

Mr C Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor Aldwych House
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Our Ref gj/ah

5th March 2010

Dear Mr Hodge

Consultation on the Revised UK Corporate Governance Code

I am providing the Society's response to the review of the Code.

Leeds Building Society

Leeds Building Society is the sixth largest in the United Kingdom with assets of over £9.5bn, over 650,000 members, and employing 900 staff in 65 branches in the UK, overseas, and at the Leeds Head Office. Leeds takes good governance matters very seriously.

Comments

We support the majority of the changes proposed in your consultation with the exception of the following:

1. We would urge the FRC to ensure that any changes are proportionate, bearing in mind that Walker's report was primarily focussed on BOFIs. In general terms, good governance standards have been observed by companies and firms which are bound by, or adhere to, the Code.
2. As we said in our initial response to the review of the effectiveness of the Combined Code, we do not consider that an external facilitation of the evaluation process, every second or third year, would add sufficient value for the potentially significant costs that would be involved in setting up such facilitation. One difficulty we can foresee is that the external facilitator may be regarded as having "signed off" the process and the effectiveness of the Board. In this situation, they might consider that third parties could make investment decisions based, in part, on their validation of the process. In the light of such considerations, significant (and unnecessary) "risk premiums" could be priced into the cost of facilitation exercises.
3. As an alternative way forward, we believe that you should make it clear in the Code that, depending on the size of the organisation, 'external' could include validation external to the Board appraisal process but still within the company, for example by representatives of HR, or Risk teams.

4. Further, in a recent Consultation paper 'Effective Corporate Governance' (CP10/3), the FSA proposed that, as part of its ARROW assessment of regulated firms, it would assess the performance and competence of individuals performing Significant Influence Functions, which will include non-executive directors. For financial services firms, external facilitation could, at least in part, constitute a duplication of reviews to be undertaken by the FSA.
5. We do not consider that either the Chairman or all Directors should be re-elected on an annual basis. Such a change would make it more difficult for Directors to act in the long-term interest of the business, and could run counter to the promotion of financial stability. The FRC proposal also goes beyond the Walker recommendations. In the building society sector, the Chairman is elected or re-elected annually by the rest of the Board, after the Annual General Meeting. All directors are elected at least every three years, on the basis of one vote for each member. We consider that a vote every year on a proportion of the Directors, and the Directors' remuneration report, provide the membership with sufficient oversight of governance arrangements, and the activities and effectiveness of the Board.
6. Another disadvantage of annual elections is that they could undermine the collective responsibility of the board, by personalising elections to an unnecessary extent.

I hope these comments and observations are of assistance at the FRC in its deliberations.

Yours sincerely



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Deputy Secretary
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