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Via e-mail to: codereview@frc.org.uk

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Dear Chris,

AFM Response to consultation on revisions to the UK Corporate Governance Code

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Provide our support in general to the proposed changes to the Combined Code, and assess their potential impact where extended to our members.
2. The Association of Financial Mutuals (AFM) was established on 1 January 2010, as a result of a merger between the Association of Mutual Insurers and the Association of Friendly Societies. Financial Mutuals are member-owned organisations, and the nature of their ownership, and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers.
3. AFM currently has 56 members and represents mutual insurers and friendly societies in the UK. Between them, these organisations manage the savings, protection and healthcare needs of 19 million people, and have total funds under management of over £80 billion.
4. As AFM members are not listed companies they are not bound by the current Combined Code (to be re-named the UK Corporate Governance Code, and hereby referred to hereafter as the Code). However following the Myners report into corporate governance in mutual insurers we launched an annotated version of the Code in 2005 (the Annotated Combined Code for Mutual Insurers, or

- ACC). This has always mirrored the Code very closely, whilst making suitable annotations for a member-owned organisation. All our members subscribe to the ACC, and as a result many organisations significantly smaller than FTSE-350 companies have achieved commensurate standards of governance.
5. Since the consultation process commenced, the Treasury announced within the Pre-Budget Report that it intended to review the governance codes for mutuals. As a result our comments here also consider the applicability of the FRC proposals to the mutual sector- albeit at this stage it is by no means certain that the ACC will continue to mirror the Code quite as closely as it has in the past.
 6. In overall terms we consider that the proposals in the consultation paper offer sensible and appropriate suggestions for moving the Code further, against the backdrop of questions about governance standards over the last two years. **Our primary conclusion is that there is no rationale for a complete overhaul of the Code.** The Code is a vital element of the governance architecture in the UK, but it is not the only aspect, so it is important that the Code retains its current approach, does not duplicate regulatory efforts being delivered elsewhere, and avoids a “one size fits all” approach.
 7. We are in agreement with the main *structural proposals*, including the name change and the emphasis on “Leadership” and “Effectiveness” as well as the reinforcing nature of the introduction. One of the areas AFM members encounter most problems complying with in the existing Code is Section E, covering institutional shareholders- as this is least relevant to the mutual model and to the scale of company. We therefore consider the development of a separate Stewardship Code is very valuable, both in adding emphasis on the issue, but also in offering a route to help enable us to resolve an anomalous element of the ACC.
 8. The paper puts forward changes to the *Main Principles*, and we see all of these as appropriate evolution of the existing principles. We strongly agree with the *Statutory Duty for Directors* to promote the long-term success of the company (Principle A.1), though we note that there would be some difficulties in transferring to some mutuals, as the relevant Companies Act requirements have not been extended in friendly society legislation.
 9. With regards to the proposals for changes to the *provisions*, we make the following observations:
 - The *Board evaluation* is proving significantly valuable for those larger mutual organisations who have adopted it. We’d welcome any feedback from smaller FTSE companies about how they can conduct the exercise on a proportionate basis, as a review at least every three years is likely to be prohibitively costly for some of our very small firms.
 - We agree that with regard to NEDs, competence is more important than independence, and that having NEDs with the right skills and experience to perform the role is vital. As such, the current *nine year rule* has been helpful as a tipping point, though it hasn’t specifically addressed the issues of refreshing the Board or succession and doesn’t equate accurately to independence.

- *Annual re-election of Directors*: on balance this would be our preferred route, as our experience of AGMs is that this would prove accountability. We could however imagine situations where annual re-election might present a risk to succession planning (for example if a significant number of NEDs were not re-elected), or of special interest groups dominating (we have certainly seen this happen in mutuals such as Nationwide or Equitable Life). FRC should satisfy itself that the FSA procedures for approving new NEDs do not in combination create operational problems for Boards, or that the FSA's increased scrutiny of approved persons does not obviate the need for annual elections.
 - *Annual re-election of Chairman*: would of course be included in annual re-elections of all Directors. This may cause some procedural problems where the Chairman is elected separately from the rest of Board, though in such circumstances a firm would be able to make use of their comply or explain statement.
10. On the subject of *disclosure*, we support the proposals to allow companies the choice of whether to put their corporate governance statement on their website or in the annual report. There is a risk currently that the annual report tries to be all things to all people, and as a result lacks clarity and transparency. We would envisage that where a company retains the statement in their annual report, their website provides a direct link to the relevant section of the accounts.
11. We do not at this stage have any detailed evidence relating to the *costs and benefits* of the proposals. As we note above some of the requirements may be disproportionately expensive to smaller companies- though the Code requirements enable firms to avoid implementing unnecessary or prohibitively expensive requirements, as long as they explain the rationale in their comply or explain statement.
12. We would be pleased to discuss further any of the items raised by our response.

Yours sincerely,

Martin Shaw

Chief Executive
Association of Financial Mutuals