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Dear Mr Hodge

**Review of the Effectiveness of the Combined Code  
Progress Report and Second Consultation**

The Institute of Business Ethics (IBE) is reassured that there is a recognition from the market '*that the quality of corporate governance ultimately depends on behaviour not process*'. This is why it is so important to retain a principles based approach in the Code and not to be too prescriptive, as inferred in certain sections of the consultation document.

In stressing behaviours, perhaps the Code could lay more emphasis on this aspect and move a sentence from the Supporting Principles of A.1 to the Main Principle: - *The Board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.*

To your CP:

1. The responsibilities of the Chairman and the NEDs  
Issues: Any further clarification should be in the form of non-binding guidance. The matter of time commitment is so variable from company to company for NEDs that guidance would not be helpful other than in broadest terms.
2. Board balance and composition  
Issues: A good chairman, following good practice will review the mix of skills on the board so a good practice guide to the Code (rather than the Code itself) would suffice to cover the issue of NED's competencies. The 9 year rule (guidance) is arbitrary but 'comply or explain' should allow for special cases. Again the 50% rule (guidance) is arbitrary and appropriateness should be a factor rather than strict numbers in the composition of the board. Succession planning could also be in the 'guide to' rather than the Code.
3. Frequency of Director election  
Issues: Annual re-elections would not increase accountability but instead would lead to extreme short-termism and potential board paralysis. Shareholder engagement is better when not forced. A vote on a corporate governance statement would not help as it would become a box tick element in the annual report. What would a vote add?
4. Board information  
Issues: Non-binding guidance would be preferable

5. Board evaluation

Issues: Having an evaluation process externally facilitated can be helpful but again to mention this in non-binding guidance would be preferable, as a rolling cycle of committees reviews would be too. There are already examples of good practice in company report and accounts where Remcos have detailed their annual workload. The suggestion is that such information is published on the web rather than in the annual report which would become even lengthier otherwise.

6. Risk management and internal control

Issues: Corporate risk is individual to each entity and the directors need to be held accountable for its management. It is probably time to revisit the Turnbull Guidance and make it more explicit in the Code but as a principle not prescriptively. The setting up of a risk committee should be left to the directors to decide and not be prescribed. A committee set up for form's sake will not be effective.

7. Remuneration

Issues: Consistency between plethoras of Codes is always helpful however the Code should be broad enough to cover this, leaving it to the guidance notes to explain how the codes interact, thereby dealing with consistency where appropriate. Best practice is always evolving so reference is helpful. Shareholders have a say through voting, and the institutional fund managers through engagement.

8. Quality of disclosure by companies

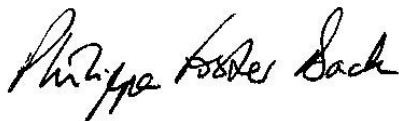
Issues: No comment

9. Engagement

Issues: more emphasis and mutual obligations to engage would be sensible in the guidance notes together with anything to improve dialogue with interested parties would be welcome.

To remain as effective as the Code has been it needs to comprise high level principles with detailed guidance notes to support it. Much of the guidance will be non-binding reflecting the variety of companies it refers to, except in those instances where shareholders need to be protected from malpractice. **However it is the behaviour of the board, and example they set that will largely determine whether a company is successful or not. Perhaps the next Code review should focus more on this.**

Yours sincerely,



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Director