Lloyds Banking Group Plc's response to Financial Reporting Council's Discussion Paper on UK Board Succession Planning

We set out below our responses to the questions posed in your Discussion Paper.

(1) Business Strategy and Culture

Issues and questions:
By what practical methods can the development of business strategy and company culture be linked to succession planning?
Response: There are two aspects to this. Firstly, there should be investment in talent to support a pipeline of future leaders. Secondly, succession planning should not only consider the board's current requirements, but also the identification of the required mix of skills and experience to respond to future requirements of the business and trends within the market. Therefore, succession planning should take sufficient consideration of the anticipated future development of the company, its strategy and the market to ensure the board has an appropriate mix of members to successfully deliver its strategic objectives.

How best can the link between strategic planning and effective succession planning be reported?
Response: Inclusion of reporting within the Annual Report and Accounts (ARA) would be the most obvious place to achieve a common approach. Reporting on company strategy and proceedings of the Nomination Committee are the natural homes for this information and, with each of these areas of reporting serving a wider purpose, the appropriate context could be included within each, with suitable cross-referencing where required.

(2) Nomination Committee

Issues and Questions:
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?
Response: The Group provides comprehensive reporting of Nomination (& Governance) Committee activities in our ARA. This includes a reminder of the committee purpose and responsibilities, together with a detailed summary of what activities the committee has considered during the course of the given reporting period, including a specific section on effectiveness and succession planning. Within the 2014 ARA reporting, this also included more comprehensive commentary around actions taken to recruit new Non-executive Directors to strengthen coverage in critical areas identified by the Chairman following his assessment of the collective technical and governance skills of the Board. We consider that this comprehensive approach to reporting of the Nomination & Governance Committee activities provides an appropriate level of detail and transparency around its activities.

To what extent do you agree with the assertion that those who challenge are sifted out during the recruitment process?
Response: We have no experience of this being the case. As commented on within our 2014 ARA, when the Board was strengthened, key attributes of the recruited Non-executive Directors specifically included the analytic capability to form and share independent judgements, and this continues to be the case.

Should the details of the objective criteria used in the search for board candidates be set out in the nomination committee report and if not, why?
Response: Broadly, yes. Within the example referred to above in relation to Non-executive Director recruitment during 2014, we provided commentary in the ARA on areas where the Board wished to strengthen coverage of skills and experience. This provides transparency around the expectations of the recruitment process and a 'benchmark' against which successful recruitment can be evidenced.

What is your experience of public advertising for non-executive roles?
Response: Nil. We do not publicly advertise for Non-executive roles, but rather use the services of appropriate search agencies. While advertising may widen the application pool for some firms, it is unlikely to surface new candidates with appropriate experience to meet the specialist skill requirements of a board member for a major financial institution.

Are the responsibilities of the nomination committee made clear in the principles and provisions of the UK Corporate Governance Code? Should there be more clarity about the role of the board?
Response: We have no concerns around the clarity of provisions set out in the UK Corporate Governance Code.

What, if anything, can be done to improve the standing of the nomination committee? To what extent is the role and operation of the nomination committee a subject for discussion between investors and the board?
Response: Alignment of Nomination Committee activities with strategic planning, combined with adequate reporting in the ARA, serves well to ensure that the standing of the Nomination Committee is appropriate. Given the comprehensive nature of reporting we undertake in the ARA on all of the formal Board Committees, and the large number of investor meetings we undertake, this will consequently be included in discussions with investors from time to time. Again, comprehensive reporting within the ARA around committee activities will inevitably serve to answer a number of questions that investors may otherwise wish to ask in the absence of such information being readily available.

(3) Board Evaluation

Issues and Questions:
What practical changes could help ensure boards fully consider succession planning within the annual evaluation exercise?
Response: The ongoing oversight and maintenance of succession plans is critical to their success. Perhaps the evaluation exercise specifically should seek views on the adequacy of such ongoing arrangements?

Would more detailed reporting on changes to a company's succession planning process which resulted from the evaluation of the board be beneficial? What are the barriers to this and how might they be overcome?
Response: We recognise the importance attached by investors to an appropriate succession planning process. If, following the annual evaluation, one of the principal actions agreed by a board related to the amendment of its succession planning arrangements, we believe that outcome should be reported in the Corporate Governance report in the ARA.

Would retrospective disclosure of previous board evaluations be useful and how might companies go about this?

Response: The Group reported on the outcomes of the 2013 and 2014 Board Effectiveness Reviews (both Internal) in the 2014 ARA, and will provide an update against the 2014 agreed actions in the 2015 ARA. The reporting summarises the process undertaken and also provides commentary on key observations and actions arising from the reviews. We consider this to be an appropriate level of reporting.

We would like to know more about the practical use of succession planning matrices by companies, for example:

- Are there particular situations where they are more useful?
- Were they developed internally or bought in?
- Were they used in conjunction with consultants or other service providers?

Response: The Group employs the use of executive search firms for recruitment purposes. However, an internally developed skills matrix was used in the Chairman's assessment of the Board's collective technical skills in his review of the Board during 2014. This exercise allowed the creation of a framework which helped determine the desired profile of Board members, and assisted with the identification of specific areas where the Board sought to strengthen coverage.

(4) Pipeline

Issues and Questions:
We would be interested to learn more about how companies review their internal talent and what development practices they use in support of succession planning.
Response: At the heart of our pipeline identification process is a formal, annual evaluation of talent across the whole organisation for employees at grades Manager and above (several thousand people). The talent review considers the individuals' readiness for promotion and the development plan that should be put in place to support progression. Line managers for those individuals hold one-to-one meetings throughout the year to monitor and support progress against the development plan.

How could companies do more to establish an external 'pipeline', tracking and nurturing external candidates – particularly NEDs?
Response: The Group employs the use of executive search firms to monitor the availability of potentially suitable NED candidates. Where appropriate, the Chairman will seek an informal meeting with some of those candidates to discuss the potential to join the Board should a position arise. Regular contact is maintained thereafter.

What are the best ways to ensure that board members become more familiar with the work of internal candidates and their skills and attributes?
Response: This would likely be best achieved through the Board having appropriate visibility of succession plans in place for senior executives and through giving the opportunity to individuals at the level below the Group Executive Committee to present to the Board or meet with the Directors at more informal sessions, such as breakfast meetings or Board dinners.

(5) Diversity

Issues and Questions:
How should a succession plan incorporate and deliver diversity objectives?
Response: Succession plans should be closely aligned to a company's Diversity Policy. Our experience is that the Board recognises that senior management is a group from which future directors may be selected. Consequently, the implementation of a variety of networks across the Group helping promote diversity will have a beneficial impact upon the future diversity of that group. With respect to

Non-executive Directors, diversity should be central to any ongoing assessment of the collective skills of the Board, with search agencies suitably briefed on the Board's Diversity Policy.

What more can be done and by whom to encourage greater diversity in the boardroom?
Response: While some Boards may need to do more to assess their requirements for diversity, the major constraint in expanding diversity is the extent to which search firms can identify and put forward sufficient credible candidates from diversity groups who are not already well represented in Boardrooms. This might require a concerted programme for search firms to identify candidates who do not yet have the full experience required and then create training and induction opportunities with suitable organisations to help prepare them for future Board roles.

Do the current Code provisions relating to non-executive directors' independence and length of tenure assist with encouraging diversity and progressive refreshment of the board?
Response: Any shortening of the length of tenure would, naturally, assist with progressive refreshment of the board for companies where any relatively material number of board directors are longer serving. Our own experience is that this would have relatively low impact for the Group. Our longest serving Non-executive Director, the Senior Independent Director, has held a Non-executive position for over 6 years (since April 2009) and, in compliance with Code requirements, his performance review (last reported on in the 2014 ARA) was particularly rigorous. However, any shortening of the length of tenure could, for some companies, have the unintended consequences of 'forcing' changes to the board earlier than would perhaps be ideal if, for example, there was not a deep enough pool of available and suitably experienced individuals with the relevant skills (whether through inadequate succession planning or otherwise). This would most likely be the case for companies with 'niche' requirements in a particular industry sector.

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?
Response: During 2015, the Chairman refreshed his assessment of the collective technical and governance skills that he sought from Non-executive Directors, together with an assessment of how the existing Board members met those desired characteristics. This led to the identification of search criteria for two Non-executive Directors to strengthen coverage in critical areas. The brief to the search agency included our preference for at least one of the two appointments to be female and for at least one of the candidates to be resident or have spent their career abroad.

(6) Institutional Investors

Issues and Questions:
What experience have companies or investors had in terms of engagement about the introduction of new talent to a board?
Response: The Group has a high level of investor contact (over 1,000 meetings held with institutional equity and debt investors in the UK and overseas in the last year) covering a wide range of discussion points. As would be expected, from time to time those discussions cover the Board's succession arrangements.

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

Response: The Group provides significant content within the ARA around the proceedings of the Nomination & Governance Committee, the Group's Inclusion & Diversity Policy and also around the management of People Risk. The strategic report (within the ARA) also includes detail on Building the Best Team (people development and training, colleague wellbeing etc.). We are happy to discuss our approach to succession planning with investors and the Chairman will provide a more detailed overview when undertaking his regular governance meetings.

Lloyds Banking Group plc
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