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Dear Chris

## **Consultation on the revised UK Corporate Governance Code**

### **1. Introduction**

1.1. Mazars, the leading integrated international accountancy organisation with over 12,000 professional staff in 55 countries, is pleased to submit its views on the above consultation.

### **2. Overall view – strongly supportive of the proposed changes**

Overall, we are strongly supportive of the proposed changes to the Code. We, in particular, support:

- the change in title to the UK Corporate Governance Code;
- the Chairman's preface, emphasising the importance of effective boardroom behaviour;
- the inclusion of new headings on leadership and effectiveness
- the new principle stressing that the Chairman is responsible for the leadership of the board and ensuring its effectiveness in all aspects of its role;
- the new principle emphasizing that the board and its committees should be made up of directors with the appropriate balance of skills, experience, independence and knowledge;
- setting out the Senior Independent Director's role vis-à-vis fellow board members;
- externally facilitated board evaluations at least every three years;
- formalising the approach to training and development;
- stating that the board is responsible for defining the company's risk appetite and tolerance;
- the new provision, based on the Turnbull Guidance, making clear that the board should satisfy itself that appropriate systems are in place for the management of risk (ie. this responsibility cannot be delegated);
- making clear that the performance related element of executive directors' remuneration should be stretching and designed to align their interests with shareholders and to promote the long-term success of the company;
- calling for explanation of the company's business model.

**3. Constructive challenge (A4)**

- 3.1. We strongly support the view that a key role of non-executive directors is to provide constructive challenge in the boardroom. We are not clear why in the new principle in Section A it seems to be limited to the area of strategy. It should be generally applicable to the NED's role on the board.

**4. Not restricting the talent pool (B2)**

- 4.1. The supporting principle that now says appointments to the board should be made on merit and against objective criteria '*that do not inappropriately restrict the talent pool from which candidates will be identified*' could be helpfully strengthened by the addition of the words 'and in a manner' before the new words shown in (our) italics above. It is important that the way the search for new directors is undertaken is also fair and that head-hunters, for example, seek to identify candidates from a suitably broad range of backgrounds and experience.

**5. Training and development (B4.2)**

- 5.1. We support the new provision which states that '*the chairman should agree and regularly review a personalised approach to training and development with each director*'. This will underline that training and development, for too long a 'Cinderella' subject in governance, has to be taken seriously. There would be merit in making it clear though that some development will be best undertaken by the board as a whole while the need for other aspects will vary from individual to individual.

**6. Disclosures on external board facilitators (B6.2)**

- 6.1. It is proposed that '*where consultants are used a statement should be made available of whether they have any other connection with the company*'. It should also be clear that the name of the facilitators should be disclosed.

**7. The re-election of directors (B7.1)**

- 7.1. We do not support the annual re-election of all directors. If directors are to promote the long-term success of the company, it is important that a suitable balance be struck between reasonable length of tenure to make necessary changes and regular refreshing of the board which we support. There is also a risk that if all directors are subject to annual re-election where a problem arises, say on remuneration issues, different investors would vote against different directors (ie. some against the remuneration chairman, others the chairman of the board) leading to a diffusion of the vote and possibly the true level of concern not fully showing through.
- 7.2. On the question of whether or not the chairman should be subject to annual re-election, we consider the arguments are finely balanced but are broadly supportive. As the chairman is responsible for leadership of the board it is not unreasonable for investors to have the opportunity to make their dissatisfaction known if they are unhappy with a key feature of board performance. On the other hand, there is a risk that if the underlying dissatisfaction were, for example, with executive performance and key executives not up for election in a particular year the chairman's vote may suffer as it would be the easiest way of registering concern. That said, one naturally accepts that the feeling may be that the chairman had not taken sufficient action to reshape the composition of the board.

**8. Disclosing the business model (C1.2)**

- 8.1. We strongly support asking companies to provide good quality disclosures on their strategy and business model. The current proposed wording of the new provision asking for ‘an explanation of the basis on which the company generates revenues and makes a profit from its operations (the business model) and its overall financial strategy’ seems a little narrowly defined in financial rather than more general business terms.

**9. Guidance on risk appetite and tolerance (C2)**

- 9.1. We support inclusion of the statement in the principles that ‘the board is responsible for defining the company’s risk appetite and tolerance’. It will, however, be important for the subsequent limited review by FRC on the Turnbull Guidance to provide guidance on how this responsibility is to be discharged in practice.

**10. Publication of the full corporate governance statement only on the web**

- 10.1. We believe that, in view of its importance, the full corporate governance statement should continue to be included in the annual report. This avoids any concerns about selective editing that may arise if only a summary were to be included in the annual report.

**11. Further discussion**

- 11.1. If you would like to discuss further any of the issues raised in our submission, please do not hesitate to contact Anthony Carey on 020 7063 4411.

Yours faithfully

Mazars LLP