Premier Farnell

25th January 2010

Mr Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor
Aldwych House
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Dear Mr. Hodge

CONSULTATION ON THE REVISED UK CORPORATE GOVERNANCE CODE

Following the feedback provided to you by the Premier Farnell board in October 2009 and your further consultation documents issued in December 2009, the board has recently discussed your latest proposals and wishes to provide the following input.

Frequency of director re-election

We are strongly of the view that, if annual re-election is required, it should be for the chairman only. There reasons for this view are that this is consistent with the chairman's role, as described in the new main principle A.3, of being responsible for ensuring the effectiveness of the board. If shareholders believe the board is not effective, it would be right for them to hold the chairman accountable for this.

In supporting the annual election of the chairman, we believe that the Stewardship Code for institutional investors that the FRC is to develop should require any institutional investor intending to vote against the election of the chairman (or any other director) to contact the company (via the chairman or senior independent director as appropriate) to convey the concerns that are causing them to consider voting against election. It should be encouraged in both the Corporate Governance and Stewardship Codes for the company and shareholder to seek to address these concerns before any vote.

We believe the option of the whole board standing for re-election each year should not be mandated in the Corporate Governance Code because it is inconsistent with new main principle A.3, and its unknown impact on the ability of companies to recruit and retain NEDs. Boards should of course be free to go beyond annual election of just the chairman if they felt it appropriate. It would of course be open to individual boards to opt for the whole board standing for re-election on an annual basis.

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Risk management and internal control

While we agree that it is important for boards to have a clear view of their risk appetite, we feel that more guidance is required from the FRC on this principle. There is a broad range of possible approaches to and outcomes from an assessment of risk appetite. Our concerns are:

(a) That institutional shareholders, based on their current experience, will expect the sort of risk appetite assessments produced by financial institutions (e.g. 'value at risk' assessments) from all publicly quoted companies. This would be inappropriate and potentially misleading.
(b) If companies are not given some clarity on what expected there is a risk that annual reports will merely contain the type of anodyne statement that has characterised other areas of reporting in the past and which are of no real value to shareholders.

Design of performance-related remuneration

The Premier Farnell board supports the proposed changes to Schedule A of the Code, subject to clarification on two points:

(a) In the sentence "Remuneration incentives should be compatible with risk policies and systems, and criteria for paying bonuses should be risk adjusted" does this mean the criteria set at the outset should take account of risk factors or that remuneration committees should be adjusting bonuses at the time of payment to take account of risk factors?

(b) In the proposed additional wording regarding the reclaiming of variable components of pay, please could you clarify whether the FRC believes repayments should only be sought in cases where there has been both misstatement and misconduct or if these are alternatives. If the latter, more detail would be required on what types of misconduct should trigger a reclaim; for example, would it only be expected in the case of misconduct relating to results relevant to variable pay or a broader category?

Thank you for the opportunity to provide these comments which I hope you find useful.

Yours sincerely

Peter Gershon

Sir Peter Gershon
Chairman