

**REVIEW BY THE FINANCIAL REPORTING COUNCIL (“FRC”) OF THE
IMPLEMENTATION OF THE 2003 COMBINED CODE**

Comments by Standard Life Investments

(To be read in conjunction with the letter dated 7 October 2005 from Standard Life Investments to Mr C Hodge of the Financial Reporting Council)

Standard Life Investments Limited, a wholly owned subsidiary of The Standard Life Assurance Company, is one of the UK’s leading long term institutional investors with over £105 billion under management as at 30 June 2005.

We welcome the FRC’s invitation to comment on the implementation of the 2003 Combined Code. Our comments on the specific implementation issues and the two specific proposals raised by the FRC are set out below.

- *Has the Code begun to have an impact on the overall quality of corporate governance in UK listed companies? Are there any areas in which practice has notably improved?*

We have observed notable improvements in a number of areas as a consequence, directly or indirectly, of the Code. Disclosure of corporate governance practices in areas such as remuneration and audit has improved significantly, as has disclosure relating to the operation of the board.

In addition, it is our experience that the incidence of meetings of investors with the chairman and senior independent director of a company has improved.

- *Have companies come up against any practical barriers to implementing the Code?*

As investors, it would not be appropriate for us to respond to this question.

- *What impact has the Code had on smaller listed companies, in particular those outside the FTSE350?*

Smaller companies are not always as proactive as their larger counterparts in engaging with institutional investors in respect of corporate governance. However, we recognise the resource-related challenges on the part of both smaller companies and institutions in this regard. We believe there is a general willingness on the part of investors to be sensitive to the context in which smaller companies implement the Code.

- *How informative are the corporate governance statements in the annual reports, and has there been a change in the overall quality of disclosure?*

The corporate governance statements are useful. They are generally informative and the quality of disclosure has improved as a consequence of the Code. However, there is a risk that the statements become formulaic and repetitive over time. Companies should be encouraged to guard against this risk. In this regard, consideration should be given to the use of the OFR to augment constructively the explanations given in the corporate governance statements.

- *Where companies are choosing to explain rather than comply with a particular provision, how informative are those explanations and are they being accepted by shareholders?*

We usually find the explanations informative. It is relevant to note that potentially contentious issues are often discussed by companies with their major investors prior to implementation or disclosure. This gives companies the opportunity to reflect on the feedback it receives from such investors when drafting and delivering its published explanations.

In general, we believe that the explanations given are being accepted by shareholders. The pre-publication consultation helps to remove the likelihood of misunderstandings. However, we are aware from time to time investors will challenge the explanations, which is a natural outcome of the ‘comply or explain’ guidance.

- *Has the Code had an impact on the level and quality of dialogue between boards and their shareholders?*

From our perspective the level and quality of dialogue has improved. For example, chairmen are more pro-active in meeting investors than was previously the case. The challenge going forward is for companies and investors to sustain the systematic implementation of their engagement policies over time. As mentioned in our covering letter, the opportunity of a dialogue with new non-executive directors is valuable for investors. It would be particularly useful for the FRC to re-iterate this provision of the Code.

- *Specific proposals raised by the FRC.*

On the disclosure of audit engagement letters, we are not convinced that this would improve the effectiveness of the Combined Code. We question seriously whether the information would be referred to and, even so, whether or not it would add any value.

As regards the issue of ‘votes withheld’, we would support the suggested proposal subject to clarification of any legal ambiguity.