7 SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Principles of Corporate Governance

1 We recommend that companies should include in their annual reports a narrative account of how they apply the broad principles set out in Chapter 2 (2.1).

Application of the Principles

2 Companies should be ready to explain their governance policies, including any circumstances justifying departure from best practice; and those concerned with the evaluation of governance should apply the principles in Chapter 2 flexibly, with common sense, and with due regard to companies individual circumstances (1.11). 'Box ticking' is ncither fair to companies nor likely to be efficient in preventing abuse (1.12-l. 14).

The Future

3 We intend to produce a set of principles and code of good corporate governance practice, which will embrace Cadbury and Greenbury and our own work. We shall pass this to the London Stock Exchange. We suggest that the London Stock Exchange should consult on this document, together with any proposed changes in the Listing Rules (1.23).

4 We envisage that the London Stock Exchange will in future make minor changes to the principles and code; and we suggest that the Financia1 Reporting Council should keep under review the possible need for further studirs of corporate governance. Rut we see no need for a permanent Committee on Corporate Governance (1.25 -1.26).

Directors

5 Executive and non-executive directors should continue to have the same duties under the law (3.3).

6 Managememt has an obligation to provide the hoard with appropriate and timely information and the chairman has a particular responsibility to ensure that al1 directors are properly briefed. This is essential if the board is to hc effectivc (3.4).

7 An individual should receive appropriate training on the first ocassion that heeor she is appointed to the board of a listed company and subsequently as necessary (3.5).

8 Boards should appoint as executive directors only those executives whom they judge able to take a broad view of the company's overa11 interests (3.6).

9 The majority of non-executivr director-s should he independent and hoards should disclose in the annual report which of the non-executive director-s are considered to he independent (3.9). This applies for companies of al1 sizes (3.10).

10 There is overwhelming support in the UK for the unitary hoard, and virtually none for the two tier board (3.12).

I I We suggest that boards should consider introducing procedures for assessing their own collective performancc and that of individual director-s (3.13).

12 We consider that, to be cffective non-executive director-s need to make up at lrast one third of thr membcrship of thr board (3.14).

13 **We believe that people from a wide range of backgrounds are able to make a real contribution as non-executive directors (3.15).**

14 Separation of the roles of chairman and chief executive officer is to be preferred, other things being equal, and companics should justify a decision to combine thr roles (3.17).

15 Whcthrr or not the roles of chairman and chief executive officer arc combined, a senior non-executive dirretor should be identified in the annual report, to whom concerns can be convcyed (3.18).

16 Companies should set up a nomination committee to make recommrndations to the board on all new board appointments (3.19).

17 All directors should submit themselves for re-election at least every three years, and companies should make any necessary changes in their Articles of Association as soon as possible (3.21).

18 Names of directors submitted for re-election should be accompanied by biographical details (3.21).

19 Therr should be no fixed rules for the length of service or age of non-executive directors: but there is a risk of their becoming less cfficient and objective with length of service and advancing age, and boards should be vigilant against this (3.22).

20 It may bc appropriate and helpful for a director who resigns beforc the expiry of his term to give an explanatiou (3.23).

Directors' Remuneration

21 We urge caution in tho use of inter-company comparisons and remuneration surveys in setting levels of directors' remuneration (4.4).

22 We do not rccommend further refinement in the Greenbury code provisions relating to performance related pay. Instead we urge remuneration committees to use their judgement in devising schemes appropriate for the specific circumstances of the company. Total rewards from such schemes should not be excessive (4.7).

23 We see no objection to paying a non-executive director's remuneration in the company's shares, but do not recommend this as universal practice (4.8).

24 We consider that boards should set as their objective the reduction of directors' contract periods to one year or less but recognise that this cannot be achieved inmediately (4.9).

25 We see some advantage in dealing with a director's early departure by agreeinng in advance on the payments to which he or she would be entitled in such circumstances (4.10).

26 Boards should establish a remuneration committee, made up of independent non-executive directors, to develop policy on remuneration and devise remuneration packages for individual executive directors (4.11).

27 Decisions on the remuneration packages of executive directors should be delegated to the remuneration committee; the broad framework and cost of executive remuneration should be a matter for the board on the advice of the remuneration committee (4.12). The board should itself devise remuneration packages for non-executive directors (4.13).

28 Thr requircment on directors to includein the annual report a general statement on remuneration policy should be retained. We hope that these statements will be made more informative (4.15).

29 **Disclosure of individual remuneration packages should he retained; hut we consider that this has become too complicated. We welcome rccent simplification of the Companies Act rules; and we hope that the authorities concerned will explore the scope for further simplification (4.16).**

30 **We consider that the requirement to disclose details of individual remuneration should continue to apply to overseas based directors of UK companies (4.17).**

31 **We support the requirement to disclose the pension implications of pay increases which has been included in the Stock Exchange Listing Rules. We suggest that companies should make clear that transfer values cannot meaningfully be aggregated with annual remuneration (4.19).**

32 **We agree that shareholder approval should be sought for new long-term incentive plans (4.20); hut we do not favour obliging companies to seek shareholder approval for the remuneration report (4.21).**

Shareholders and the AGM

33 **We recommend pension fund trustees to encourage fund managers to take a long view in managing their investments (5.6).**

34 **We believe that institutional investors have a responsibility to their clients to make considered use of their votes; and we strongly recommend institutional investors of al1 kinds, wherever practicable, to vote the shares under their control. But we do not recommend that voting should be compulsory (5.7).**

35 **We suggest that the ABI and the NAPF should examine the problem caused by the existence of diffcrent and incompatible shareholder voting guidelines (5.8).**

36 **We recommend that institutions should make available to clients, on request, information on the proportion of resolutions on which votes were cast and non-discretionary proxies lodged (5.9).**

37 **We encouragc companies and institutional shareholders to adopt as widely as possible the recommendations in the report Developing a Winning Partnership (5.11).**

38 **Companies whose AGMs are well attended should consider providing a business presentation at tbe AGM, with a question and answer session (5.14(a)).**

39 **We recommend that companies should count al1 proxy votes and announce the proxy count on each resolution after it has been dealt with on a show of hands (5.14(b)).**

40 **We hope that the DTI will soon be able to implement their proposals on the law relating to shareholder resolutions, proxies and corporate representatives (5.16).**

41 **We consider that shareholders should be able to vote separately on cach substantially separate issue; and that the practice of 'bundling' unrelated proposals in a single resolution should cease (5.17).**

42 **The chairman should, if appropriate, provide the questioner with a written answer to a significant qurstion which cannot be answered on the spot (5.18).**

43 **The decision on who should answer questions at the AGM is one for thr chairman; but we consider it good practice for the chairmen of thc audit, remuneration and nomination committees to be available (5.19).**

44 **Companies should propose a resolution at the AGM rclating to the report and accounts (5.20).**

45 **Notice of the AGM and related papers should he sent to shareholders at least 20 working days before the meeting (5.21).**

46 **Companies may wish to prepare a resumé of discussion at the AGM and make this available to shareholders on request (5.22).**

47 **We commend the practice of some companies in establishing in-house nominees, in order to restore rights to private investors who use nominees; and we note that the DTI and the Treasury are considering changes in the law for the same purpose (5.25).**

Accountability and Audit

48 **Each company should establish an audit committee of at least three non-executive directors, at least two of them independent (6.3). We do not favour a general relaxation for smaller companies, but recommend shareholders to show flexibility in considering cases of difficulty on their merits (6.4).**

49 **We do not recommend any additional requirements on auditors to report on governance issues, nor the removal of any existing prescribed requirements (6.7).**

50 **We suggest that the bodies concerned should consider reducing from 10% the limit on the proportion of total income which an audit firm may earn from one audit client (6.8).**

51 **We suggest that the audit committee should keep under review the overa11 financia1 relationship between the company and its auditors, to cnsure a balance between the maintenance of objectivity and value for money (6.9).**

52 **We recommend that the word 'effectiveness' should be dropped from point 4.5 in the Cadbury code, which**

would then read 'The directors should report on the company's system of interna1 control'. We also recommend that the auditors should report on interna1 control privately to the directors, which allows for an effective dialogue to take place and for best practice to evolve (6.12).

53 Directors should maintain and review controls relating to al1 relevant control objectives, and not merely financia1 controls (6.13).

54 Companies which do not already have a separate interna1 audit function should from time to time review the need for one (6.14).

55 The requirement on directors to include a 'going concern' statement in the annual report should be retained (6.18).

56 Auditors are inhibited from going beyond their present functions by concerns about the law on liability. Account should be taken of these concerns by those responsible for professional standards and in taking decisions on changes in the law (6.19).