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Dear Chris

**Review of the Impact of the Combined Code**

I would like to give a response to this review on behalf of Legal & General Investment Management (LGIM) and to support the response by the Association of British Insurers of which LGIM is a member.

LGIM is the investment management subsidiary of Legal & General Group plc, a FTSE 100 company. We are one of the UK's top fund management companies by assets under management (£240 billion at 31 March 2007) and have a long standing commitment to raising standards of corporate governance.

LGIM has £80 billion invested in UK shares which represents around 4% of companies in the FTSE All Share index. We therefore have experience of dealing with corporate governance issues at both large and small companies.

We believe that the Code has provided an excellent framework for reviewing the function and performance of Boards. It provides worthwhile benefits to investors and we consider the Code to be superior to a rigid form of regulation. A regular review is appropriate and while we do not see any need to change the structure we have some suggestions for such a review:

1. To remove the "second chairmanship" rule for FTSE100 companies – A 4.3
2. To emphasise the positive role of the Senior Independent Director with investors – A 3.3
3. To identify the remuneration consultants and disclose the level of fees – B 2.1

A change of name to "Corporate Governance Code" may also give a clearer message to the public than "Combined Code" which is more of a specialist investment term.

1. The code provision A4.3 states that no individual should be appointed to a second chairmanship of a FTSE100 company. The meetings of the FRC with Chairmen in May/June 2006 suggested that this restriction is overly prescriptive in their view and as a major shareholder LGIM appreciates their concern. The rule importantly refers to the time required for the role and the individual's other commitments. The reference to FTSE100, however, does not take account of similar sized organisations in the USA or Europe that are equally complex. Removing this "two chairmanship" rule may help meet the objective of achieving an adequate supply of skilled and experienced people willing to serve on Boards.

2. This statement in A 3.3 was first interpreted by some companies as being divisive and negative. Many believed that the Senior Independent Director would challenge the Board Chairman's role, risking mis-communication and wasting time. It was also believed that the role could be potentially harmful to an established board by dividing the loyalty of directors in the company. Nevertheless, what experience has shown is far from this picture. The need for a strong independent figurehead and alternative point of contact was actually welcomed by many investors.
  - a. The Senior Independent Director is seen to have restored balance in a boardroom where power and authority were unevenly concentrated in the hands of the few. Furthermore, the Senior Independent Director supported the role of the Non-Executive Chairman and, in some cases, will act as Deputy Chairman of the board. At LGIM, we believe that the Senior Independent Director serves two main functions in companies.
  - b. Firstly the Senior Independent Director should be acting as the main focal point for investors "if they have concerns through which normal channels of Board Chairman, Chief Executive Officer or Finance Director has failed to resolve or contact is inappropriate." This includes responding to requests for meetings and being aware or developing issues between investors and the company.
  - c. Secondly, the Senior Independent Director should communicate well with the Chairman and CEO and monitor how the relationship is working but is important to avoid creating a "third front" where there is no need. This function becomes crucially important when seeking to ensure a smooth transitional process takes place behind controversial succession appointments.
  - d. For example, the Combined Code warns against Chief Executive Officer becoming the new Board Chairman. The risks associated with such succession processes are clearly visible to shareholders. There will be questions raised over whether the new Chairman will overshadow the role of the CEO in other management's eyes, and whether there will be sufficient independent judgement brought to the running of the Board.
  - e. Sufficient safeguards need to be put in place in order to address any significant conflicts within the boardroom. LGIM would like to see this 'monitoring responsibility' being delegated to the Senior Independent Director of the company. The holding of regular separate meetings with the Chairman and the CEO should be used to reduce any apparent boardroom tension while the scheduled meetings will not be seen as a response to a crisis.
  
3. The provision B2.1 calls for a statement on whether remuneration consultants have any other connection with the company. It would be more useful to name the consultants and describe the level of fees to give shareholders an indication of the significance of any connection.

The responses to the four questions you raised are shown in the appendix. I look forward to receiving the report on this review and would like to be included in consultation on rule changes.

Yours Sincerely,

Andy Banks  
Head of Corporate Governance  
Appendix  
Q1 Does the Code support better board performance over time?

Our experience of discussing Board performance with companies is that the Code has formalised the process, particularly at the larger companies. The Board assessment may involve an external facilitator or be managed by the chairman and will involve feed back by other directors. The outcome (as should be

expected) is typically that the Board operates well but some changes could be made to communication or administration.

The particular are where we as investors have seen a change is in discussions about appointments of directors, prior to the announcement. We believe this is an appropriate means for investors to give feedback.

The opportunity to meet the Chairman or Senior NED to discuss Board or company performance has been greatly assisted by the Code. LGIM has around 100 such meetings p.a. in addition to over 500 meetings with executive management and 150 consultations on remuneration.

We believe that the Code does support both Board and company performance through good recruitment and appropriately challenging targets for incentive schemes.

#### Q2 Is the Comply or Explain approach working effectively?

Yes, and it is an essential catalyst for the discussions between companies and investors.

In terms of voting at UK meetings LGIM supports around 98% of resolutions and we contact those where we are not supportive. The discussion between companies and investors prior to publication greatly assists the process of explanation.

The relatively few instances of “lost resolutions” are an indication that investors do take account of explanations. The particular case of Aegis Group, which had repeated resolutions defeated (in line with management recommendation) shows that explanations are accepted by many different institutional investors even against a major opponent.

If the investor relations process is effective companies should anticipate contentious issues and develop a response. There may, however, not be a way to keep all shareholders content at the same time as expectations differ.

#### Q3 What Impact has the Code had on smaller companies?

At LGIM we meet the management of more small companies than large companies to gain a good understanding of the business and its particular features. We do support some arrangements that would not be generally appropriate at a large company so explanations are all important.

The costs of running the Board will be relatively higher than at a large company and also the risks and demands on non-executives may seem high for their fees. This may appear to make recruitment more difficult especially when both industry and recent relevant financial experience is needed to serve of the audit committee.

Smaller companies, however, typically have a smaller shareholder base and it is possible to get support from a majority of shareholders if the business proposition is right.

#### Q4 Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate cost to the companies?

We believe that the cost of an effective Board and of preparing annual reports is justified by the significant impact that can be made on the business performance and the positive rating of the shares on the stock market.

LGIM expects companies to publish information that is useful for the business and the investor.

Companies can limit the size of reports sent to investors if private shareholders are satisfied to receive a summary. The sections that cover Code issues are not excessive and indeed could be helped by additional descriptions of the recruitment process and Board assessment and outcomes if they were relevant.