

# BLACKROCK

2 March 2010

Chris Hodge  
Corporate Governance Unit  
Financial Reporting Council  
5<sup>th</sup> floor Aldwych House  
71 – 91 Aldwych  
London

By email: [codereview@frc.org.uk](mailto:codereview@frc.org.uk)

Dear Chris,

I am writing in response to the consultation on the revised UK Corporate Governance Code, formerly the Combined Code, issued in December. In brief, we are supportive of the changes proposed and strongly encouraged by the emphasis on director behaviour and the endorsement of the 'comply or explain' approach.

BlackRock is a keen proponent of a flexible system of corporate governance as we do not consider there to be one approach that suits all situations. We welcome the scope within the framework for companies to evolve their governance and to adopt an approach compatible with the highest standards and the aims of their shareholders. That said, we believe that having a single Code for all companies is an advantage and would not wish to see special codes developed for specific sectors or segments of the UK market. We agree with the points made in the introductory sections, particularly that companies and shareholders need to observe the spirit as well as the letter of the Code and use it as the basis for communication and to build constructive relationships. To that end, we believe it could well be helpful for the FRC to develop guidance on best practice in engagement.

We are comfortable with the revised structure of the Code and agree that it reinforces the message that an effective board is essential to the long-term success of a company. We are broadly supportive of the removal of Section E, given the proposal to bring the Institutional Shareholders' Committee Stewardship Code under the auspices of the FRC. However, we do not consider the Stewardship Code in its current form to be sufficiently high quality guidance to stand as a sister document to the UK Corporate Governance Code. We will submit our fuller comments on the Stewardship Code under separate cover.

A number of new principles and provisions have been introduced in relation to the role and expectations of the non-executive directors. We welcome the emphasis on having the right mix of independence, skills and experience in the boardroom, the need for directors to have knowledge of the company and to continue their professional development. We are also strong supporters of the proposal to have the board evaluation led periodically by an external advisor and are aware of a number of independent specialists in this field. We would, however, be wary of recruitment consultants conducting board evaluations, even if they are independent of the company or their connections with it are disclosed. Our main concern is that directors may be less frank and open with advisors who may well be considering recommending them for a position elsewhere. We agree also that progressive refreshment of the board and succession planning are essential if boards are to be effective over time. We believe that it may well be helpful to have further guidance on these topics, and on developing the pool of non-executive directors, perhaps through the work commissioned from the Institute of Chartered Secretaries and Administrators on good practice as set out in the Higgs Report.

Of the two alternatives proposed in relation to director re-election, BlackRock supports the annual election of all directors as we consider this more consistent with the unitary board model. Given that this would be on a comply or explain basis, we would suggest that the wording on annual re-election of long-serving directors be retained as we believe it is important that long-serving directors offer themselves for re-election annually even if a company decides not to comply with this principle for all directors.

We support the provision requiring companies to explicitly explain their business model and strategy and note that many larger UK companies already do this well as part of their reporting in the business review. We also support the enhanced emphasis on the board's role in risk governance and internal control.

Although we are broadly supportive of the principles and provisions relating to executive remuneration, we are not sure that it is appropriate to introduce non-financial metrics as performance criteria for longer term incentive plans. In our experience, these are more relevant as performance hurdles for annual bonuses. We believe that the impact of material non-financial factors becomes apparent in the share price over the longer term.

Finally, we agree that more use should be made of company websites for communicating the detail of the approach taken to corporate governance, such as the job descriptions of the key board roles and the charters of the sub-committees. However, this should not be to the detriment of the annual report which should provide a complete picture of a company's corporate governance practices. There is still plenty of scope for companies to make the governance reporting more informative and company specific, with a focus on the effectiveness of the board rather than compliance.

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Thank you for the opportunity to participate in the consultation. I hope our comments are helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michelle Edkins', with a small dot at the end of the signature.

Michelle Edkins  
Head of Corporate Governance Europe