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Dear Ms Woods

GC100 Response to FRC Discussion Paper on UK Succession Planning

I am writing on behalf of the GC100 in response to the FRC's Discussion Paper on UK Succession Planning issued in October 2015.

GC100 is the association for the general counsel and company secretaries of companies in the UK FTSE 100. There are currently over 125 members of the group, representing some 81 companies.

Please note that, as a matter of formality, the views expressed in this letter do not necessarily reflect those of each and every individual member of the GC100 or their employing companies.

In this response, we make some overarching comments and then address your questions, where we have views, although acknowledge, as do you, the fact that some of these questions overlap.

In principle, GC100 supports the suggestion that the quality of board succession planning could be improved by the promotion of good practice. In this regard, we would strongly encourage the FRC to use guidance, rather than requiring UK-listed companies subject to the Corporate Governance Code to report on a comply or explain basis against new provisions. We do not believe the objective of encouraging companies to take a greater focus on succession planning will be satisfied through adding to the existing disclosure obligations in the annual report. In this regard, we are encouraged by Sir Win Bischoff's statement that the FRC "will not substantially revise the Code for at least the next three years, but rather focus on market-led and collaborative initiatives on succession planning and corporate culture."

GC100 Group

The Association of General Counsel and Company Secretaries of the FTSE 100
The GC100 Group is an unincorporated members' association administered by Thomson Reuters.

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Turning to the questions in the discussion document:

A. Business strategy and culture

By what practical methods can the development of business strategy and company culture be linked to succession planning?

The process of succession planning undertaken by the nomination committee should factor in and be responsive to the evolution of the company's business strategy and company culture, so that as the board is refreshed it has available to it the right blend of skills and experience to underpin the Group's ability to meet its strategic objectives.

B. Nomination Committee

How can nomination committee reporting be enhanced to provide sufficient information about the committee's work, including its focus on succession planning and talent management?

To what extent do you agree with the assertion that those who challenge are sifted out during the recruitment process?

What, if anything, can be done to improve the standing of the nomination committee?

In our view, the quality of board succession planning is dependent upon the nomination committee's direct oversight on behalf of the board, so as to make sure that this increasingly important area is given the attention and oversight it warrants.

We believe that there should be an on-going process by which a board's nomination committee reviews succession planning. This process should cover individual roles and the structure and mix of skills and experience on the board and within senior management. Whilst it should encompass planning for unforeseen departures, it should also look ahead, for example to plan for the replacement of those directors who are retiring within, say, a three year timeframe (although we accept that companies may adopt differing planning timeframes) at the end of their second or third three year mandate. It should also factor in the evolution of the company's business strategy and company culture so that the board has available to it the right blend of skills and experience to underpin the company's ability to meet strategic objectives.

We do not see evidence that natural challengers are being sifted out by the nomination process. Whilst we acknowledge that this may be the perception in some quarters, our experience is that the opposite is true. In fact, we observe that nomination committees increasingly distance themselves from the tendency to seek individuals with a similar mindset, but rather aim to achieve a board which represents a wide range of backgrounds, skills and experiences; one which can come to decisions that have considered a wider range of issues and perspectives than would be the case in a more homogenous board. A diversity of outlook, approach and style is also valued. We prefer the term "effective challenger" which refers to an individual capable of providing both support and challenge to the board as the situation demands.

In larger companies we do not see evidence of the nomination committee being the "Cinderella" committee though this may possibly be the case in smaller companies. Our view is that the idea of "Cinderella" committees is not borne out by reality. The fact is that a number of companies' nomination committees have their most senior or long-standing directors serving on those

committees as (a) they have time and (b) they are best placed given their experience on the relevant board to give a perspective on the credentials that would be sought to recruit on to the board. We do consider it important that the board as a whole should be fully engaged with and have line of sight to succession planning and of emerging talent/future leaders as part the board's ultimate responsibility for the activity through an iterative process where the nomination committee undertakes the detailed work and provides effective reporting of its activity to the board

Nomination committees are operating in an increasingly difficult environment. They are aware of the challenges of increased investor expectation of a more analytical/objective approach and future-looking succession planning.

In-year reporting of specific activity and process is generally good but investors increasingly want future-looking reporting. Does increased/enhanced reporting improve credibility? Further reporting of the process that the Nomination committee will use to judge candidates against the role profile and skills/experience matrix may be beneficial

C. The pipeline

How could companies do more to establish an external 'pipeline', tracking and nurturing external candidates – particularly NEDs?

Pipeline is an important issue, especially so given the regulatory overlay, particularly in the financial services sector (selection is subject to additional level of challenge by the regulators). Relationship building with specialist recruiters/headhunters; networking can help in developing the external pipeline as can input from directors on the candidate list from their own personal experience.

More could be done to encourage executive search firms to support the nomination committee by taking a more creative and analytical/objective/future-looking approach to succession planning/pipeline building.

D. Diversity

What more can be done and by whom to encourage greater diversity in the boardroom?

It has also been suggested that HR and nomination committees should work more closely with executive search firms to identify more diverse candidates. Can you provide examples of how this has taken place?

Diversity is not simply a matter of gender ethnicity or other easily measurable characteristic. Diversity of outlook and approach is harder to measure than gender or ethnicity but is equally important. A board needs a range of skills from technical adherence to governance or regulatory matters for an understanding of the business.

Diversity and pipeline may be improved by thinking of "off the wall" candidates; taking a punt on those who have not yet had non-executive experience. Nomination committees can be directive in the brief they give executive search firms and a skills matrix developed by the nomination committee can be a useful guide.

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The nomination committee should be monitoring bench-strength and diversity metrics below board level.

E. Board evaluation

What practical changes could help ensure boards fully consider succession planning within the annual evaluation exercise?

A proper review of current director performance as part of the annual evaluation exercise (perhaps including 360 degree reviews) should help to ensure that directors do not stay on a board for too long (especially if the strategy of the company and hence the need for specific skills and expertise have changed over the prior years of tenure). The board should input/sign off matrices used in succession planning.

F. The role of institutional investors

What information can be shared constructively between companies and investors on succession planning and talent development and how?

Engagement with investors can cover process and the skills and attributes sought and the rationale, as investors will seek comfort that these are being undertaken efficiently and effectively, but there is a problem of leak risk in talking about individual situations and investors generally don't want to be brought "inside".

We would be happy to discuss our responses with you directly as you develop your proposed feedback statement to this discussion document.

Yours sincerely,



Mary Mullally
Secretary, GC100