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Chris Hodge
Corporate Governance Unit
Financial Reporting Council Fifth Floor
Aldwych House
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Dear Sir,

We provide Board consulting services to UK FTSE 100 companies and other bodies and contributed to the original Higgs Report. We are grateful for the opportunity to respond to your recent proposals and summary of findings. Our comments are restricted to a small number of topics to avoid repetition.

In terms of context we believe that the Combined Code has been of significant benefit to the standard of governance and effectiveness in most UK boards. It has acted not only as “brake” on certain practices but has also provided a constructive framework to help boards to develop.

However, frameworks are simply that: outcomes result from the amalgam of capabilities, integrity and judgement around the board table. We do not believe the Combined Code let down the UK financial system. However, the cause of the crisis, which was tightly concentrated, was individual functioning of a few company boards, e.g. in areas such as inappropriate specific experience and capability, and a lack of independence or courage among some directors in a few companies that allowed management to suffer from hubris insufficiently challenged. Ultimately this comes down to behaviours: the judgement and strength of the Chairman and in particular both his recognition of the need for independent minded NEDS and the balance of authority in practice between him/herself and the Chief Executive.

Moving beyond the context to a few specific comments on your interim report:

1. Board Evaluation

External reviews are more penetrating and objective than internal ones; our experience demonstrates that internal ones lack the depth, openness and rigour of high quality externally facilitated reviews for a variety of well known reasons.

Therefore we think external reviews should take place either every two or at minimum three years.

Further, there should be both more quality and “independence” assurance and fuller disclosure of who conducted the review, how and the high level conclusions.

We are concerned about the lack of independence of certain external consultancies who provide both Board Review consulting and search activities: this presents a potential conflict of interest. For example, does a search firm want to risk offending or criticising a Chairman or other directors?

At minimum, the Annual Report should outline the other services provided by an external facilitator, to ALL directors of that board. (an extension of the procedure for Audit firms).

2. Nominations Committee

Even among the largest plc's the role and purpose of this Committee is often ambiguous or confused. We think it should be the focus of both Board and senior executive development and succession thinking. Too often, these committees meet only when there is a need to appoint a new NED or officer of the Board: we believe they have a role to play in overseeing the development of the organisations senior capability.

3. Size of Boards

The requirement for a majority of NEDs implies a rather large board when there are several executive directors. With the trend towards the US approach of only the CEO/CFO on the Board this issue is alleviated. However, including other executives on the Board is a developmental opportunity and a source of future NEDs.

Larger boards are more costly, time consuming and, arguably, less efficient.

In summary, independence, integrity and courage are critical. Independent minded directors and an evaluation process that is as independent as possible. Fuller disclosure of the process and outcomes would help and possibly, a quality assurance scheme for evaluators.

Three critical elements of effective boards are: appropriate composition; a constructively open and challenging culture in the boardroom; thirdly, good agenda management encouraging all directors to contribute to agenda setting. A strong Chairman is the foundation to a successful board; mature enough not to interfere and to accept feedback, but strong enough to confront the CEO when necessary. The relationship between Chair and CEO is key to an effective climate in the board. Finally, NEDs style must balance encouragement and constructive challenge.

Sincerely yours,

Raymond Dinkin

Principal