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STANDARD LIFE INVESTMENTS

Ms Claire Bury
European Commission
Office: Spa2 02/089
1049 Brussels
Belgium

Standard Life Investments

1 George Street
Edinburgh
EH2 2LL

phone: 0131 245 6813

fax: 0131 245 6463

email: guy_jubb@standardlife.com

www.standardlifeinvestments.com

By Post & e-mail to: markt-cg-fin-inst@ec.europa.eu

Dear Claire

CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS

Standard Life Investments is a wholly owned subsidiary of Standard Life plc, whose securities are listed on the London Stock Exchange and is a constituent of the FTSE-100 Index. Standard Life Investments manages funds on behalf of clients that had a value of £143 billion as at 30 June 2010. A significant proportion of these funds, which are actively managed, are invested in securities listed on major European stock exchanges. It is relevant to note that our clients are long-term investors. Accordingly, we have a keen interest to ensure that the companies in which we invest have effective corporate governance that operates on a cost effective basis.

We recognise and acknowledge the deficiencies and weaknesses in corporate governance within financial institutions that are referred to by the Commission in the Green Paper. We are determined to use best endeavours to encourage actions and behaviours in the future which will prevent a recurrence of the shortcomings that contributed to the financial crisis and its serious economic and social consequences. Consistent with this, we support strongly the Stewardship Code for Institutional Investors, which was published in July by the UK's Financial Reporting Council. We believe that the principles that are set out in this Code are capable of universal application. Accordingly, we commend the Code and its principles to you.

We are grateful for the invitation to submit views on the suggestions set out in the Green Paper, which provided a thoughtful and helpful analysis of the issues and a useful description of the options for the future.

We have participated in the processes used by the Association of British Insurers (ABI) and the Investment Management Association (IMA) to develop their responses to your consultation. Rather than re-iterate the detailed responses they submitted, we should like to emphasise the following points, which we believe are especially important from the perspective of an institutional investor that is actively involved in the front line of engagement with the boards of financial institutions.

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1. Risk Committees

- We support the establishment of risk committees. Such a step will not only assist risk oversight in the financial institution concerned but also help to restore trust to the European financial sector as a whole.
- As part of the board's process to review its own effectiveness, the terms of reference of the risk committee should be reviewed and approved annually by the board. Care should be exercised to ensure that overall responsibility for a financial institution's risk profile and strategy is not delegated inappropriately to the risk committee. In particular, it is important that the independent non-executive directors who are not members of the risk committee organise themselves in a manner that they can bring objective judgement to bear, when required, to challenge robustly the risk committee's deliberations.
- The appointment and dismissal of the chief risk officer should be a matter for the board as a whole, and boards should be required to give due consideration as to whether such appointments and dismissals should be the subject of regulatory disclosures to capital markets. This would serve to reinforce the importance and status of the role and ensure that capital markets are kept properly informed. Also, there should be provisions for an exit interview on resignation.

2. Role of External Auditors

- External auditors are 'the stewards' steward'. To this end, their role and reporting responsibilities should be enhanced in order that they can communicate to supervisors and shareholders in a more useful, relevant and timely manner than is currently the case. Increased transparency through their reports (and those of audit committees) to shareholders would provide useful independent reassurance regarding the financial position of the financial institution and its risk management. The Commission's forthcoming review of auditors may yield solutions to some of the impediments to progress, such as auditor liability.

3. Shareholder Control of Financial Institutions

- Shareholder control is both realistic and desirable, especially in an environment of strengthened stewardship by institutional investors and oversight by supervisors.
- The Commission should give more emphasis in its proposals to effective engagement and dialogue between boards and institutional investors. Voting is a blunt instrument if it is not accompanied by purposeful dialogue. Whilst it is right to emphasise the role of institutional investors in this regard, the Commission should also consider how the boards of financial institutions should satisfy themselves that they are taking the necessary steps to ensure they have a regular dialogue with their owners about, inter alia, strategy, management, governance, and risk appetite and control. The standard 'investor road-shows' are not of themselves sufficient - additional outreach is required.

4. User Group

The evolution of corporate governance is a continual process - not least in financial institutions. The Commission's proposals will, when finalised, provide a useful foundation for the future. We believe it is important that the foundation is built upon in a progressive and practical manner in order that momentum is maintained over the long term. Therefore, we urge the Commission to give serious consideration to establishing a pan-European user group or similar body to make recommendations (or similar pronouncements) to assist the Commission, supervisors, institutional investors and the boards of European financial institutions by promoting best

practice in a timely manner. We envisage such a group would complement and not be a substitute for the Commission's European Corporate Governance Forum.

We trust our views will assist the Commission in its continuing deliberations on this important matter. We support the Commission's resolve to make progress with a sense of urgency but not undue haste. In this regard, we would observe that corporate governance practices will no doubt build on the Commission's proposals and evolve over time to provide a much more robust and reliable corporate governance environment pertaining to financial institutions than had been the case in the past. With this in mind, we should be pleased to be of assistance to you, formally or informally, as and when required.

Yours sincerely

Guy R Jubb
Investment Director, Head of Corporate Governance
Standard Life Investments