The Chairmen's Forum is an independent, not for profit, membership organisation for Chairmen which provides opportunities for members to meet to share their experience, discuss best practice and undertake research in the interests of improving board performance. This submission does not constitute a formal piece of research but reflects a series of semi-structured conversations with 21 current Chairmen drawn both from within our membership and elsewhere representing mainly FTSE 250 and 'mid-cap' companies.

The key observations arising from these conversations may be summarised as follows:-

a) **The Combined Code** and the unitary board model **does not require fundamental change** in scope or tone but the principles based approach would benefit from more consistent and in some cases, more considered, application by companies and investors.

b) The **'Comply or Explain' principle is a vital element** of a sensible and evolutionary form of regulation but the failure of investment institutions to engage constructively with companies who seek to 'explain' rather than 'comply' in this context risks the benefits of this provision being undermined. The most common criticism is that whilst investment managers may accept a variation to the compliance model in practice all the corporate governance monitoring, administration and objection in terms of policy and shareholder votes is driven by 'back office' officials who do not interface with investee companies.

c) **Non-executives remain too dependent upon executive management information flows** for information about the business and there is a wide variation in practice as to what is provided. The potential for non-executives defining additional information needs, visiting different parts of the business, seeking analytical support and generally 'knowing what they don't know that they need to know' as well as the role of the Company Secretary in this regard needs further examination to help define best practice.

d) Definitions and limitations applied to non-executive 'independence' fail to acknowledge that **'independence is an attitude of mind'** and as a result of this and the age constraints that pertain some companies (and especially banks) feel that they have been denied access to experienced non-executive advice and participation at a time when it was needed most.

e) **Board performance reviews** have not been undertaken consistently or with sufficient rigour by many companies and in some cases insufficient differentiation has made between the performance of the board as a whole and the evaluation of individual directors. Many felt that a structured annual review should be undertaken with at least periodic external advice. Specific linkage between Board performance evaluation and the achievement of strategic goals would also improve effectiveness.

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f) **Chairmen and boards must take ownership of enterprise-wide risks on a 'top down' basis rather than delegate (or even abrogate) responsibility to committees or sub-committees.** It is important to have a **clear alignment between Group strategy and risk appetite** and to categorise risks between those which constitute a **risk of ruin** and those which represent a **risk of business objectives**, in terms of strategy, profitability or reputation. It is also critical to ensure that that there is a structured system for **escalating information** from divisional entities to ensure that the Board has a clear line of sight on 'blow ups' within a group structure and a recognition of the fact that subsidiary managements are not always able to evaluate the impact of 'local' risks on the wider group. There is also a need to ensure that sufficient Board time and resource is devoted to **'horizon watching'** including researching and understanding the global economic context and political risk environment as well as the impact of a **combination of risks** rather than focusing on narrow business specific issues.

g) The **weight and complexity of committee work** in larger and more complex businesses imposes a time commitment which is increasingly difficult for non-executive directors who have current executive responsibilities elsewhere (and the Chairmen and CEO's of those businesses) to accept and also calls into question the adequacy of non-executive remuneration.

h) The present attitude towards **remuneration policy** and the approach to LTIPs is making it increasingly difficult to offer management a relevant incentive to outperform in the interests of shareholders. More flexibility is required if exceptional results are to be attained. There also needs to be a recognition of the need to establish a link between remuneration and risk in an environment where increasingly 'one size' does not 'fit all'.

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