

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

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Our ref: B0991ICP

Dear Chris

### **UBS Global Asset Management – Comments on the Effectiveness of the Combined Code**

Overall, we believe the Combined Code and its comply or explain approach work well which has contributed to the high standards of governance in the UK. We agree with the preamble to the Code: "Good governance should facilitate efficient, effective and entrepreneurial management that can deliver shareholder value over the longer term". For us, governance is integral to our investment process and not a compliance exercise.

We look to the chairman to uphold the highest standards of governance. Most of our face to face engagement with boards is with the chairman although we are finding the senior independent director to be a very useful alternative point of contact. Access to chairmen in the UK is generally good and we find that most welcome the opportunity to have a constructive discussion and to understand the views of major shareholders. The board evaluation is proving valuable as a focus for important issues such as the skill set of the board, development of management talent and strategy. We find that meeting with a chairman gives us a better understanding of key issues such as how well the governance works in practise, the strategy and the main risks that the business faces.

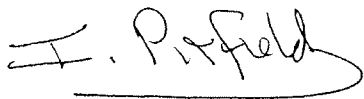
As to what could be improved:

- a) The main principle on remuneration in the Code states: "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose." This principle is fine but in practise:
  - i) Remuneration suffers from an upward ratchet as remuneration committees target median or upper quartile salaries and then hide behind the data from remuneration consultants.

- ii) Some performance measures can be manipulated to the advantage of executives by increasing leverage or share buybacks.
  - iii) Schemes have become complicated.
  - iv) Despite compliance with the Code, it is clear that reward systems within the banking sector encouraged behaviours which ultimately undermined both the individual banks themselves and the wider financial system. It is imperative that the Financial Reporting Council, in reviewing the effectiveness of the Combined Code, works closely with the other relevant bodies to identify measures that ensure such an outcome is avoided in future.
- b) There is scope to improve the disclosure on risk management. There are two important aspects for shareholders - how does the board set its risk appetite and how does it exercise oversight of these risks. As with all disclosures to shareholders it is the quality of the information that is important not the quantity.

Please contact me if you would like any further detail.

Yours sincerely



Ian Pitfield  
Corporate Governance Director