



19 Dec 2016

### **BACKGROUND INFORMATION**

#### **Shareholder Committees**

1. The primary role of the Shareholder Committee is to improve the agency model of corporate governance by increasing the engagement and oversight of Shareholders in the operation of the companies owned by them.
2. ShareSoc have been campaigning for many years for the establishment of Shareholder Committees. ShareSoc have written a detailed paper on the subject. See link to it below..
3. The MP, Chris Philp, wrote an excellent paper on shareholder committees in Sept 2016 and this has received wide publicity. See link to it below. ShareSoc have a number of concerns about the practicalities of a few of his suggestions and are in the process of writing to him to explain how the Shareholder Committee can best be implemented.
4. The Nov 2016 Government Green Paper on Corporate Governance mentions Shareholder Committees as a way forward that could be mandated or could be adopted via the UK Corporate Governance Code or voluntarily. See link to it below..

#### **Royal Bank of Scotland (RBS)**

1. RBS is a hugely underperforming company and since 2007, long term investors have lost 95% of the value of their investment, largely due to failures in corporate governance.. RBS is 70% owned by the Government via UKFI, so it is important to all the people in the UK that RBS has good corporate governance. Therefore, RBS should be in the forefront of adopting Shareholder Committees.
2. We are therefore planning to submit a resolution to the AGM. Legally, we can do this so long as we have over 100 shareholders supporting the motion who hold collectively 10,000 RBS shares (about £22,000 at today's price). The AGM resolution has to be submitted by 31 December, so we ask you to respond quickly to this email request.

#### **Other Companies**

ShareSoc hope that other companies will follow the RBS example and voluntarily adopt Shareholder Committees. If companies resist, then it is our intention to submit AGM resolutions to other companies.

#### **Updates**

Regular updates on the RBS Campaign will be made via the ShareSoc blog, Twitter and a separate RBS Campaign page on the [www.ShareSoc.org](http://www.ShareSoc.org) website.

#### **Campaign Manager**

The RBS Campaign is being run by ShareSoc Director, Cliff Weight.

Gavin Palmer, a founding director of ShareSoc, has been instrumental in highlighting this issue and the need for RBS to adopt a Shareholder Committee and we are most grateful and appreciative of his contribution and efforts.

The Proposed Resolution is as follows:

Resolution at the 2017 AGM of The Royal Bank of Scotland Group plc  
("the Company")

## SPECIAL RESOLUTION

### Shareholder Committee

**That the Directors establish a Shareholder Committee, the members of which will include representatives of large shareholders willing to serve and a representative of retail shareholders, and that the Directors be instructed to use any and all means to implement this resolution, subject to appropriate conditions to ensure that the CA 2006 S172 duty to act fairly between members is not breached.**

### Supporting Statement

The establishment of a Shareholder Committee is intended to facilitate more effective oversight and influence by shareholders over the governance of the Company.

#### Coordinators

The submission of this Resolution has been coordinated by ShareSoc, The UK Individual Shareholders Society and UKSA, the UK Shareholders' Association.

#### Context

ShareSoc and UKSA have advocated Shareholder Committees for many years.

Good leadership and wise management is at the heart of great and sustainable businesses. The shareholders who have requisitioned this Resolution believe that the Company's governance, performance and share price across the past decade would have benefited from increased shareholder involvement and influence in the form of a Shareholder Committee.

This Resolution is consistent with the Prime Minister's current initiative to improve the way companies are run. HM Government's recent Green paper and Mr. Chris Philp MP's paper (see Further Information below) both reference Shareholder Committees as part of a possible solution to address failings in recent and current corporate governance.

#### Shareholder Committee Duties

A Shareholder Committee should operate as part of an effective and inclusive process that builds trust between the Company and all its shareholders. It is not for the proponents of this initiative to micro-manage the Company, and therefore this Resolution is intentionally not prescriptive. It is for the Directors to decide the terms of reference and operational details of the Shareholder Committee in line with this Resolution and to produce proposals for approval by shareholders in due course.

The duties and powers of the Shareholder Committee may include some or all of the following:

1. challenging strategy and corporate performance,
2. providing feedback on candidates being considered for Board appointments by the Company,
3. offering alternative candidates for Board appointments,
4. providing a sounding board and feedback on remuneration proposals,
5. advising against perverse incentives, bad remuneration decisions and unreasonable executive pay,
6. providing the Shareholder Committee's approval to specific pay proposals (including the remuneration policy) by the Remuneration Committee, before they are put to a binding vote of all Shareholders at the AGM,
7. reviewing the appointment of external auditors and the activities of the external and internal auditors,
8. reporting to shareholders on its activities and performance via the annual report.

The Company may think it appropriate for the Shareholder Committee to also consider the views of other stakeholders, for example offering feedback on the social and environmental risks and opportunities associated with the Company's business activities.

The Shareholder Committee should have the power to see such papers and reports and seek such external advice that might reasonably be required to fulfill its duties.

### **Membership of the Shareholder Committee**

The Shareholder Committee is likely to consist of the Chairman of the Board of Directors, representatives of those large shareholders willing to serve, plus a representative of retail shareholders and representatives of other key stakeholders the Company may wish to appoint.

At present many large public companies engage with only a small proportion of their larger shareholders, whose views may not necessarily be consistent with those of retail or overseas shareholders. The intention, therefore, is that the Shareholder Committee will be drawn from a broad cross section of all investors, and so will be able to represent all shareholders, enabling the company to meet its requirements to treat all shareholders fairly.

An employee representative may provide a useful insight to the Shareholder Committee.

A person with specific knowledge of customers, products and services may also be able to provide further useful insight. This might be an employee, a non-executive Director or a consultant to the Company.

Notwithstanding the composition of the Shareholder Committee, the majority of voting rights at Shareholder Committee meetings should at all times reside with the shareholder representative members.

### **Insider Information**

Shareholder Committee members will inevitably be privy to price sensitive information from time to time. This may preclude them, and potentially the organisations represented by them, from trading at times when they are privy to Insider Information. This restriction may be partially mitigated through the adoption of effective "firewalls" within shareholder organisations, to ensure that members do not discuss such information with colleagues.

### **Retail investor involvement**

Retail investors are beneficial owners of at least 12% of the UK stock market and have an independent long-term perspective. Vocal and transparent, they are generally unencumbered by conflicts of interests and by the time pressures that institutional shareholders might have. A member representing retail shareholders might be jointly proposed by the two recognised shareholder associations of ShareSoc and UKSA. Alternatively, a slate of candidates could be put up for selection at the AGM.

## Further Information

### **ShareSoc, the UK Individual Shareholders Society**

ShareSoc is the UK's largest retail shareholder organisation acting in all areas of the UK stock market with over 3,500 members. See [www.sharesoc.org](http://www.sharesoc.org) . It produced a report on Shareholder Committees in 2011. See <http://www.sharesoc.org/Shareholder%20Committees.pdf>

### **Chris Philp, MP Paper**

Chris Philp MP wrote an excellent paper covering Shareholder Committees in September 2016 which has received wide publicity.

See <http://highpaycentre.org/blog/restoring-responsible-ownership-new-paper-by-chris-philp-mp>

### **Government Green Paper**

The Nov 2016 Government Green Paper on Corporate Governance mentions Shareholder Committees as a way forward that could be mandated or could be adopted via the UK Corporate Governance Code or voluntarily. See

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/573438/beis-16-56-corporate-governance-reform-green-paper-final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/573438/beis-16-56-corporate-governance-reform-green-paper-final.pdf)

### **Tomorrow's Company**

Fuller details and benefits are available in the 2011 report "**Bridging the UK engagement gap through Swedish-style nomination committees**". The report can be found at

[http://tomorrowcompany.com/wp-content/uploads/2016/05/TCG\\_bridging\\_the\\_UK\\_engagement\\_gap\\_through\\_Swedish\\_style.pdf](http://tomorrowcompany.com/wp-content/uploads/2016/05/TCG_bridging_the_UK_engagement_gap_through_Swedish_style.pdf)

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Cliff Weight, Director, ShareSoc  
Telephone: 01737-202075