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Dear Chris

GENDER DIVERSITY ON BOARDS - RESPONSE TO YOUR CONSULTATION DOCUMENT

Standard Life Investments is a leading UK institutional investor, with assets under management of £157.1 billion as at 31 March 2011. We seek to foster long-term relationships with our investee companies in order to ensure there is a mutual understanding on key issues, including those pertaining to governance and stewardship. Board composition and succession planning has been a regular feature in our engagement dialogue with investee companies for many years. Recently, gender diversity has featured more prominently in the engagement dialogue. To assist us in fulfilling our responsibilities, we developed a Position Paper entitled 'Diversity on the Board', which was published in February 2011 and can be found on our website. I enclose a copy of the Position Paper for your reference.

We believe that due regard should be had for the benefits of gender diversity, which we recognise can bring insights and behaviours that make a valuable contribution to an effective board. Accordingly, we welcome the thrust of the recommendations made by Lord Davies, including those pertaining to the UK Corporate Governance Code.

Let me address the topics you raise in the Consultation Document.

Proposed Changes to the UK Corporate Governance Code

1. We support Lord Davies' view that an explicit disclosure requirement will focus boards' attention on the issue of gender diversity. Hence, we believe it is appropriate that further changes to the Code should be made.
2. Whilst we support the proposed amendment to Provision B.2.4, we are mindful that reference is made in the Supporting Principles in respect of B.2 that 'due regard for the benefits of diversity on the board, including gender, should be had when conducting the search for board candidates'. Therefore, we suggest that the amended Provision B.2.4 should mirror this as follows:

'This section should include a description of the board's policy on diversity, including gender diversity, in the boardroom, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.'

As well as addressing the substance of disclosure relating to gender diversity, this will also assist shareholders and investors in understanding the board's approach to the wider aspects of diversity.

3. We believe a new supporting principle on board evaluation, along the lines set out in the example in the Consultation Document, is desirable. We suggest that the illustrative wording should be strengthened to capture not only the broader aspects of diversity but also, in an explicit way, the dynamics of compliance with the board's policy. Hence we would suggest the following wording:

'Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, the board's policy on diversity, including gender diversity, and its compliance with its policy. Also, it should consider how the board works together as a unit, and other factors relative to its effectiveness.' [Emphasis added]

We believe that including policy compliance within the scope will inject some granularity into the evaluation process that will help to ensure that the board's policy is implemented effectively rather than ignored.

The timing of any changes to the Code

We note the reference in the Consultation Document to the possibility that further changes to the Code might be needed in due course as a result of developments at the European level. Mindful of this, we are inclined to support the option whereby the Revised Code would apply to accounting periods beginning on or after 29 June 2012, with boards being encouraged to report on a voluntary basis in 2012, as suggested by Lord Davies. We believe that such voluntary disclosure should be feasible for most companies in 2012. With this in mind, we suggest that the FRC confer with the main UK institutional investor representative bodies, such as the Association of British Insurers, with a view to getting their explicit encouragement to companies to adopt the voluntary approach in 2012. These bodies can lend further support in this regard through their voting analysis services, such as IVIS.

Additional matter: Stewardship Code

When the FRC has decided on how to proceed with the proposed changes to the Code, we suggest that consideration is given to whether the UK Stewardship Code for Institutional Investors needs to be strengthened at the margin in order to ensure that there is effective engagement, when appropriate, regarding diversity, including gender diversity. We envisage that any such change can be managed as part of the Stewardship Code's natural evolution. Assuming this to be the case, when launching the anticipated changes to the UK Corporate Governance Code, the FRC should refer to its intention to strengthen the Stewardship Code at the next cost effective opportunity and state its expectation that institutional investors will engage investee companies on this issue.

Conclusion

We hope our comments will assist the FRC as it considers if and how to proceed with the proposed changes to the UK Corporate Governance Code. We look forward to learning of the outcome, in due course.

Yours sincerely

Guy Jubb
Head of Governance & Stewardship
Standard Life Investments

Enclosure: *'Diversity on the Board' - Position Paper*