



PRUDENTIAL

PRUDENTIAL PLC
GROUP SECRETARIAT
12 ARTHUR STREET
LONDON EC4R 9AQ

www.prudential.co.uk

[Sent by email to codereview@frc.org.uk]

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

13 July 2007

Your ref
Our ref GS/RW/tel: 020 7548 3848

Dear Mr Hodge,

Review of the impact of the Combined Code

Prudential welcomes the opportunity to comment on the above consultation paper. We set out below our comments, from the perspectives of both an issuer and an investor, in relation to the specific questions raised in the consultation document.

Q1 *Does the Code support better board performance over time?*

We agree the statement in the consultation paper that the Code has contributed to boards becoming more professional. We agree there is a need not to let the Board's real priorities become subordinated by too much attention and time being given to following the letter rather than the spirit of the Code. We believe that most boards of large FTSE100 companies do not find the Combined Code onerous or hard to comply with. We feel that for most FTSE100 companies it is now part of the "way things are done" which indicates that the spirit of the code rather than the letter is now being addressed. We feel that it is possible that for relatively less experienced boards, the Combined Code may make such directors more aware of what good governance entails which in turn might help those boards to become more effective.

We believe that the Code does support better board performance over time. One example is the requirement for a board evaluation, which can help uncover issues which might not come to light if companies were not required to carry out a formal evaluation. We feel that if such issues are subsequently addressed by the board, this will ultimately enhance that board's performance. It is also true to say that a poor evaluation process may not highlight relevant issues, so key to the enhancement of performance is not only the requirement to hold an evaluation but also that the evaluation itself is a good one. Sometimes, you have to go beyond the strict requirements of the Code to get the best benefit out of it. It is perhaps worth noting that an evaluation carried out by a board one year may not be as

effective as the evaluation carried out in the subsequent year but yet both may have complied with the Code.

Q2 *Is the "comply or explain" approach working effectively?*

We believe the "comply or explain" mechanism works well, although in practice most companies comply. We suggest that it can often be the case that any compliance or monitoring of compliance is done by the company secretarial team. If a change is required to current practices, it can be flagged up early enough so that it is addressed. In Prudential's case, even if we did not comply in some areas, we would feel comfortable about explaining any reasons for non compliance. We think that it has become more than just a "box-ticking" exercise, as the principles are embedded in the way we work. It supports constructive discussion, for example considering practical "what if" scenarios rather than just ticking down a list of definitions that justify compliance. It supports a real discussion rather than an attempt to negotiate a way through a series of boxes.

Perhaps some companies need to be more prepared to not comply and give reasons rather than fall in line with "box tickers". It would also be helpful if governance agencies actively demonstrated that they were prepared to give companies leeway to not comply for their own reasons and give credit to companies for doing what they believe to be right.

Q3 *What impact has the Code had on smaller companies?*

We have no comments to make on this point.

Q4 *Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate cost to companies? If not, in what respects and how do you believe they should be modified?*

Perhaps a threat to the "usefulness" of the information provided is the adoption of boiler-plate type disclosures which are of little meaningful use to investors.

In relation to Prudential, there is no real additional cost to us regarding disclosures in annual reports. We would wish to ensure that corporate governance statements etc covered all the required points and, as we comply in all areas, there is not much cost in stating this. In the event that we did not comply on some aspect, there might well be a cost in management time, legal advice etc in considering suitable explanatory wording, but it is unlikely to be material in the context of the preparation of the full report.

Yours sincerely,



Bob Walker
Deputy Group Secretary – Technical Advisor