

**From:** Tom Bonham Carter [mailto:tom@armstrongbonhamcarter.com]  
**Sent:** 20 July 2007 10:29  
**To:** Chris Hodge  
**Subject:** FRC Review of the Impact of Combined Code 2007

Dear Chris,

Here are a few thoughts from Armstrong Bonham Carter as requested on your latest review of the Combined Code:

*1. Does the Code support better board performance over time?*

In my view, the Code has never defined what exactly is an effective board. It has provided useful guidance on board processes, procedures, definition of roles, composition, remuneration, reporting, controls and relations with shareholders. It does suggest the board carries out an annual board performance review. But, as most boards' comments on these reviews are somewhat brief and as there is no clear benchmark of an effective board with which the company board can be compared, we have been unable to find any evidence to suggest whether adherence to the Combined Code had helped Companies achieved more effective boards.

*2. Is the comply or explain approach working effectively?*

Yes for the Boards. But less so for investors and other interested parties. If you just look at the Corporate Governance statements where explanation for non-adherence is provided it is often brief and not a real explanation-e.g. Royal Sun Alliance 2006 annual report where the Corporate Governance statement said 'The non-executive directors have a unanimous view that the appointment of a senior independent director is not appropriate at this time.'

*3. What impact has the code had on smaller companies?*

No strong view other than the obvious requirement for smaller companies to have an effective board too.

*4. Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate cost to companies?*

As per point 2 Corporate Governance statements do not provide much useful information to shareholders. Most comments on the annual board review are brief and give investors little idea of the state of effectiveness of the board. Another good example of the lip service paid is the TSR chart included in the remuneration report as per the 'Directors' Remuneration Report Regulations 2002 which requires Directors to publish a graph showing the TSR of the Company and the comparator group over a five year period. The aim of this requirement was to enable shareholders to easily determine and assess company performance. Yet for most if not all companies and irrespective of whether the graph shows out or underperformance no explanation is given. As this is one measure of the effectiveness of the Board, this is further evidence of the lack information about the effectiveness of the board.

Clearly if Directors cannot demonstrate the value that they create individually or collectively, they remain vulnerable to Activist investors who are having increasing success with taking over companies without offering a premium for control.

I would be most interested in any comment you may have about our views.

Yours with best wishes,

Tom

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