

Mr Christopher Hodge  
Corporate Governance Unit  
Financial Reporting Council  
Fifth Floor  
Aldwych House  
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10 July 2007

Dear Mr Hodge

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

I write on behalf of the Board of Standard Life plc to thank the Financial Reporting Council for the opportunity to respond to its review of the impact of the Combined Code.

Standard Life supports the ongoing review of the effectiveness of the Combined Code. We have an established Nomination & Governance Committee which monitors external developments in corporate governance on behalf of the Board, and reports to the Board on the processes required to implement effective corporate governance across the group. In particular, the Committee monitors the Company's compliance with the Combined Code on behalf of the Board, and reviews in detail the corporate governance disclosures made in the Annual Report & Accounts. Accordingly, the Board invited the Committee to consider the consultation paper and identify the issues to be reflected in this response. The response has also been considered by our Investment Committee, part of whose remit includes monitoring policies and guidelines concerning the role of the group's subsidiary companies as active institutional shareholders in relation to corporate governance.

The Standard Life group has a dual interest in the outcome of this review. First, as a UK listed company, issuing financial statements, Standard Life plc is concerned with the practical and cost implications of complying with the Code and how the Board's performance is strengthened as a result of working with the Code. Second, Standard Life plc's investment management subsidiary, Standard Life Investments, uses the Code as a framework against which to gauge the governance of the investments it manages and, in so doing, it engages with over 200 companies a year to discuss corporate governance.

We are pleased to note that it is not planned that there will be a substantial review of the Code at this time, as we do not consider either that this is necessary or that it would bring clear benefits to companies or their shareholders. We believe that most companies are following the Code's guidelines effectively at present and would prefer that more time is allowed to lapse before a further fundamental review takes place.

In response to the issues for comment, we have the following observations.

**1. Does the Code support better board performance over time?**

We believe that the Code does support better board performance. Compliance with the Code provides assurance for investors and brings discipline and analysis to the Board's procedures. The Code provides a comprehensive framework of corporate governance, but the key challenge in strengthening overall board performance is how that framework is implemented on a practical and on-going basis. We therefore recognise the Code as one part of an overall balanced toolkit. We also welcome the Code's principles-based approach. This has helped to ensure that a disproportionate amount of time of the Board and its Committees is not taken up with the unproductive and inefficient box-ticking that would be required had the Code adopted a rules-based approach.

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

We support the "comply or explain" approach. There are instances where it is more efficient and effective for the company (and shareholders as a consequence) that there is non-compliance with a particular principle or provision. We would not wish to add to the complexity of corporate reporting by requiring further detailed disclosures and feel that it is the responsibility of the company to ensure that disclosure of non-compliance is comprehensive and informative.

We would, however, support further analysis by the Council of the types of explanatory non-compliance disclosures which are being made to identify whether there are common themes. If so, further focussed guidance could perhaps be developed with the aim of strengthening disclosures on particular provisions. In addition, we would be interested in the Council's views on the prominence of the corporate governance disclosures. In our experience, Code compliance statements may be buried within other statements in the Annual Report. As a result, positive statements of compliance, which reinforce the strength of a company's procedures, or explanations of non-compliance, which might lead to further enquiry by an interested shareholder, can be easily overlooked, thus undermining the effectiveness of the comply and explain approach. Perhaps the Council could reinforce the benefit to all concerned by giving encouragement to companies regarding effective communication of compliance statements.

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

We support the principle that smaller companies should not bear high compliance costs without clear and obvious benefits.

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

We consider that the corporate governance reports in our Annual Report & Accounts and Annual Review are informative for our shareholders. The costs of preparing this information are not insignificant, and there are Board and Committee time costs attached to the detailed review of the supporting information and disclosure statements. We feel that the current disclosures provide an appropriate amount of useful information to shareholders, and we would not be keen to support any requirements for additional disclosures unless a clear cost-benefit to both the Company and all our shareholders were apparent.

We look forward to reviewing the results of this consultation exercise.

Yours sincerely



Gerry Grimstone  
Chairman, Standard Life plc