



Proposed changes to the Combined Code on Corporate Governance

Combined Code

The UK's Combined Code, first published in 1998, drew together the recommendations of a trilogy of codes: the Cadbury Report (1992), the Greenbury Report (1995), and the Hampel Report (1998). It was the first code to introduce a principles-based approach, which now underpins the UK's approach to corporate governance. Insight supports this influential code, which continues to provide the framework for UK corporate governance.

FRC review conducted

The Financial Reporting Council (FRC) recently undertook a review of the Combined Code on Corporate Governance. Insight signalled our support for the current Combined Code on Corporate Governance through our membership in the Association of British Insurers (ABI) and on the CBI's Companies Committee, and verbally to Sir Christopher Hogg, Chairman of the FRC. On 11 October 2007, the FRC published the findings of the review. Sir Christopher Hogg said: "We have concluded that there is no need or demand for significant changes to the Code at this point, and are therefore proposing only limited amendments."

The FRC has proposed two amendments to the Code.

1. Multiple chairmanships

The first proposed change is to remove the restriction on an individual chairing more than one FTSE100 company. Insight shares the ABI's view that the Code's clause restricting multiple FTSE 100 chairmanships should be deleted. We believe it should be up to the board to decide whether an individual has sufficient time to carry out the role, while taking into account their positions inside and outside the UK quoted sector.

Two examples of individuals who have two chairmanships are Michael Treschow, who is Chairman of both Unilever and Ericsson, and Jorma Ollila, who chair's the boards of both Shell and Nokia.

2. Chair on Audit Committee

The second proposed amendment is to allow the chairman of a smaller listed company to be a member of the audit committee where he or she was considered independent on appointment. This follows on from the changes made to the Combined Code in 2006 that allowed company chairmen, where considered independent on appointment, to serve on a company's remuneration committee. We believe it has sometimes been difficult for smaller companies to populate their audit committees with three independent directors without including the chair. Insight will continue to monitor the overall balance of boards of small companies.

Reflections from the FRC

Sir Christopher Hogg said: "There is no room for complacency. While respondents strongly endorsed the flexible 'comply or explain' approach, it is clear that it is not always applied as intended. All parties share responsibility for ensuring it remains an effective alternative to regulation – companies by providing robust explanations when they choose not to follow the Code, and investors and their advisors by assessing each explanation on its merits rather than applying a rigid set of rules."

Consultation on the proposed amendments will begin in November and if agreed, the revised Code will come into effect in June 2008, at the same time as the new FSA's Part 6 Rules, which include the Listing Rules and implement new EU requirements on corporate governance.

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