

Walker and the 2009 Review of the Combined Code on Corporate Governance

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Key issues

- Appointment of NEDs
- Induction, training and development
- Chairman's role
- Board evaluations
- Shareholder engagement
- Risk Committees and Chief Risk Officer
- Remuneration

A wealth of issues to tackle!

Walker Report imminent

Walker Review final report due end November, draft revised Combined Code shortly thereafter.



A risky presentation

The cornerstones of good governance

- Getting the right board in place
- Ensuring it achieves its full potential



It sounds so straightforward

Avoiding scope creep

Walker Review sound for banks

Caution needed in applying to

- BOFIs generally, especially non-banks which are smaller listed.
- all listed companies



The principal problems were with the big banks

FSA involvement in NED selection

- Closer attention to board balance especially in relation to risk strategy
- Look at relevant experience/qualities of individual directors and access to induction and development programmes
- Aim to promote **proactive** engagement at board, above all on risk strategy
- Tougher interviewing of potential NEDs

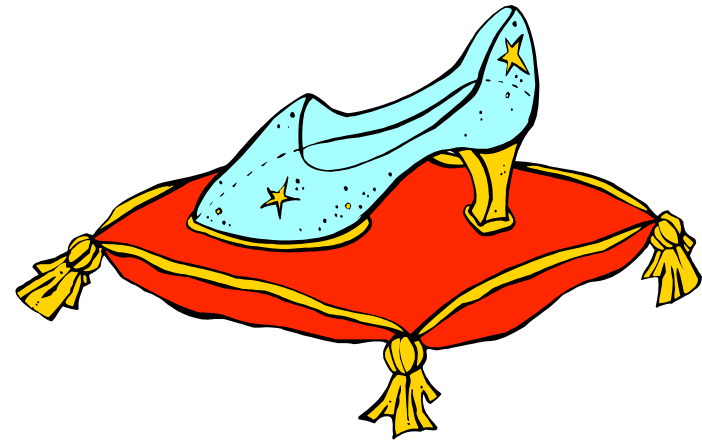


'Light touch' yesterday's approach

Induction, Training and Development

More formal approach to induction and development:

- regular thematic business awareness sessions
- substantial personalised induction, training and development



Induction and training no longer 'Cinderella' subjects

Time

Call for greater time commitment from NEDs.

Minimum 30 - 36 days for a major bank board.



Time – a political issue

The Chairman

- Needs relevant financial industry experience, but
- track record of successful leadership in a significant position is vital



Chairman is pivotal to board success

Chairman's responsibilities

Responsible for ensuring:

- effectiveness of board and setting agenda. Must be sufficient time to discuss strategy;
- effective board discussion, especially on risk and strategy;
- effective communications between executive directors and NEDs;
- directors receive all relevant information and that it is accurate, timely and clear.

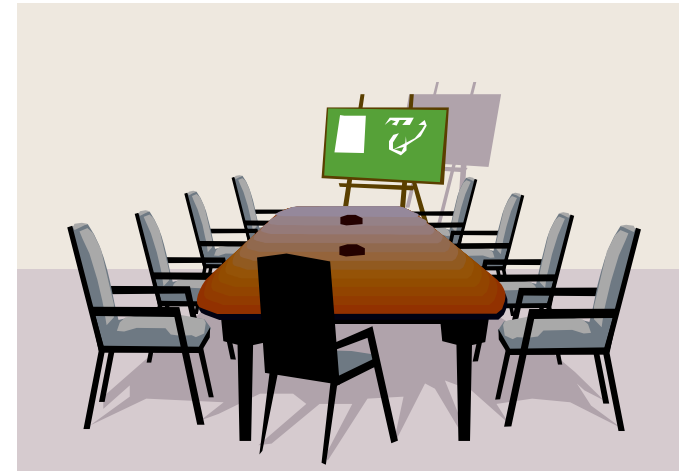
Should be annually elected.



Conducting the orchestra effectively

Board evaluations

- External evaluation every second or third year
- Evaluation statement a separate section of the annual report, covering work of board and nominations/corporate governance committee
- Statement should cover communications by chairman with major shareholders



Even very good boards can get better

Shareholder engagement

- Where substantial change in the share register, FSA should speak to major selling shareholders
- Develop FRC-sponsored principles of best practice for stewardship by institutional investors
- Sovereign wealth funds and public sector pension funds to apply principles if possible
- Institutional investors should have a MoU, flexible/informal/agreed approach to leadership on specific issues.
- Institutional investors/fund managers should disclose their voting record/voting policies.



It's good to talk

Risk Committee

Separate risk committees:

- responsible for oversight/board advice on current exposures/future risk strategy
- should take account of macro-economic/financial environment
- to have access to external input
- to oversee due diligence on strategic acquisitions/disposals



Managing risk better, making better judgements

Chief Risk Officer

- CRO involved in risk management/ oversight at highest level on an enterprise-wide basis with total independence from individual business units
- report to FD/CEO and risk committee with direct access to chair. Only removable by board. Remuneration to be approved by chairman/chairman of remuneration committee



Promoting independent risk management

Remuneration Committee

- To cover firm-wide remuneration policy and address risk.
- To cover all executives for whom remuneration exceeds the median compensation of executive board members
- Remco should confirm performance objectives linked to remuneration for all executives covered
- Remco should link up with Risk Committee on performance objectives
- For 'high end' executives, show remuneration within each band properly analysed
- Remco consultants should form a professional body and develop a code of conduct.



Strengthening the link between performance and remuneration

Bonuses

- For executive directors and 'high end' executives, at least half of variable remuneration should be in the form of a longer term incentive scheme with half of the award vesting after three years and the remainder after five years. Short term bonuses should be paid over three years, maximum third in year one. Clawback where misstatement/misconduct.
- Executive directors and 'high end' executives should be expected to maintain a shareholding/retain vesting awards equal to total compensation on a build up basis.



Important but does it tackle the fundamental issue?

The Big Question

Have we got the right governance system in place to promote **long-term sustainable wealth-creation**. It's about

- People
- Judgement
- Processes



You can't take the people and judgement out of the equation



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