

E. Mervyn Davies CBE
Chairman

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Sir Christopher Hogg
Chairman
Financial Reporting Council
Aldwych House
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Dear Sir Christopher

REVIEW OF THE IMPACT OF THE COMBINED CODE

I am writing in response to your invitation to comment on the impact of the Combined Code and the effect that it may have on entrepreneurial leadership and the management of risk within companies. Overall the current Combined Code works well and I do not see a need for substantial changes, but I have set out below my comments on your specific questions.

1. Does the code support better board performance over time?

In general, the Code has forced boards to actively consider their approach to governance, circumspection which in and of itself has improved board performance. The Code's requirement for boards to undertake an evaluation exercise formalises this process, usually through the use of detailed questionnaires, often utilizing the services of external consultants. In my experience, this process is at its most valuable when there is an open dialogue between executive and non-executive directors. In this regard, the Code has helped drive best practice in this area.

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

The comply or explain approach to governance is widely recognised as an effective mechanism for ensuring on the one hand, high standards of governance while on the other, allowing sufficient flexibility to accommodate the complexities of international businesses. But there is an important caveat here. For the approach to operate effectively, a heavy responsibility exists for companies to explain fully in a timely fashion and with enough opportunity for an appropriately detailed dialogue. A reciprocal obligation also lies with institutional investors and shareholder representative bodies to conduct themselves in similar vein. Where this occurs, the outcome is invariably positive; where the dialogue is inadequate or constrained by time, misunderstanding and dissonance develops all too frequently.

3. What impact has the Code had on smaller companies?

From a personal perspective, it is difficult to comment directly to this question. However, from broader discussions with smaller company chairman and executives, the general impression gained is that they too are supportive of the Code as a force for good governance and transparency.

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

Disclosures in the Annual Report are relatively well developed and in general the Report does provide useful information for investors, although some 'boilerplate wording' has started to emerge, particularly across similar sectors. The cost of meeting the Code's obligations for disclosure should be fairly constant as processes for collating the information become more established. One area where the disclosure has had a potentially negative effect is the requirement to disclose directors' attendance at board and committee meetings as a proxy for their commitment. However, operating a complex, international business requires occasional ad hoc board and committee meetings at short notice to consider urgent business. In particular, non executive directors with other business commitments are less likely to attend such meetings damaging their attendance record. This may lead to boards making ad hoc decisions by written resolution instead of holding meetings, removing the opportunity for discussion.

Finally, on a different subject, I would like to comment on the Code's position regarding a chief executive officer becoming chairman. The complexities of international banking in a company such as Standard Chartered present significant challenges for any would-be chairman who lacks financial services experience. Although not impossible, it is a daunting task to build understanding of multiple financial markets, regulators and governments particularly as a part time appointee. In our case, we followed the Code's requirements scrupulously. Extensive dialogue with our principal shareholders was conducted before the decision was taken and to underscore good governance, a strong independent director was appointed as Deputy Chairman.

I hope the above observations are of use and I look forward to reading the results of the consultation in due course.

Yours sincerely

