submitted by LAPFF can be viewed online at:

<http://www.lapfforum.org/consultations>.

NETWORKS & EVENTS

Representatives of LAPFF regularly attend conferences and events on behalf of members. A list of recent events is listed below.

- **Barclays annual meeting**
- **National Express annual meeting**
- **Unburnable carbon** - UKSIF sponsored event
- **Commodities trading** – UKSIF sponsored event
- **30% Club Seminar** – hosted by Bloomberg
- **RI Europe Conference** – hosted by responsible-investor.com
- **Investors and Diversity Panel** – hosted by BNY Mellon

COMPANY PROGRESS REPORT

Company	Topic	Outcome
Anglo American	Remuneration	Satisfactory Response
Associated British Foods	Employment Standards, Social Risk	Satisfactory Response
AstraZeneca	Remuneration	No Improvement
Aviva plc	Remuneration	No Improvement
BAE Systems	Remuneration	No Improvement
Barclays	Finance & Accounting, Remuneration	No Improvement
British Sky Broadcasting	Remuneration	Awaiting Response
Burberry	Remuneration	Awaiting Response
Carnival Corp	Remuneration	Awaiting Response
Centrica	Environmental Risk, Social Risk	Satisfactory Response
Comcast Corp	Board Composition	No Improvement
Deutsche Poste DHL	Employment Standards	Change in Process
Dunelm Mill	Remuneration	Satisfactory Response
Enterprise Inns	Remuneration	Satisfactory Response
ExxonMobil	Environmental Risk, Board Composition	No Improvement
Freeport McMoran	Board Composition, Social Risk	No Improvement
Fresnillo	Remuneration	Satisfactory Response
Glencore International	Remuneration	Awaiting Response
Hays	Remuneration	Satisfactory Response

Company	Topic	Outcome
Imagination Technologies	Remuneration	Awaiting Response
Imperial Tobacco	Social Risk, Reputational Risk	Satisfactory Response
JP Morgan	Board Composition	No Improvement
Laird PLC	Remuneration	Satisfactory Response
Land Securities	Remuneration	Satisfactory Response
Legal & General	Remuneration	Substantial Improvement
Meggitt	Remuneration	Satisfactory Response
Melrose plc	Remuneration	Satisfactory Response
National Express	Employment Standards	No Improvement
Petra Diamonds	Remuneration	Satisfactory Response
Prudential	Remuneration	No Improvement
Resolution Ltd	Remuneration	Awaiting Response
Rio Tinto	Environmental Risk	Change in Process
Royal Bank of Scotland	Finance & Accounting	No Improvement
SABMiller	Remuneration	Awaiting Response
Smith & Nephew	Remuneration	Awaiting Response
Société Générale	Remuneration	Substantial Improvement
Standard Chartered	Board Composition, Remuneration	Satisfactory Response
Tesco	Employment Standards	Change in Process
Vesuvius (formerly Cookson)	Remuneration	Awaiting Response
Weir Group	Remuneration	Satisfactory Response
WM Morrison Supermarkets	Remuneration	Substantial Improvement
WPP	Remuneration	Awaiting Response



Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £115 billion.

DRY

Report prepared by PIRC Ltd. for the
Local Authority Pension Fund Forum

PIRC

www.lapfforum.org

Aberdeen City Council
Avon Pension Fund
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hillingdon LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lewisham LB
Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Rhondda Cynon Taf
Shropshire Council
Somerset CC
South Yorkshire Integrated Transport Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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the view from the forum

**LAPFF calls for
judicial review of
accounting standards
as applied to banks**

**Forum to be
represented on
Investment and
Engagement
Committee of LGPS
Shadow Advisory
Board**

**Quarterly
Engagement Report**

**Improving our
communication
services**



The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 56 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email postmaster@keithbray.plus.com or visit our website at www.lapffforum.org

LAPFF membership as at 1 June 2013

- Avon Pension Fund
- Bedfordshire Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- East Riding Pension Fund
- Falkirk Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Gwynedd Pension Fund
- Lancashire County Pension Fund
- London Borough of Camden
- London Borough of Croydon
- London Borough of Ealing
- London Borough of Enfield
- London Borough of Hackney
- London Borough of Haringey
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- North East Scotland Pension Fund
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Royal Borough of Greenwich
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Staffordshire Pension Fund
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire Pension Fund
- Worcestershire County Council

LAPFF calls for judicial review following leading counsel's opinion that there are legal flaws with accounting standards as applied to banks

The Forum has called for a judicial review of the process of setting accounting standards having received counsel's opinion which confirms substantial legal flaws with International Financial Reporting Standards (IFRS).



The LAPFF was part of a group of investors which sought the opinion of leading counsel, George Bompas QC of Lincolns Inn.

The opinion suggests that directors must override IFRS and instead comply with existent company law, and also ignore the legal advice obtained by the Financial Reporting Council on this issue.

The LAPFF believes that the issues identified in the opinion raise fundamental concerns about accounting practices in recent years, which have had a particularly damaging effect on the UK and Ireland's banking sectors. This in turn raises

significant questions about those decisions taken on the strength of numbers produced under the IFRS framework.

The Forum is therefore calling for a judicial review into how the faulty standards were adopted, including consideration of whether the existing financial reporting regime requires structural reform. LAPFF also believes that the role of accounting firms, both in setting standards and in signing off faulty accounts, must be properly scrutinised. Given the significance of the

continued overleaf →

opinion, the investor group submitted it immediately to the Parliamentary Commission on Banking Standards and agreed not to make it public until the Commission produced its final report.

Forum chairman Cllr Kieran Quinn (pictured below) said: “Over the past two years, the LAPFF has repeatedly made clear its view that the IFRS framework is legally faulty. The FRC has consistently denied that. However, this opinion suggests that something has indeed gone very badly wrong in the standard setting process, leading to the conclusion that IFRS should be overridden.”

“These are extremely significant issues, given that they directly affect the accounting practices of systemically important financial institutions, and in turn affect the decisions made by those institutions, including the legitimacy of dividends paid since 2005. This also suggests that the accounts used for banks’ rights issues were in fact defective.”



“At the least this requires a full review of the standard setting process, independent of existing bodies, with a view to structural reform. The Forum also believes the role of accounting firms in signing off accounts that did not comply with law must be scrutinised, as must the heavy involvement of particular firms in setting these defective standards. Shareholders must be directly involved in these processes.”

The LAPFF highlights the following from Mr Bompas’ opinion.

- in his opinion, the specified accounting outcomes required by IAS 39 (the standard particularly applicable to banks) are contrary to the true and fair view requirement of the law. These being:
 - marking up to model profit taking and marking up to market,
 - not accounting for likely losses,
 - not dealing with the distributability of profits (ie, whether they are realised or not and whether expected losses have been accounted for properly). This is particularly damaging as these are the areas that have given particular

problems for banking solvency and remuneration. Further, if the accounts of company have not given a true and fair view, then any dividend paid off those accounts is unlawful.

- in his opinion, these defective accounting outcomes of IFRS should be overridden by invoking the overriding true and fair view requirement of the law.

On this basis, the accounts of banks have been faulty since at least 2005 (earlier given that some IFRS measures had been incorporated early into Accounting Standards Board standards).

The opinion also raises significant questions about how the FRC has dealt with the matter:

Mr Bompas cannot reach the same conclusions as the legal advice obtained by the FRC. He cannot reach the same conclusion as at the time of that opinion, and further the opinion is also out of date.

Mr Bompas notes that the FRC continues to publicise its advice on its website. He is concerned that directors may in fact not be able to rely on it in discharging their statutory obligations to not approve accounts that do not give a true and fair view.



He also raises the question of the EU's adoption process:

a defective accounting standard could be challenged on the grounds of "illegality....on the grounds of lack of competence and infringement of an essential procedural requirement... the failure of the adopted standard to satisfy the threshold condition in Article 3(2) of the IAS Regulation".

LAPFF has been consistently concerned not only with the quality and effect of IFRS (adopted in the EU in 2005), which can cause insolvent and loss making banks to appear solvent and profitable, but whether IFRS adoption by the EU was contrary to the "true and fair view test" required by EU and UK law.

The full opinion is available on the Forum's website.

Forum to be represented on Investment and Engagement Committee of LGPS Shadow Advisory Board

At the end of 2012 the Forum was invited by the Local Government Association to send two representatives to a working party convened to establish a Shadow Scheme Advisory Board for the LGPS in England and Wales as required by the Public Services Pensions Act 2013.

LAPFF Chair at that time, Ian Greenwood, and Forum Officer, Keith Bray represented the Forum on the working party which included representation from scheme employers, scheme members, the education sector, professional groups such as CIPFA, county treasurers, metropolitan treasurers, London treasurers, Welsh treasurers, NAPF, actuaries, legal advisers and, of course, the DCLG and the Pensions Regulator. The working party held its first meeting in December 2012 and has now completed its task having met several times since then.

The Scheme Advisory Board's core role will be to make recommendations to the Secretary of State, the Pensions Regulator and to local boards to improve the effective administration, governance, performance and cost management of the LGPS. The Board will have no statutory powers of its own, but rather would seek to work with existing regulatory and advisory bodies to achieve its objectives. To inform and test the process of operation of the Board, prior to its statutory formation in 2014, ministers have agreed the establishment of a Shadow Board which is intended to hold its first meeting in June/July 2013.

In making its recommendations, the working party sought to:

- provide for an independent chair of the Shadow Board
- ensure that the membership of the Shadow Board reflects the widest possible range of stakeholders
- ensure that each Shadow Board member will be subject to a transparent process of appointment and be fully accountable to their constituencies
- ensure that recommendations made by the Shadow Board have the widest possible support as demonstrated by a consensus of the Board membership

Five sub-committees will be appointed to assist the Shadow Board

- Standards and Governance
- Investment and Engagement
- Administration and Communication
- Value for Money
- Cost Management and Contributions

The Forum will be represented on the Investment and Engagement Sub Committee of the Shadow Scheme Advisory Board by LAPFF Chair, Councillor Kieran Quinn and Deputy Chair, Ian Greenwood.

Quarterly Engagement Report



During the April to June quarter, the Forum:

- issued ten voting alerts in the proxy season on a number of issues including on executive pay, joint Chair/CEO and carbon management: Carnival, AstraZeneca, Barclays, National Express, BAE Systems, Aviva, Royal Bank of Scotland, Prudential, Comcast, JP Morgan, ExxonMobil.
- met with the Chair of Associated British Foods regarding supplier employment standards following the Bangladesh factory tragedy. LAPFF also signed an investor statement calling for improvements to factory standards for workers' safety.
- sent LAPFF's new Expectations on Executive Pay to the FTSE 350 seeking feedback from a list of 16 companies in advance of their AGMs.
- held meetings with Société Générale, WM Morrison Supermarkets, and Legal & General on executive pay.
- met with Imperial Tobacco to discuss the health risks of tobacco products and the company's harm-reduction strategy.
- discussed climate change disclosure with representatives of Rio Tinto, and received feedback from Centrica regarding opportunities and risks in the UK shale gas market.
- met with the Chairman of Standard Chartered regarding Board structure and renewal.

Improving our communication services

The LAPFF already has a good public profile as an investor body. However, a number of changes to our communications practices are proposed to make improvements to the way the Forum gets its message across.

LAPFF currently publishes two overviews of its engagement work - the Quarterly Engagement Report (QER) and the Annual Review. The QER compiles all the activity undertaken by the Forum within a particular period in an easily readable format, while the Annual Review provides a summary of the whole year's activity. As such, these publications provide a useful overview of LAPFF's work in practice which we believe will be of interest to others who are not so familiar with what the Forum does. It is therefore proposed that, the Annual Review and the QER will be distributed electronically to other investors, including non-LAPFF local authority funds, or other asset owners and opinion formers.

It remains the case that institutional investors rarely attend the AGMs of the companies in which they hold shares. In addition, when large investors do attend AGMs it is usually to voice concerns about

the direction a company is taking, and this is also true of the Forum, though LAPFF does always try to offer a constructive perspective, even where it has concerns.

There are, however, plenty of cases where a company has dealt effectively with an issue of concern, or improved its performance, or simply continues 'to do the right thing', which pass without comment. Given the Forum's belief in the value of long-term constructive engagement with companies, the LAPFF will highlight cases which fall into one or more of these categories and will in some instances attend the AGMs to speak in support of the companies' actions.

Finally, the Forum will be using its recently opened Twitter account:

- To promote LAPFF content, such as new reports, press statements etc.
- To provide commentary on issues relevant to the Forum - for example tweeting from AGMs that LAPFF members attend;
- To serve as a contact point for external parties such as journalists interested in the LAPFF's activities.

A date for your diary

4th to 6th December 2013
Bournemouth

LAPFF Annual Conference

Further details to be announced later



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