

Mr C Hodge  
Corporate Governance Unit  
Financial reporting Council  
Fifth Floor  
Aldwych House  
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16 June 2009

Dear Mr Hodge

### **REVIEW OF THE EFFECTIVENESS OF THE COMBINED CODE**

We have already input to the discussion on the FRC's review of the effectiveness of the Combined Code but we thought you may be interested in our general thinking as a corporate. I have not repeated particular points of detail from the discussions we had with the GC100, or which were made over the lunch our Company Secretary, with others, had with Sir Christopher Hogg.

The first point that we would like to make is that we continue to support the 'comply or explain' approach and believe that the Code continues to be 'fit for purpose'. The right structures are generally in place. Whilst there may have been a failure by some financial institutions to apply the Combined Code Principles, which in part may have contributed to the recent financial crisis, there is no evidence of wider failings. Even the best corporate governance, however, will not prevent poor management decisions, although a key aspect of a non-executive director's role is to, and must be to, challenge management.

A prescriptive approach to corporate governance is likely to damage rather than improve the effectiveness of governance, a point I have heard echoed at meetings with peers in other parts of Europe, who are quite envious of what we have here in the UK.

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We strongly believe that future effort should largely go into improving the effectiveness of the existing provisions of the Code rather than radical reform of the Code – for example by focusing on the role of non-executive directors. One issue that seems to have surfaced in recent months is the perceived role of non-executive directors, involving too high expectations of individuals who are part-time and cannot be expected to have the same detailed knowledge of the business as executives. Some clarification of the NED role, for the wider audience, would therefore be helpful without there being prescription around their responsibilities.

Further areas for consideration are:

- the nine-year term for NEDs and determination of their independence which appears rather rigid and could result in NEDs stepping down prematurely;
- what constitutes ‘recent and relevant financial experience’?
- strengthening the provisions around Board evaluation;

A final point; the Code should continue to apply industry-wide and the temptation to make it industry specific should be rejected. The Code should continue to provide a consistent structure that applies across all sectors of industry.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Alan Scott', written in a cursive style.

ALAN SCOTT