



Governance in brief

Your summary of the latest corporate governance developments

Headlines

- FRC to review the effectiveness of the Combined Code.
- The Turner Review is published.
- FSA consults on new rules to link risk management and remuneration policies.

FRC to review the effectiveness of the Combined Code

In Brief: The FRC is calling for views and evidence on both the content of the Combined Code and the way that it has been applied by companies and enforced by investors using the 'comply or explain' mechanism. Views are invited on the following questions:

- Which parts of the Code have worked well? Do any of them need further reinforcement?
- Have any parts of the Code inadvertently reduced the effectiveness of the board?
- Are there any aspects of good governance practice not currently addressed by the Code or its related guidance that should be?
- Is the 'comply or explain' mechanism operating effectively and, if not, how might its operation be improved? Views are invited on the usefulness of company disclosures and the quantity and quality of engagement by investors.

On the content of the Code, the FRC is particularly interested to hear views on:

- the composition and effectiveness of the board as a whole;
- the respective roles of the chairman, the executive leadership of the company and the non-executive directors;
- the board's role in relation to risk management;
- the role of the remuneration committee;
- the quality of support and information available to the board and its committees; and
- the content and effectiveness of Section 2 of the Code, which is addressed to institutional shareholders.

Speaking at the Institute of Chartered Secretaries and Administrators' (ICSA) Corporate Governance Conference, Sir Christopher Hogg, Chairman of the FRC said: "While there is no assumption that the Code is fundamentally flawed or that a different regulatory framework for corporate governance could have alleviated the financial crisis, we are clear that the time is now ripe for testing the Code's content and application against the fresh thinking that the crisis must provoke."

The FRC has confirmed that it will liaise closely with Sir David Walker's review of the governance of banks and share relevant research and information.

Date: 18 March 2009

Source: Financial Reporting Council

Deadline for comment: 29 May 2009

Further info:

<http://www.frc.org.uk/press/pub1894.html>

The Turner Review is published

In Brief: Following the banking crisis, the Chancellor of the Exchequer asked Lord Turner, in his capacity as Chairman of the FSA, to review banks and make recommendations for reforming UK and international approaches to the way banks are regulated.

Lord Turner said:

"The financial crisis has challenged the intellectual assumptions on which previous regulatory approaches were largely built, and in particular the theory of rational and self-correcting markets. Much financial innovation has proved of little value, and market discipline of individual bank strategies has often proved ineffective."

"The changes recommended are profound, and the banking system of the future will be different from that of the last decade. The world's economy will be better served as a result."

Published alongside the Review is an FSA discussion paper (DP 09/2) which sets out more detail on specific policy proposals.

Section 2.8 of the review covers 'Risk management and governance: firm skills, processes and structures'. Lord Turner believes that improvements in the effectiveness of internal risk management and firm governance are essential. There have been many cases where boards failed adequately to identify and constrain excessive risk taking. Detailed FSA proposals will await the outcome of the Walker Review (the HM Treasury review of governance in UK banks – described in Governance in brief February 2009) but the key dimensions of required improvement are likely to be:

- improved professionalism and independence of risk management functions;
- risk management considerations embedded in remuneration policy;

- improvements in the skill level and time commitment of non-executive directors; and
- shareholder discipline over corporate strategies.

One question is whether the governance arrangements appropriate for banks are different from those which apply to the generality of companies, and whether codes and rules which go beyond the general Combined Code are required. Once the Walker Review has reported, the FSA will consider what changes to its rules and process are required to ensure that problems are addressed, making specific proposals by the fourth quarter of 2009.

Box 11.2 on page 190 of the discussion paper also sets out thoughts on governance and risk management. It includes the following statements:

"In future boards will need to have NEDs with the relevant degree of expertise and the time to be able to devote to overseeing complex business. This will probably involve NEDs spending weeks rather than days per month in order to discharge their responsibilities and having greater resource to support them."

"Risk Committees have a key role which should not be diluted by having other responsibilities, e.g. audit or compliance. The mandate and membership of the Risk Committee needs to be clear, comprehensive and public and it needs both the resources and authority to ensure that the risks it identifies are mitigated."

Date: 18 March 2009

Source: Financial Services Authority

Deadline for comment: 18 June 2009

Further info:

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2009/037.shtml>

FSA consults on new rules to link risk management and remuneration policies

In Brief: The FSA is proposing that a new, general requirement that a firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management will be introduced to its Handbook.

The new requirement would be part of a Code of practice on remuneration and would apply to certain FSA authorised large banks and broker dealers. The FSA published a draft Code of Practice on remuneration policies on 26 February 2009 and details of the proposed Code were set out in the previous edition of Governance in brief. The FSA is also inviting general discussion and feedback on whether the Code should be extended to other FSA-authorised firms.

Date: 18 March 2009

Source: Financial Services Authority

Deadline for comment: 18 May 2009 for the consultation questions and 18 June 2009 for the questions for discussion.

Further info:

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2009/038.shtml>

Time to take action

- If not already done, review current governance practices and be satisfied they generate an environment of effective governance to support decision making in these tough times – in particular focus on the effectiveness of risk management frameworks, anti-fraud controls, remuneration policies and engagement with shareholders.

For further information, visit the Corporate Governance section of our website at www.deloitte.co.uk (Services/Assurance & Advisory).

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