

PG/CAM

1st October 2009

Mr. Chris Hodge,
Corporate Governance Unit,
Financial Reporting Council,
Fifth Floor,
Aldwych House,
71-91 Aldwych,
London WC2B 4HN

Dear Mr. Hodge,

The Premier Farnell plc Board recently had a discussion about the FRC's Review of the effectiveness of the Combined Code Progress Report and Second Consultation Document issued in July 2009.

I am writing to provide you with our feedback as input to the next stage of the Review.

1. We strongly support the three guiding principles set out in Section 1 of page 6 of the July 2009 document, and wholeheartedly endorse the points set out in the document's summary of feedback to date on pages 3 and 4.
2. In this context we feel that great care needs to be exercised in determining which of Sir David Walker's recommendations are sound principles that merit inclusion in the Code and which are specific, often prescriptive, solutions to systemic issues in BOFIs. We can see no merit, for example, in seeking to impose solutions such as Risk Committees and defined time commitments across the breadth of the UK Corporate Sector as these are means to an end, and not necessarily appropriate (let alone the best solution) for many companies.
3. We feel that the proposals for annual re-election of company chairmen, main committee chairmen and all directors:

- (a) undermine the principle A5 of the current Code that the Company Chairman is responsible for the leadership of the Board as he is key to ensuring the right people are appointed as Committee Chairmen and Directors;
 - (b) could lead to unintended consequences with an increase in the short-term of focus of Boards to secure annual re-election at the expense of what is in the best longer-term interests of the company and all its key stakeholders;
 - (c) may give short-term activist shareholders further leverage over companies they are targeting.
- 4. Board Effectiveness Reviews: there are a number of reasons why a Board may not be effective. These include process (e.g. timeliness of Board papers), the Agenda, relationships between Directors, the approach taken by NEDs to the Executive Directors and the skills, competencies and experiences of the Board Members. External reviews may be helpful in some situations in improving effectiveness but in many situations where Directors have wide collective experience of other Boards, self assessment can be at least as effective and better value for money.

There should be a requirement for companies to give greater disclosure on the key issues arising from the effectiveness review and the actions being taken to address them.
- 5. We feel the Consultation Document places too much emphasis on voting through proposals for annual re-election of some or all of the Board Members and voting on individual remuneration packages, both of which we feel are negative developments. It needs to be recognised that a vote is a symptom, and tells the company nothing about the underlying cause(s). To establish the latter requires healthy, frank dialogue between the Company and its investors.
- 6. On remuneration we believe it is essential that a robust code of conduct is established as soon as possible for Remuneration Consultants.
- 7. We are supportive of the need for greater involvement and engagement by investors, but ask the FRC to take into account the following:
 - (a) the degree of integration between the corporate governance and investment arms of institutional investors is very variable, ranging from a strong joined up approach to the



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other extreme where the investment arms act autonomously. If institutions want to help encourage good corporate governance the overall level of integration across the investment sector needs to be improved.

- (b) we are concerned that, due to limited resources in investing institutions, there will be growth in the use of unaccountable intermediaries to handle shareholder engagement in companies. The behaviour of PIRC in respect of its recommendations on Company Remuneration Reports (where our experience is that the Company is given only 24 hours to comment on the PIRC draft and there is no time for a reasoned constructive dialogue) underlies this concern.

Thank you for the opportunity to provide these comments which I hope you find useful.

Yours sincerely

A handwritten signature in black ink, reading "Peter Gershon". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Sir Peter Gershon
Chairman