



# ICGN

International Corporate Governance Network

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

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**RE: Review UK Corporate Governance Code**

Dear Mr. Hodge,

I am writing on behalf of the International Corporate Governance Network (ICGN) and its Shareholder Rights Committee. The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 47 countries. Our investor members are responsible for global assets of U.S. \$9.5 trillion. The mission of the ICGN is to contribute to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org).

The ICGN's Shareholder Rights Committee is writing in response to the consultation on the revised UK Corporate Governance Code, issued in December. Overall, we are supportive of the changes proposed and are strongly encouraged by the emphasis on boardroom behaviours and the endorsement of the 'comply or explain approach'.

The FRC proposes among others structural changes to Section A of the Combined Code. The intention is to give more prominence to some of the factors that underpin an effective Board. We are supportive of the principles and provisions in the two new sections on 'leadership' (section A) and 'effectiveness' (Section B). With regard to leadership the ICGN is supportive of the notion that the chairman is responsible for ensuring the Board's effectiveness. In the ICGN's Global Corporate Governance principles it is expressed that the chairman has a crucial function in setting the right context in terms of among others board agenda and open boardroom discussions. This enables the directors to generate an effective board debate. The chair should work to create and maintain the culture of openness and constructive challenge, which allows a diversity of views to be expressed.

In section B on 'effectiveness' 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 ICGN is also supportive of the idea that all directors need appropriate knowledge of the company and to continue their professional development. Directors should be encouraged to participate in ongoing training and education to assist them to fulfil their role most effectively. We are also strong supporters of the proposal that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The performance of individual directors should be assessed at least prior to each proposed re-nomination. Companies should disclose the process for such evaluations and the principal lessons learned from the evaluation of the board and its committees. The ICGN agrees with the notion that progressive refreshment of the board and succession planning is essential if boards are to be effective over time.

Of the two alternatives proposed in relation to director re-election, ICGN supports the annual election of all directors as this avoids staggered boards and is 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. 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.

Under the proposed 'section C' companies are required to explicitly explain their business model and strategy. Where a shareholder is concerned, the strategy of a company is one of the core variables on the basis of which an investment decision is made. It is very important and in the interest of a well-considered investment decision, to have a clear description of the company's strategy. Next to that the ICGN is also supportive of the enhanced emphasis on the board's role in risk governance and internal control.

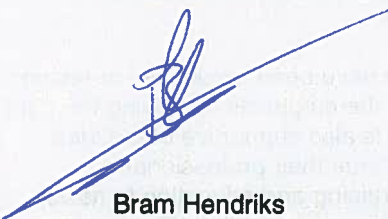
Although we are broadly supportive of the principles and provisions relating to executive remuneration, we would like to make some remarks about the introduction of non-financial metrics as performance criteria. In our view, non-financial targets that are integrated with executive remuneration should be strategically important to the entire business and financially material. In principle we welcome the linking of non-financial performance targets to executive remuneration, but they need to be clearly defined, specific and measurable. Non-financial targets should not be used to compensate management where they have failed to hit their financial targets; payouts should be reduced where minimum financial thresholds are not achieved.

On the dialogue with shareholders we agree with the notion that the board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The chairman should be available to shareholders for dialogue on key matters of the company's governance and where shareholders have particular concerns. We also believe that all Board members should make themselves available for meetings with shareholders when an appropriate request is made.

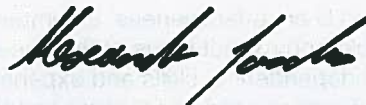
Finally, we agree that more use should be made of company websites for communicating the detail of the approach taken to corporate governance, such as the job descriptions of the key board roles and the charters of the sub-committees. However, readers of the annual report should be able to get a complete picture of a company's corporate governance practices. Therefore we would prefer that the corporate governance statement is published in the annual report.

Thank you for the opportunity to provide our comments. If you would like to discuss any of these points, please do not hesitate to contact Carl Rosén, our Executive Director, by phone +44 207 612 7098 or email [carl.rosen@icgn.org](mailto:carl.rosen@icgn.org).

Yours sincerely,



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