

24<sup>th</sup> July 2007

Chris Hodge Esq  
Corporate Governance Unit  
Financial Reporting Council  
Fifth Floor  
Aldwych House  
71-91 Aldwych  
London WC2B 4HN

## **Combined Code Consultation Paper**

Dear Mr Hodge

Thank you for providing Newton Investment Management with an opportunity to comment on the Combined Code. Whilst Newton appreciates that it is undesirable to be continually moving the goal posts with regard to the Combined Code, Newton is mindful that there is a need to change with the developing market. To this end, Newton would like the FRC to consider the following when discussing the effectiveness of the Combined Code.

### Disclosure

Corporate governance in the UK is only effective if it does not impinge on an executive's ability to be an effective entrepreneur, whilst realising that shareholders own the company and that they need assurances that there is an effective oversight structure. From a shareholder's perspective, it is impossible to know what actually occurs behind the closed doors of a board meeting. It is, therefore, imperative that companies provide clear communications to shareholders. Such communications provide the necessary levels of comfort and encouragement to shareholders that their companies are being run in a way that maximises value and that this is being achieved in a sustainable manner.

It is widely felt that companies should be posting relevant information on their corporate websites. It is Newton's view that the Combined Code should further encourage companies to make available relevant information, such as meeting agendas. An area where companies tend to fail in providing information is with regard to proposed resolutions at general meetings. The relevant legal requirements are usually met but any rationale for the proposed resolutions, especially with regard to the more unusual, is absent. In a world of proxy voting where deadlines are narrowing and shareholders engagement activities are increasing, it would be more efficient for both shareholders and companies if information was available that could allay any fears and avoid the need for explanatory meetings and the like.

### Succession Planning

Succession planning is a very important matter that Newton believes should be more prominent within the Combined Code. The almost fleeting remark on succession planning doesn't give it the weight, which Newton believes is required. Newton feels that succession planning and subsequent appointments are the key-stone of good corporate governance.

### Remuneration

An effective incentive structure is one that is designed to achieve sustainable value for shareholders and is in line with the company's strategy. In designing remuneration structures, Newton is not convinced that remuneration committees are giving due consideration to the total cost to shareholders, both in absolute profit

terms and also in terms of dilution. Companies should provide forecast costs of packages and justify such costs to shareholders.

Impact on smaller companies

Whilst Newton appreciates that smaller companies can find it more difficult to comply with the Combined Code, it is important that they adopt a policy of explaining any deviances. This allows smaller companies to keep compliance costs to an appropriate level and it also creates an appropriate mindset towards good corporate governance. Not all small companies will remain small.

Yours sincerely

Ian Burger  
Corporate Governance Officer  
Director of Investment Management