

## **RLAM Submission to the Consultation on the Revised UK Corporate Governance Code**

Our comments break down into those covering the proposed structural changes to the Code and then some specific comments on various aspects of the Code.

### **Structure of the Code: –**

- 1) We support the retention of the over-arching principle of comply or explain to the Code believing that this has served the UK well. We agree that this requires good quality communication between companies and investors and accept that we as investors should do more to participate in such engagement. RLAM are committed to playing our part in improving understanding of the issues and working with management to arrive at outcomes which support the long term success of the business.
- 2) We would strongly support the position that the Code should apply to all companies and that some issues raised within the Walker report on for instance remuneration within financial organisations are best handled by the FSA rather than through a 'carve-out' of the Code.
- 3) We also support the proposal for splitting the Code into sections covering Leadership and Effectiveness as this should assist understanding of their importance in the operation of an effective board.
- 4) We are comfortable with the removal of the section covering the role of institutional investors and for the FRC to take responsibility for this and we intend to submit a separate response on this consultation.

### **Specific Aspects of the Code:–**

- 1) It is our view that poor succession planning is at the root of a number of problems that companies and their shareholders have faced over recent years and can be indicative of other governance failures. We also see it as one of the most important roles of the Chairman and the board. Therefore we would support annual reporting by the Chairman of issues relating to succession planning covering both executive and non-executive positions together with other senior executives. This would cover things such as the specific plans that are in place, progress that has been achieved over the previous year as well as priorities for the following year.
- 2) We would support the idea of more regular and rigorous external board evaluations. We would suggest that organisations conducting such evaluations should be in a position to demonstrate independence, no conflicts and relevant experience. While we understand that the market may not be over-supplied with organisations that may meet these criteria we believe that if the Code were to call for evaluation as suggested then more would quickly emerge.
- 3) We believe that just as external evaluation would be helpful we also believe that this could be supplemented by a report signed by the Chairman which would provide a meaningful insight into how the board operates, how it reaches decisions and the processes that are

followed. Our reasoning is that the more that institutions would know on the actual operation of the board then the more they would be prepared to trust the board and also the more willing that they would be to intervene if they believe there is an issue that should be addressed.

- 4) Given the two options suggested on the election of directors we would support a shift to annual re-election for all. We would be concerned with the alternative if this meant that all discontent would be annually focused upon the Chairman alone.
- 5) We support the introduction of a new principle making explicit the boards responsibility for overseeing risk management and setting the risk appetite.
- 6) We believe that greater emphasis within the code is appropriate in the area of remuneration. We would like to see this reinforced with the following emphasis in that remuneration should be long term in nature, be closely aligned with the strategy of the company and that the introduction of some non-financial measures is encouraged. However it is important that these latter performance criteria can be calibrated and that they link with business strategy.
- 7) We would support the proposal that the annual report and accounts should contain a separate section providing a concise disclosure of the company's business model and overall financial strategy.
- 8) We support the view that there should not be numerical minimum on the required time commitment for various board roles. The time required should be that which is appropriate to the particular circumstance of the individual company and not determined by some arbitrary rule.