

Industrial management and the institutional investor

*Report of the Working Party, dated
1st December 1972*

The Working Party consisted of representatives of:

- The Bank of England
- The Accepting Houses Committee
- The Association of Investment Trust Companies
- The Association of Unit Trust Managers
- The British Insurance Association
- The Issuing Houses Association
- The National Association of Pension Funds

with an observer from the Committee of London Clearing Bankers.

Its terms of reference were:

To examine and report upon a possible structure and method of operation of a central organisation through which institutional investors, in collaboration with those concerned, would stimulate action to improve efficiency in industrial and commercial companies where this is judged necessary.

The Working Party began by seeking for common ground upon which all the associations of institutional investors represented might be able to agree. However, it rapidly became clear that a wide spread of opinions was held, ranging between those who maintained firmly that anything more than some improvements in the existing liaison arrangements between the investment protection committees of the major associations would be dangerous and those who favoured, equally firmly, the establishment of a strong, but compact, central organisation, led by a director general responsible to a council of representatives from each of the (six) associations forming the Working Party.

In an effort to bring these different views together a compromise proposal was drawn up in outline, providing for:

- (a) the formation of a joint standing committee consisting of the chairmen of the investment protection committees of the interested associations of institutional investors (each with an alternate). This would receive proposals for investigations to be made, arrange for preliminary examination of them and, if satisfied of the need, set up *ad hoc* case committees. It would also eventually consider the reports and recommendations of the case committees and, if necessary, transmit them to interested member institutions, thus controlling each operation at all important stages;
- (b) a small secretariat to service the joint committee (the secretary probably being seconded from an existing investment protection committee); and
- (c) one member to be common to all case committees – perhaps a recently retired man who had had extensive experience in institutional investment – in order to ensure consistency of approach and the benefit of accumulation of experience.

With some qualification (mainly on the desirability of a common member on all case committees) these proposals attracted support from all the associations represented on the Working Party other than the British Insurance Association, which felt additional safeguards would be necessary before they were acceptable. This association held to the view that it would be wiser to start with a closer liaison between existing institutions and it saw dangers in going further than this. In particular, the B.I.A. felt unable to participate in forming a joint committee which in their view would publicly accept the duty of monitoring and improving the management of companies. They were also opposed to the concept of a common member of case committees, lest this position should develop in a way prejudicial to strict control by the institutional investors concerned of any investigations.

The representatives of the Accepting Houses Committee and the Issuing Houses Association, while finding the compromise proposals broadly acceptable, concluded that their members were most likely to be involved in cases under examination in their capacity as corporate advisers. They accordingly believed that they should not form part of the joint standing committee.

The representatives of the Association of Investment Trust Companies, the Association of Unit Trust Managers and the National Association of Pension Funds, while regretting that the B.I.A. felt unable to join them, saw advantage in setting up a joint organisation broadly on the lines of the compromise proposals outlined above, provided that satisfactory arrangements could be made concerning the procedures and, in particular, the cost of establishing and running such an organisation. These associations welcomed the readiness which the B.I.A. representatives expressed to maintain effective liaison between their investment protection committee and the proposed new organisation, and to co-operate with it as fully as possible. The three associations will accordingly now proceed to discuss the detailed arrangements to be made.