

Sue Smith

From: Nicholas Beale [nicholas.beale@sciteb.com]
Sent: 11 June 2009 09:55
To: Walker Review
Cc: Sir John Parker PA; simon.fraser@fil.com; richard.lapthorne@cw.com; Tomlinson, Lindsay BGI UK; Steve Robson; john.fraser@ubs.com
Subject: Input for Walker Review

Sciteb Sector Dialogue Process

Dear Sir David

Simon Fraser suggested that I might usefully send you a short note as a contribution to your review, based on the work we have done over many years on the interaction between Investors and Directors. I note that we are out of time so I will keep my remarks especially brief.

Steering Group
 Sir Steve Robson CB
 Sir John Parker FREng
 John Fraser (UBS)
 Lindsay Tomlinson (BGI)
 Simon Fraser (Fidelity)
 Richard Lapthorne CBE

- a. **Difficult "soft" issues tend to be avoided** Banks tend to be run by driven numbers-oriented people. There is a big focus on hitting quantifiable targets and a general reluctance to engage with difficult "soft" issues like succession, the overall calibre of management and the quality of dialogue on the Board.

One possibility would be for the FSA to see, in confidence, 360 degree board evaluations and/or an honest 1-page evaluation questionnaire from each board member about the quality of the dialogue, the extent to which questions were answered, etc.. (essentially the Lapthorne questions).

- b. **It is hard for boards to understand and monitor risk.** It is relatively easy in Financial Services to increase returns by taking higher risks. Conventional reporting systems find it hard to report risk effectively. Returns which are unusually high or consistent may be associated with hidden risks and there need to be effective processes for questioning these, possibly with independent advice for the NEDs.
- c. **New Investor channels may be needed.** In well-functioning boards the existing channels (CFO, CEO, Chairman, SID) are adequate. In dysfunctional boards the Chairman is by definition ineffective (and generally in denial) and the SID often ineffectual. There is an appetite at CEO level amongst investors for an ability for someone really senior from a major Investor (possibly the CEO) to speak to the NEDs collectively in situations where there is real concern that the normal channels are not working.

One possibility would be for the CEO of a major institutional investor holding at least 2% of the equity of a company and with the agreement of other Investors holding at least 8% to have the right to meet the Board or the NEDs or the Independent Directors at the next scheduled board meeting, on the strict understanding that such meetings were confidential and not to be leaked to the press.

I hope these suggestions are helpful. They are based on our experience with the Sector Dialogue Process, but in view of the shortness of time I have **not** discussed them with our Steering Group.

Best wishes
 Nicholas Beale
Director

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