

Alan Buchanan  
Company Secretary

BRITISH AIRWAYS 

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Mr Chris Hodge  
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Dear Mr Hodge

REVIEW OF THE EFFECTIVENESS OF THE COMBINED CODE  
RESPONSE TO THE FRC'S SECOND CONSULTATION

### Section 1: The Content of the Combined Code

#### Introduction

British Airways supports the three guiding principles outlined in the Introduction.

#### The Responsibilities of the Chairman and the non-executive directors

As stated previously, we would recommend that the FRC should consider restoring the schedule on the role of the chairman that formed part of the 2003 Combined Code.

We do not support Sir David Walker's third recommendation that NEDs should make a minimum expected time commitment of 30 to 36 days whether in relation to banks and other financial institutions (BOFIs) or listed companies generally as this will prevent any current executive director from taking up a NED role. This would deprive executive directors from gaining experience from other boards; reduce the pool of people qualified and able to take up NED roles; and reduce the opportunity to share learning from best practice.

Similarly, we do not believe that the FRC should seek to provide further guidance on the time commitment expected of chairmen or SIDs. The time commitments required to discharge these offices vary not only according to the complexity of the listed company in question but also according to the circumstances in which the relevant company finds itself from time to time.



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In relation to Walker's Recommendation 8, we do not believe that the Code should be altered so as to require companies to justify a chairman's absence of relevant industry experience. This could lead to a tendency to recruit from within the industry and have the effect of reducing the pool of talent upon which companies might seek to draw. Having a chairman with specific industry experience, or one who commits more than half their time to the role, runs the risk of blurring the distinction between the chief executive and the chairman and implies a more executive role for the chairman.

#### Board Balance and Composition

We have already provided a view on the relative emphasis that the Code places on independence relative to skills. It is clearly important that as a group the NEDs should have relevant industry experience but equally they should not all be required to have relevant industry experience. What suits our business is that they should have a diverse range of skills and experience between them.

We are not aware that the 50% independent non-executive director requirement has caused any pressure to reduce the number of executive directors on boards or to increase the size of the board.

The supporting principles to Paragraph A.4 more than adequately cover the issue in relation to succession planning and we do not believe that companies require further guidance.

#### Frequency of Director Re-election

We do not believe that annual re-election of the chairman and/or the committee chairmen and/or all directors would serve to further enhance good corporate governance. On the contrary, we believe that this would encourage more short-term thinking and would also serve to undermine the concept of the unitary board. We do not think that any purpose would be served by requiring companies to seek either binding or advisory votes on specific issues or on the corporate governance statement. Investors already have the ability to make their views on these matters known. Lengthening the agendas of annual general meetings will lead to less thought being given to the individual items of business and box ticking as a substitute.

#### Board Information, development and support

The Walker Review recommendations on this matter are broadly in line with the Code and we do not believe that there is anything to be gained from making change in this area.

We do not believe that the Code should seek to mandate the resources allocated to the Secretariat, this should be a matter for the chairman and non-executive directors. Attempts to divorce the Secretariat from the business could result in the information available to the NEDs being reduced.

#### Board Evaluation

As stated previously, we strongly disagree that external reviews should be mandated. Companies should be able to choose how best to undertake their own evaluation processes as the circumstances require.

We do consider that greater flexibility in relation to the evaluation of board committees would be helpful.

We do not think that the current disclosure requirements should be changed or enhanced and do not agree that a company should provide an assurance statement. It is not clear what commentators are hoping to gain when pushing for more information on the outcomes of evaluation processes. The evaluation process has clearly helped boards to work more effectively but a significant part of this results from the sort of frankness which can only be achieved in a confidential process.

#### Risk Management and Internal Control

We do not think the mechanisms recommended in the Walker Review should be applied to other listed companies. The need for a separate risk committee is not appropriate for our business and we believe that risk management is adequately covered by our board through our audit and safety committees.

We do not believe that the Turnbull Guidance is in need of further review and have already expressed the view that it might usefully be included within the Code for clarity.

#### Remuneration

We consider that the Commission's recommendations, the FSA code and the Walker recommendations are specific to BOFIs and should not be applied to all listed companies through inclusion in the Code.

We do not think that shareholders require a more direct role in setting remuneration. Shareholders already have a mechanism for voicing disapproval should that be appropriate. Companies should, in any case, consult their shareholders on remuneration structures and changes to the remuneration plans.

If Sir David Walker's Recommendation 33 were to be introduced, then it must also extend to the institutional shareholders' executives otherwise there is a risk that there will be a serious mismatch between the time horizons used by executive board members and those used by shareholders.

## **Section 2: Implementation of the code**

### The quality of disclosure by companies

We would be happy to support a rationalisation of the disclosure requirements. As to the suggestion regarding greater monitoring, the monitoring body would have to ensure that "comply or explain" did not become "comply or face criticism". There are many areas where the level of explanation necessary is open to debate and the wrong sort of monitoring exercise could easily undermine the "comply or explain" principle.

### Engagement between Boards and Shareholders

We do not consider that Section D of the Code requires to be expanded.

In relation to Section E of the Code, we believe that the FRC could usefully provide guidance to companies and investors in relation to the current law which provides that companies must treat all shareholders equally. Greater engagement with 'major long-only shareholders' may well be constructive but if the law requires that similar information should be given to all shareholders, these discussions will inevitably become less straightforward.

In relation engagement with long-term shareholders (and Sir David's recommendation 14 on material changes in the share register), the position can be muddled by the practice of stock lending.

Yours sincerely,

