

Press Release

PR/23/09

5th June 2009

Immediate Release

**NAPF PUBLISHES CONTRIBUTIONS TO
FINANCIAL REPORTING COUNCIL AND WALKER REVIEW
Adjustment Rather Than Overhaul of Combined Code Needed**

The National Association of Pension Funds has today published¹ its responses to the Financial Reporting Council (FRC) call² for evidence in reviewing the effectiveness of the Combined Code as well as its contribution³ to the Walker Review⁴ of Corporate Governance of the UK's Banking System (see Annex 1 and 2 for summaries). Both reviews are in response to corporate governance issues raised by the financial crisis.

The NAPF's responses place particular emphasis on the specific issues which are of concern to its members. These are similar to and complement the recommendations of the Institutional Shareholders Affairs Committee (ISC) which were also published today.

David Paterson, NAPF Head of Corporate Governance, said: "The stronger stance on the application of the Combined Code in the current voting season demonstrates investors' growing willingness to hold companies to account. Therefore, we believe that adjustments to, rather than an overhaul of, the Code are the most appropriate way forward.

"We cannot ignore the governance lessons from the bank failures and highlight the need for better board evaluation processes and more scrutiny by shareholders of directors who are up for re-election. It is evident now that shareholders must be particularly vigilant where they are invested in complex businesses or ones which have a dominant CEO.

“Current remuneration practices serve neither shareholders nor management well and the NAPF wishes to see radical changes to them. While this is in part linked to the risk issues identified by the FSA, it is also to do with better long-term alignment of interests between shareholders and executives.

“As one of the largest owners of UK listed companies, the pension fund industry has an important role to play in ensuring that its fund managers are held accountable for the effective application of agreed corporate governance policies, consistent with the revised Myners’ Principles which were published last year.”

ENDS

Notes to Editors

1. The NAPF response to the FRC’s Review of the Effectiveness of the Combined Code can be found via:- <http://www.napf.co.uk/Policy/Governance.cfm>
2. Details about the FRC review can be found via:- <http://www.frc.org.uk/corporate/reviewCombined.cfm>
3. The NAPF response to Sir David Walker’s review of corporate governance in the banking sector can be found via:- <http://www.napf.co.uk/Policy/Governance.cfm>
4. Details about the Walker Review can be found via:- http://www.hm-treasury.gov.uk/walker_review_information.htm

The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

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ANNEX 1: NAPF Response to the FRC Call For Evidence

In its wide-ranging response¹ to the Financial Reporting Council (FRC) call² for evidence in reviewing the effectiveness of the Combined Code, the NAPF has recommended that adjustments, rather than an overhaul, are needed to take into account the lessons and experience of the last two years. The NAPF response includes recommendations in key areas such as:-

Remuneration

In this complex area, the NAPF believes that current practices serve neither shareholders nor management well and wishes to see radical changes to them including the long-term alignment of interests between shareholders and executives. The NAPF recommends that the Code should strongly advise against frequent benchmarking of pay and that performance-based pay should be largely in shares. Disclosure on remuneration policies, including the role of risk in setting objectives, could also be improved.

Shareholder Engagement

Engagement over compliance with the Code has improved in both quantity and quality in recent years, but with excessive focus on remuneration (which is subject to a vote) and too little on board effectiveness. The latter is more important in delivering long-term returns. The NAPF recommends that the Chairman and Senior Independent Directors (SID) have specific responsibilities for ensuring strategy is communicated to shareholders and that shareholders' views are fed back to the Board.

Non-Executive Directors

The NAPF recognises that non-executive directors have an increasingly demanding role. It is important that the Board has the right mix of skills and experience and non-executive directors are provided with the appropriate resources to carry out their responsibilities. The Code should encourage Boards to make use of advisers as needed and to make appropriate disclosure in the annual report.

Other subjects covered in the NAPF response include:-

- The nine year rule
- Audit and risk
- Comply and explain

Sir David Walker is also conducting an independent review on the governance of the banking sector, which has some crossover with the review of the Combined Code.

ANNEX 2: NAPF Contribution to the Walker Review

As previously stated the NAPF response places particular emphasis on specific issues which are of concern to its members, in addition to the NAPF support of the ISC submission. The NAPF response includes recommendations in key areas such as:-

The Role of Institutional Shareholders

The NAPF accepts that engagement on strategic issues would benefit from more collaboration among major shareholders. The NAPF along with the other members of the ISC, is committed to the development of a mechanism which will facilitate such engagement.

Pension funds can support better engagement by incorporating the ISC's Statement of Principles into their Statement of Investment Principles (SIP) and holding their managers to account for applying them.

Engagement is not however a one way street. Companies and in particular their chairmen need to ensure that they have communicated their business strategy clearly to shareholders and that they have understood and addressed any reservations they may have.

The Balance of the Board

A key issue that concerns institutional investors is whether the non-executive directors have the tools to interrogate management effectively and whether board agendas are sufficiently focussed on the right strategic issues to allow directors to perform their stewardship role properly.

The NAPF suggests that:-

- The company secretary function is strengthened to ensure that NEDs have access to more resources
- When a director is proposed for re-election, his skills and contribution to the board are set out in detail to enable shareholders to make an informed judgment;
- Complex financial groups might also benefit from appointing outsiders to the boards of key subsidiaries.

Other key areas covered include:-

- The effectiveness of risk management at board level;
- The effectiveness of board practices;
- The UK approach versus international practice.