

Review of the Impact of the Combined Code – April 2007

- Does the Code support better board performance over time?

It provides a framework, which has the potential to deliver improved performance resulting from clarity over Board's role and the contribution of non-executive directors; clarity on the separation of roles of Chairman & Chief Exec; and annual performance reviews providing a channel for views to feed back into the activities and actions of the Board. Compliance should, however, remain in the background and be embedded into activities and the Chairman and Company Secretary working together can deliver this. The Chairman will ensure relationships on the Board are positive and are developed to build and maintain constructive challenge and cohesiveness.

- Is the "comply or explain" approach working effectively?

The principle is sound and the alternative is a more prescriptive approach. Companies will want to present in the best light and should expect to explain where they do not comply. Having done so in a proper manner, explanation of alternative approaches taken to particular company circumstances should be accepted as sufficient. Non compliance is often flagged or seen as an automatic concern without due weight being given to the explanation.

- What impact has the Code had on smaller companies?

In-house compliance costs will be more significant and often external advice will be taken. Of greater concern is probably the availability of non-executive directors and the increase in fees driven by the raft of increasing responsibilities.

- Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate costs to companies?

The information will be more useful to the informed reader and institution. Average private shareholders may not have the knowledge or inclination to be able to develop an informed view of an individual company and its corporate governance disclosures. Once costs around embedding reporting are absorbed, familiarity with the Code and its repeat disclosure requirements can keep costs down. Changes require obvious input and increased cost. Overall costs are probably proportionate in terms of benefits from disclosure.

Further points:

Concerns arise over governance rating agencies and institutions who "layer" their own requirements over the Code (e.g. PIRC – independence of directors) and produce rating reports accordingly.