



Myners Review
Room 4/16
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

September 2004

Thank you very much for inviting AXA Investment Managers UK to comment on the role of non-executive directors in the governance of complex businesses.

We are answering from our perspective as an active manager of UK equities and not on behalf of our insurance or other clients.

We believe that complex businesses present particular but not insurmountable challenges to non-executive directors. Part of the additional challenge is to the Chairman in the overall balance of board composition and the skills which executives and non-executives bring to the table. The Chairman must ensure that there is a sufficient range of talents and experiences amongst the non-executives to hold executives properly to account. Where specific skills or knowledge are important, it may be necessary to have some non-executives who do not fulfil all the criteria for independence.

Q4. Information and advice available to non executives of complex businesses, such as wholesale banking or science based businesses.

Beyond their own experiences, the most important qualities for non-executives are common sense and a questioning, independent mind. Generally, we are suspicious of a business that is said to be so complicated that it can only be understood by experts in the relevant field. An experienced director should be able to grasp the commercial proposition of a particular process or product and assess risks inherent in its delivery. If nothing else, following the cash is normally an effective route to understanding a business. Directors should also be as careful to understand the reasons for unexpected success as for unexpected failure.

Of course, there is sometimes a case for external advice; non-executive directors should have access to internal and external information and advice sufficient for them to be able to question and assess the performance and actions of executive management. But external advice should not develop into a 'kitchen cabinet' of advisers to the non-executives, countering the executives. Such advice should not require detailed on-going research from large teams. As such, the cost should not be an excessive drain on resources.



Wholesale banking has been cited as a business that requires detailed knowledge for adequate oversight and leadership. From our perspective, many years of in-house experience has not always delivered success in these areas, whilst a new pair of eyes and challenging external mind has contributed as much to certain banks' success as to other 'less complex' businesses.

Q5. What is the role of the non-executive director in a complex or technical business? In particular what is their capacity to understand or to challenge the executive over technical aspects of the business?

The role of the non-executive directors is to demand straightforward answers to tough questions and to keep asking those questions. They should challenge executives to account for any part of the business, however technical, in terms that can be understood. The fact that some issues or business aspects are technical should not be used as cover for reduced accountability.

However, it is important to remember that all commercial activity involves a degree of risk and that managing risk is part of being in business. Non-executives need to satisfy themselves that risk management systems within a company are robust and effective. They also need to have confidence in the integrity of executives and in their leadership of a culture in which proper attention will be paid to detail and to risk.

Q6. What can the owners of complex or technical businesses reasonably expect of its non-executive directors? How would you characterise the practical limitations of a non-executive director? What steps might be taken to codify what is reasonable and realistic in this context? Should executives and non-executives have the same legal duties to the company?

Owners can reasonably expect that non-executives will keep asking tough questions on their behalf. The burden of business oversight does not fall on a single non-executive director; it is the responsibility of the entire board – in particular, of all the non-executives. As above, it is an important part of the Chairman's role to ensure that non-executives have the diversity and depth to hold executive management to account and that the culture of the boardroom allows this to happen.

We do not believe that a detailed codification of the duties of non-executives – beyond existing reference in the Combined Code – would be helpful. The objective should not be to limit the role of non-executives or specify its every aspect. The duties of a non-executive are to uphold the interests of the company and its shareholders within the limits of reasonable expectation given their background, skills and experience.

We do not believe that executives and non-executives should have different legal duties to the company. This would undermine the principle of a unified board.