

Krishnan, Sudesh

Subject: RE: CONSULTATION ON THE GOVERNANCE OF LIFE MUTUALS

-----Original Message-----

From: Paul Myners [mailto:paul.myners@myners.com]
Sent: 16 September 2004 14:21
To: Khan, Lowri
Subject: FW: CONSULTATION ON THE GOVERNANCE OF LIFE MUTUALS

F.Y.I.

Paul

----- Original Message -----

From: "Emerton, Paul" <paul.emerton@schroders.com>
To: <paul.myners@myners.com>
Sent: Friday, September 10, 2004 11:08 AM
Subject: RE: CONSULTATION ON THE GOVERNANCE OF LIFE MUTUALS

> Dear Mr Myners
>
> Thank you for your invitation to respond to the consultation on the
> governance of life mutuals.
>
> My own experience, including my work at Schroders, does not equip me to
> comment with great authority on the governance of mutuals.
>
> I can observe, however, that the principle of accountability is, I
> believe,
> a key factor in the effectiveness of the Combined Code improving corporate
> governance. The Code requires companies to comply or explain, with the
> option that if shareholders do not accept the explanation, shareholders
> may
> hold the directors of a company accountable and, in the extreme, remove
> those directors. There is a sufficient number of informed shareholders in
> listed companies which, using the powers in the Companies Act and the
> listing rules, make accountability a real and positive influence.
> Clearly,
> the members of a mutual company are not in practice in a position to be
> sufficiently organised or knowledgeable as a group to apply the discipline
> of accountability. Accordingly, while it will be good practice for
> mutuals
> to follow the 'comply or explain' approach of the Combined Code, there
> will
> always be a limit on the effectiveness of applying the Code to mutuals.
>
> This is an issue for not only life mutuals but other organisations; local
> government, for example.
>
> Addressing the questions on which you specifically asked for comments:
>
> Q4. In your experience is the information and advice (including actuarial
> advice) used by the non executive directors of life mutuals sufficient -
> in
> terms of quality and relevance - to enable them to exercise effective
> oversight of the executive? In what ways might it be improved? If more
> information and advice is needed, what are the resource implications? Do
> similar issues arise for the non executives of other complex businesses,
> such as wholesale banking or science based businesses?
>
> I do not have sufficient experience to provide a valid answer.
>
> Q5. What is the role of the non-executive director in a complex or
> technical
> business? In particular what is their capacity to understand and to

> challenge the executive over technical aspects of the business?
> Q6. What can the owners of a complex or technical business 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?
>
> We agree with the role of the non-executive director described in the
> Higgs
> report and subsequently incorporated into the Combined Code. Taking that
> as
> a baseline, the role of a non-executive director applies to all types of
> business, including complex or technical business. The issue is, perhaps,
> to ensure that the non-executive directors are of appropriate quality to
> play an effective role. If the non-executive directors are not up to the
> task, they should not be non-executive directors. Thus, in a complex
> business, they must be able to understand the issues and seek advice where
> required.
>
> Paul Emerton
>
> PS As an aside, I have noted above the powers given to shareholders by the
> Companies Act. The Act provides a particularly valuable safeguard in
> pre-emption rights: I anticipate we will have rather more to say in the
> forthcoming consultation on that issue.
>
>
>
> Paul Emerton
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>
> -----Original Message-----
> From: Paul Myners [mailto:paul.myners@myners.com]
> Sent: 15 July 2004 12:54
> To: paul.emerton@schroders.com
> Subject: CONSULTATION ON THE GOVERNANCE OF LIFE MUTUALS
>
>
> * Please Note : This message was received from the Internet *
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>
>
> Dear Mr Emerton
>
> The Treasury has asked me to conduct a review into the governance of Life
> Mutuals following Lord Penrose's Report on his Inquiry into Equitable
> Life.
>
> I have issued a Consultation Document in connection with this Review
> seeking
> responses by no later than 17 September.
>
> I am sending the Consultation Document to you to seek your views. The
> questions asked are summarised on page 9. Most are specific to Mutuals
> but
> some address wider issues of Governance raised by Lord Penrose. Those on
> which I would particularly welcome your views are question 4 on page 22
> and
> 5 and 6 on page 23.
>
> Very best wishes.
>
> Paul Myners

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