

10 October 2005

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Dear Chris

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

As one of the UK’s leading institutional long-term investors, we are grateful for the opportunity to comment on the implementation of the 2003 Combined Code.

In summary, it is our view that the Combined Code, taken as a whole, is working effectively; it has contributed to a useful improvement in overall corporate governance standards.

We note the FRC will publish its findings at the end of 2005. Although many of the findings may not lead to proposed changes to the Combined Code, it would be beneficial if the FRC would use the opportunity to communicate effectively those aspects of the Code and its implementation that deserve emphasis and attention.

The main points that we should like to convey to the FRC are as follows:

1. **Entrepreneurial leadership** – it is crucial that a company’s board is effective in providing entrepreneurial leadership on the basis described in the Code. There is, in our opinion, a real risk that certain aspects of the Code could undermine such leadership, tending to make boards more supervisory than unitary in nature. We should like the FRC to emphasise the importance of boards providing entrepreneurial leadership as described in the supporting principle to A.1.
2. **‘Comply or explain’** – we sense that there is sometimes a reluctance on the part of boards to run the apparent risks of explaining non-compliance and, consequently, a tendency to default to compliance even although that may not be wholly consistent with the best interests of the company and its shareholders.

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3. **Non-executive director appointments** – although there has been a general improvement in the quality of dialogue between companies and investors, we are disappointed that the Code has not been effective in promoting the mutual benefits to major investors and new non-executive directors of the opportunity to meet when a new non-executive director is appointed (as per A.5.1 of the Code). It is recognised that such invitations will not always be taken up by the major investors; nonetheless, they provide a valuable opportunity for useful dialogue.

We should like to see (1) the Code provision given due emphasis and (2) major investors encouraged to develop and implement enabling policies that ensure the invitations to meet new non-executive directors are processed effectively.

4. **Investment Trusts** - investment trusts have a number of features which differ significantly from other entities. The corporate governance guidelines used for evaluation purposes by Standard Life Investments have always had a separate section dealing with investment trusts. We should like the FRC to follow our example and tailor the Code to improve its relevance and effectiveness for investment trusts.
5. **Disclosure of audit engagement letters** - we are not convinced that this would improve the effectiveness of the Combined Code. We question seriously whether the engagement letters would be referred to by shareholders and, even so, whether or not they would add any value.

Our responses to the questions posed by the FRC are attached.

We hope our views will assist the FRC in its review.

Yours sincerely

Guy Jubb
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Standard Life Investments*

cc. Mr P Boyle