

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

22 February 2018

Dear Sirs,

Response to UK Corporate Governance Code Consultation

On behalf of Land Securities Group PLC (“Landsec”), I have pleasure in responding to your consultation on the proposed revisions to the UK Corporate Governance Code.

We welcome the new Code and are broadly supportive of what is proposed, especially the increased focus on section 172 and culture. There are some areas however, particularly in respect of the proposals for the enhanced remit of remuneration committees and the independence of the Chairman (covered under questions 7 and 14), where we would like to make some suggestions to allow the provisions to operate as intended at a practical level.

Our responses to the questions raised in the consultation are set out below.

Question	Landsec response
Q1. Do you have concerns in relation to the proposed Code application date?	No. We are confident that we will be able to comply with the provisions for our financial year 2019/20.
Q2. Do you have any comments on the revised Guidance?	No, it works well as a supplement to the Code.
Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?	We appreciate the avoidance of a prescriptive measure for the Board gathering the views of the workforce and, reflecting the diverse nature of companies in the FTSE, welcome the flexibility for individual companies to choose a mechanism or combination of mechanisms that is right for them to achieve meaningful engagement. We believe that appointing a director from the workforce seems disproportionate to satisfy the



	<p>intention of the provision as that employee would be required to take decisions in the best interests of the company on all matters, even when not relevant to the workforce.</p> <p>We further believe that in the limited time usually available to non-executive directors, a designated non-executive director for the workforce may find it challenging to ensure that the views of the workforce are heard.</p> <p>In our opinion, the most effective way to achieve meaningful engagement would be a formal workforce advisory panel, which meets with a designated non-executive director, or more than one designated non-executive director, as appropriate. The panel could be consulted where workforce input is relevant but would not be required on every matter that comes before the board. We also note that existing employee forums can be enhanced to operate for this purpose.</p> <p>Meaningful engagement comes down to the spirit with which any of these methods are implemented, how they operate in practice and ensuring they do so with integrity.</p>
<p>Q4. Do you consider that we should include more specific reference to the UN Sustainability Development Goals or other NGO principles, either in the Code or in the Guidance?</p>	<p>No. The need for companies to consider their responsibilities to shareholders and stakeholders and the contribution made to wider society and to report on these issues and how they have affected board decision-making is sufficiently covered by the Code and Guidance. If it was thought that specific reference was needed, we would suggest considering reference to the Taskforce on Climate Related Financial Disclosures and Climate Resilience.</p>
<p>Q5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?</p>	<p>Yes. We agree that 20% is significant. However, we do note that it is important to remember that many investors simply adopt as a matter of policy the recommendations of voting agencies. The strength and influence of the voting agencies is a relevant factor. Voting agencies adopt their own principles which are applied to all companies; they are not tailored to what may be in the best interests of the company in question. This can result in 'significant' votes against, despite interactive discussions with institutional investors.</p>



	<p>We also believe that whilst 20% might be an appropriate threshold for identifying areas of discontent on remuneration resolutions, it could stifle innovation in other areas. The perception may be that if you receive more than 20% vote against, what you are proposing has failed, notwithstanding that the resolution has still been passed (perhaps by a majority of more than 75% as required by a special resolution).</p> <p>An update no later than 6 months after the vote allows for sufficient dialogue prior to the final disclosure in the next annual report.</p>
<p>Q6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.</p>	<p>Yes, we agree that the Code sets good practice and is useful in helping companies of all sizes achieve good governance practice. However, as a FTSE 100 company, we are unable to comment on the cost or practical implications that this may bring for smaller companies.</p>
<p>Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?</p>	<p>Yes. However, we believe that the nine-year period should be re-set once a member of the board becomes chair. If the nine-year period includes the time the director concerned has already sat on the board, this could limit the pool of directors who are suitable to become chair. This set time period may work against a director who has served for many years on the board and who has extensive experience and knowledge of the company's business (perhaps one operating in a cyclical market) compared to a more recent appointment. A director who has served seven years already, for example, would then only have a two-year tenure as chair before losing independence. This could have an impact on the retention of non-executive directors post the 6-year mark should they feel there is no chance of succession to chair. If the clock is re-set, consideration should be given to what independence criteria should then be applied (for example, a six-year period for any director who has been on the board for more than three years at the time of appointment to the position of chair).</p>
<p>Q8. Do you agree that it is not necessary to provide for a maximum period of tenure?</p>	<p>Yes, flexibility should be maintained to allow an explanation as to why a director is still considered independent even if they have been on the board for over nine years. The fact that shareholders also have an annual vote on director re-elections, together with the 20% opposition disclosure</p>

	<p>provides a sufficient mechanism should shareholders oppose a re-appointment.</p> <p>We suggest that the FRC clarifies whether it is still open to the board to conclude that, notwithstanding the presence of one of the indicia of non-independence that the Code lists, the particular director in question remains independent and therefore can be included in the board and committee composition for independent directors.</p>
<p>Q9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?</p>	<p>Yes. The breadth of considerations on diversity proposed by the revised Code are welcome and the emphasis on building diversity throughout the workforce is a beneficial change.</p>
<p>Q10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.</p>	<p>Yes. Diversity should be encouraged in all companies, no matter what the size as it needs to be reinforced throughout society. However, as a FTSE 100 company, we are unable to comment on the cost or practical implications that this may bring for smaller companies.</p>
<p>Q11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.</p>	<p>We agree with the point raised by Sir John Parker in his report that the lack of publicly available data in respect of other types of diversity may present an unnecessary hurdle in tracking progress and being fully transparent to all stakeholders.</p> <p>There are many advantages to having genuine diversity at all levels of an organisation and picking on one aspect of diversity does not really help but the more data there is out there, the greater the pace of change.</p>
<p>Q12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?</p>	<p>Yes, we believe it is helpful (although not necessary) to have the requirements reinforced in the Code.</p>
<p>Q13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.</p>	<p>Yes, we support the removal; this makes sense.</p>
<p>Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?</p>	<p>Even though remuneration committees will not be expected to become involved in setting pay and policies for the wider workforce, they will need to consider many more issues and need to demonstrate how pay and incentives align across</p>



	<p>the company and explain to the workforce annually how decisions on executive pay reflect wider company policy. As a result, the time commitment and expertise required from remuneration committee members is likely to increase, as will their training requirement. It effectively turns remuneration committees into an executive management/HR role.</p> <p>This expanded role may also necessitate more fees being paid to remuneration consultants and there is the risk of rubber stamping the advice of such external consultants.</p> <p>The requirement for “oversight” of workforce pay, conditions and policies is vague. What does oversight really entail? “Work force policies” is broad in scope which could lead to confusion as to what remuneration committees should really focus their time on as well as increasing their time commitment.</p> <p>We query the relevance of the provision which stipulates that a director must have served on a remuneration committee for a year before being appointed Chair. This raises a number of questions for us. A year’s experience in another remuneration committee may not be preferable to a shorter stint on our remuneration committee. There may also be outstanding candidates who have served for less than a year or circumstances where not having served on a remuneration committee could be desirable. However, we are happy for this to be a comply or explain provision.</p>
<p>Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?</p>	<p>The role of remuneration consultants or advisers to any remuneration committee can be influential. For that reason, and as with some other advisor roles, Code guidance could be given on the duration of any appointment and the requirement to tender advisers (for example, every seven years). This should help with the provision of independent advice to the remuneration committee, and the clarity of the role of the advisers to the committee.</p> <p>We are concerned about the increasingly complicated remuneration structures which make it harder for shareholders to understand. Companies should be encouraged to work with their shareholders to simplify the structure of the</p>



	<p>remuneration policy, but their ability to bring about change will depend on their shareholders. The complication surrounding remuneration (and the particular focus that it receives) results in a disproportionate amount of time being allocated to this issue when compared to wider business issues. Our view is that there are risks associated with the ever-increasing levels of complication that need to be balanced with the need for transparency.</p> <p>The general nature of the discontent regarding Executive remuneration, from investors, the media, employees, and (in some cases) from the Executives themselves, does beg the question of how can a radical and fundamental change to the remuneration structure be delivered if companies are penalised for losing more than 20% of the shareholder vote on new proposals and remuneration committees face criticism from many quarters for taking a holistic view of performance rather than applying detailed metrics to determine an outcome. We believe that this debate is ongoing, and, whilst it should not delay the implementation of the new Code or Guidance, the FRC should continue to explore options in this area.</p>
<p>Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?</p>	<p>The expectation that the Board may use discretion could lead to more scrutiny of remuneration committees' actions. Remuneration committees and advisers will be aware of the commentary and perspective on executive pay and need to ensure there is no overpayment for performance of results achieved. The only discretion applied will be downward.</p> <p>However, we do welcome the encouragement of more involvement from the Board on remuneration, to support the remuneration committee's work.</p>

Yours faithfully

Tim Ashby
Group General Counsel and Company Secretary