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Dear Catherine,

RE: FRC Paper on UK Board Succession Planning

The Investment Association welcomes the opportunity to respond to the FRC's paper on UK Board Succession Planning. The Investment Association represents UK investment managers. We have over 200 members who manage more than £5.5 trillion for clients around the world, helping them to achieve their financial goals. Our aim is to make investment better for clients, companies and the economy so that everyone prospers.

General Comments on Succession Planning

The IA supports the argument of the paper that succession planning is an essential part of the governance of a firm, and closely linked to the execution of a robust long-term strategy for a business. The importance of succession planning is recognised by our members and is something which we have ourselves stressed through our 2015 report, "*Board Effectiveness – continuing the journey*".

Having the right skills and balance on the board is essential to boards making effective decisions and functioning well, therefore investors see succession planning as fundamentally important to board effectiveness. Additionally, succession planning is key to mitigating the effects of the material risk to an organisation of losing key personnel. We have previously highlighted these views in the ABI reports on Board Effectiveness from 2011² and 2012³.

Succession planning is an issue which should be considered by boards as a whole, however, we agree that Nomination Committees has key responsibility for the succession planning process. Therefore we support the conclusion of the paper that, in order to help to improve the succession planning process, the FRC needs to clarify and promote the profile of the Nomination Committee.

In particular, we believe that Nomination Committee report needs to give a clearer and more detailed picture of what the Committee is doing with regard to succession planning. Investors

¹ <https://www.ivis.co.uk/media/10882/Board-effectiveness-continuing-the-journey.pdf>

² <https://www.ivis.co.uk/media/5917/ABI-Board-Effectiveness-Report-2011-Final.pdf>

³ <https://www.ivis.co.uk/media/5920/ABI-Report-on-Board-Effectiveness-2012-Final.pdf>

want to be able to understand what the Committee is doing to manage this material risk, and since 2011 we have been calling for improved reporting on succession planning so that investors can understand the processes that are in place and engage with companies on this issue.



Our members believe that there are several different aspects to the broader theme of succession planning, and that these three themes could be used to direct the structure of the Nomination Committee report. The three different elements of succession planning which should be considered and reported on by the Nomination Committee are:

- **An assessment of the make-up and culture of the Board at any given time; whether it is appropriate to the business given its current and future strategy; and whether the Board has the required skills it needs to work effectively.** More recently, Nomination Committee reports have provided a discussion of what they have done in the case of a particular individual's succession during the year. However, they do not provide a broader picture for investors of how the Committee assesses the current skills mix, what the strong points of the Board are, and where further diversification of experience could be beneficial particularly with reference to the strategy of the business. While there is a requirement in the Code for Nominations Committees to report that they have the necessary skills on the Board, our members also feel that the level of detail on the skills of individual non-executives in the context of justifying their re-election to the Board could be improved.
- **The preparation of contingency plans for a sudden change in directorship.** Nominations Committees should indicate in their reporting that they have considered scenarios of sudden departure and that the Board has sufficient capabilities to maintain the direction of the company. It is important that Nominations Committees are aware of the danger of becoming too reliant on the skills of one individual, and creating robust contingency plans are essential to guarding against this problem. Our members believe that discussions on tenure with an individual director should commence at the time of their appointment. This process helps to inform and manage the long-term picture of the succession strategy, but also to possibly avoid departures which have not been appropriately planned for.
- **The development of a diverse talent pipeline.** The extensive issue of identifying potential internal and external candidates requires particular focus from the Nomination Committee and the Board as a whole. As we highlighted in the *Board Effectiveness* paper, the talent pipeline should extend not just to the level below the Board, but much further down the organisation. Institutional investors may have different opinions about what level of consultation is appropriate for appointing new board members (particularly the Chairman and Chief Executive), however our members agree that they should be consulted at least on what skills and attributes the Board hopes to find in a successor. Investors find that succession planning matrices help in this area, as it provides the starting point for discussions between boards and investors on the important attributes.

While these areas are inter-connected, it is important that the individual issues receive sufficient attention as distinct themes. Therefore it would be beneficial if it is clear that investors believe that these three issues are core responsibilities of Nomination Committees and that they should be individually reflected in the Nomination Committee report.

Further Comments on Questions from the Report



Strategy and Culture

Investors see that culture as a material issue to the success of their investments and they need to be able to see how management is addressing the culture of their organisation. Disclosure on succession planning is an important element of the wider picture of how the company manages its human capital. Investors are seeking greater disclosure in this area so that they are able to take this into account for their investment decisions.

Natural Challengers

We agree with the paper, we have seen no evidence to suggest that those who challenge are sifted out during the recruitment process.

Diversity

Investors want the best possible candidates to be chosen for the Board, and this is most likely to be achieved where Nomination Committees draw potential candidates from the broadest possible pools of talent. Furthermore, introducing diversity of perspective is an important component of succession planning, as the value of diversity in terms of board effectiveness is well-recognised.

Access to a wide range of different talent pools is crucial to finding individuals who are likely to provide diversity of perspective. Different means of recruitment such as public advertising should be explored as a means to achieving this.

The role of the Corporate Governance Code

We do not see any evidence that the Corporate Governance Code currently inhibits board refreshment or diversity on boards. Well-run boards should and do look at continuous refreshment of the board.

Board Evaluation

Investors believe that both Board evaluations and succession planning should be distinct from one another, as combining the two could risk minimising the importance of one element. We regularly hear from companies that they have separate board sessions on succession planning, as it is important enough to have its own agenda.

Information given to investors on succession

Investors want to understand that there is a robust process in place for both succession planning and board evaluation, however we do not want or expect companies to reveal information that is confidential or commercially sensitive. It is not necessary for companies to release such information in order to provide investors with sufficient assurance that they are taking the issues seriously and addressing them.

We hope this feedback is helpful. Please do not hesitate to contact me if you need any further information.

Yours sincerely,

Andrew Ninian
Director, Corporate Governance and Engagement