

Tomorrow's Company evidence to FRC Consultations on the Review of the Combined Code

- 1) Tomorrow's Company (TC) has made submissions at each earlier stage of the review of the Combined Code. We particularly welcome the positive response to our observation that the imbalance in the Combined Code needed redressing so that investors as well as companies were held accountable through 'comply and explain' processes. We intend to comment on the Stewardship Code, reflecting the work which we have done in developing the Tomorrow's Company stewardship principles. (*Tomorrow's Owners - Defining, Differentiating and Rewarding Stewardship*).
- 2) We also welcome the new focus on behaviours, and the recognition that compliance alone can only make a limited contribution to the quality of governance, as argued most recently in our report on *Tomorrow's Innovation Risk and Governance*. Our submission this time is limited to a single question in the FRC Consultation and that concerns the proposal for the annual re-election of the board and their chairman.
- 3) The FRC is aware of the study TC has conducted on the Swedish system of shareholder-led nomination committees and has asked for an advanced copy of the report by 20 March which will be considered as part of their consultation. An advance copy of this report is enclosed. The relevant recommendation from this report is:

The Financial Reporting Council (FRC) to promote the annual re-election of boards and chairmen as suggested in the recent review of the Combined Code, but link the annual re-election with the recommendation that boards engage major shareholders in the nomination process. The benefit of this change of emphasis is that annual re-election is no longer seen as a shortening of time horizon, but is seen as a way of making director evaluation and re-election part of a systematic process of review and continuous improvement.

- 4) The worry expressed by many UK chairmen and NEDs is that the move to annual elections will create short-termism. This could be a danger if it is not accompanied by a much more proactive and systematic approach to putting forward the right candidates for election and re-election. In other words the problem is not the electoral time horizon, but the board mandate and how and where this is discussed.
- 5) The new Tomorrow's Good Governance Forum created by tomorrow's Company is giving more consideration to the concept of the board mandate, and as partners of the Forum the FRC will be involved in these discussions.

18 March 2010