

Our ref maggie\letters\Financial Reporting Council

Sir Christopher Hogg
Chairman
Financial Reporting Council
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3 March 2010

Dear Christopher

FRC Consultation on the revised UK Corporate Governance Code – December 2009

Land Securities Group PLC would like to respond to the invitation to comment on the Consultation document on proposed changes to the Combined Code.

We have noted and broadly welcome the proposed changes to the structure of the Code. We consider that the Code has contributed to significantly better governance across UK plc. We also consider it important that the Code is implemented by companies in the right spirit; in this respect the behaviour of boards both at individual director level and collectively is critical. We support moves towards greater disclosure of how boards operate since this should assist shareholders' understanding of companies.

We also welcome the focus on the engagement of boards with shareholders. Land Securities executive directors spent a great deal of time in meetings with shareholders and, as chairman, I have also spent time in one-to-one meetings with shareholders. However we would not support the adoption of a "one size fits all" approach to engagement with shareholders. We also consider that a trading driven market environment may sometimes be at odds with longer term value creation by companies.

With regard to the proposed detailed changes to the content of the Code our comments are set out below.

We welcome and have no comments on the proposed changes to the main principles of the Code. With regard to the supporting principles and Code provisions our comments are as follows:-

Section B: Effectiveness

In relation to B.4 we welcome the proposed new principle that Directors should seek to gain appropriate knowledge of the Company and should be provided with access to its operations and staff. This proposed measure should help to deepen the Directors' understanding of the Company and the manner in which it operates. At Land Securities we have instituted a programme for non-executive directors to meet on a regular basis employees below board level.

In relation to B.4.1, we are unsure of the benefit in practice of offering newly appointed Directors an opportunity to meet major shareholders, since we suspect that this offer is unlikely to be taken up in practice.

In relation to B.4.2, we are in agreement with the proposal that the Chairman should agree and regularly review a personalised approach to training and development with each Director, and we would expect this to form part of the annual evaluation process for each Director. At Land Securities we instituted a Board Training and Development Programme for the first time last year.

In relation to B.6.2, we welcome the proposal that Boards should conduct externally facilitated evaluations at least every three years. We are also in agreement with the proposal to identify any consultants involved and to state whether they have any other connection with the Company since we consider that there is a potential for significant conflicts of interest to arise in this area.

In relation to B.7 and the re-election of Directors, we would prefer to see the second alternative adopted under which the Chairman would be subject to annual election by shareholders with other Directors being subject to election at the first Annual General Meeting after their appointment and at no more than three year intervals thereafter. While Land Securities is proposing to submit all Directors for re-election annually with effect from 2010 onwards, we consider that a requirement for annual re-election of all Directors is probably too prescriptive for all Companies and that Boards of individual Companies should be left to choose whether to submit all Directors for annual re-election.

Section C: Accountability

In relation to C.1.2, the Annual Report should already enable shareholders to understand the key drivers behind a Company's business model and we would therefore question the need for the inclusion of this provision. In relation to sections C.2 and C.3 we concur with the proposed changes being put forward.

Although not directly addressed by the proposed changes to the Combined Code, we consider that any requirement for Risk Committees to be established should not be extended beyond banking and other financial institutions (BOFIs). For non-BOFI companies we consider that the creation of a separate Risk Committee could dilute the responsibility of the Board for determining a Company's risk appetite and profile. In addition a separate Risk Committee will also tend to lead in the direction of larger Boards (since more Committees generally require more Directors) which can have an adverse impact on the effectiveness of Boards.

Section D: Remuneration

In relation to Section D we have noted and support the changes being proposed.

Section E: Communication

With regard to Section E.1, we note the proposed change to state that the Chairman should ensure that all Directors understand their major shareholders' issues and concerns. We consider that this is best achieved by conducting an investor audit at regular intervals, something which we regard as best practice in any event.

In relation to Schedule A, we have noted the proposed wording that consideration should be given to the use of provisions that permit the Company to reclaim variable components (of remuneration) in exceptional circumstances of misstatement and misconduct. We prefer the approach proposed by the ABI Guidelines on remuneration which state that "effective avenues of redress should be considered" and we consider that the proposed wording in the code is too prescriptive.

Schedule A: Performance Related Remuneration

On page 41 of the draft Code, we consider that the final section of underlined wording is inappropriate. As drafted, it stipulates, firstly, that payouts under all incentive schemes should include non-financial performance metrics; and, secondly, it states the criteria for paying bonuses should be risk adjusted. On the first point, we believe that the wording should be changed to make it clear that some of the performance related remuneration should include non-financial

performance metrics. However, we do not think it appropriate for each separate element of performance-related remuneration to have to include non-financial metrics. As regards the second point, we think it would be overly complicated for many businesses to try to risk adjust bonus criteria, although we do consider that remuneration committees, and possibly also audit committees, should review the performance criteria for annual bonuses for executive directors to ensure that excessive risk taking is not required in order for such bonuses to be paid at the maximum level.

We suspect this wording has been picked up from Sir David Walker's report on financial services companies. In our view, it is not necessarily of widespread application.

I am happy to discuss any of the points raised with you.

Yours sincerely

A handwritten signature in black ink that reads "Alison Carnwath". The signature is written in a cursive, flowing style.

Alison Carnwath
Chairman