ADVANCED BOARDROOM

INDEPENDENT EXTERNAL BOARD EVALUATIONS CODE OF PRACTICE

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A. PREFACE

An effective board creates value. It is more likely to make the high-quality decisions which will help the company achieve its objectives, manage its risks, and safeguard its reputation. Effective boards – and successful companies – build trust and confidence among investors, employees, customers and all those who have a stake in the company's on-going success.

Board evaluations – as set out in the UK Corporate Governance Code – are one of the principal methods for building board effectiveness. The activity must be owned by the company, and tailored to suit the needs of the business, and its board. The evaluation should be professionally delivered, and its outcomes implemented.

There is a perception, however, that the scope and service quality of evaluations is variable, and a there is a concern about standards. It is an appropriate time to reflect on what can be done to increase the effectiveness of board evaluations, particularly those conducted by independent, external consultants.

This draft Code of Practice on Board Evaluation seeks to begin a discussion to address and resolve this perceived lack of market confidence, and install a more coherent framework to allow companies and consultants to work more effectively together.

We would like to acknowledge the valuable contribution of a number of market participants, whose views and comments we have used to inform the document.

Evaluations provide a unique opportunity to improve board performance and shape corporate success. We look forward to working together to strengthen the sector to realise our shared aspiration – to help UK companies, the primary source of wealth creation in our economy, succeed and excel.



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Helen Pitcher Chairman Advanced Boardroom Excellence



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Seamus Gillen CEO, Board Evaluation and Governance Advanced Boardroom Excellence

B. INTRODUCTION

This Code of Practice on Board Evaluation ('Code') has been created to provide a framework within which independent external board evaluations can be conducted. Its aim is to introduce high professional standards in a rapidly-developing sector, and to give chairmen, company secretaries and key stakeholders assurance, and greater clarity, on the service, and standards, they should be able to expect from consultants; and consultants confidence in the degree of commitment they can expect from companies.

This Code should help the sector achieve higher levels of performance, while maintaining a flexible framework which retains the scope for diversity of approach and methodology, and further innovation.

C. GUIDANCE

1. PROFESSIONALISM OF APPROACH

The consultants will regard the client's requirements and interests as paramount at all times, and will conduct themselves in such a way as to maximise the value generated by the board evaluation. The consultants should display the following behaviours at all times.

1.1 Independence

The consultants will freely express their own opinion without any control or influence from others inside or outside the (consulting) organisation, and without the need to consider the impact of such opinion on the consultants' own interests.

1.2 Integrity

The consultants will avoid any action or situation inconsistent with their professional obligations, or which in any way could be seen to impair their integrity. In formulating advice and recommendations, the consultants will be guided solely by the objective view of the client's best interests.

1.3 Competence

The consultants will only accept work that they are qualified to perform and in which the client can be served effectively. The consultants will not make any misleading claims concerning capability, competence or experience, and will facilitate access to selected clients to allow a prospective new client to talk to them and collect references.

1.4 Respect

The consultants will act with courtesy and consideration toward the individuals contacted in the course of undertaking assignments.

1.5 Objectivity

The consultants will not pursue more than two consecutive assignments with the same client.

The consultants, and their organisation, will not pursue any other work elsewhere in the company, such as non-audit work, where there may be a perception that the outcomes of one assignment might potentially affect the approach conducted in relation to the other assignment.

The consultants will advise the client of any significant reservations the consultants may have about the client's expectation of benefits from an engagement.

The consultants will not pursue any short-term benefit at the expense of the long-term welfare of the client, without advising the client of the implications.

1.6 Tact

The consultants will appreciate the sensitive nature of the assignment and will always act with tact, discretion and diplomacy. The consultants will understand that significant insights will potentially be generated by directors being prepared to talk frankly, and will make clear, and ensure, that such conversations take place in a secure environment.

1.7 Personal conduct

The consultants will be fit and proper persons to carry out the independent external board evaluation. The consultants will at all times be of a good reputation, character and standing. Particular matters for concern might include:

- conviction of a criminal offence, or committal under bankruptcy proceedings
- censure or disciplining by a court or regulatory authority
- unethical or improper behaviour towards clients, employees or other stakeholders

2. COMPETENCIES AND CAPABILITIES

Consultants should be highly qualified, with appropriate levels of technical and behavioural expertise.

2.1 Scope

The FRC's Guidance on Board Effectiveness (Appendix) suggests a non-exhaustive and non-prescriptive list of topics to be covered during an evaluation. The consultants should be competent to cover any or all of these areas.

Depending on client need, and the board's current cycle and circumstances, the consultants should recommend a scope of work which will be sufficiently rigorous, and comprehensive, avoids a one-size-fits-all approach, and provides reassurance that all priority areas are being covered.

2.2 Additional coverage

The consultants should be willing to discuss client requests which go beyond the areas identified in the Appendix, or otherwise identify the limits of their capability and competence.

The consultants should be able to confirm whether they have the expertise, depth of knowledge and suitable experience to meet more challenging client requests including, for example, the ability to: assess the behavioural dynamics of the board; conduct deep-dive observations and reviews across the board and its committees; assess wider succession issues, such as that of the executive team; analyse the effectiveness of particular decisions made over time which were critical to the success of the business; review board and committee documentation and; provide action planning for the board. The consultants should appreciate the critical importance of diversity on a board, which should be understood to be broader than issues of genetics, e.g. gender, ethnicity etc. In the course of an evaluation, consultants should be able to assess the degree to which, individually and collectively, the board and its directors display rigorous thought processes leading to breadth, depth and independence of thinking, in addition to attributes such as skill, experience, knowledge and capability.

2.3 Required skill sets

Consultants should display the required levels of competence to ensure their contributions are meaningful, informed and constructive. Areas of capability should include:

- Direct experience of board practice derived from being a director, company secretary or other professional
- Knowledge of, and expertise in, governance and behavioural issues
- Management and commercial experience
- Financial expertise
- Communication, personal and interpersonal skills
- Political sensitivity and nous
- Possession of relevant professional qualifications and up-to-date professional knowledge

2.4 Understanding of commercial context

The consultants should develop an understanding of the company's business model, strategy, approach to risk and other relevant issues, to understand how effectively the board challenges itself on the key issues. This will require access to documents which will not be in the public domain, and to which the provisions of a confidentiality agreement, and insider restrictions, will apply.

2.5 Commercial and personal sensitivity

The consultants will understand (section 1.6) that significant insights will potentially be generated by directors being prepared to talk frankly, and will display the required qualities to ensure the directors feel comfortable that such conversations will take place in a way that allows confidentiality to be preserved, if appropriate, while ensuring the discussions are incorporated tactfully into the report back to the chairman and board.

2.6 Customer awareness

Without demonstrating any unjustifiable bias in favour of the client, or the principal person leading the assignment (such as the chairman or company secretary), the consultants should nevertheless work closely with the client to ensure the evaluation achieves the client's objectives. The consultants should be able to display the flexibility of style, approach and methodology to suit the client's needs.

2.7 Managing outcomes

An effective independent external evaluation should generate insights which a board will not have been able, or willing, to identify for itself. The consultants will be able to demonstrate the skills required to advise a board on how to address and resolve the issues identified in the evaluation.

2.8 Measuring progress

The consultants should be willing to return to the client six months, or a mutuallyagreed period, after the evaluation has been completed, to assess what progress has been made in terms of implementing outcomes. This visit would form part of the scope of the engagement.

3. EXPECTATIONS OF THE CLIENT BY THE CONSULTANTS

It is important that the client – who owns the board evaluation process – enters into the exercise with commitment.

3.1 Commitment from the whole board to the evaluation process

The consultants should work closely with the chairman, or company secretary, or the person responsible for the evaluation, to engage the interest of the whole board, and encourage appropriate levels of participation.

3.2 Director involvement

The client and the consultants should consider the appropriate level of interaction with each director, and particularly the need for each director to be interviewed, to ensure the full range of board views and sentiments are taken into account during the evaluation process.

3.3 Board observation

The client should accept that the consultants may wish to observe meetings of the board and/or its committees, to maximise the value of the exercise. In appointing consultants to an assignment, the client will be satisfied that they are sufficiently experienced, and of the required calibre and character, to attend meetings.

3.4 Provision of company information

The quality of the consultants' intervention will partly be driven by the extent to which they understand the commercial context within which the company operates. In this respect, the consultant is in the same position as other trusted advisors who are insiders, and the company should consider what information of a confidential nature – board papers, minutes and other documents – it will pass to the consultants so that they can operate effectively. The supply of such information will be subject to the provisions of a confidentiality agreement, and inclusion in an insider trading register.

3.5 Reporting back to the board

The consultants should be capable of feeding back to the members of the board in a discrete, balanced and informative manner, providing clear, constructive and objective feedback. The client, for its part, should make the necessary preparations to allow feedback to be delivered in as open a way as possible, to maximise the benefits derived from the evaluation. The client should be willing to let the consultants be 'courageous', and offer feedback which may not be viewed by all board members as welcome, as long as the process is carefully handled.

3.6 Reporting of outcomes

The client will acknowledge that the outcome of a board evaluation process is of material interest to key stakeholders, notably investors. The client will consider how to disclose the outcomes of an evaluation in an appropriate way in the Annual Report and Accounts, and may wish to seek the consultants' view on how to do so with maximum effect, while maintaining issues of confidentiality and sensitivity.

Both the company and the consultants should agree the content to be disclosed, so that both parties are comfortable with what subsequently appears in the public

domain. Both parties should accept that reputational damage can be caused if there is inappropriate or inaccurate reporting of the outcome of a board evaluation.

The company should consider whether there are other approaches for building shareholder confidence in the company as a result of an evaluation. For example, it might be deemed worthwhile for either the chairman or the senior independent director to discuss the most recent evaluation, and its outcomes, with the company's principal shareholders in the course of their routine engagement activity.

3.7 Measuring progress

As part of the scope of the engagement, the company should be prepared to enter into an arrangement with the consultants (see section 2.8), for a return visit six months, or a mutually- agreed period, after the evaluation has been completed, to discuss progress made in implementing outcomes.

4. CLARIFYING THE TERMS OF THE ENGAGEMENT

The consultants and client should be clear about the levels of expectation associated with the assignment. This is most likely to happen if both parties communicate openly and transparently to avoid the risk of misunderstandings, and maximise the benefits of the engagement. Agreements in the following areas should be set out formally and in writing.

4.1 Clarity of engagement and scope

There should be agreement on the scope of the assignment, in advance of commencing work. Any subsequent revisions will be subject to prior discussion and agreement with the client.

There should be agreement on the process which will be followed to deliver the assignment, in advance of commencing work. Any subsequent revisions will be subject to prior discussion and agreement with the client.

4.2 Agreement on timing, deliverables and fees

There should be agreement on the nature of the services to be provided. The agreement should clearly identify the timescale for completing the assignment, the deliverables, and the basis of remuneration, in advance of commencing work. Any subsequent revisions will be subject to prior discussion and agreement with the client.

4.3 Assignment of personnel

There should be agreement on the client-consultant relationship, the principal contact points on either side within that relationship, and the process for communication between those principal contacts. The terms of this relationship should not be changed without the prior agreement of both the client and the consultants.

There should be agreement on who will carry out the assignment. The consultants should not substitute or sub-contract or assign work without the prior agreement of the client.

The consultants should make clear whether any person working on the assignment is employed by the firm, or is working under contract. The consultants will ensure that, whatever their status, they meet all the standards required under the Code. Except where otherwise agreed, the consultants will remain responsible for the performance of the work.

4.4 Communication and feedback

The consultants will ensure that the client is kept fully informed about the progress of the assignment.

The consultants will take note of any feedback provided by the client on the performance of the consultants' services, and will seek formal feedback from the client after the process not just on the outcomes, but on the overall approach pursued by the consultants, and how they could be more effective.

4.5 Public reporting of outcomes

There should be clarity in the agreement between the client and the consultants on the degree and extent to which the consultants' assent to public reporting by the company will be required.

4.6 Post-evaluation review of the assignment

The client and the consultants should agree on whether there will be a review of the evaluation exercise, and how the lessons learned can be shared to the participants' mutual benefit.

4.7 Post-evaluation review of the assignment outcomes

The client and the consultants should agree on whether, and how, there should be a review of what actions have been taken in response to the evaluation, and the effectiveness of the outcomes. (See also 2.8 and 3.7).

4.8 References

The consultants will offer the names of, and facilitate access as necessary to, selected clients to allow a prospective new client to talk to them and collect references.

4.9 Professional indemnity insurance

The consultants will carry adequate Professional Indemnity Insurance (PII) to cover any work undertaken.

4.10 Administration

The consultants will operate an efficient back-office function to ensure that basic housekeeping issues – setting up meetings, replying to queries, billing and so on – are conducted in a timely and effective manner.

5. EFFICIENT PROCESS

The consultants should be able to reassure the client that all activities will be undertaken at the highest level of professionalism.

5.1 Confidentiality

The consultants will sign a confidentiality agreement with the client. The confidentiality agreement will apply to the overall assignment, and to every intervention and interview which takes place during the assignment.

The consultant will hold all information concerning the affairs of the client in the strictest confidence, and will not disclose proprietary information obtained during the course of assignments. Consent will be specifically sought for any derogation from the terms of the confidentiality agreement.

The consultant will not reveal the name of the client to any other party, unless with the agreement of the client, the nature and terms of such agreement to be set out in the confidentiality agreement.

5.2 Confidential interviewing process

The consultants will, in liaison with the client, take all necessary steps to ensure that any interviews – whether face-to-face, over the phone, or by any other means – are conducted in confidential circumstances, and that the outputs of the interviews are adequately protected.

5.3 Privacy of information

The consultants will not use any confidential information about a client's affairs, elicited during the course of an assignment, for personal benefit, professional benefit, or for the benefit of others outside the client organisation. An example where this provision applies is in the area of board and executive search.

When required, or appropriate, the consultants will establish specific methods of working which preserve the privacy of the client's information, such as where the conditions concerning conflicts of interest apply.

5.4 Sensitivity of information

The consultants should acknowledge that they may become privy to sensitive information that should not be attributed or, on occasion, appear in the main report. The evaluator should agree with the chairman how such information should be brought to the chairman's, or board's, attention in a way that ensures matters are aired, but without compromising the information concerned.

5.5 Sensitivity of views

The consultants should acknowledge that, if individual directors are to be fully involved in the evaluation process (section 3.2), the consultants may become privy to differences of view, attitude and approach that should be respected and, again, should not be attributed or, on occasion, appear in the main report. The evaluator should agree with the chairman how such information should be brought to the chairman's, or board's, attention in a way that ensures matters are aired, but without compromising the individual(s) concerned.

5.6 Insider status

The consultants are likely to acquire insider status as a consequence of being made privy to confidential company, especially board, information. This issue should be covered in the appointment process, with the consultants registered on any relevant insider trading register.

5.7 Due care, skill and diligence

The consultants will make certain that advice, solutions and recommendations are based on thorough, impartial consideration and the analysis of all available pertinent facts and relevant experience, and are realistic, practicable and clearly understood by the client.

5.8 Professional disclosure

The consultants will disclose, at the earliest opportunity, any special relationships, circumstances, or business interests, which might influence or impair, or could be seen by the client or others to influence or impair, the consultants' judgment or objectivity on a particular assignment. This will require the prior disclosure of all relevant personal, financial or other business interests which could not be inferred from the description of services offered.

5.9 Conflicts of interest

The consultants will not serve a client under circumstances which are inconsistent with the consultants' primary duty to the client, or which in any way might be seen to impair the consultants' integrity.

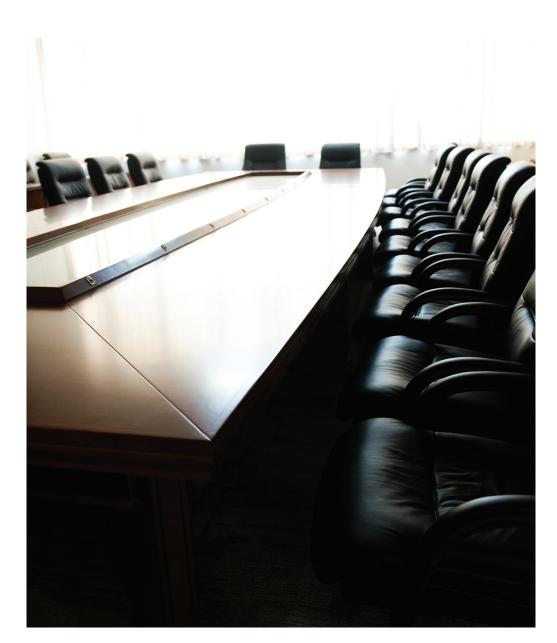
Wherever a conflict, or potential conflict of interest, arises, the consultants will, as the circumstances require, either withdraw from the assignment, remove the source of conflict, or disclose and obtain the agreement of the parties concerned, to the performance or continuation of the engagement.

5.10 Inducements

The consultants will not accept discounts, hospitality, commissions or gifts as an inducement to show favour to any person or body, nor attempt to obtain advantage by giving the same to clients or client staff, or potential clients or their staff.

5.11 Assurance review

The consultants should have systems in place to ensure quality control during the assignment, as well as undertake an internal post-evaluation review to reflect on how well the assignment was executed.



D. INDEPENDENT OVERSIGHT OF THE CODE

Independent oversight body

It is proposed that consideration be given to creation of an independent oversight body, comprising senior market participants meeting on a periodic basis, to review adherence to the Code by consultants, and to make recommendations for improvement and further actions. The independent oversight body will help ensure appropriate levels of accountability, and build confidence among market participants, and wider groups of stakeholders.

Secretariat

The independent oversight body would be serviced by a secretariat which would put into place appropriate governance arrangements, including a meetings schedule and budget, and arrangements for the publication of an annual report. The Institute of Chartered Secretaries and Administrators has indicated that it would be willing to undertake this task, at least initially.

Costs

The costs of the independent oversight body, and the secretariat, would be met from a levy on consultants. It is not expected that the costs would be significant. A method for calculating the levy would be agreed with reference to other sector models.

Register

The secretariat would maintain a Register of consultants. Early issues for consideration would be whether consultants would be expected to sign up to the Code, what systems of quality control would be introduced to determine whether a consultants should be entitled to join, and subsequently remain, on the Register, and the role of the oversight body in maintaining standards.

Revisions

The Code will be revised periodically, and revised as necessary, to reflect innovations in approach and methodology, the development of customer need, and other issues.

Any comments on this document should be addressed to policy@icsa.org.uk

APPENDIX

FRC Guidance on Board Effectiveness – evaluating the performance of the board and directors

- Board composition: the mix of skills, experience, knowledge and diversity on the board, in the context of the challenges facing the company
- Board leadership: clarity of, and leadership given to, the purpose, direction and values of the company
- Succession planning: succession and development plans
- How the board works together as a unit, and the tone set by the chairman and the CEO
- Board relations: key board relationships, particularly chairman/CEO, chairman/ senior independent director, chairman/company secretary and executive/nonexecutive
- Individual director effectiveness: effectiveness of individual non-executive and executive directors
- Role of the Senior Independent Director: clarity of the senior independent director's role
- Board committee effectiveness: effectiveness of board committees, and how they are connected with the main board
- Board information management: quality of the general information provided on the company and its performance
- Quality of board papers and presentations: quality of papers and presentations to the board
- Quality of board debate: quality of discussions around individual proposals
- The challenge process: the process the chairman uses to ensure sufficient debate for major decisions or contentious issues
- The company secretariat: effectiveness of secretariat
- The decision-making process: clarity of the decision processes and authorities
- The risk process: processes for identifying and reviewing risks
- Shareholders and stakeholders communication: how the board communicates with, and listens and responds to, shareholders and other stakeholders

ABOUT ADVANCED BOARDROOM EXCELLENCE

Advanced Boardroom Excellence is a new organisation, though with a significant track record built on the expertise, experience and capabilities of the founder directors.

The consultancy is led by Helen Pitcher, supported by an experienced team who have worked together for over 20 years, bringing expertise, knowledge and skills to a dedicated range of board effectiveness and developmental services for board and senior leaders, at a collective and individual level.

We are committed to building the new organisation based on our values of client service, creativity, innovation and integrity.

Over the past five years, in particular, we have had direct experience of creating a leading board effectiveness consultancy, undertaking external independent reviews for clients from a range of sectors, from the FTSE100 and FTSE250, and from large global organisations to private equity and smaller family-owned companies. They have included Old Mutual, the Royal Bank of Scotland, Hunting, Miller Group and many others not yet in the public domain. The team has completed reviews for a major telecoms company, a professional association, a major financial services mutual, and is currently undertaking a review for a FTSE100 financial services organisation, and a privately owned mid-cap general insurance organisation.

We have created a unique Board Leadership Effectiveness Model, which blends formal evaluation with organisational behavioural engagement, providing an accelerated high-impact engagement strategy for the director team. Built into our DNA is the desire to provide elegant, rigorous and action-focused solutions which support and make a difference to our clients.



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We will happily provide reference points to potential new clients through our extensive network. Most clients come to us by referral and endorsement:

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"They create great client solutions by listening and interpreting needs very well and developing creative resolutions."

"

"Their approach to board review is profoundly different, with a development focus which provides a real opportunity for creating value and improvement in the board's effectiveness."

"

"They are innovative and robust thinkers who deliver potentially tough messages in an elegant but irresistible way."

Please visit us at **www.abexcellence.com**. We would be pleased to hear from you.

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