

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

18 March 2011

Dear Sir,

Re: Consultation Paper on Review of the Code on Corporate Governance Practices and Associated Listing Rules

We are pleased to submit our responses to the Consultation Paper (the “**Consultation Paper**”) by the Stock Exchange of Hong Kong Limited (the “**Exchange**”) to review the Code (the “**HK Code**”) on Corporate Governance Practices and Associated Listing Rules (the “**HKLRs**”).

I very much enjoyed the recent discussions with your colleagues at the Listing Division regarding key corporate governance issues including our experiences in other markets.

We view high standards of corporate governance as a critical component for the long term success of listed issuers (“**Issuers**”), the economic health and stability of Hong Kong and its status as a pre-eminent international financial centre in Asia. As a major international bank with multiple primary listings, we believe it is our responsibility not only to practice high standards of corporate governance but also to proactively contribute to creating and maintaining an environment where such standards are considered the norm across the markets in which we operate.

In this context, we would like to offer some thoughts and suggestions that we hope you find useful as part of this consultation process. We structure our submission into the following parts:

Part I: General Remarks
Part II: Discussions on Key Issues
Part III: Responses to Specific Questions in the Consultation Paper

Part I sets the stage for our input provided in this submission, followed by more detailed discussions in Part II on selected key areas. These areas are selected because we either have a very strong view (agreeing or disagreeing) or we believe may be able to provide additional insight for the Exchange’s consideration. With the discussions on rationale as a context, our responses to the specific consultation questions in Part III will hopefully be relatively “self-explanatory”.

We hope that you find our submission useful in your deliberations. We welcome the opportunity of having a continuing dialogue in relation to this consultation process. In the meantime, if there is any additional information you require, please do not hesitate to contact

Yours sincerely,

PART I GENERAL REMARKS

We believe that the quality of corporate governance ultimately depends on Issuers demonstrating appropriate behaviours underpinned by robust processes. These behaviours are instantly recognisable when they are displayed in practice. However, it is extremely difficult to define these behaviours in sufficient detail to cover all circumstances that arise in a governance context.

We recognise that regulators may be tempted to move to a more rule-based approach to corporate governance in the belief that at least this ensures compliance with minimum standards. However, as it is impossible to prescribe the necessary behaviours there is a real danger that, by focusing on compliance with rigid rules, this has the unintended consequences of encouraging a tick-box mentality to corporate governance. Issuers can infer that compliance with these minimum standards is all that is required to satisfy the regulators (and the market) regarding their corporate governance practices.

In addition, such prescriptive rules can actually prove problematic for those Issuers with more developed practices that meet the spirit underlying the rules but do not necessarily meet the letter of the rules as strictly defined. As a result, such Issuers may be loaded with significant but unnecessary burdens in satisfying the precise rules with no resulting improvement in corporate governance standards within their organisations.

Many jurisdictions now accept that a principle-based approach is the most effective way of stimulating the right behaviours and practices. Increasingly the belief is that the key to good corporate governance is to ensure that Issuers embrace the principles more holistically rather than overly focus on the prescriptive details. Increasingly, Regulators are issuing supplementing guidelines to reinforce the importance of behaviours. In the UK context, the most recent of these is the Guidance on Board Effectiveness by Financial Reporting Council ("**FRC**") which we attach a copy as [Appendix A](#).

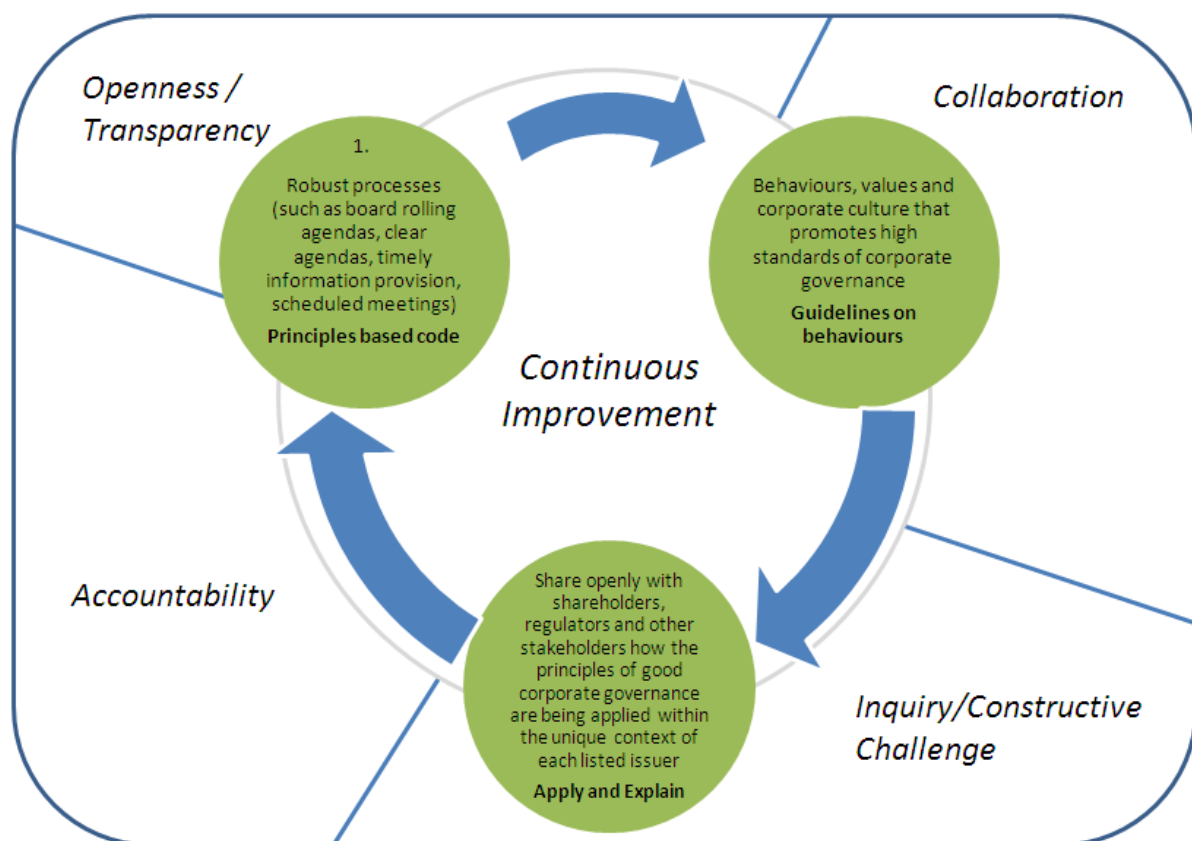
We recognise that the Hong Kong market has a unique issuer and investor composition and appreciate some of the challenges you may face in dealing with this. However, we believe that the key elements to ensure high standards of corporate governance can be applied to all Issuers irrespective of their differing characteristics and stages of evolution in corporate governance practices. We can testify from our own experience that these key elements can work interactively to form a solid framework for exemplary corporate governance practices.

Throughout this submission, we will emphasise two key themes:

1. For good corporate governance to exist in an organisation, there must be both robust processes and the right culture/values/behaviour throughout the organisation led by the chairman and the board and actively supported by the CEO and management.
2. Requiring issuers to explain how they are applying the principles that promote high standards of corporate governance (“**apply and explain**”) is more effective than requiring them to comply with a prescriptive set of rules.

Chart 1 seeks to demonstrate the interactive nature of these key elements. It also depicts the importance of an organisation’s underlying culture and values in ensuring effective corporate governance.

Chart 1: Integrated Approach to Corporate Governance



Behaviour/Culture Underpinned by Good Processes

It is vital for Issuers to have an underlying culture with behaviours and values that stimulate and sustain effective corporate governance. Without being exhaustive, key elements of the culture include a spirit of transparency, open-mindedness, inquiry and constructive challenge. Such a culture is defined and exemplified within a

framework of an integrated cohesive unitary board with the chairman and CEO playing particularly critical roles at both board level and throughout the entire organisation.

At Standard Chartered, we believe that our open, challenging yet cohesive and collaborative culture where all directors have unfettered access to management and information has enabled us to achieve high standards of corporate governance. Also we have an ethos of continuous improvement which facilitates review and improvement of practices and creates an environment where constructive challenge and collaboration is encouraged and embraced.

Moving from a “Comply or Explain” Approach to an “Apply and Explain” Approach

We agree that the existing **“comply or explain”** approach to the HK Code provisions does have, to some degree, a positive effect in engaging Issuers to discuss their approach to governance. However, this approach implies that Issuers need to justify their corporate governance practices only if they do not comply with the explicit rules.

In order to support the Exchange’s desire to promote high standards of corporate governance, we suggest that it would be even more effective for the HK Code to be implemented on an **“apply and explain”** basis. This means that Issuers would be required to explain how they are applying the principles of the HK Code. By taking an “apply and explain” approach, Issuers have to be more thoughtful about their underlying corporate governance practices knowing that they need to describe them in a meaningful way to shareholders, regulators and other stakeholders. Standard Chartered has voluntarily adopted this approach in recent years as evidenced by our corporate governance disclosures.

The concept of “apply and explain” received favourable comment in the Walker Review of Corporate Governance of UK Banking Industry (the **“Walker Review”**). This approach goes a step further than the current UK Corporate Governance Code which still adopts a “comply or explain” approach. Moving from “comply” to “apply” emphasises the fact that all Issuers are expected to apply the principles yet recognising that there will be a myriad of ways by which this can be done.

Some Issuers may assert that an “apply and explain” approach places additional burden on them. The Exchange can take a proportionate approach to what is expected from smaller Issuers. Such Issuers may push to know what the minimum requirement is to “comply” with the HK Code but, for the reasons articulated above, we believe that it is not in the Exchange’s best interests or those of the Hong Kong market generally to accede to such requests. The onus rightly remains on Issuers to disclose their corporate governance practices and explain why they believe practices effectively meet the specified Corporate Governance principles.

Corporate Governance Disclosure

It is important for Issuers not just to practice high standards of corporate governance but to describe and engage with various stakeholders regarding these practices. On this basis, it should be clear that bare minimum boiler plate type of disclosure statements are unacceptable.

We believe that strong corporate governance is essential for delivering sustainable shareholder value, and strive to demonstrate this through our holistic integrated approach to Corporate Governance. In this context, we are pleased to share with you our 2010 Corporate Governance Report to shareholders (see [Appendix B](#)). Please note that this document will not become public until 25 March 2011 when our 2011 Annual Report & Accounts is released and therefore we request that you preserve the confidentiality of this report until that date.

In the UK, one informal mechanism which has resulted in higher standards of corporate governance disclosures is the use of “awards” to recognise those Issuers with best practice disclosures. For the past two years the Institute of Chartered Secretaries (“ICSA”) has partnered with Hermes and other sponsors to review all FTSE 250 corporate governance disclosures. This has stimulated more dialogue regarding what constitutes good disclosure practices. We believe that it has already had a positive impact on the quality of market disclosures and, if sustained, will continue to do so. We note that the Hong Kong Institute of Certified Public Accountants have provided awards to Standard Chartered for its corporate governance disclosures in recent years. There may be merit in giving more prominence to these awards, or something similar, to encourage Issuers to continue to improve their corporate governance disclosures. In this context, we thought that you might find it useful to have a copy of last year’s ICSA/Hermes Transparency in Governance (see [Appendix C](#)).

Having said this, we recognise that Issuers may devote their energies disproportionately to the disclosure element of corporate governance as opposed to continuously improving their actual corporate governance practices. Therefore it is important to strike a balance when advocating for the better disclosure of corporate governance practices to ensure that this is not “instead of” practising actual good governance.

PART II KEY ISSUES

1. Independent Directors' Time Commitment

We support the principle that independent directors should devote sufficient time to discharge their duties effectively. However we do not believe that it is advisable to prescribe how much time is required (other than in the broadest possible terms). This is because the time required is determined by a wide number of factors including the nature of the company, its stage of evolution, and particularly the impact of broader geo-political, economic and/or regulatory factors on its strategy and operations.

The key principle is to ensure that independent directors are in a position to prioritise their time so that, when the need arises, they can allocate whatever amount time necessary to their role at short notice.

Along the same line of thinking, we suggest that limiting the number of boards on which an independent director can sit would be too arbitrary and unnecessarily prescriptive. Such a limitation would not take account of the fact that directorships invariably differ depending on the nature of the Issuer, its size and complexity and that different directors may have varying levels of organisational skills, energy levels and capabilities. Therefore, it is impossible to prescribe a "one-size-fits-all" limit. We suggest that it is far more important for independent directors to demonstrate that they can devote appropriate time to each individual board commitment and avoid conflicts of interest.

We believe that it is the responsibility of the Corporate Governance Committee or Nomination Committee to determine the estimated range of time likely to be needed by an independent director to discharge his or her duties and that this time commitment should be set out in the letter of appointment. The letter of appointment should also make it clear that, from time to time, it may be necessary for the director to provide more than the estimated time commitment.

We suggest that, when considering additional appointments, independent directors should, prior to accepting the appointment, discuss with and satisfy the chairman that they can continue to commit the necessary time to the existing role. The chairman (or where he or she is not independent, the Senior Independent Director) can confirm this in the corporate governance disclosure.

It is likely in practice that the number of roles that an independent director can effectively undertake will reduce given that the expectations placed on such directors have increased markedly over the years. It is now wholly inappropriate for an independent director of an Issuer to expect that he or she merely needs to read the board papers and attend board meetings in order to discharge his or her duties. This is particularly the case for new joiners to the board. Only a few years ago, it was accepted practice in the UK to specify that independent directors would devote between 15 to 20 days to the role. During 2010, Standard Chartered specified that the minimum expected time commitment was 30 days and several independent directors devoted up to 100 days to the role. In this context, we believe that there is

likely to be a trend to ensure that fees for independent directors properly reflect the additional time commitment.

2. Tailored Training for the Independent Directors

We fully support the principle that each independent director should have the requisite knowledge and understanding of the Issuer's business to enable them to carry out his/her duties effectively. We strongly believe in individualised programmes that are agreed periodically with independent directors to satisfy their respective induction, training and ongoing development needs. These programmes should be tailored in accordance with existing independent director expertise, skills and experience taking into account specific issues and key risks that are relevant to the particulars of the Issuer's business.

As a general statement, we find that most external generic training programmes have limited value for all but the most inexperienced independent directors. There is so much more to development than just providing updates regarding the regulatory environment and directors' duties. Whilst it is important for all directors to display knowledge in these areas, this is not sufficient to ensure the effectiveness of directors. Therefore we advocate that the majority of independent director training should be 'company-specific' and internally facilitated. However, we also believe that there is a benefit to providing directors with external perspectives as part of the ongoing development process.

Whilst acknowledging the immense importance of independent director training and development, we believe that the imposition of arbitrary training requirements may do little to increase director knowledge and may lead to a 'tick-box' mentality towards training. Therefore, we do have significant concerns around the proposed prescriptive number of hours of training. In our view, eight hours of training would be insufficient in nearly all cases. It is perhaps inevitable that those organisations that do not have good corporate governance practices will stick to the number rigidly and yet this does not mean that the directors are fulfilling their duties in a meaningful way. Any such rules run the risk of encouraging the minimum standards to be adopted rather than striving for best practice.

We understand that the proposed prescriptive training requirement may in part be a response to the fact that some independent directors profess ignorance of rules and regulations when questioned by regulators. Clearly this is unacceptable and should be no defence to unacceptable conduct. To address this we suggest that there is onus is placed on individual directors to ensure that they have the requisite knowledge through self-certification.

At Standard Chartered, we adopt a system whereby each independent director agrees an annual engagement plan with the chairman. This is designed to ensure that each independent director both receives the appropriate support and is clear about the expectations placed upon them regarding continuing development and time commitments. "Engagement" is meant in the widest context - whilst we do arrange numerous briefing sessions on specific topics, it is also important that independent directors visit our markets and get an "on the ground" understanding of

the business, opportunities and risks that we face. Independent directors are also encouraged to take advantage of the unrestricted access they have to management at all levels of the organisation independently of executive directors. They engage with local management teams, country leaders, clients/customers and the regulators. They also regularly act as ambassadors for Standard Chartered. Independent directors have open invitations to attend various key management meetings and a number of senior leadership team gatherings. This has the dual benefit to independent directors of understanding how the Group's strategy is being communicated throughout the organisation as well as providing valuable opportunities to meet and build relationships with the wider senior leadership.

3. The Board Composition and Independent Mind-Set

Achieving the right balance in the board's composition is challenging. There are a number of factors that need to be balanced. These include the need for certain specialist skills and experience; ensuring diversity of nationality, gender and perspectives; having directors with differing tenures to ensure smooth board succession; achieving the right chemistry amongst board members; and having the appropriate balance of executive and independent directors. All of these factors need to be reconciled whilst ensuring the board does not become too large, unwieldy and therefore less effective. It is increasingly difficult to achieve the right balance when any one or more element is prescribed rigidly.

Ideally, at any one time, the board would consist of a combination of newly appointed independent directors and those that have been on the board for several years. In that regard, the so called "nine year rule" in some jurisdictions may be unhelpful to Issuers who seek to balance refreshing board membership with the need for continuity and experience.

Longevity, far from diminishing independence, can enhance an independent directors' ability to challenge and probe management. On the other hand, a newly appointed independent director, who has been selected on grounds other than meritocracy and fitness, can display "non-independent" behaviours from the outset of his or her tenure. In this respect, we agree with the Exchange that "independence" is more of a "mind-set" and not influenced by the number of years spent on the board. We support the view that an independent director's familiarity with an Issuer's operations and practices is an asset to the Issuer rather than a liability.

We strongly believe that for the process for director selection and appointment should be transparent and meritocratic. Those Issuers following best practice would define the precise characteristics being sought at the beginning of a selection process. A wide range of potential candidates could be recommended by recruitment agencies, professional associations through public advertisements and/or personal referrals. Members of the nomination committee would interview the short-listed candidates. As a result the most appropriate candidate would be selected through a transparent and meritocratic process. It is reasonable to expect Issuers to describe their approach to independent director identification and appointment in their corporate governance disclosures.

4. Board Committees

For an Issuer such as Standard Chartered, we find that having a number of board committees is an effective mechanism to ensure that all aspects of the board's remit receive appropriate levels of focus and attention. It is not practical (or advisable) in a board of our size for all independent directors to sit on every committee. As a result, we place a heavy focus on ensuring that there are the right linkages between the board and its committees and between each of the committees. You will notice that this was a key theme which we covered in our most recent corporate governance report as set out in Appendix B.

However, there is a significant logistical and administrative burden that is associated with Issuers having a number of committees. The cost or time of this should not be under-estimated. On this basis, if certain functions can be effectively carried out by the full board without compromising certain unique feature of a committee (e.g., independence), we would suggest that the main board be allowed to carry out these duties. This would address the concerns of smaller Issuers about disproportionate administrative burdens being placed upon them.

4.1 Remuneration Committee

We fully support Model A under which a remuneration committee has authority delegated by the board to determine the specific remuneration packages of executive directors and the most senior management. We agree it is important that the remuneration committee decides on remuneration packages of chairman, executive directors and senior manager and no director is involved in deciding his own remuneration. The remuneration of independent directors should be decided by the executive directors. We believe that it is important that the remuneration committee should be composed entirely of independent directors and be chaired by an independent director.

We have concerns that Model B leaves room for executive directors to exercise inappropriate influence on the independent directors with regard to remuneration rewards for the executive directors and senior management. We understand that some issuers are concerned that remuneration committees comprised solely of independent directors may not have the necessary information and context to make remuneration decisions for executive directors and senior management. We suggest that this concern can be addressed by inviting relevant members of the management team (for example the CEO, CFO, HR Director and/or, where relevant, the chief risk officer) to present to the committee.

4.2 Nomination Committee and Corporate Governance Committee

As discussed during our earlier meeting, we have concerns that the proposed membership requirements for these committees could have unintended consequences for Issuers that have a dual primary listing in Hong Kong and the UK.

Under the UK Code, a board chairman should be independent on appointment. However thereafter he is no longer classified as independent. Therefore should the committee membership proposals set out in this consultation be adopted, one

consequence of this would be that, strictly speaking, Standard Chartered's board chairman could not chair either the nomination committee or corporate governance committee. We do not think that you intended to have this effect with the proposed membership requirements.

We believe that it is important and appropriate for board chairman to chair the nomination and corporate governance committees particularly given that director and executive succession planning and corporate governance policies are very much within the board chairman's functional role. We would appreciate it if the Exchange could clarify that independence on appointment of the board chairman of a UK company satisfies the independent requirement for board committee composition purposes.

5. Board Evaluation

We support the principle that the board, its committees and individual directors should periodically undertake formal and rigorous evaluation. We believe that the requirement for an Issuer to undertake regular effectiveness reviews will result in an increased focus on the Issuer's corporate governance practice as well as board and individual director's performance. We support placing increased focus on individual director performance evaluation as part of the regular board effectiveness review. Issuers should be encouraged to disclose the types of factors considered when assessing an individual director's performance, such as time commitment, attendance at meetings and fulfilling agreed engagement plans.

5.1 Frequency of Review

We consider that boards should continually review and examine ways to improve their effectiveness rather than just taking it as an annual exercise. Those that act in the spirit of continuous improvement are more likely to be embracing the spirit of promoting high standards of corporate governance.

Whilst we support the annual evaluation for board and the individual directors, we suggest flexibility for a rolling schedule of reviews for the various committees. This will reduce the risk of "review fatigue" and increase chances of a more meaningful outcome from these reviews.

5.2 Disclosure of Evaluation Results

Board evaluations are a tool for understanding and improving board effectiveness provided they facilitate open and honest feedback from directors. We support an approach that encourages wider disclosure on the process undertaken and the mechanism being used to implement enhancements. However, there is a real danger that if detailed internal review documents or specific review outcomes are required to be disclosed to the general public and/or regulatory authorities, this will lead to less effective and meaningful reviews. At Standard Chartered, we seek to achieve a balance between rigour of the process and sensible disclosure of the findings to avoid any unintended consequence of reducing open and honest feedback. Please refer to Appendix B for an example of our effectiveness outcome disclosures.

5.3 External Facilitation of Board Effectiveness Reviews

We accept that there may be times where it is helpful to use an external facilitator in board effectiveness reviews. This includes where the Issuer has been through a period of significant change or where there is a known but “unverbalised” issue. In the extreme scenario externally facilitated evaluations can be a catalyst for change where the board is dysfunctional in some way.

We emphasise that any external input is to assist the board in conducting its own effectiveness evaluation rather than being positioned as an external judgment on the board effectiveness. Otherwise directors are less likely to share their honest views openly with the external party and the value of the evaluation exercise will be eroded.

There are significant practical constraints on the value to be derived from the involvement of external facilitators and it is important that the value of externally facilitated evaluations is not over-stated. Any external provider is unlikely to have the requisite depth of knowledge and understanding about how the Issuer operates, or be able to sufficiently determine the behavioural aspects of the boardroom through the review process. This would therefore limit an external facilitator’s ability to understand the real dynamics of board chemistry, behaviours and effectiveness. This is particularly the case when board members interact extensively with each other outside the confines of the formal boardroom. Also such facilitators usually only observe the board and its processes at a point of time and there is a danger of inferring that this is representative of the board’s overall effectiveness.

In addition, currently there are very few individuals or firms with sufficient quality and experience to be able to engage in external facilitation. The best facilitators tend to have significant boardroom experience either as directors or company secretaries and also have some grounding in behavioural dynamics. We consider that those recruitment agencies who provide search services for board appointments are likely to be perceived as having a fundamental conflict even if supposed information walls are put in place between the boardroom evaluation department and the boardroom search services.

6. Chairman

Undoubtedly the Issuer’s chairman plays a crucial role in the proper functioning of the board and in ensuring board effectiveness. We support various proposals in the Consultation Paper to define the role of chairman and clarify his or her responsibilities. We see such proposals as an effective way to provide clear guidance about the standards expected from Issuers without being prescriptive. We believe these proposals are consistent with the international trend to enhance the role of the board chairman. We welcome the recent enhancements to the UK Corporate Governance Code which more explicitly recognises the chairman’s role. We also support the guidance on chairman’s role in the recently published FRC Guidance on Board Effectiveness (see [Appendix A](#)). This is a good example of guidance being provided to supplement the principles based provisions in the UK Code.

In the Walker Review there was debate about whether the chairman of a financial services institution must display both depth of industry specific knowledge and the necessary leadership skills to be an effective chairman. The Walker review concluded that, whilst industry specific knowledge is useful, the leadership aspects are the more crucial skills that the chairman must possess. We fully support this conclusion. In fulfilling his role, the chairman must possess the requisite skills, ability and expertise to develop and maintain a relationship of trust with each of the board members, creating an environment which simultaneously stimulates open debate and constructive challenge yet also leads to a cohesive and supportive board. The chairman must ensure that the environment does not promulgate the potential for "groupthink".

Whilst a rigorous tailored induction and training programme can assist a chair to gain the requisite technical knowledge, leadership skills are much harder to acquire.

7. Company Secretary's Function, Qualifications, Experience and Training

We strongly support the HK Code's separate reference to the role, responsibilities and contributions of a company secretary. We believe that company secretaries can play a critical role in influencing the effectiveness and efficiency of the board. They provide dedicated support to the board and in particular to the chairman and the independent directors, assisting them in fulfilling their responsibilities. Such influence also extends to the CEO and executive directors and therefore the company secretary should be considered to be uniquely placed to provide a bridge between the executive and independent directors in the context of a unitary board model. Furthermore, given their day-to-day experience in and around the boardroom, the company secretary is better placed than others (including an external facilitator) to observe boardroom behaviours on a continual basis.

We feel that the value offered by this role is often under-stated. We observe that, all too often in organisations, the company secretary role remains perceived as an administrative rather than an advisory function. We consider that the Exchange has a crucial role to play in promoting this profession to ensure that individuals with the right credentials, gravitas and experience fill the company secretary positions more frequently.

Ultimately, the value of a company secretary's contribution will be determined by the calibre of the individual and we believe that the most effective company secretaries are those who possess a good working knowledge of the Issuer's business and organisation. This enhances the company secretary's credibility with the board and enhances the value that they can add to the board's overall effectiveness.

Whilst we firmly believe in continuing development for company secretaries, we are concerned that imposing a requirement for a certain number of hours of formal continuing professional development will result in company secretaries attending technical briefing sessions rather than focusing on honing their business-specific knowledge and "soft" skills, such as influencing, negotiating, leadership and emotional intelligence skills. In this context we note that recently the UK Institute of Chartered Secretaries ("ICSA") has explicitly recognised the value of "informal"

development when formulating its guidelines of continuing professional development. We encourage the Exchange to liaise with the HK equivalent body and rely on them to devise these requirements.

Finally, in relation to the requisite qualifications for company secretaries, we would prefer that more weight is given to legal, accountancy or company secretarial qualifications from jurisdictions that are recognised as having relatively high standards of corporate governance. Particularly given the growth of Issuers in Hong Kong over the past couple of years, there is a scarcity of highly effective company secretaries locally. Therefore we submit that the Listing Rules accept candidates' legal, accounting or company secretarial qualifications from designated jurisdictions as a default position, unless the Exchange challenges any individual's candidacy on competency and suitability grounds. For such internationally qualified candidates, it will be important that they can demonstrate how to get up to speed with the local rules and regulations through, for instance, an intensive tailored training schedule.

Before you turn to Part III of our submission, please allow us to recap the key themes in this submission:

1. For good corporate governance to exist in an organisation there must be both robust processes and the right culture/values/behaviour throughout the organisation led by the chairman and the board and actively supported by the CEO and management.
2. Requiring issuers to explain how they are applying the principles that promote high standards of corporate governance ("apply and explain") is more effective than requiring them to comply with a prescriptive set of rules.

To be consistent with the two key themes discussed above, we believe keeping majority of the corporate governance guidelines (which we support) in the HK Code's recommended best practice category would be a sensible approach which provides the Issuers meaningful guidelines as well as the flexibility in adopting practices that embrace the spirit of the accepted principles. This would be our suggested general approach to most of the Part III questions.

**Part III Responses to Specific Questions in the Hong Kong Stock Exchange
Review of the Code on Corporate Governance Practices and Associated Listing Rules**

Questions	HK Proposals	Rationale/Remarks	Y	N	N E U T R A L
	Plain Writing Amendments				
1	Do you have any comments on the plainer writing amendments? Do you consider any part(s) of the plainer writing amendments will have unintended consequences? Please give reasons for your views.	We are generally supportive with the plainer writing amendments	√		
A	Directors' Duties and Time Commitments				
2	<p>Do you agree with our proposed change to Rule 3.08 to clarify the responsibilities the Exchange expects of directors?</p> <p>Rule 3.08 The board of directors of a listed <u>an</u> issuer is collectively responsible for its <u>the</u> management and operations of the listed issuer. The Exchange expects the directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. This means that every director must, in the performance of his duties as a director:—</p> <p>(a) act honestly and in good faith in the interests of the company as a whole;</p> <p>(b) act for proper purpose;</p> <p>(c) be answerable to the listed issuer for the application or misapplication of its <u>assets</u>;</p> <p>(d) avoid actual and potential conflicts of interest and duty;</p>	We generally support your proposed change to Rule 3.08 to clarify the responsibilities the Exchange expects of directors and we agree with your proposed addition of the Note to Rule 3.08 referring to guidance issued by the Company Registry (“CR”) and Hong Kong Institute of Directors (“HKIOD”). However, we would highlight that the Exchange may wish to consider how the Rules can reflect any future amendments to the guidance issued by CR and HKIOD in respect of directors’ duties.	√		

	<p>(e) disclose fully and fairly his interests in contracts with the listed issuer; and (f) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the listed issuer.</p> <p><u>Directors do not satisfy the required levels of skill, care and diligence by delegating their responsibilities to colleagues or management in the issuer and paying attention to its affairs only at formal meetings. At a minimum, they must take an active interest in its affairs and obtain a general understanding of its business. They must follow up anything untoward that comes to their attention.</u></p> <p><i><u>Note: These duties are summarised in “A Guide on Directors’ Duties” issued by the Companies Registry in July 2009. In addition, directors are generally expected by the Exchange to follow the Guidelines for Directors and the Guide for Independent Non-executive Directors published by the Hong Kong Institute of Directors (www.hkiod). In determining whether a director has met the expected standard of care, skill and diligence, courts will generally consider a number of factors. These include the functions that are to be performed by the director concerned, whether he is a full-time executive director or a part-time non-executive director and his professional skills and knowledge.</u></i></p>				
3	Do you agree with our proposed addition of the Note to Rule 3.08 referring to the guidance issued by the Companies Registry and HKIOD?	Ditto 2	√		
4	Do you agree to include a new duty (CP A.5.2(e)) in the nomination committee’s written terms of reference <u>that it should regularly review the time required from a director to perform his responsibilities to the issuer, and whether he is meeting that requirement?</u>	We do not consider it necessary to include this new duty within the terms of reference for nomination committee. We believe that this review should form part of the Chairman’s responsibility when evaluating the director’s performance.		√	
5	Do you agree to include a new duty (CP A.5.2(f)) in the nomination	We support the practice that the letter of		√	

	committee's written terms of reference <u>that it should review NEDs' annual confirmation that they have spent sufficient time on the issuer's business?</u>	appointment sets out the estimated time range from INEDs. It should be for the Governance Committee, the Nomination Committee and/or the Board Chairman to determine whether the time commitment is sufficient. Also, individual evaluation should aim to show whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).			
6	Do you agree to include a disclosure requirement in the Corporate Governance Report (paragraph L(d)(ii) of Appendix 14) <u>that NEDs have made annual confirmation to the nomination committee that they have spent sufficient time on the issuer's business?</u>	Ditto 5 above.		√	
7	Do you agree to expanding CP A.5.3 (re-numbered CP A.6.3) to state <u>that a director should limit his other professional commitments and acknowledge to the issuer that he will have sufficient time to meet his obligations?</u>	We would argue that limiting the number of boards on which an independent director can sit would be too arbitrary and unnecessarily prescriptive. Such a limitation would not take account of the fact that directorships invariably differ depending on the nature of the listed issuer, its size and complexity and that different directors may have varying levels of organisational skills, energy levels and capabilities. Therefore, it is impossible to prescribe a "one-size-fits-all" limit. We would argue that it is far more important for independent directors to demonstrate that they can devote appropriate time to each individual board commitment and avoid conflicts of interest.		√	
8	Do you agree to expanding CP A.5.3 (re-numbered CP A.6.3) to state <u>that an NED should confirm annually to the nomination committee that he has spent sufficient time on the issuer's business?</u>	Ditto 5 above		√	

9	Do you agree to upgrading RBP D.1.4 to a CP (re-numbered CP D.1.4) and amending it to <u>state that a NED's letter of appointment should set out the expected time commitment?</u>	Ditto 5 above	✓		
10	Do you agree to upgrading RBP A.5.6 to a CP (re-numbered CP A.6.6) and to amending it to <u>encourage timeliness of disclosure by a director to the issuer on any change to his significant commitments?</u>	<p>We believe that, when considering additional appointments, independent directors should <u>prior to accepting the appointment</u>, discuss with and satisfy the Chairman that they can continue to commit the necessary time to the existing role.</p> <p>The following wording is included in our letter of appointment: <i>"By accepting this Appointment, you have confirmed that you are able to allocate sufficient time to meet the expectations of your role. The agreement of the Chairman should be sought before accepting additional commitments that might impact on the time you are able to devote to your role."</i></p>	✓		
11	Do you consider that there should be a limit on the number of INED positions an individual may hold?	Ditto 7 above.		✓	
12	If your answer to Question 11 is "yes", what should be the number? Please give reasons for your views.	N/A			
13	If your answer to Question 11 is "yes", do you think that it should be a Rule or a CP ?	N/A			
B	Directors' Training and Independent Non-executive Directors				
14	Do you agree that we should upgrade RBP A.5.5 (requirement for continuous professional development) to a CP (re-numbered CP A.6.5)?	As set out in Part II of our submission, whilst we fully support the principle that each independent director should have the		✓	

	<p>A.56.5 All directors should participate in a programme of continuous professional development of at least 8 hours per financial year to develop and refresh their knowledge and skills. This is to help ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding a suitable development programme training, placing a n a ppropriate emphasis on the roles, functions and duties of a listed company director.</p> <p><i>Note: If a person holds multiple directorships, only 8 hours of training in total, is required</i></p>	<p>requisite knowledge and understanding of the listed issuer’s business, we do have significant concerns around the proposed prescriptive number of hours of training. In our view, eight hours of training would be insufficient in nearly all cases.</p> <p>We suggest that there is an onus on the individual director to ensure that he/she has the requisite knowledge. If required, it may be more appropriate for the CP to recommend that directors provide some form of self-certification in respect of their knowledge of the Listing Rules and other fiduciary duties.</p>			
15	Do you agree that the minimum number of hours of directors training should be eight ?	Ditto 14 above		√	
16	What training methods do you consider to be acceptable for the requirements stated in the proposed CP (re-numbered RBP A.6.5)? Please give reasons for your views.	We consider that most external generic training programmes have limited value for all but the most inexperienced independent directors. We advocate that the majority of independent director training should be “company specific” and internally facilitated.			
17	Do you agree that we should upgrade RBP A.3.2 (at least one-third of an issuer’s board should be INEDs) to a Rule (re-numbered Rule 3.10A)?	Note that Chairman of a UK Company must be independent upon appointment but will not be regarded as independent thereafter.	√		
	<p><u>Rule 3.10A An issuer must appoint independent non -executive directors representing at least one-third of the board.</u></p> <p><i>Note: The issuer must comply with this rule by 31 December 2012.</i></p> <p>For independence guidelines, please see HKLR 3.13</p>				
18	Do you agree that this Rule (at least one-third of an issuer’s board should be				√

	<p><u>INEDs</u>) be effective after a transitional period as described in paragraph 87 of the Consultation Paper?</p> <p>Para 87 ...So, we propose to provide a transitional period for issuers. Issuers would be required to comply with this proposed Rule by 31 December 2012.</p>			
19	<p>Do you agree that we should upgrade RBP A.4.3 (shareholder to vote on a separate resolution for the further employment of an INED who has served more than nine years) to a CP (re-numbered CP A.4.3)?</p> <p>A.4.3 Serving more than nine 9 years could be relevant to the determination of a non-executive director’s independence. If an independent non-executive director serves more than 9 years, any his further appointment of such the independent non-executive director should be subject to a separate resolution to be approved by shareholders. The board should set out to shareholders in the <u>The papers to shareholders accompanying a that resolution to elect such an independent non-executive director should include the reasons they why the board believes that the individual he is still continues to be independent and why he should be re-elected.</u></p>	<p>Ideally, at a ny o ne ti me, th e B oar d wou ld consist of a combination of newly appointed independent d irectors an d t hose t hat h ave been on the Board for several years. In that regard, the so called nine year rule in some jurisdictions may b e u nhelpful to lis ted issuers who seek to balance refreshing board membership with the need for continuity and experience.</p> <p>It can p lace an i ndependent d irector i n a better pos ition t o c ontribute i ndependent views. W e a gree w ith t he Exchange t hat “independence” is more of a “mind-set” and not influenced by the number of years spent on t he boar d. W e s upport t he vi ew t hat a n independent d irector’s familiarity with a listed issuer’s operations and practices is an asset to th e l isted is suer rather th an a liability.</p> <p>We support the proposal for shareholder to have t he o pportunity t o c onsider t he independence o f a d irector who h as s erved on a boar d for many years by voting on a resolution to e xtend t he i ndependent director’s service.</p>		√
20	<p>Do you agree with our proposal to upgrade RBP A.4.8 (issuer should include explanation of its reasons for election and independence of an INED in a circular) to a CP (re-numbered CP A.5.5)?</p>	<p>Ditto 19 above</p>		√

	A.4.85.5 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he the individual should be elected and the reasons why they consider him the individual to be independent.			
C	Board Committees			
i	Remuneration Committee			
21	Do you agree with our proposal to move the requirement for issuers to establish a remuneration committee with a majority of INED members from the Code (CP B.1.1) to the Rules (Rule 3.25)? <u>Rule 3.25 An issuer must establish a remuneration committee chaired by a n independent non-executive director and comprising a majority of independent non-executive directors.</u>	We fully support Model A under which a remuneration committee will have the authority delegated by the board to determine the specific remuneration packages of executive directors and senior management. We agree it is important that remuneration committee decides on remuneration packages of chairman, executive director and senior management and no director is involved in deciding his own remuneration. The remuneration of [independent] directors should be decided by the executive directors. We support that remuneration committee members should be all independent directors and chaired by a independent director.	√	
22	Do you agree with our proposal that the <u>remuneration committee must be chaired by an INED?</u>	Ditto 22 above	√	
23	Do you agree with our proposal to move the requirement for issuers to have written terms of reference for the remuneration committee from the Code (CP B.1.1) to the Rules (Rule 3.26)? <u>Rule 3.26 The board of directors must approve and provide written terms of reference for the remuneration committee which clearly establish its authority and</u>	We support the view that all board committees should be required to have written Terms of Reference	√	

	<u>duties.</u>			
24	<p>Do you agree with our proposal to add a new Rule (Rule 3.27) requiring an issuer to make an announcement if it fails to meet the requirements of proposed Rules 3.25, 3.26 and 3.27?</p> <p><u>Rule 3.27 If the issuer fails to set up a remuneration committee or at any time has failed to meet any of the other requirements in rules 3.25, 3.26 and 3.27, it must immediately publish an announcement containing the relevant details and reasons. Issuers must set up a remuneration committee and/or appoint appropriate members to it to meet the requirement(s) within three months after failing to meet them.</u></p>	N/A		
25	Do you agree with our proposal that issuers that fail to meet Rules 3.25, 3.26 and 3.27 should have three months to rectify this?	N/A		
26	<p>Do you agree that we should add “independent” to the professional advice made available to a remuneration committee (CP B.1.2, re-numbered CP B.1.1)?</p> <p>B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.</p> <p>B.1.2—The remuneration committee should consult the chairman and/or chief executive officer about their remuneration proposals relating to the remuneration of for other executive directors. and The remuneration committee should have access to independent professional advice if considered necessary.</p>	Whilst we are supportive of this approach, the Exchange may wish to consider the cost implications of this in addition for smaller listed issuers.	√	
27	Do you agree that, in order to accommodate Model B, we should revise CP B.1.3 (re-numbered CP B.1.2) as described in paragraph 117 of the	N/A		

	<p>Consultation Paper?</p> <p>Para 117. We propose to revise CP B.1.3 (re-numbered CP B.1.2) to accommodate both Model A and Model B. An issuer should state in the corporate governance report which model it has adopted. We seek market views on whether RBP B.1.8 should be retained and upgraded to a CP (re-numbered CP B.1.6). This provision will only apply to Model B. Under the new CP B.1.6, if an issuer adopts Model B, it would be required to publish in its corporate governance report the reasons why the board approves remuneration with which the remuneration committee disagrees. If an issuer does not comply with this requirement, it would have to disclose why it did not in the corporate governance report.</p> <p>Para 99. In Model A, a <u>remuneration committee will have the authority</u> delegated by the board to determine the specific remuneration packages of executive directors and senior management.</p> <p>Para 100. In Model B, the remuneration committee will review the <u>proposals made by the management on the remuneration of executive directors and senior management</u>, and make recommendations to the board. The board will have the final authority to approve the recommendations made by the committee. The board may ask the remuneration committee to reconsider its recommendations.</p>				
28	<p>(i) Do you agree that where the board resolves to approve any remuneration with which the remuneration committee disagrees, the board should disclose the reasons for its resolution in its corporate governance report? (ii) If your answer is “yes”, do you agree that RBP B.1.8 should be revised and upgraded to a CP (re-numbered CP B.1.6).</p> <p>B.1.86 If B.1.2(c)(ii) is adopted, where <u>where</u> the board resolves to approve any remuneration or compensation arrangements <u>with</u> which the remuneration committee <u>disagrees</u> has previously resolved not to approve, the board must <u>should</u> disclose the reasons for its resolution in its next annual report <u>Corporate Governance Report</u>.</p>	N/A			

<p>29</p>	<p>Do you agree that the term “performance-based” should be deleted from CP B.1.3(c) (re-numbered CP B.1.2(b)) and revised as described in paragraph 118 of the Consultation Paper?</p> <p>Para 118. We also propose to amend CP B.1.3(c) (re-numbered CP B.1.2(b)) to remove the term “performance-based”. Paragraph 180 sets out our proposal to add board evaluation of performance as an RBP. It would be inconsistent for an issuer to “comply or explain” against a performance-based remuneration CP if board evaluation is only an RBP.</p> <p>Our proposed CP B.1.2(b) states that management’s remuneration proposals should be reviewed by the remuneration committee “with reference to the board’s corporate goals and objectives”.</p>	<p>We are not clear as to whether this refers to performance of the directors or performance of the senior managers?</p>			
<p>ii</p>	<p>Nomination Committee</p>				
<p>30</p>	<p>Do you agree that RBP A.4.4 (establishment and composition of a nomination committee, re-numbered CP A.5.1) should be upgraded to a CP?</p>	<p>Whilst we are supportive of this proposal, the Exchange may wish to give consideration to whether some flexibility for smaller issuers is needed</p>	<p>✓</p>		
<p>31</p>	<p>Do you agree that the proposed CP (currently RBP A.4.4) should state that the nomination committee’s chairman should be an INED?</p>	<p>We consider that the Board Chairman or an INED should chair the Nomination Committee. Given his role, the Board Chairman is best placed to lead this Committee, except when the Committee is dealing with the appointment of a successor to the Board chairmanship.</p> <p>We would highlighted that under the UK Corporate Governance Code, the Chairman of a Company should on appointment meet the independence criteria set out in the Code but thereafter the test of independence is not appropriate in relation to the Chairman..</p> <p>Accordingly, our position is dependent on whether the Exchange will regard Board Chairman of a UK-listed company as “independent”</p>	<p>✓</p>		

<p>32</p>	<p>Do you agree that RBP A.4.5 (nomination committee’s terms of reference, re-numbered CP A.5.2) should be upgraded to a CP?</p> <p>A.4.5.2 The nomination committee should be established with specific written terms of reference which deal clearly with the committee’s <u>its</u> authority and duties. It is recommended that the nomination committee <u>It should discharge/perform</u> the following duties:-</p> <p>(a) review the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis at least annually and make recommendations to the board regarding on any proposed changes to the board to implement the issuer’s corporate strategy;</p> <p>(b) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;</p> <p>(c) assess the independence of independent non-executive directors; and</p> <p>(d) make recommendations to the board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer;</p> <p>(e) <u>regularly review the time required from a director to perform his responsibilities to the issuer, and whether he is spending sufficient time as required; and</u></p> <p>(f) <u>review the non-executive directors’ annual confirmations that they have spent sufficient time on the issuer’s business.</u></p>	<p>We agree that all Board Committees should have written Terms of Reference in place which should be made publicly available. However, we would question whether it is practical for issuers to make these available to the shareholders centrally at the Exchange rather than through the issuer’s own website.</p> <p>For reasons set out above in that we have reservations re contents of the ToR. (see 5 above)</p>	<p>✓</p>		
<p>33</p>	<p>Do you agree that the proposed CP (currently RBP A.4.5(a)) should state that <u>the nomination committee’s review of the structure, size and composition of the board should be performed at least once a year?</u></p>	<p>Whilst we support the approach to reviewing the structure, size and composition of the board, we believe that it would be more appropriate that this takes the form of a</p>	<p>✓</p>		

		“periodic” review rather than once a year.			
34	Do you agree that the proposed CP (currently RBP A.4.5(a)) should state <u>that the nomination committee’s review of the structure, size and composition of the board should implement the issuer’s corporate strategy?</u>	We agree that when considering the board’s composition, the Nomination Committee will naturally take account of the issuer’s corporate strategy	√		
35	Do you agree that RBP A.4.6 (availability of nomination committee’s terms of reference) should be upgraded to a CP?		√		
36	Do you agree that the proposed CP (currently RBP A.4.6, re-numbered CP A.5.3) should state <u>that issuers should include their nomination committee’s terms of reference on the HKEx website?</u>	We believe that it is appropriate for the terms of reference to be made public but that this could be available on the issuer’s website rather than HKEx. Where information is required to be made available on the HKEx website, we consider this could be as a link to the information contained on the issuers website.		√	
37	Do you agree that RBP A.4.7 (sufficient resources for the nomination committee, re-numbered CP A.5.4) should be upgraded to a CP?	We are not wholly clear what is intended by this question. If the purpose is to ensure that all INEDs and Committees have access to external professional advice necessary to help discharge INED/Committees’ duties, then we are supportive of this approach.	√		
38	Do you agree that the proposed CP (currently RBP A.4.7, re-numbered CP A.5.4) should clarify that a nomination committee should be able to seek independent professional advice at the issuer’s expense?		√		
iii	Corporate Governance Committee				
39	Do you agree with the proposed terms of reference listed in paragraph 141 of the Consultation Paper? Para 141. We propose adding, as CP D.3.1, the following duties for the corporate governance committee (or existing committee(s) performing or sharing this function):	We believe that this approach is somewhat prescriptive. For example, some of the duties listed could be performed by other Board Committees or the Board as a whole. The CP should therefore include flexibility to allow Boards to determine the duties of the corporate governance committee whilst providing guidance on best practice.		√	

	<p>(a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board;</p> <p>(b) to review and monitor the training and continuous professional development of directors and senior management;</p> <p>(c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements;</p> <p>(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and</p> <p>(e) to review the issuer's compliance with the Code and disclosure in the corporate governance report section of its financial statements.</p>			
40	Do you consider that the committee(s) performing the proposed duties listed in paragraph 141 of the Consultation Paper should submit to the board a written report on its work annually ?		√	
41	Do you consider that this report (as described in paragraph 142 of the Consultation Paper) should be published as part of the issuer's corporate governance report? Para 142. Other board committees produce a written report to the board on their activities and findings. For example a remuneration committee will produce a remuneration report for board approval that will be disclosed in the annual report. We seek market views on whether the corporate governance committee (or if a corporate governance committee is not set up, the committee(s) performing these duties) should submit a written report to the board on its work annually. We also seek views on whether the report should be published as part of an issuer's corporate governance report.	We are wholly supportive of this approach and would refer the Exchange to our Corporate Governance Report attached to this submission by way of an example	√	
42	Do you agree with introducing RBP D.3.3 stating that an issuer should establish a corporate governance committee with specific written terms of	We would argue that this approach is too prescriptive. Instead any RBP should state that issuer should consider establishing a	√	

	<u>reference (see D.3.1) which deal clearly with its authority and duties?</u>	corporate governance committee.			
43	Do you agree the duties of an existing committee or committees can be expanded to include those of a corporate governance committee?	Yes, or such duties could also remain within the responsibility of the full Board	✓		
44	Do you agree with the addition of CP D.3.2 stating that the committee performing the proposed duties listed in paragraph 141 of the Consultation Paper should comprise a majority of INEDs ? Para 141. We propose adding, as CP D.3.1, the following duties for the corporate governance committee (or existing committee(s) performing or sharing this function): (a) to develop and review an issuer’s policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of directors and senior management; (c) to review and monitor the issuer’s policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) to review the issuer’s compliance with the Code and disclosure in the corporate governance report section of its financial statements.	We would argue that this approach is too prescriptive		✓	
45	Do you agree with the proposal to add a note to CP D.3.2 stating that the committee should include one member who is an executive director or non-executive director with sufficient knowledge of the issuer’s day-to-day operations?	We believe that it is the responsibility of the Board to determine the appropriate composition of the committee and that any guidance should provide issuers with the flexibility to determine the most appropriate membership		✓	
iv	Audit committee				

46	Do you agree with our proposal to upgrade RBP C.3.7 (audit committee’s terms of reference should include arrangements for employees to raise concerns about improprieties in financial reporting) to a CP?	Whilst we are supportive of this proposal, we would highlight that it is the role of the audit committee to review the arrangements that are in place. See 48 below.	√		
47	Do you agree with our proposal to amend CP C.3.3(e)(i) to state that the audit committee should meet the external auditor at least twice a year?	We believe this is too prescriptive		√	
48	Do you agree that a new RBP should be introduced to encourage audit committees to establish a whistleblowing policy?	We would highlight that it is not the responsibility of the audit committee to establish a whistleblowing policy. This responsibility falls to the executive management of the issuer with the audit committee reviewing the policy to ensure that adequate procedures are in place.		√	
D	Remuneration of Directors, CEO and Senior Management				
49	Do you agree with our proposal that issuers should disclose senior management remuneration by band (Appendix 16, new paragraph 25A)? <u>Para 25A. An issuer must separately disclose, in its financial statements, the emoluments of all senior management members during the financial year. For this purpose amounts paid or payable by way of commissions on sales generated by the individual must be included. The individuals who constitute senior management must be the same as those whose biographical details are disclosed under paragraph 12. Senior management emoluments (including the five highest paid employees) may be disclosed by band as described in paragraph 25(6) and not by name.</u>	We support in principle the requirement to disclose the remuneration of senior management by remuneration band and on an anonymous basis. We believe that the management committee of the issuer is an easily identifiable and stable population for which to provide this information. It is also an accountable group recognisable to shareholders. Meanwhile, we suggest the disclosures be made on an anonymous basis to preserve privacy and avoid unnecessary escalation of pay due to poaching or relativity issues.	√		
50	If your answer to Question 49 is yes, do you agree with our proposal that senior management remuneration disclosure should include sales commission?	We do not believe sales commission is a common remuneration component for employees at this senior level as typically a significant portion of the variable remuneration for this group is discretionary upon the firm and the respective business unit’s performance and is not formula-linked as a sales commission plan. We suggest that disclosure should include any performance-		√	

		based remuneration rather than just on sales commission.			
51	<p>Do you agree with our proposal to amend Appendix 16 to require an issuer to disclose the CEO’s remuneration in its annual report and by name?</p> <p>24. An listed issuer shall<u>must</u> disclose in its financial statements details of director’s and past director’s emoluments, on a named basis<u>by name</u> as follows:– ...</p> <p><i>24.5 References to “director” in paragraph 24 include a chief executive officer who is not a director.</i></p>	We agree in principle to disclose CEO’s remuneration in the annual report and by name.	√		
52	Do you agree with our proposal to upgrade RBP B.1.6 to a CP (a significant proportion of executive directors’ remuneration should be structured so as to link rewards to corporate and individual performance , re-numbered C P B.1.5)?	We suggest the following wording: “a significant proportion of executive directors’ <u>variable</u> remuneration should be structured so as to link rewards to corporate and individual performance.”		√	
E	Board Evaluation				
53	Do you agree with our proposal to add new RBP B.1.8 that issuers should conduct a regular evaluation of its own and individual directors’ performance?	We wholly support the approach to a regular evaluation and would caution the Exchange against imposing a more prescriptive approach	√		
F	Board Meetings				
i	Considering a matter where there is a conflict of interest by a physical board meeting rather than a written board resolution				
54	Do you agree that, except for plain language amendments, the wording of CP A.1.8 (re-numbered CP A.1.7) should be retained (issuers to hold a board meeting to discuss resolutions on a material matter where a substantial directors or a director has a conflict of interest)?		√		

55	Do you agree with our proposals to add a note to CP A.1.8 (re-numbered CP A.1.7) stating that attendance at board meetings can be achieved by telephonic or video conferencing?	We strongly support this approach	✓		
ii	Directors' Attendance at Board Meetings				
56	<p>Do you agree with our proposal to add the notes to paragraph I(c) of Appendix 14 (on attendance at board meetings) as described in paragraph 195 of the Consultation Paper?</p> <p>Para 195. We propose introducing two new notes to paragraph 2(c) of Appendix 23 (renumbered paragraph I(c) in Appendix 14):</p> <p>(a) only attendance by a director in person at board meetings should be counted, or attendance by electronic means such as telephonic or video-conferencing; and</p> <p>(b) if a director is appointed part way during a financial year, his attendance should be stated by reference to the number of board meetings held during his tenure.</p>		✓		
57	<p>Do you agree with our proposal to introduce a new requirement (paragraph I(d) to Appendix 14) that attendance by an alternate should <u>not</u> be counted as attendance by the director himself?</p> <p><u>Para I (d) for each named director, the number of board or committee meetings he attended and separately the number of board or committee meetings attended by his alternate. Attendance at board or committee meetings by an alternate director should not be counted as attendance by the director himself.</u></p>	As a general principle, we do not support the practice of having Alternate Director	✓		
58	Do you agree with our proposal that an issuer disclose, for each named director, the number of board or committee meetings he attended and separately the number of board or committee meetings attended by his alternate?	N/A see 57 above			

iii	Removing Five Percent Threshold for Voting on a Resolution in which a Director has an Interest			
59	<p>Do you agree with our proposal to revise Rule 13.44 to remove the exemption described in paragraph 199 (transactions where a director has an interest)?</p> <p>Para 199 Paragraph (3) of Note 1 in Appendix 3 exempts a director from this requirement in certain situations. For example it allows issuers’ articles to state that a director may vote on a board resolution for a proposed transaction with a company in which he is beneficially interested in no more than 5% of that company’s issued shares or voting rights.</p>		√	
G	Chairman and Chief Executive Officer			
60	<p>Do you agree with our proposal to remove the words “at the board level” from Code Principle A.2 to clarify the division between management of the board and day-to-day management of an issuer’s business?</p> <p>Principle There are two key aspects of the management of every issuer - the management of the board and the day-to-day management of the issuer’s business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.</p>		√	
61	<p>Do you agree with our proposal to amend CP A.2.3 to add “accurate” and “clear” to describe the information that the chairman should ensure directors receive?</p> <p>A.2.3 The chairman should be responsible for ensuring that directors receive, <u>in a timely manner</u>, adequate information; which must be <u>accurate, clear, complete and reliable, in a timely manner.</u></p>		√	

62	<p>Do you agree with our proposal to upgrade RBP A.2.4 to a CP to give greater emphasis to the chairman’s duty to provide leadership for the board, to ensure that the board works effectively and discharges its responsibilities, etc.?</p> <p>A.2.4 One of the important roles of the chairman is to provide leadership for the board. The chairman should ensure that the board works effectively and discharges <u>performs</u> its responsibilities, and that all key and appropriate issues are discussed by the board <u>it</u> in a timely manner. The chairman should be primarily responsible for drawing up and approving the agenda for each board meeting. <u>He should take taking</u> into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate such <u>this</u> responsibility to a designated director or the company secretary.</p>		✓		
63	<p>Do you agree with our proposal to upgrade RBP A.2.5 to a CP and amend it to state: “The chairman should take primary responsibility for ensuring that good corporate governance practices and procedures are established”?</p>		✓		
64	<p>Do you agree with our proposal to upgrade RBP A.2.6 to a CP to emphasise the chairman’s responsibility to encourage directors with different views to voice their concerns, allow sufficient time for discussion of issues and build consensus?</p>		✓		
65	<p>Do you agree with our proposal to upgrade RBP A.2.7 to a CP and amend it to state that the chairman should hold separate meetings with only INEDs and only NEDs at least once a year?</p>		✓		
66	<p>Do you agree with our proposal to upgrade RBP A.2.8 to a CP to highlight the chairman’s role to ensure effective communication between the board and shareholders?</p>		✓		
67	<p>Do you agree with our proposal to upgrade RBP A.2.9 to a CP to emphasise the chairman’s role to enable NED contributions and constructive relations between EDs and NEDs?</p>		✓		

H	Notifying directorship change and disclosure of directors' information				
68	<p>Do you agree that we should amend Rule 13.51(2) to require issuers to disclose the retirement or removal of a director or supervisor?</p> <p>Rule 13.51 ...</p> <p>(2) ...</p> <p>...</p> <p>Where a new director, or supervisor <u>or chief executive officer</u> is appointed or the resignation, or re-designation, <u>retirement or removal</u> of a director, or supervisor <u>or chief executive officer</u> takes effect, the Exchange must be informed immediately thereafter. The <u>the</u> issuer must simultaneously make arrangements to ensure that <u>publish</u> an announcement of the <u>change appointment, resignation re-designation</u> of the director or supervisor is published in accordance with rule 2.07C as soon as practicable. The issuer shall <u>and</u> include the following details of a newly appointed or re-designated director, or supervisor in the announcement of his appointment or re-designation: -</p> <p>...</p>		√		
69	<p>Do you agree that we should amend Rule 13.51(2) to apply to the appointment, resignation, re-designation, retirement or removal of a CEO (and not only to a director or supervisor)?</p>		√		
70	<p>Do you agree that we should amend Rule 13.51(2)(o) to cover all civil judgments of fraud, breach of duty or other misconduct involving dishonesty?</p> <p>Rule 13.51(2)(o) where he has, in connection with the formation or management of any enterprise, company, partnership or unincorporated business enterprise or institution, been adjudged by a Court or arbitral body civilly liable for any fraud, breach of duty or other misconduct by him <u>involving dishonesty</u> towards such enterprise, company, partnership or unincorporated business enterprise or</p>		√		

	institution or towards any of its members or partners , full particulars of such the judgement;			
71	Do you agree that we should amend Rule 13.51B(3)(c) to clarify that the sanctions referred to in that Rule are those made against the issuer (and not those of other issuers)? Rule 13.51B(3)(c) in respect of <u>for</u> rule 13.51(2)(h), an issuer need not disclose any sanction imposed <u>on it</u> by the Exchange; and		√	
72	Do you agree with our proposal to upgrade RBP A.3.3 to a CP to ensure that directors' information is published on an issuer's website?		√	
73	Do you agree with our proposed amendment to the CP (RBP A.3.3 upgraded) that directors' information should also be published on the HKEx website?	We would question the practicalities of this. If a company has the Board membership information on their website, in their Annual Report and announce any changes, then we question the need to have it also on the HKEx website.		√
I	Providing Management Accounts or Management Updates to the Board			
74	Do you agree that we should add CP C.1.2 stating issuers should provide board members with monthly updates as described in paragraph 240 of the Consultation Paper? Para 240 We propose to introduce a new CP (CP C.1.2) stating that management should provide board members with monthly updates which present a balanced and understandable assessment of the issuer's performance and current financial position . This monthly update may include monthly management accounts and management updates .	Whilst we are supportive of the approach to provide updates on financial performance, we believe this should be "regular" updates rather than monthly which could be quite onerous for some issuers to implement.		√
I	Next Day Disclosure for a Director Exercising an Option in the Issuer or the Issuer's Subsidiaries			

75	Do you agree with the proposed amendment to Rule 13.25A(2)(a)(viii) and (ix) removing the need for issuers to publish a Next Day Disclosure Return following the exercise of options for shares in the issuer by a director of a subsidiary?	We strongly agree with this proposal. Requiring next day disclosure return of subsidiaries director exercising options would be very onerous task for large multinational companies and does not add too much value to the shareholders of the Issuer.	√		
76	Do you agree with the proposed amendment to Rule 13.25A(2)(b)(i) and (ii) to require issuers to publish a Next Day Disclosure only if options for shares in the issuer exercised by a director of its subsidiary or subsidiaries results in a change of 5% or more (individually or when aggregated with other events) of the issuer's share capital since its last Monthly Return?	Strongly agree. Ditto 75 above	√		
J	Disclosing Long Term Basis on which an Issuer Generates or Preserves Business Value				
77	Do you agree that we should introduce the proposed CP (CP C.1.4) as described in paragraph 250 of the Consultation Paper? Para 250 We propose to introduce a CP (CP C.1.4) stating directors should include in the issuer's annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company (corporate strategy) . This explanation should be included in the separate statement containing a discussion and analysis of the group's performance.		√		
J	Directors' Insurance				
78	Do you agree with our proposal to upgrade RBP A.1.9 (issuers should arrange appropriate insurance for directors) to a CP (re-numbered CP A.1.8)?		√		

79	<p>Do you agree with our proposal to add the words “adequate and general” to RBP A.1.9 (upgraded and re-numbered CP A.1.8)?</p> <p>A.1.98 An issuer should arrange appropriate <u>and adequate general</u> insurance cover in respect of legal action against its directors.</p>		✓	
PART II:	SHAREHOLDERS			
1.	Shareholders’ General Meetings			
A	Notice of Meeting and Bundling of Resolutions			
80	<p>Do you agree with our proposal to amend CP E.1.1 to state that issuers should avoid “bundling” of resolutions and where they are “bundled” explain the reasons and material implications in the notice of meeting?</p> <p>E.1.1 In respect of <u>For</u> each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. <u>Issuers should avoid “bundling” resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are “bundled”, issuers should explain the reasons and material implications in the notice of meeting.</u></p> <p><i>Note: An example of a substantially separate issue is the nomination of persons as directors. Accordingly, each such person should be nominated by means of a separate resolution.</i></p>	For your information, there is a similar practice in the UK.	✓	
B	Voting by Poll			
81	<p>Do you agree with our proposal to amend Rule 13.39(4) to allow a chairman at a general meeting to exempt procedural and administrative matters described in paragraph 274 of the Consultation Paper from voting by poll?</p> <p>Rule 13.39(4) Any vote of shareholders at a general meeting must be taken by poll <u>except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of</u></p>	These matters are for the members at the meeting and each member should have one vote, therefore a show of hands is appropriate.	✓	

	<p>hands. and the The issuer must announce the results of the poll in the manner prescribed under rule 13.39(5).</p> <p><u>Note: Procedural and administrative matters are those that:</u></p> <p><u>(i) are not on the agenda of the general meeting or in any supplementary circular to members; and</u></p> <p><u>(ii) which relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all shareholders a reasonable opportunity to express their views.</u></p>				
82	<p>Do you agree with the examples of procedural and administrative resolutions in paragraph 275 of the Consultation paper? Do you have any other examples to add?</p> <p>Para 275. The following are examples of procedural and administrative resolutions:</p> <p>(a) to adjourn the meeting:</p> <p>(i) to ensure orderly conduct of the meeting. (e.g. if the meeting facilities to house the number of members attending has become inadequate); or</p> <p>(ii) to maintain discipline of the meeting, e.g. if it becomes impossible to ascertain the views of the members, or there is disorder or threat of disorder from members or if there is a disturbance caused by members or the uninvited public; or</p> <p>(iii) to respond to an emergency such as a fire, a serious accident or hoisting of tropical cyclone warning signal No. 8 during a meeting; or</p> <p>(iv) at the end of the annual general meeting to announce results; and</p>	<p>Yes we agree with the examples. Please note that regarding example (b): in the UK shareholders have the following right to ask questions at the AGM:</p> <p><i>Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.</i></p>	√		

	<p>(b) to end a particular discussion which has gone on for too long and move on to the next business (e.g. if there are deliberate irrelevant or repetitive questions from the floor).</p>				
<p>83</p>	<p>Do you agree that our proposed amendments to Rule 13.39(5) clarify disclosure in poll results?</p> <p>Rule 13.39(5) The issuer shall<u>must</u> announce the meeting’s poll results (including (i) the total number of shares entitling the holder to attend and vote for against the resolution at the meeting, (ii) the total number of shares entitling the holder to attend and vote only against the resolution at the meeting, (iii) the number of shares represented by votes for and against the relevant resolution) by way of an announcement which is published in accordance with rule 2.07C as so on as possible, but in any event not later than at least the time that is 30 minutes before the earlier of <u>either</u> the commencement of the morning trading session or any pre-opening session on the business day following<u>after</u> the meeting. <u>The poll results announcement must include the number of:</u></p> <p><u>(a) shares entitling the holder to attend and vote on a resolution at the meeting;</u></p> <p><u>(b) shares entitling the holder to attend and abstain from voting in favour as set out in rule 13.40;</u></p> <p><u>(c) shares of holders that are required under the Listing Rules to abstain from voting; and</u></p> <p><u>(d) shares actually voted for or against a resolution.</u></p> <p>The issuer shall<u>must</u> appoint its auditors, share registrar or external accountants who are qualified to serve as <u>its auditors for the issuer</u> as scrutineer for the vote-taking and state the identity of the scrutineer in the announcement. The issuer shall<u>must confirm</u> state in the announcement whether or not any parties that have stated their intention in the circular to vote against the relevant resolution or to abstain have done so at the general meeting.</p>		<p>✓</p>		

84	<p>Do you agree with our proposal to amend CP E.2.1 to remove the words "at the commencement of the meeting" so that an issuer's chairman can explain the procedures for conducting a poll later during a general meeting?</p> <p>E.2.1 The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding on voting by way of a poll.</p>	<p>For your information, in the UK the poll procedures are normally explained before the voting which takes place at the end of the meeting.</p>	√		
C.	Shareholders' Approval to Appoint and Remove an Auditor				
85	<p>Do you agree with our proposal to add new Rule 13.88 to require shareholder approval to appoint the issuer's auditor?</p> <p>Appointment and removal of auditors prior to expiration of his term of office <u>Rule 13.88 The issuer must at each annual general meeting appoint auditors to hold office from the conclusion of that meeting until the next annual general meeting. The issuer must not remove its auditor before the end of the auditor's term of office without first obtaining shareholders' approval at a general meeting. An issuer must send a circular proposing the removal of the auditor to shareholders with any written representations from the auditor, not less than 10 business days before the general meeting. An issuer must allow the auditor to attend the general meeting and make verbal representations to shareholders at the general meeting.</u></p>	<p>This mirrors the UK practice that auditors must be appointed at the AGM to hold office from the conclusion of that meeting until the next annual general meeting, and they cannot be removed unless by shareholder ordinary resolution.</p> <p>For your information, in the UK removing an auditor requires a notice to the auditor who can request the company to send representations to shareholders (with meeting circular), or speak at the meeting.</p>	√		
86	<p>Do you agree with our proposal to add, in new Rule 13.88, a requirement for shareholder approval to remove the issuer's auditor before the end of his term of office?</p>	Ditto 85 above.	√		
87	<p>Do you agree that the new Rule 13.88 should require a circular for the removal of the auditor to shareholders containing any written representation from the auditor and allow the auditor to make written and/or verbal representation at the general meeting to remove him?</p>	<p>Ditto 85 above.</p> <p>For your information, UK provisions also states that company only needs to include the written representation in the circular if it is received in reasonable time and does not exceed a reasonable length.</p>	√		

D	Directors' Attendance at Meetings				
88	<p>Do you agree with our proposal to upgrade RBP A.5.7 (NEDs' attendance at meetings) to a CP (re-numbered CP A.6.7)?</p> <p>A.5.6.7 Independent non-executive directors and other non-executive Non-executive directors, as equal board members, should give the board and any committees on which they serve such as the audit, remuneration or nomination committees the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.</p>	We firmly believe that ALL directors should regularly attend and participate in meetings (either in person or by telephone/video conference facility) and that this proposal should not be limited to INEDs.	√		
89	<p>Do you agree with our proposal to upgrade RBP A.5.8 (NEDs should make a positive contribution to the development of the issuer's strategy and policies) to a CP (re-numbered CP A.6.8)?</p> <p>A.5.6.8 Independent non -executive di rectors and ot her non -executive Non-executive directors should make a positive contribution to the development of the i ssuer's s trategy and pol icies t hrough i ndependent, c onstructive a nd informed comments.</p>		√		
90	<p>Do you agree with our proposal to introduce a new mandatory disclosure provision in Appendix 23 (re-numbered paragraph I(c) of Appendix 14) stating that issuer must disclose details of attendance at general meetings of each director by name?</p> <p>Para I(iii)c) individual attendance of each director, on a named basis, by name, at the board <u>and general</u> meetings;</p> <p><i>Notes: 1 Only attendance by a director in person at board and general meetings should be counted, or attendance by electronic means such as telephonic or video-conferencing.</i></p>	We would argue that this proposal is too prescriptive and are not clear on the value that shareholders (and other stakeholders) would gain from such a disclosure. We would suggest that, if helpful, issuers could be encouraged to provide this information on their website following the AGM rather than requiring them to make any form of public announcement via the Exchange's website.			

	<i>2 If a director is appointed part way during a financial year, his attendance <u>should be stated by reference to the number of board meetings held during his tenure.</u></i>			
91	<p>Do you agree with our proposal that CP E.1.2 state the issuer’s chairman should arrange for the chairman of “any other committees” to attend the annual general meeting?</p> <p><u>E.1.2 The chairman of the board should attend the annual general meeting, and He should also arrange for the chairmen of the audit, remuneration, and nomination and any other committees (as appropriate) to attend. or in the In their absence, of the chairman of such committees, he should arrange for another member of the committee or failing this his duly appointed delegate, to attend. be These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to require independent shareholders’ approval. An issuer’s management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors’ report, the accounting policies and auditor independence.</u></p>		√	
E	Auditor’s Attendance at Annual General Meetings			
92	<p>Do you agree with our proposal that CP E.1.2 state that the chairman should arrange for the auditor to attend the issuer’s annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors’ report, the accounting policies and auditor independence?</p> <p><u>E.1.2 The chairman of the board should attend the annual general meeting, and He should also arrange for the chairmen of the audit, remuneration, and nomination and any other committees (as appropriate) to attend. or in the In their absence, of the chairman of such committees, he should arrange for another member of the committee or failing this his duly appointed delegate, to attend. be These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to</u></p>		√	

	<p>answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to <u>require</u> independent shareholders' approval. <u>An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.</u></p>			
2.	Shareholders' Rights			
93	<p>Do you agree with our proposal to upgrade the recommended disclosure of "shareholders' rights" under paragraph 3 (b) of Appendix 23 to mandatory disclosure (re-numbered paragraph O of Appendix 14)?</p> <p><u>Para O. SHAREHOLDERS' RIGHTS</u> <u>Disclose:</u></p> <p>(a) <u>how shareholders can convene an extraordinary general meeting;</u></p> <p>(b) <u>the procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed; and</u></p> <p>(c) <u>the procedures and sufficient contact details for putting forward proposals at shareholders' meetings.</u></p>	<p>The UK Companies Act 2006 stipulates how these can be achieved. However, we believe mandatory disclosure would be difficult in the following aspects:</p> <ul style="list-style-type: none"> • Disclosure to cover the UK Companies Act provisions would be quite long - if you include convening meetings, circulating statements and adding resolutions this could be a whole page of the report. • Timings - under the UK Companies Act if shareholders want the company to pay for a circulation of a statement it must be received by the company by the end of the relevant financial year, and if they want a resolution added it must be received 6 weeks before the AGM, therefore by the time the shareholder reads this in the Governance Report it is already too late to act. <p>Alternatively, we suggest that a note could be included in the AGM Notice that directs shareholders to relevant part of the UK Companies Act which outlines these rules. The Q&A section in the Notice could provide details on who to direct questions to.</p>	√	
3.	Communication with Shareholders			

A.	Establishing a Communication Policy				
94	<p>Do you agree with our proposed new CPE 1.4 stating that issuers should establish a shareholder communication policy?</p> <p><u>E.1.4 The boards should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness.</u></p>		√		
B.	Publishing Constitutional Documents on Website				
95	<p>Do you agree with our proposal to add a new Rule 13.90 requiring issuers to publish an updated and consolidated version of their M & A or constitutional documents on their own website and the HKEx website?</p> <p><u>Rule 13.90 An issuer must publish on its own website and on the HKEx website, an up to date consolidated version of its memorandum and articles of association or equivalent constitutional document</u></p>	<p>Please note that under the UK Companies Act 2006, the Memorandum is no longer required, just the Articles.</p> <p>We would argue that publishing on the issuer's website is sufficient – if publication on the Exchange's website is necessary, we would suggest that a link can be provided to direct the public to the Articles on the issuer's website.</p>	√		
C.	Publishing Procedures for Election of Directors				
96	<p>Do you agree with our proposal to add a new Rule 13.51D requiring an issuer to publish the procedures for shareholders to propose a person for election as a director on its website?</p> <p><u>Rule 13.51D The issuer must publish the procedures for shareholders to propose a person for election as a director on its website.</u></p>	<p>These proposed resolutions should not be treated differently from other proposed resolutions.</p> <p>The rules for adding resolutions to the AGM or for requesting a General Meeting are the same under the UK Companies Act</p>		√	
D.	Disclosing Significant Changes to Constitutional Documents				
97	Do you agree with our proposal to upgrade the recommended disclosure of any significant change in the issuer's articles of association under paragraph 3(c)(i)	Under the UK law that shareholder approval is required to amend the Articles and			√

	<p>of Appendix 23 to mandatory disclosure (re-numbered paragraph P (a) of Appendix 14) ?</p> <p><u>P. INVESTOR RELATIONS</u> <u>Disclose:</u> <u>(a) any significant changes in the issuer's articles of association during the year.</u></p>	therefore this is already disclosed in the Notice of Meeting.			
PART III:	COMPANY SECRETARY	Please refer to Section 7 of Part II of the Submission			
1.	Company Secretary's Qualifications, Experience and Training				
98	<p>Do you agree with our proposal to introduce a new Rule 3.28 on requirements for company secretaries' qualifications and experience?</p> <p>Company Secretary 3.28 The issuer must appoint as its company secretary an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Exchange, capable of discharging the functions of company secretary.</p> <p><i>Notes: 1. The Exchange considers the following academic or professional qualifications to be acceptable:</i></p> <p><i>(a) a Member of The Hong Kong Institute of Chartered Secretaries;</i></p> <p><i>(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance);</i></p> <p><i>(c) a professional accountant (as defined in the Professional Accountants Ordinance).</i></p> <p><i>2. In assessing "relevant experience", the Exchange will consider the individual's:</i></p>	<p>In relation to the requisite qualifications for company secretaries, we would prefer that more weight was given to legal, accountancy or company secretarial qualifications from jurisdictions that are recognised as having relatively high standards of corporate governance. Particularly given the growth of listed issuers in Hong Kong over the past couple of years, there is a scarcity of highly effective company secretaries locally. Therefore we submit that Listing Rules accept candidates' legal, accounting or company secretarial qualifications from designated jurisdictions as a default position, unless the Exchange challenges any individual's candidacy on the competency, fit or performance grounds. For such internationally qualified candidates, it will be important that they can demonstrate how to get up to speed with the local rules and regulations through, for instance, an intensive tailored training schedule.</p>	√		

	<p>(a) length of employment with the issuer and other issuers;</p> <p>(b) familiarity with the Exchange Listing Rules;</p> <p>(c) relevant training taken and/or to be taken in addition to the minimum requirement under rule 3.29; and</p> <p>(d) professional qualifications in other jurisdictions.</p>			
99	<p>Do you agree that the Exchange should consider as acceptable the list of qualifications for company secretaries set out in paragraph 345 of the Consultation Paper?</p> <p>Para 345. The proposed note on academic or professional qualifications will list three that the Exchange considers acceptable. These are:</p> <p>(b) membership of the HKICS; or</p> <p>(c) being a solicitor or barrister (as defined in the Legal Practitioners Ordinance); or</p> <p>(d) being a professional accountant (as defined in the Professional Accountants Ordinance).</p>	Ditto 98 above	√	
100	<p>Do you agree that the Exchange should consider the list of items set out in paragraph 346 of the Consultation Paper when deciding whether a person has the relevant experience to perform company secretary functions?</p> <p>Para 346. The Exchange will assess other academic or professional qualifications to consider if they are acceptable. The proposed note on relevant experience will list the following items that the Exchange will consider. These are:</p> <p>(a) length of employment with the issuer and other issuers;</p>	<p>In addition to the proposed items, we believe that a good working knowledge of the issuer's business and organisation would also be extremely valuable</p> <p>For proposed Rule 3.29 (15 hours of training), see Q103 below</p>	√	

	<p>(b) familiarity with the Exchange Listing Rules;</p> <p>(c) relevant training taken and/or to be taken in addition to the minimum requirement under the proposed Rule 3.29 (see paragraphs 349 and 350); and</p> <p>(d) professional qualifications in other jurisdictions.</p>			
101	<p>Do you agree with our proposal to remove the requirement for company secretaries to be ordinarily resident in Hong Kong?</p>	<p>Whilst we wholly support this proposal, we believe that the Exchange may need to give consideration to how to ensure that the company secretary is contactable within normal working hours if not physically located in Hong Kong, especially those in different time zone.</p>	√	
102	<p>Do you agree with our proposal to repeal Rule 19A.16 so that Mainland issuers' company secretaries would need to meet the same requirements as for other countries?</p> <p>19A.16 The secretary of a PRC issuer need not be ordinarily resident in Hong Kong, provided such person can meet the other requirements of rule 8.17.</p> <p><i>Note: Where the secretary of a PRC issuer does not possess a qualification as required by rule 8.17(2), the PRC issuer will have to satisfy the Exchange the requirement under rule 8.17(3). In assessing the "relevant experience" of person under rule 8.17(3), the Exchange will normally have regard to, among other considerations, period of his employment with the PRC issuer and his familiarity with the Exchange Listing Rules. The Exchange would expect submission from the sponsor demonstrating that (a) sufficient time and efforts have been spent on training the appointee by way of induction courses or other means which are satisfactory to the Exchange; and (b) the sponsor is satisfied that the appointee will be able to discharge a secretary's duties.</i></p>		√	
103	<p>Do you agree with our proposal to add a Rule 3.29 requiring company secretaries to attend 15 hours of professional training per financial year?</p>	<p>As noted earlier in our submission, whilst we firmly believe in continuing development</p>		√

	<p><u>3.29 In each financial year an issuer’s company secretary must take no less than 15 hours of relevant professional training.</u></p> <p><i>Note: A person who was a company secretary:</i></p> <p><u>(a) on 1st January 2005 does not need to comply with rule 3.29 until 1st August 2011;</u></p> <p><u>(b) between 1st January 2000 to 31st December 2004 does not need to comply with rule 3.29 until 1st August 2013;</u></p> <p><u>(c) between 1st January 1995 to 31st December 1999 does not need to comply with rule 3.29 until 1st August 2015; and</u></p> <p><u>(d) on or before 31st December 1994 does not need to comply with rule 3.29 until 1st August 2017.</u></p>	<p>for company secretaries, we are concerned that imposing a requirement for a certain number of hours of formal continuing professional development will result in company secretaries attending technical briefing sessions rather than focusing on honing their business-specific knowledge and “soft” skills, such as influencing, negotiating, leadership and emotional intelligence skills. In this context we note that recently the UK Institute of Chartered Secretaries (“ICSA”) has explicitly recognised the value of “informal” development when formulating its guidelines of continuing professional development. We encourage the Exchange to liaise with the HK equivalent body and rely on them to devise these requirements.</p>			
<p>104</p>	<p>Do you agree with the proposed transitional arrangement on compliance with Rule 3.29 in paragraph 350 of the Consultation Paper?</p> <p><u>3.29 In each financial year an issuer’s company secretary must take no less than 15 hours of relevant professional training.</u></p> <p><i>Note: A person who was a company secretary:</i></p> <p><u>(a) on 1st January 2005 does not need to comply with rule 3.29 until 1st August 2011;</u></p> <p><u>(b) between 1st January 2000 to 31st December 2004 does not need to comply with rule 3.29 until 1st August 2013;</u></p> <p><u>(c) between 1st January 1995 to 31st December 1999 does not need to comply with</u></p>	<p>N/A</p>			

	<u>rule 3.29 until 1st August 2015; and</u> <u>(d) on or before 31st December 1994 does not need to comply with rule 3.29 until 1st August 2017.</u>			
2.	New Section in Code on Company Secretary			
105	Do you agree with our proposal to include a new section of the Code on company secretary?	We wholly support the Exchange's recognition of this critical role	√	
106	Do you agree with the proposed principle as described in paragraph 362 of the Consultation Paper and set out in full in page 27 of Appendix II? 362. We propose a new section F of the Code entitled "Company Secretary." This section's principle will set out the company secretary's role and responsibilities including all of the items listed in paragraph 352 . 352. The company secretary plays an important role in: (a) supporting the board; (b) ensuring good information flow within the board; (c) ensuring board policy and procedures are followed; (d) advising the board on governance matters; and (e) facilitating induction and directors' professional development.		√	
107	Do you agree with our proposed CP F.1.1 stating the company secretary should be an employee of the issuer and have knowledge of the issuer's day-to-day affairs?		√	

	<u>F.1.1 The company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. Where an issuer engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the issuer who the external provider can contact.</u>			
108	<p>Do you agree with our proposal described in paragraph 364 of the Consultation Paper, that if an issuer employs an external service provider, it should disclose the identity of its issuer contact person?</p> <p>364. Where an issuer engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the issuer that the external provider can contact.</p>		√	
109	<p>Do you agree with our proposed CP F.1.2 stating that the selection, appointment or dismissal of the company secretary should be the subject of a board decision?</p> <p><u>F.1.2 The board should approve the selection, appointment or dismissal of the company secretary.</u></p> <p><i>Note: A board meeting should be held to discuss the dismissal of the company secretary and the matter should be dealt with by a physical board meeting rather than a written resolution.</i></p>		√	
110	Do you agree with our proposed note to CP F.1.2 stating that the board decision to select, appoint or dismiss the company secretary should be made at a physical board meeting and not dealt with by written board resolution?	We do not feel strongly about the physical board meeting versus written resolution as long as appointment or removal is subject to a board decision after due consideration.	√	
111	Do you agree with our proposal to add CP F.1.3 stating that the company secretary should report to the Chairman or CEO?	If the Chairman is a non-employee, the company secretary may need an additional administrative reporting line to a senior manager	√	

	<u>F.1.3 The company secretary should report to the board chairman and/or the chief executive officer.</u>			
112	<p>Do you agree with our proposal to add CPF.1.5 stating that the company secretary should maintain a record of directors training?</p> <p><u>F.1.5 The company secretary should maintain a record of the training undertaken by directors for each financial year under A.6.5.</u></p> <p><u>A.56.5 All directors should participate in a programme of continuous professional development of at least 8 hours per financial year to develop and refresh their knowledge and skills. This is to help ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding a suitable development programme training, placing a n appropriate emphasis on the roles, functions and duties of a listed company director.</u></p> <p><i><u>Note: If a person holds multiple directorships, only 8 hours of training in total, is required.</u></i></p>	Yes, but subject to earlier comments above.	√	
CHAPTER 3:	PROPOSED NON-SUBSTANTIVE AMENDMENTS			
1.	Definition of “Announcement” and “Announce”			
113	<p>Do you agree with our proposal to include a definition in the Rules for the terms “announcement” and “announce” as described in paragraph 371 of the Consultation Paper?</p> <p>371 We propose to define the term “announcement and announce” in the Rules as “means publication of the announcement in accordance with rule 2.07C”.</p>		√	
2.	Authorised Representatives’ Contact Details			

114	Do you agree with our proposal to amend Rule 3.06(1) to add a reference to authorised representatives “mobile and other telephone numbers, e mail and correspondence addresses” and “any other contract details prescribed by the Exchange may prescribe from time to time”?		√		
3.	Merging Corporate Governance Report Requirements into Appendix 14				
115	Do you agree with our proposal to merge Appendix 23 into Appendix 14 for ease of reference?		√		
116	Do you agree with our proposal to streamline Appendix 23 and to make plain language amendments to it?		√		



FINANCIAL REPORTING COUNCIL

GUIDANCE ON BOARD EFFECTIVENESS

MARCH 2011

Contents

Paragraph Numbers

Preface

The Role of the Board and Directors	1.1 – 1.23
• An Effective Board	1.1 – 1.3
• The Role of the Chairman	1.4 – 1.8
• The Role of the Senior Independent Director	1.9 – 1.11
• The Role of Executive Directors	1.12 – 1.17
• The Role of Non-Executive Directors	1.18 – 1.23

Board Support and the Role of the Company Secretary	2.1 – 2.4
--	------------------

Decision Making	3.1 – 3.5
------------------------	------------------

Board Composition and Succession Planning	4.1 – 4.7
--	------------------

Evaluating the Performance of the Board and Directors	5.1 – 5.5
--	------------------

Audit, Risk and Remuneration	6.1 – 6.2
-------------------------------------	------------------

Relations with Shareholders	7.1 – 7.3
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**Appendix:
FRC Codes and Guidance and Other Sources of Information**

Preface

The Guidance on Board Effectiveness is one of a suite of guidance notes issued by the Financial Reporting Council (FRC) to assist companies in applying the principles of the UK Corporate Governance Code. It replaces 'Good Practice Suggestions from the Higgs Report' (known as "the Higgs Guidance"), which was last issued in 2006.

This guidance relates primarily to Sections A and B of the Code on the leadership and effectiveness of the board. As with the separate guidance notes on audit committees and internal control, the new guidance is not intended to be prescriptive. It does not set out "the right way" to apply the Code. Rather it is intended to stimulate boards' thinking on how they can carry out their role most effectively. Ultimately it is for individual boards to decide on the governance arrangements most appropriate to their circumstances, and interpret the Code and guidance accordingly.

The guidance does not seek to address all the issues covered in Sections A and B of the Code, but only those where consultation with companies, individual board members and investors suggested that further guidance might be helpful. Nor does it include all of the material contained in the Higgs Guidance, for example, draft letters of appointment and terms of reference for board committees. Helpful material on these issues is provided by a range of organisations, and some links are provided in the Appendix.

The UK Corporate Governance Code has evolved since it was first introduced in 1992. It has always placed great importance on clarity of roles and responsibilities, and on accountability and transparency. It has become increasingly clear in the intervening period that, while these are necessary for good governance, they are not sufficient on their own. Boards need to think deeply about the way in which they carry out their role and the behaviours that they display, not just about the structures and processes that they put in place.

This change of emphasis is reflected in the most recent edition of the UK Corporate Governance Code, published in 2010, and also in this guidance. For example, boards are encouraged to consider how the way in which decisions are taken might affect the quality of those decisions, and the factors to be taken into account when constructing the board and reviewing its performance. The FRC hopes that this guidance will assist in those considerations.

The FRC would like to express its gratitude to the Institute of Chartered Secretaries and Administrators and the Steering Group it established under the chairmanship of Sir John Egan for consulting on and developing this guidance on the FRC's behalf.

BARONESS HOGG

Chairman, Financial Reporting Council

One – The Role of the Board and Directors

An Effective Board

- 1.1. The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed.
- 1.2. An effective board develops and promotes its collective vision of the company's purpose, its culture, its values and the behaviours it wishes to promote in conducting its business. In particular it:
 - provides direction for management;
 - demonstrates ethical leadership, displaying – and promoting throughout the company – behaviours consistent with the culture and values it has defined for the organisation;
 - creates a performance culture that drives value creation without exposing the company to excessive risk of value destruction;
 - makes well-informed and high-quality decisions based on a clear line of sight into the business;
 - creates the right framework for helping directors meet their statutory duties under the Companies Act 2006, and/or other relevant statutory and regulatory regimes;
 - is accountable, particularly to those that provide the company's capital; and
 - thinks carefully about its governance arrangements and embraces evaluation of their effectiveness.
- 1.3. An effective board should not necessarily be a comfortable place. Challenge, as well as teamwork, is an essential feature. Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards 'group think'.

The Role of the Chairman

- 1.4. Good boards are created by good chairmen. The chairman creates the conditions for overall board and individual director effectiveness.
- 1.5. The chairman should demonstrate the highest standards of integrity and probity, and set clear expectations concerning the company's culture, values and behaviours, and the style and tone of board discussions.
- 1.6. The chairman, with the help of the executive directors and the company secretary, sets the agenda for the board's deliberations.

1.7. The chairman's role includes:

- demonstrating ethical leadership;
- setting a board agenda which is primarily focused on strategy, performance, value creation and accountability, and ensuring that issues relevant to these areas are reserved for board decision;
- ensuring a timely flow of high-quality supporting information;
- making certain that the board determines the nature, and extent, of the significant risks the company is willing to embrace in the implementation of its strategy, and that there are no 'no go' areas which prevent directors from operating effectively in this area;
- regularly considering succession planning and the composition of the board;
- making certain that the board has effective decision-making processes and applies sufficient challenge to major proposals;
- ensuring the board's committees are properly structured with appropriate terms of reference;
- encouraging all board members to engage in board and committee meetings by drawing on their skills, experience, knowledge and, where appropriate, independence;
- fostering relationships founded on mutual respect and open communication – both in and outside the boardroom – between the non-executive directors and the executive team;
- developing productive working relationships with all executive directors, and the CEO in particular, providing support and advice while respecting executive responsibility;
- consulting the senior independent director on board matters in accordance with the Code;
- taking the lead on issues of director development, including through induction programmes for new directors and regular reviews with all directors;
- acting on the results of board evaluation;
- being aware of, and responding to, his or her own development needs, including people and other skills, especially when taking on the role for the first time; and
- ensuring effective communication with shareholders and other stakeholders and, in particular, that all directors are made aware of the views of those who provide the company's capital.

1.8. The chairman of each board committee fulfils an important leadership role similar to that of the chairman of the board, particularly in creating the conditions for overall committee and individual director effectiveness.

The Role of the Senior Independent Director

- 1.9. In normal times the senior independent director should act as a sounding board for the chairman, providing support for the chairman in the delivery of his or her objectives, and leading the evaluation of the chairman on behalf of the other directors, as set out in the Code. The senior independent director might also take responsibility for an orderly succession process for the chairman.
- 1.10. When the board is undergoing a period of stress, however, the senior independent director's role becomes critically important. He or she is expected to work with the chairman and other directors, and/or shareholders, to resolve significant issues. Boards should ensure they have a clear understanding of when the senior independent director might intervene in order to maintain board and company stability. Examples might include where:
- there is a dispute between the chairman and CEO;
 - shareholders or non-executive directors have expressed concerns that are not being addressed by the chairman or CEO;
 - the strategy being followed by the chairman and CEO is not supported by the entire board;
 - the relationship between the chairman and CEO is particularly close, and decisions are being made without the approval of the full board; or
 - succession planning is being ignored.
- 1.11. These issues should be considered when defining the role of the senior independent director, which should be set out in writing.

The Role of Executive Directors

- 1.12. Executive directors have the same duties as other members of a unitary board. These duties extend to the whole of the business, and not just that part of it covered by their individual executive roles. Nor should executive directors see themselves only as members of the CEO's executive team when engaged in board business. Taking the wider view can help achieve the advantage of a unitary system: greater knowledge, involvement and commitment at the point of decision. The chairman should make certain that executives are aware of their wider responsibilities when joining the board, and ensure they receive appropriate induction and regular training, to enable them to fulfil the role. Executive directors are also likely to be able to broaden their understanding of their board responsibilities if they take up a non-executive director position on another board.

- 1.13. The CEO is the most senior executive director on the board with responsibility for proposing strategy to the board, and for delivering the strategy as agreed. The CEO's relationship with the chairman is a key relationship that can help the board be more effective. The Code states that the differing responsibilities of the chairman and the CEO should be set out in writing and agreed by the board. Particular attention should be paid to areas of potential overlap.
- 1.14. The CEO has, with the support of the executive team, primary responsibility for setting an example to the company's employees, and communicating to them the expectations of the board in relation to the company's culture, values and behaviours. The CEO is responsible for supporting the chairman to make certain that appropriate standards of governance permeate through all parts of the organisation. The CEO will make certain that the board is made aware, when appropriate, of the views of employees on issues of relevance to the business.
- 1.15. The CEO will ensure the board knows the executive directors' views on business issues in order to improve the standard of discussion in the boardroom and, prior to final decision on an issue, explain in a balanced way any divergence of view in the executive team.
- 1.16. The CFO has a particular responsibility to deliver high-quality information to the board on the financial position of the company.
- 1.17. Executive directors have the most intimate knowledge of the company and its capabilities when developing and presenting proposals, and when exercising judgement, particularly on matters of strategy. They should appreciate that constructive challenge from non-executive directors is an essential aspect of good governance, and should encourage their non-executive colleagues to test their proposals in the light of the non-executives' wider experience outside the company. The chairman and the CEO should ensure that this process is properly followed.

The Role of Non-Executive Directors

- 1.18. A non-executive director should, on appointment, devote time to a comprehensive, formal and tailored induction which should extend beyond the boardroom. Initiatives such as partnering a non-executive director with an executive board member may speed up the process of him or her acquiring an understanding of the main areas of business activity, especially areas involving significant risk. The director should expect to visit, and talk with, senior and middle managers in these areas.
- 1.19. Non-executive directors should devote time to developing and refreshing their knowledge and skills, including those of communication, to ensure that they continue to make a positive contribution to the board. Being well-informed about the company, and having a strong command of the issues relevant to the business, will generate the respect of the other directors.

- 1.20. Non-executive directors need to make sufficient time available to discharge their responsibilities effectively. The letter of appointment should state the minimum time that the non-executive director will be required to spend on the company's business, and seek the individual's confirmation that he or she can devote that amount of time to the role, consistent with other commitments. The letter should also indicate the possibility of additional time commitment when the company is undergoing a period of particularly increased activity, such as an acquisition or takeover, or as a result of some major difficulty with one or more of its operations.
- 1.21. Non-executive directors have a responsibility to uphold high standards of integrity and probity. They should support the chairman and executive directors in instilling the appropriate culture, values and behaviours in the boardroom and beyond.
- 1.22. Non-executive directors should insist on receiving high-quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge at, board meetings. High-quality information is that which is appropriate for making decisions on the issue at hand – it should be accurate, clear, comprehensive, up-to-date and timely; contain a summary of the contents of any paper; and inform the director of what is expected of him or her on that issue.
- 1.23. Non-executive directors should take into account the views of shareholders and other stakeholders, because these views may provide different perspectives on the company and its performance.

Two – Board Support and the Role of the Company Secretary

- 2.1. The requirement for a company secretary of a public company is specified in section 271 of the Companies Act 2006. The obligations and responsibilities of the company secretary outlined in the Act, and also in the Code, necessitate him or her playing a leading role in the good governance of the company by supporting the chairman and helping the board and its committees to function efficiently.
- 2.2. The company secretary should report to the chairman on all board governance matters. This does not preclude the company secretary also reporting to the CEO in relation to his or her other executive management responsibilities. The appointment and removal of the company secretary should be a matter for the board as a whole, and the remuneration of the company secretary might be determined by the remuneration committee.
- 2.3. The company secretary should ensure the presentation of high-quality information to the board and its committees. The company secretary can also add value by fulfilling, or procuring the fulfilment of, other requirements of the Code on behalf of the chairman, in particular director induction and development. This should be in a manner that is appropriate to the particular director, and which has the objective of enhancing that director's effectiveness in the board or board committees, consistent with the results of the board's evaluation processes. The chairman and the company secretary should periodically review whether the board and the company's other governance processes, for example board and committee evaluation, are fit for purpose, and consider any improvements or initiatives that could strengthen the governance of the company.
- 2.4. The company secretary's effectiveness can be enhanced by his or her ability to build relationships of mutual trust with the chairman, the senior independent director and the non-executive directors, while maintaining the confidence of executive director colleagues.

Three – Decision Making

- 3.1. Well-informed and high-quality decision making is a critical requirement for a board to be effective and does not happen by accident. Flawed decisions can be made with the best of intentions, with competent individuals believing passionately that they are making a sound judgment, when they are not. Many of the factors which lead to poor decision making are predictable and preventable. Boards can minimise the risk of poor decisions by investing time in the design of their decision-making policies and processes, including the contribution of committees.
- 3.2. Good decision-making capability can be facilitated by:
 - high-quality board documentation;
 - obtaining expert opinions when necessary;
 - allowing time for debate and challenge, especially for complex, contentious or business-critical issues;
 - achieving timely closure; and
 - providing clarity on the actions required, and timescales and responsibilities.
- 3.3. Boards should be aware of factors which can limit effective decision making, such as:
 - a dominant personality or group of directors on the board, which can inhibit contribution from other directors;
 - insufficient attention to risk, and treating risk as a compliance issue rather than as part of the decision-making process, especially in cases where the level of risk involved in a project could endanger the stability and sustainability of the business itself;
 - failure to recognise the value implications of running the business on the basis of self-interest and other poor ethical standards;
 - a reluctance to involve non-executive directors, or of matters being brought to the board for sign-off rather than debate;
 - complacent or intransigent attitudes;
 - a weak organisational culture; or
 - inadequate information or analysis.
- 3.4. Most complex decisions depend on judgment, but the judgment of even the most well intentioned and experienced leaders can, in certain circumstances, be distorted. Some factors known to distort judgment in decision making are conflicts of interest, emotional attachments, and inappropriate reliance on previous experience and previous decisions. For significant decisions, therefore, a board may wish to consider extra steps, for example:

- describing in board papers the process that has been used to arrive at and challenge the proposal prior to presenting it to the board, thereby allowing directors not involved in the project to assess the appropriateness of the process as a precursor to assessing the merits of the project itself; or
- where appropriate, putting in place additional safeguards to reduce the risk of distorted judgements by, for example, commissioning an independent report, seeking advice from an expert, introducing a devil's advocate to provide challenge, establishing a sole purpose sub-committee, or convening additional meetings. Some chairmen favour separate discussions for important decisions; for example, concept, proposal for discussion, proposal for decision. This gives executive directors more opportunity to put the case at the earlier stages, and all directors the opportunity to share concerns or challenge assumptions well in advance of the point of decision.

3.5. Boards can benefit from reviewing past decisions, particularly ones with poor outcomes. A review should not focus just on the merits of the decision itself but also on the decision-making process.

Four – Board Composition and Succession Planning

- 4.1. Appointing directors who are able to make a positive contribution is one of the key elements of board effectiveness. Directors will be more likely to make good decisions and maximise the opportunities for the company's success in the longer term if the right skill sets are present in the boardroom. This includes the appropriate range and balance of skills, experience, knowledge and independence. Non-executive directors should possess critical skills of value to the board and relevant to the challenges facing the company.
- 4.2. The nomination committee, usually led by the chairman, should be responsible for board recruitment. The process should be continuous and proactive, and should take into account the company's agreed strategic priorities. The aim should be to secure a boardroom which achieves the right balance between challenge and teamwork, and fresh input and thinking, while maintaining a cohesive board.
- 4.3. It is important to consider a diversity of personal attributes among board candidates, including: intellect, critical assessment and judgement, courage, openness, honesty and tact; and the ability to listen, forge relationships and develop trust. Diversity of psychological type, background and gender is important to ensure that a board is not composed solely of like-minded individuals. A board requires directors who have the intellectual capability to suggest change to a proposed strategy, and to promulgate alternatives.
- 4.4. Given the importance of committees in many companies' decision-making structures, it will be important to recruit non-executives with the necessary technical skills and knowledge relating to the committees' subject matter, as well as the potential to assume the role of committee chairman.
- 4.5. The chairman's vision for achieving the optimal board composition will help the nomination committee review the skills required, identify the gaps, develop transparent appointment criteria and inform succession planning. The nomination committee should periodically assess whether the desired outcome has been achieved, and propose changes to the process as necessary.
- 4.6. Executive directors may be recruited from external sources, but companies should also develop internal talent and capability. Initiatives might include middle management development programmes, facilitating engagement from time to time with non-executive directors, and partnering and mentoring schemes.
- 4.7. Good board appointments do not depend only on the nomination committee. A prospective director should carry out sufficient due diligence to understand the company, appreciate the time commitment involved, and assess the likelihood that he or she will be able to make a positive contribution.

Five – Evaluating the Performance of the Board and Directors

- 5.1. Boards continually need to monitor and improve their performance. This can be achieved through board evaluation, which provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development. The evaluation process should aim to be objective and rigorous.
- 5.2. Like induction and board development, evaluation should be bespoke in its formulation and delivery. The chairman has overall responsibility for the process, and should select an appropriate approach and act on its outcome. The senior independent director should lead the process which evaluates the performance of the chairman. Chairs of board committees should also be responsible for the evaluation of their committees.
- 5.3. The outcome of a board evaluation should be shared with the whole board and fed back, as appropriate, into the board's work on composition, the design of induction and development programmes, and other relevant areas. It may be useful for a company to have a review loop to consider how effective the board evaluation process has been.
- 5.4. The Code recommends that FTSE 350 companies have externally-facilitated board evaluations at least every three years. External facilitation can add value by introducing a fresh perspective and new ways of thinking. It may also be useful in particular circumstances, such as when there has been a change of chairman, there is a known problem around the board table requiring tactful handling, or there is an external perception that the board is, or has been, ineffective.
- 5.5. Whether facilitated externally or internally, evaluations should explore how effective the board is as a unit, as well as the effectiveness of the contributions made by individual directors. Some areas which may be considered, although they are neither prescriptive nor exhaustive, include:
 - the mix of skills, experience, knowledge and diversity on the board, in the context of the challenges facing the company;
 - clarity of, and leadership given to, the purpose, direction and values of the company;
 - succession and development plans;
 - how the board works together as a unit, and the tone set by the chairman and the CEO;
 - key board relationships, particularly chairman/CEO, chairman/senior independent director, chairman/company secretary and executive/non-executive;
 - effectiveness of individual non-executive and executive directors;
 - clarity of the senior independent director's role;
 - effectiveness of board committees, and how they are connected with the main board;
 - quality of the general information provided on the company and its performance;
 - quality of papers and presentations to the board;
 - quality of discussions around individual proposals;

- process the chairman uses to ensure sufficient debate for major decisions or contentious issues;
- effectiveness of the secretariat;
- clarity of the decision processes and authorities;
- processes for identifying and reviewing risks; and
- how the board communicates with, and listens and responds to, shareholders and other stakeholders.

Six – Audit, Risk and Remuneration

- 6.1. While the board may make use of committees to assist its consideration of audit, risk and remuneration, it retains responsibility for, and makes the final decisions on, all of these areas. The chairman should ensure that sufficient time is allowed at the board for discussion of these issues. All directors should familiarise themselves with the associated provisions of the UK Corporate Governance Code and its related guidance, and any relevant regulatory requirements.
- 6.2. Sufficient time should be allowed after committee meetings for them to report to the board on the nature and content of discussion, on recommendations, and on actions to be taken. The minutes of committee meetings should be circulated to all board members, unless it would be inappropriate to do so, and to the company secretary (if he or she is not secretary to the committee). The remit of each committee, and the processes of interaction between committees and between each committee and the board, should be reviewed regularly.

Seven – Relations with Shareholders

- 7.1. Communication of a company's governance presents an opportunity for the company to improve the quality of the dialogue with its shareholders and other stakeholders, generating greater levels of trust and confidence.
- 7.2. The annual report is an important means of communicating with shareholders. It can also be used to provide well thought-out disclosures on the company's governance arrangements and the board evaluation exercise. Thinking about such disclosures can prompt the board to reflect on the quality of its governance, and what actions it might take to improve its structures, processes and systems.
- 7.3. The Code emphasises the importance of continual communication with major shareholders, and of the AGM, as two aspects of a company's wider communications strategy. The chairman has a key role to play in representing the company to its principal audiences, and is encouraged to report personally about board leadership and effectiveness in the corporate governance statement in the annual report.

Appendix

FRC Codes and Guidance and Other Sources of Information

FRC Codes and Guidance

The **UK Corporate Governance Code** sets out recommended practices for listed companies. All companies with a Premium Listing of equity shares in the UK are required to report on the extent to which they have complied with the Code (this is known as 'comply or explain').

Sections A and B of the Code address the leadership and effectiveness of the board, and this guidance is intended to assist boards in considering how to apply the principles in those sections of the Code.

Section C of the Code addresses financial and business reporting, risk management and internal control, and the role of the audit committee. The FRC has issued three guidance notes on these matters:

- Going Concern and Liquidity Risk: Guidance for Directors of UK Companies
- Internal Control: Guidance for Directors
- Guidance on Audit Committees

The **UK Stewardship Code** sets out good practice for institutional investors on engaging with the companies in which they invest.

These documents can all be downloaded from the FRC website:

<http://www.frc.org.uk/publications/pubs.cfm>

or obtained free of charge from FRC Publications (telephone: 020 8247 1264, e-mail: customer.services@cch.co.uk or online at: www.frcpublications.com)

Directors' Duties

The legal duties of directors of UK companies are set out in sections 170 to 177 of the Companies Act 2006. The Act can be found at:

<http://www.legislation.gov.uk/ukpga/2006/46/contents>

Other Sources of Information

Note: this is not a comprehensive list. Other sources of information and advice are available.

The **Institute of Chartered Secretaries and Administrators (ICSA)** provides guidance on a wide range of board-related matters, for example, specimen terms of reference for board committees. This guidance can be found at:

<http://www.icsa.org.uk/policy-guidance?c=1>

The **Institute of Directors (IOD)** provides a wide range of guidance notes for directors, which are available at:

<http://www.iod.com/Home/Business-Information-and-Advice/Being-a-Director/>

Smaller listed companies may find the guidance produced by the **Quoted Companies Alliance (QCA)** useful. This can be found at:

<http://www.theqca.com/shop/guides/>



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Corporate governance

Delivering sustainable shareholder value



“A highly effective board is about culture, behaviours and values underpinned by robust processes.”

John Peace
Chairman

Dear Shareholder

2010 was a year of progress and evolution for the Board, particularly in relation to the Board's composition and the use of board committees.

Three new independent non-executive directors joined the Board. These appointments brought deeper levels of banking and finance experience to the table as well as broader geographic representation from across our footprint.

We believe in regularly refreshing the Board's composition. In this respect, over the past five years there have been nine appointments and 10 directors have stepped down from the Board. We believe that it is important to have the right balance between directors with a deep and longstanding knowledge of the organisation built up over a number of years and new joiners who add a fresh perspective to the Board's deliberations.

Assessing and improving the Board's effectiveness is something that happens continuously rather than being concentrated into a formal annual review process. In 2009 we conducted an intensive internal corporate governance review over a period of months, which led to the changes in Board composition and the re-configuration of our board committee structure.

In 2010 we appointed Boardroom Review to facilitate the Board's effectiveness evaluation. Dr Tracy Long conducted interviews with all Board members, prepared a report and stimulated a Board conversation regarding her observations. The evaluation almost totally confirmed the views that we had internally and I see this as a good indicator of the openness that exists within the Board and between the Board and the executives. It was particularly useful to gain an external perspective and Dr Long provided greater insight into board effectiveness practices used by other companies.

We created separate Audit and Risk Committees during the year and enhanced the remit of the Brand and Values Committee. We now have four primary board committees and two enabling board committees. As described later in the report, these are operating well and we have enhanced the linkages between these committees with the Board as a whole. The linkages between the committees are critical given that it is impractical for all non-executive directors to be members of all of the committees.

We believe that a highly effective board is about chemistry and behaviour, although it is important to ensure that there are good processes that underpin and enable the Board and the directors to maximise their effectiveness. As Chairman I strive to create an inclusive environment where open debate and constructive challenge is encouraged within the context of a cohesive unitary Board.

In 2010 I was particularly pleased with the way that we used individualised tailored engagement plans to ensure that each non-executive director maintained the skills, knowledge, exposure and information needed to be fully effective. I can confirm that I conducted a rigorous review of the effectiveness of each director. Rudy Markham, in his role as Senior Independent Director, was similarly rigorous in the assessment of my contribution to the Board. This year we will propose all directors for re-election as we believe that this will not adversely impact directors' focus on promoting the long-term success of the company.

I strongly believe that Standard Chartered's open culture where board members have unfettered access to information and people across the network is a critical enabler for the Board's overall effectiveness. It was notable that the non-executive directors made 40 visits to countries across our footprint in 2010 (up from 23 in 2009). This is one factor that demonstrates the high commitment of the directors to their roles.

As Chairman, promoting standards of exemplary corporate governance is central to my role. Engaging with shareholders is one key aspect of effective corporate governance. In this context I am pleased to introduce and endorse this Corporate Governance report. You will notice that the style of this report is less formal and more discursive than in previous years. The aim is to provide you with a richer, more textured flavour of how the Board and its committees fulfil their governance responsibilities on an ongoing basis.

John Peace
Chairman
2 March 2011

Our highlights

- Smooth induction and integration of three new independent non-executive directors and one executive director to the Board
- Evolution of individualised engagement plans for each non-executive director
- Separated our Audit and Risk Committee, established a Governance Committee and enhanced the remit of the Brand and Values Committee
- Enhanced the linkages between the Board and its committees
- Commissioned an independent survey to gauge investor perceptions
- Made space for deeper and broader discussions on key strategic issues
- Created more informal opportunities for the Board to discuss strategic issues
- Oversight of a successful rights issue
- Undertook an externally facilitated Board effectiveness evaluation

Our priorities in 2011

- Continue to focus on the prevailing external conditions and the potential impact on our strategy and business model
- Maintaining the right balance in pursuing growth opportunities in tandem with appropriate governance, systems, controls, processes and information flows
- Nurturing the Group's corporate culture, values and Here for good brand promise as the Group continues to grow
- Continue to focus on dynamic yet structured Board, committee and senior executive succession planning
- Continue to balance formal and informal opportunities to focus on key strategic opportunities and risk factors

Who is on our Board?

We have 16 members on the Board: the Chairman, five executive directors and 10 non-executive directors. A list of the individual directors and their biographies are set out on pages 84 to 86. Details of board committee membership are set out on page 95 of this report.

We welcomed Dr Han Seung-soo, KBE and Richard Delbridge as independent non-executive directors on 1 January 2010, and Simon Lowth as an independent non-executive director with effect from 1 May 2010.

We believe that it is important to have a broad representation of executive directors on the Board and in this context we welcomed Jaspal Bindra with effect from 1 January 2010. He forms part of Standard Chartered's strong executive management team. We believe that the quality of the executive management is one of the biggest drivers of long-term value creation for shareholders. The Board thanks Gareth Bullock who stepped down from being an executive director on 1 May 2010.

Our Board reflects diversity in terms of both gender and ethnic background, and is regularly refreshed. The average length of tenure is 4.2 years. Five new directors have been appointed over the last two years. We are mindful of the need to balance the composition of our Board and its committees, drawing upon the in-depth knowledge and experience held by our longer serving directors whilst embracing the fresh perspectives offered by more recent joiners to the Board.

What has our Board done during the year?

The Board is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. It provides leadership through oversight, review and by providing guidance whilst setting the strategic direction.

Over the year, amongst other things, the Board has been engaged with overseeing the review and execution of our clearly defined strategy and in probing its underlying assumptions. The Group is managed through a matrix of businesses, functions and geographies. The Board has been engaged in a continuous strategic dialogue and undertaken reviews through each of the three lenses of the matrix. It is not possible to cover all areas in this report. In addition to regular business reviews, from a geographic perspective, the Board's strategic reviews included Greater China, Korea, sub-Saharan Africa, India, the United Arab Emirates, Hong Kong and Taiwan. The Board has also considered and approved our capital and liquidity management plan, and the Group's risk appetite statement in addition to considering people, talent, culture and succession planning matters. Deeper-dive discussions have focused on the potential impact of regulatory change for our strategy and structure; continued capital and liquidity strength; the balance and disciplines applied to organic and inorganic growth opportunities; and a relentless focus on the importance of our values and culture as the Group continues to grow.

The full schedule of matters reserved for the Board together with the board committees' terms of reference are available on www.standardchartered.com

Given the fast-changing external environment and volatile markets, the Board understands the importance of remaining cognisant of changes in the regulatory and political environment. The Board is aware that our strategic performance and management of risk is closely linked to the prevailing economic and market conditions. The executive team ensures that the non-executive directors receive comprehensive intelligence on the economic and competitive landscape.

During 2010 we estimate that each non-executive director spent at least 30 days on Board related duties and for those who sat on multiple committees up to 100 days or more.

Our non-executive directors travel extensively and have the opportunity to validate the strategy and gain an on the ground understanding of the opportunities and risks that we face, engage with local management and country leaders whilst acting as ambassadors for Standard Chartered in meetings with customers and regulators.

Snapshot of overseas trips

Whilst in Beijing, the Board visited the Beijing branch, and hosted a dinner attended by more than 30 distinguished guests from the Chinese government, the British Embassy and some of our key clients. 40 members of staff attended a lunch with the Board. In Tianjin, Rudy Markham and Oliver Stocken attended the opening of our 59th sub-branch in China. Ruth Markland had a factory tour of Zongshen Group, one of the top motorcycle manufacturers in China, and participated in an environmental education programme together with 10 employee volunteers from our Chongqing branch.

There are also open invitations to attend key management committee meetings and senior leadership team gatherings. We believe that it is beneficial for most of these visits to be unsupervised and non-executive directors are actively encouraged to engage with a broad array of employees, clients/customers, regulators and the wider communities they visit.

For example, Jamie Dundas travelled to Mumbai and Delhi with the British Deputy High Commissioner in Mumbai to discuss the Indian economy. Jamie also met with local senior management and employees at a local branch in Mumbai; met small and medium-sized enterprises (SMEs) and Private Bank clients in addition to receiving an update and witnessing first hand our local sustainability initiatives. On a trip to Hong Kong and Shenzhen, Val Gooding visited branches and a call centre, attended a presentation on our branding, marketing and customer service strategy, and met with senior management. Rudy Markham

and Richard Delbridge both visited our shared service centres in Chennai and Kuala Lumpur during the year.

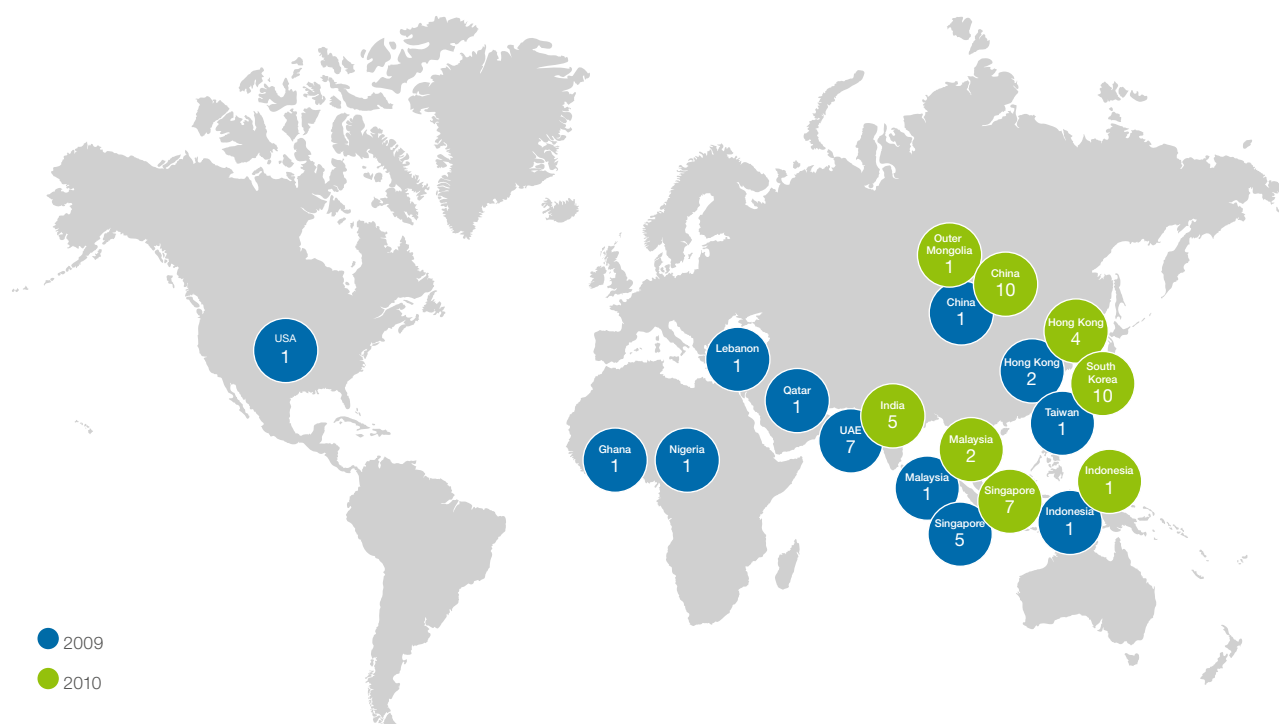
In total, our non-executive directors conducted 40 visits to overseas markets during the year. This was increased from 23 visits the previous year and is a testimony of their commitment levels.

How do we ensure that we have an effective Board?

A core component of Standard Chartered is our open, accessible and transparent culture where dialogue and constructive challenge is actively encouraged and embraced. In addition to these qualities, well organised internal processes are in place to maximise the value of the Board's strategic contribution. These include the use of twelve-month rolling agendas, away days and carefully structured Board agendas.

The strategic away sessions held in Korea over three days presented a great opportunity for strategic reflection affording the Board sufficient time to examine emerging risks and opportunities in detail. This provided a useful forum for comprehensive consultation, debate and challenge. In 2010, in addition to concentrating on the strategic review in this three-day session, a mix of formal and informal strategic conversations were held throughout the year so that directors could engage even more deeply with key opportunities, risks and issues.

Visits made to our markets by non-executive directors in 2010 and 2009



Corporate governance

Corporate governance



Agricultural Bank of China presentation and signing ceremony

In 2010, Standard Chartered formed a strategic partnership with the Agricultural Bank of China and became a cornerstone investor in their initial public offering in Hong Kong



Rudy Markham and Oliver Stocken visit the construction site of our new building in Tianjin



Pottery workshops with HIV affected children

20 children from Henan – beneficiaries of our long-term partner, Chi Hong foundation – had the opportunity to participate in a pottery workshop with our Board

To ensure that our non-executive directors maintain the requisite knowledge and understanding to enable them to challenge effectively, they are provided with a personalised approach to induction, training and development. Each non-executive director agrees an annual individualised engagement plan with our Chairman. These plans are dynamic in nature and are reviewed regularly. They ensure each non-executive director receives the appropriate support to enhance their effectiveness. It also means that non-executive directors are clear about the expectations placed upon them regarding continued development. The engagement plans provide each non-executive director with key development briefing sessions and deeper dives into relevant topics.

We believe that it is vital that non-executive director development is tailored to the specific issues affecting Standard Chartered so that the development is of high quality, relevance and value. Directors receive briefings from our senior executives, and sessions are arranged with our advisors. For example, as described in the Board Risk Committee report, Jamie Dundas and other members of the newly formed Committee participated in a wide array of briefing sessions and engagements with risk professionals to ensure that they were fully equipped to fulfil their new roles in the Board Risk Committee.

Our non-executive directors are fully supported by our Corporate Secretariat team. The team provides advice and guidance as well as access to additional sources of information and plays a key role in assisting and enabling the non-executive directors to undertake their engagement plans and to monitor progress. In addition our non-executive directors can take independent professional advice at the expense of Standard Chartered in furtherance of their duties.

How does the Board ensure that regard is given to customers, shareholders, regulators, communities and other stakeholders?

Customers and clients

The Board's identification of new markets and geographies relies on an understanding of current and future customer needs, behavioural changes and trends and an assessment of business opportunities. Our corporate culture is client/customer focused, putting them at the heart of our strategy and focus. For example, throughout the year the Board reviewed the Group's strategy regarding key client segments such as Local Corporates and SMEs. Our open approach offers non-executive directors a better understanding of how our strategy is being communicated throughout Standard Chartered, while providing valuable opportunities to meet and build relationships with the wider senior leadership including potential successors to the Board.

Investors

In 2010 an independent survey was undertaken to gauge investor perceptions of Standard Chartered. In order to identify areas of strength, weakness, changes in opinion or areas of misunderstanding, investors were asked for their views in a number of areas including strategy, management, capital liquidity and risk, corporate and social responsibility and corporate governance. A total of 23 investors took part in the survey representing 42.5 per cent of our issued share capital at the time. The survey found that our shareholders hold Standard Chartered in high regard and that they consider us to be a high quality company with a strong management team who take a conservative approach to running the business. The Group's high performance is attributed to a combination of the diverse nature of our business and the excellent operational control exercised by management in the areas of risk, liquidity and capital. Our Board recognises that the relationship that we enjoy with our

shareholders is a key strength and the Board will continue to nurture this. There is widespread support for our strategy, and its execution; no concerns were expressed regarding our corporate governance practices. Shareholders view Standard Chartered as having performed through the crisis. Responses to the survey credited management for the way in which the strategy was executed so successfully despite the challenging economic environment.

Meetings with major shareholders

We aim for the highest standards of corporate governance, and in pursuit of this objective, follow an approach that complies with all provisions of the UK Financial Reporting Council's UK Corporate Governance Code, (the Code) and with Appendix 14 of the Hong Kong Listing Rules, save one exception: under the code, all non-executive directors are formally required to meet with major shareholders as part of their induction programmes. Our Board received regular updates on the views of our institutional shareholders and stakeholders including a presentation from four institutional shareholders on their views of the Company as an investment. Our Board openly seeks the views of our shareholders and during the year, the Chairman, Group Chief Executive and Group Finance Director met with six investors from our top 20 investors.

Our Remuneration Committee is strongly supportive of an ongoing, open dialogue and regularly communicates with a variety of stakeholders. Throughout the year the Committee Chairman, Ruth Markland, actively engaged with external bodies such as institutional investors, regulators and other advisory bodies. Over the last 18 months she has corresponded and met with our primary regulator, the Financial Services Authority, on a number of occasions regarding the recent changes in remuneration regulations. In addition, she has met with institutional investors regarding proposed discretionary share

Boardroom Review's summary of the five major strengths demonstrated by the Board

The quality of the Board's strategic contribution	The Board's focus on the external environment and the management of influential stakeholders	The quality of the executive team	The culture and diligence of the Board	The Board's processes and support
<p>This is demonstrated by ongoing strategic discussions throughout the year, and an effective strategy board session. The Board has strategic clarity and there is continuous strategic dialogue throughout the year in conjunction with a rolling agenda and deep dives into complex business areas.</p>	<p>The Board demonstrates this by effective engagement with regulatory and political change, the competitive landscape, attention to customers, and management of shareholders.</p>	<p>This is evidenced by the high levels of understanding and knowledge of the business that exist, attention to corporate culture and leadership, and alignment with the long-term objectives of the business.</p>	<p>The Board demonstrated this by an open and transparent approach, high levels of non-executive director engagement, oversight and diligence, appropriate levels of formality, and the leadership of the Chairman.</p>	<p>This is evidenced by the provision of high quality information, well structured agendas and a professional and well resourced secretariat team.</p> <p>As part of the review, the directors identified two main themes that warranted further greater visibility by the Board going forward: firstly, the importance of ensuring that the right balance is maintained in pursuing business growth with support by the various systems, controls, processes, information flows and corporate culture; and secondly, the need to continue to focus upon board and executive succession planning.</p>

scheme arrangements. More detail can be found in the Directors' remuneration report on pages 106 to 125.

John Peace and the executive team ensure that the Board is aligned with the long-term interests of shareholders through the use of both formal and informal channels of communication. There is regular feedback to the Board on any issues or concerns that have been raised by shareholders. Following any market announcements such as our results, pre-close and interim management statements any significant shareholder feedback is shared with the Board.

What were the findings of our independent externally facilitated Board effectiveness evaluation?

Reviewing effectiveness is an ongoing process with adjustments continuously being made. In 2009 we conducted an intensive internally facilitated corporate governance review. This took into account emerging governance trends arising from the Walker and the UK Financial Reporting Council reviews and resulted in many of the Board composition and committee changes outlined in this report. In 2010 we commissioned an independent external board effectiveness facilitator (Boardroom Review) to assist our Board to evaluate its effectiveness. The evaluation was designed to assess the quality of the Board's decision making and debate, its overall contribution to, and impact on, the long-term health and success of the Company, and its preparation for future challenges. This

independent external evaluation covered a variety of aspects associated with board effectiveness and was conducted through the use of confidential interviews with all 16 directors and the review of selected papers. Following the review, Dr Long, of Boardroom Review, attended a Board session to stimulate a discussion on the observations arising from the evaluation. As a result an action plan to address the key findings has been formulated.

A summary of the key observations emerging from the 2010 evaluation and the action to be taken is included in the table on page 93 together with a further update on the observations arising from the 2009 evaluation.

Individual director and Chairman effectiveness reviews

In addition to the review of the Board's effectiveness, each individual director discussed his or her self assessment with the Chairman on a one-to-one basis. These discussions included details of time commitment including (where relevant) the potential impact of outside interests held by each non-executive director, engagement plan implementation and other broader contributions to the Board. Outlines for future engagement plans were covered providing a guideline for the activities that every non-executive director intends to undertake over the next 12 to 18 months in order to continue to build on their understanding of our business. In relation to those directors with longer tenure, continued independence of mindset and

perspective was considered specifically. The Chairman reported the outcome of these discussions to the Nomination Committee, which used this information as part of its consideration leading to recommending to the Board the re-election of all directors at our Annual General Meeting.

Part of Rudy Markham's role as Senior Independent Director is to facilitate a review of John Peace's performance. He obtained feedback from every Board member as part of this process. As a result it was concluded that John has the unanimous support of the Board for his leadership of the Board. His effectiveness was also noted as a strength in the externally facilitated board effectiveness evaluation. The Board drew great encouragement from the progress made by the Group during the year, noting that John's contribution to this has been significant. In particular, the Board welcomed the opportunities John has created for informal and reflective discussion on issues of longer-term significance.

In addition to attending the overseas Board meetings in Seoul and Beijing, John Peace visited Singapore and Shanghai twice; Hong Kong, Taiwan, Bahrain, India, and the USA. The Board recognised this external representation as evidence of John's commitment to Standard Chartered.

Summary of some of the observations arising and actions taken as a result of the Board's effectiveness review

2010		2009	
Observations	Actions taken/to be taken	Observations	Actions taken
Looking forward, it was observed that it is important to ensure that we continue to maintain the right balance in pursuing business growth supported by the various systems, controls, processes and information flows and to nurture our corporate culture as we grow.	The Board will continue to receive regular updates from management via its committees regarding the development of systems, controls, processes and information flows and the protection of our corporate culture.	Priorities included strengthening the Board through the appointment of additional directors and enhancing the diversity of our Board through the appointment of a director from our footprint.	Our Board has been strengthened with the appointment of three independent non-executive directors and one executive director. We have added diversity and enhanced skills with the addition of Simon Lowth, who is a serving chief financial officer; Dr Han Seung-soo, KBE, a Korean national and a climate change expert with regulatory and government relations; and Richard Delbridge who has deep banking knowledge. Jaspal Bindra was appointed executive director, bringing wide-ranging international experience to the Board.
There is a need to continue to focus upon Board and executive succession planning.	We will continue to develop our structured approach to succession planning whilst being mindful of the complexities of balancing board size with board diversity and the skills and experience required on our Board.	Overseas Board meetings and the introduction of more individualised engagement plans, briefing sessions and informal lunches and dinners were considered important and needed to continue as they provide the opportunity for the Board to meet with customers, employees and the communities in which we do business.	Two overseas Board meetings were held in Seoul and Beijing in 2010. The structured engagement plans introduced in 2009 have been enhanced and more opportunities have been provided for the Board to meet outside formal meetings at informal dinners and other gatherings.
There is a need to balance conciseness of information provided to the Board and the Group's open culture where executives want Board members to have open access to information.	We have introduced one-page outlines for all core strategic review papers. These provide a roadmap for the issues discussed in more depth in the body of the papers. Early feedback on this initiative has been positive.	More focus on the effectiveness and structure of board committees and the interaction of these with the full Board.	In March 2010 we separated the Audit and Risk Committee into two separate committees. The Sustainability and Responsibility Committee was renamed the Brand and Values Committee and has an enhanced remit. A Governance Committee has been created. It was acknowledged that following the separation of the board committees, a key challenge would be to ensure that the linkages between the Board and its committees remained effective. This has been achieved by having common committee members, formal updates to the Board and more informal briefings from the committee chairmen throughout the course of 2010. All of these board committees have enhanced the interaction between the Board and its committees.

Board meetings and attendance

It is our Board's responsibility to ensure that the Group is governed properly and prudently; responsibilities and complexities are rising and the amount of time devoted by non-executive directors in order to fulfil their obligations has increased. The time commitment for non-executive directors, as illustrated by the engagement plans, is high and encourages the Board to spend time on overseas visits. This increases and contextualises levels of directors' local knowledge and understanding, and builds relationships.

A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of friendship and respect. This creates an environment that encourages challenge, advice seeking, information sharing, innovative thinking and openness of communication.

Number of Board meetings held in 2010

	Scheduled	Ad hoc
Number of meetings in 2010		4
J W Peace (Chairman)	10/10	4/4
P A Sands	10/10	4/4
R H P Markham	10/10	3/4
R H Meddings	10/10	4/4
S P Bertamini	10/10	4/4
J S Bindra	10/10	4/4
G R Bullock ¹	4/4	0/0
R Delbridge	9/10	3/4
J F T Dundas	10/10	4/4
V F Gooding	10/10	3/4
Dr Han Seung-soo	9/10	2/4
S J Lowth ²	5/5	4/4
R Markland	10/10	3/4
J G H Paynter	9/10	4/4
A M G Rees	10/10	4/4
P D Skinner	10/10	4/4
O H J Stocken	10/10	4/4

¹ Stepped down on 1 May 2010

² Appointed 1 May 2010

We have increased the number of scheduled Board meetings from eight to 10. Through this, combined with the delegation of more matters to the board committees and the scheduling of more informal gatherings such as lunches and dinners, the Board has made space to enable more and deeper reflection on key strategic issues.

External directorships

The Board's executive directors are permitted to hold only one non-executive directorship of a FTSE 100 company. Details of the executive directors' other directorships can be found in their biographies on pages 84 to 86.

We closely monitor the outside business interests of the non-executive directors. Before taking on an additional role, both executive and non-executive directors will confirm that no conflict arises from that role and provide assurance that the appointment will have no adverse impact on their ability to continue to fulfil their role as Board member. Committee chairmen are particularly mindful of their obligations. Whenever required during the year, non-executive directors have consistently demonstrated their ability to provide any additional time commitment needed.

Re-election of directors

Traditionally, non-executive directors were initially appointed for a three-year term. Under the 2008 edition of the Combined Code (now the UK Corporate Governance Code), anyone who was proposed for re-appointment for more than two consecutive three-year periods should be subject to particularly rigorous review. Jamie Dundas, Ruth Markland, Val Gooding and Paul Skinner are all in their third three-year term on the Board. The Chairman took this into consideration when reviewing their performance and effectiveness. He provided feedback from these reviews to the Nomination Committee. It was observed that, particularly in the case of the Committee chairmen, there is a positive benefit to having non-executive directors with a deep and long-standing knowledge of the Group in these roles.

Rudy Markham has been on the Board for 10 years and as a result, his continued independence has been the subject of particular scrutiny. The Nomination Committee considered this point in detail. Rudy continues to demonstrate excellent stewardship as Senior Independent Director and Chairman of the Audit Committee. As a result of his length of service and commitment, he provides an in-depth knowledge of the Group that is invaluable to the Board, the Audit Committee, the Board Risk Committee, the Governance Committee and the Nomination Committee.

It was concluded that Rudy Markham displays independence of thought and judgment habitually and this has not diminished over the period of his tenure.

During 2010, the Board has experienced a number of changes with the new committee structure and the appointment of three new independent non-executive directors. This demonstrates the Group's commitment to regularly refreshing the composition of the Board as required by the UK Corporate Governance Code, and, as a result, retaining the continuity and experience that Rudy Markham demonstrates is believed to be in shareholders' best interests at this time.

The Nomination Committee has also considered the fact that Rudy Markham is a non-executive director on the board of Astra Zeneca PLC whilst Simon Lowth is an executive director at the same company. We do not believe that this creates a cross-directorship that in any way impacts upon the independence of either director.

In line with the UK Corporate Governance Code, we will propose all directors for re-election at the Company's Annual General Meeting. It is our belief that this will not have any adverse impact on directors' ability to focus on the long-term success of the Company.

Group board committee structure

Standard Chartered PLC Board					
Primary committees				Enabling committees	
Audit	Board Risk	Brand and Values	Remuneration	Nomination	Governance
Oversight and review of financial, audit and internal control issues	Oversight and review of fundamental prudential risks including credit, market, capital and liquidity	(previously Sustainability and Responsibility) Oversight and review of brand positioning, treating customers fairly, reputational risk, ethics and sustainability issues	Oversight and review of remuneration, share plans and other incentives	Oversight and review of board and executive succession	Oversight of overall board effectiveness and governance issues

Board committees

As a result of our 2009 internal governance review, in March 2010 we re-configured our board committees. This took the form of:

- The separation of the Audit and Risk Committee into two committees one covering financial, internal controls and compliance (the Audit Committee) and the other covering risk issues (the Board Risk Committee)
- An enhanced remit and new name for the Sustainability and Responsibility Committee becoming the Brand and Values Committee
- The formation of a Governance Committee

Given the recent re-configuration of the Board committees, we decided to conduct internally facilitated effectiveness reviews in

2010. This was facilitated by the Corporate Secretariat. It involved each director completing a questionnaire providing feedback on each committee's effectiveness. This feedback was then discussed at each committee with an action plan being formulated for each. Details of the findings of the reviews can be found in the individual committee reports.

The feedback that has been provided as part of the 2010 board committee effectiveness review confirms that the re-configuration has further enhanced the Board's effectiveness and allowed more time to be spent on strategic issues. Further details concerning the activities of each committee are provided in the report of each committee on pages 96 to 105.

How have we ensured that appropriate linkages exist between our Board, our Committees and our management committees?

We have ensured that there is some common membership across our committees. For example the Chairmen of the Audit and Board Risk Committees sit on each other's committee and there are two other common members. There is also some common membership between the Board Risk Committee and the Remuneration Committee. This is important to ensure there are no gaps between the remit of the various committees or unnecessary duplication. In addition to the minutes of committee meetings being sent to the Board, a framework has been put in place where committee chairs provide regular updates to the Board on the work of the committee. This is supplemented by a number of more informal briefings on the topics covered by various committees.

Current membership of the board committees

	Audit Committee	Brand and Values Committee	Governance Committee	Nomination Committee	Remuneration Committee	Board Risk Committee
R Delbridge	●					●
J F T Dundas	●	●		●		●
V F Gooding		●			●	
Dr Han Seung-soo		●				
S J Lowth						
R H P Markham	●		●	●		●
R Markland	●			●	●	●
J G H Paynter	●				●	
J W Peace		●	●	●	●	
P A Sands		●	●	●		
P D Skinner		●		●	●	●
O H J Stocken						●

- Chairman
- Member

Copies of each board committee's terms of reference can be found on our website. www.standardchartered.com



Dear Shareholder

During 2010, the Audit Committee has deepened its focus on internal controls, compliance and assurance and internal audit functions. This has been made possible by the separation of the Audit and Risk Committee into two Committees. Part of the rationale for the separation was the desire to dedicate more time to the consideration of risk related issues but it has also enabled the Audit Committee to intensify its focus on reviewing financial

controls and accounting policy, the performance and benchmarking of the Group Internal Audit function and the development and resourcing of the Group Compliance function.

Over the course of the year, the demands on the Audit Committee have increased, as have the expectations of our regulator, the Financial Services Authority (FSA). The Committee's effectiveness is definitely enhanced through the existence of synergies in membership. For instance, Jamie Dundas is both a member of the Audit Committee and Chairman of the Board Risk Committee, Ruth Markland is Chairman and John Paynter is a member of the Remuneration Committee. These synergies have ensured that the interplay of risk, remuneration and the financial outcome are considered from different perspectives but result in a consistent view and treatment of performance within the Group. In 2010 Richard Delbridge joined the Committee, bringing with him deep banking

knowledge and experience that has contributed to the quality of the discussions held at Committee meetings and the Committee's effectiveness.

On behalf of the Audit Committee, I can confirm that information that the Committee has received has been balanced, appropriate and timely and has enabled the Committee to provide effective oversight of the Group's key financial reporting risks and internal controls.

Rudy Markham
Chairman of the Audit Committee



Audit Committee Members

	Scheduled ¹	Ad Hoc
Number of meetings in 2010	7	1
R H P Markham (Chairman) (5)	7/7	1/1
R Delbridge (2)	7/7	1/1
J F T Dundas (1)	7/7	1/1
R Markland (4)	7/7	1/1
J G H Paynter (3)	6/7	1/1

¹ Two of the scheduled meetings were as the joint Audit and Risk Committee prior to the separation of the two committees in March 2010

Our highlights

- Established separate Audit and Risk Committees and ensured that there were no unnecessary duplications between these committees or significant gaps
- Reviewed the potential implications of the Bribery Act and the Foreign Account Tax Compliance Act
- Reviewed and modified the Audit and the Compliance risk radar
- Increased focus on compliance and assurance resources
- Strengthened the oversight of work undertaken by the Group statutory auditor
- Reviewed Group Internal Audit's compliance with the Institute of Internal Auditors Standards
- In conjunction with the Board Risk Committee, reviewed the Group's Pillar III disclosures
- Reviewed the Indian Depository Receipts Prospectus
- Conducted deeper-dive half-day sessions on key operational and control issues
- Considered Customer Due Diligence, Anti-Money Laundering processes and procedures and the operational control environment of our Private Banking business

Our priorities in 2011

- Continue to monitor changes in the external regulatory environment to ensure that we continue to have appropriate financial, compliance and internal controls in place
- Continue to fully evaluate and take into account the risks and uncertainties when considering budgets and forecasts that support going concern and impairment assessments
- Further evolve the Committee's remit and effectiveness following the separation from the Board Risk Committee in March 2010
- Continue to consider emerging best practice recommendations for enhancing the Committee
- Continue to hold deeper-dive half-day sessions on key strategic issues
- Continue to ensure that we are satisfied that our Group statutory auditor has allocated sufficient additional and experienced resources to address heightened risks
- Continue to ensure that our Group Internal Audit and Group Compliance and Assurance functions have adequate experienced resource to deliver on their audit and compliance plans
- Ensure that new International Financial Reporting Standards are implemented

What has the Committee's role and focus been in 2010 and how has it aided the Board with the delivery of its strategy?

Financial reporting

We have increased our focus on the management of financial positions and accounting issues, considered the provision of non-audit services by the Group statutory auditor and those non-audit services provided by other auditing firms, (details of which can be found in note 8 to the financial statements) and in our reviews of issues that have arisen, distinguished between those that are business related versus process related.

Over the course of 2010, the Committee has discussed and sought assurance that the effects on our business of the continued volatility in financial markets and the reduced supply of credit are being closely monitored. We are satisfied that we have considered for disclosure all material relevant issues that have concerned management during the year.

We have promoted a culture of compliance and financial reporting integrity throughout the year and have reviewed areas identified by Group Internal Audit and Compliance as having control issues.

As part of our discussions concerning the financial statements we have considered and are comfortable that our audited financial statements describe fairly all of the key judgments about the application of accounting policies and the estimation uncertainties inherent in the value of assets and liabilities.

Group statutory auditor

During 2010, we strengthened our oversight of the work undertaken by the Group statutory auditor (KPMG Audit Plc), in terms of the quality of the reports made to the Committee, and Rudy Markham, Jamie Dundas and Ruth Markland have met with local audit partners in Korea, China and Hong Kong.

We have discussed with KPMG Audit Plc the business and financial risks and have sought assurance that these risks have been properly addressed in the audit strategy and plan that have been reviewed by the Committee. We are satisfied that KPMG Audit Plc has allocated sufficient additional and experienced resources to address heightened risks. We have sought assurance and are comfortable that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively.

During the year, we approved the re-appointment, remuneration and engagement letter of KPMG Audit Plc.

We conducted a review of the performance and effectiveness of KPMG Audit Plc which included an assessment of its independence and objectivity. As in previous years, the review was performed jointly by Group Internal Audit and Group Finance by way of a structured questionnaire. The questionnaire was sent to country Chief Financial Officers, members of our Finance Leadership Team, country Chief Executive Officers and our Business Leadership Team covering all of our major markets. The questionnaire considered KPMG Audit Plc's value-add to the Group, the level of engagement, the ability to demonstrate an understanding of Standard Chartered and our risk environment, and the demonstration of appreciation of the issues faced by country Chief Executive Officers, Chief Financial Officers and Business Heads together with their objectivity, independence and effectiveness.

The principal finding was that KPMG Audit Plc is considered to be effective, objective and independent in its role as Group statutory auditor. In 2010 the Group statutory audit partner was rotated and as a Committee we are satisfied with the level of service that has been maintained through this change together with the style of contribution to Committee meetings and the evident independence of KPMG Audit Plc.

In addition, given the current complexity of our operating environment, the shifting regulatory landscape and the continuing demands of embedding International Financial Reporting Standards and Basel II standards have made continuity of the Group statutory auditor an important factor. As a result, the Committee recommended to the Board the re-appointment of KPMG Audit Plc as Group statutory auditor.

Group Internal Audit and Group Compliance and Assurance

We have reviewed the resourcing and proposed work plans for both the Group Internal Audit and the Group Compliance and Assurance functions and are satisfied that both the work plans and resources are appropriate in terms of proposed areas of focus and the expertise and skill that exist within both functions given the current regulatory environment. The way in which the findings of the Group Compliance and Assurance function have been presented to the Committee has evolved over the year resulting in greater clarity of the issues and swifter resolution. The Committee is conscious of the higher level of regulatory scrutiny that has emerged across the world and as a result, the Committee has enhanced its focus on compliance breaches, their causes and management's reaction to them.

Towards the end of the year, the Committee considered the proposal to move the Group's local internal audit and assurance from our Group Compliance and Assurance function to Group Internal Audit. This became effective from 1 February 2011. Part of the rationale behind this realignment was as a result of the success of the Rules Based Assurance team in driving discipline throughout the Group. This has allowed the Assurance function to place more focus on building control effectiveness reviews that are closer to audit type work, so it was natural to consider how the activities of the two functions could be combined to increase effectiveness.

In addition, regulators in many of our countries of operation have increased their level of supervision, with a more local focus, leading to specific challenges over the perceived independence of local audit and assurance functions.

As a result of this initiative, the Committee is comfortable that the independence of the Group Internal Audit function has been reinforced.

Independent review of Group Internal Audit

As a Committee we monitored and assessed the role and effectiveness of our Group Internal Audit function. We reviewed Group Internal Audit's charter and the findings of an independent review of Group Internal Audit's compliance with the Institute of Internal Auditors Standards. The findings of the review were that the Group Internal Audit fully complies with the Institute of Internal Auditor Standards and demonstrates good industry practice. In the spirit of continuous improvement enhancements have been made to Group Internal Audit's existing methodology including its reporting format in order to highlight priorities and the changing risk profile of the business where needed.

Control environment

Our activities included the consideration of reports in respect of the control environment in a number of our markets. From time to time the Committee exercises its freedom to invite senior executives and management from across the Group to discuss developments and issues that have arisen in their jurisdiction. In 2010, these included the President Director of Permata Bank (a consortium of Standard Chartered Bank and Astra International in Indonesia), the Vice Chairman of Standard Chartered Korea Limited and the new Chief Executive Office of Standard Chartered Bank (Pakistan) Limited.

Interaction with management and Group statutory auditors

Our Committee Chairman, Rudy Markham, held separate meetings with the Group Statutory auditor and the Group Heads of our internal audit, compliance, risk and legal functions to discuss matters specifically within their areas of responsibility. Rudy Markham, Jamie Dundas and Ruth Markland also met separately and privately with the FSA.

The Committee meets separately with our Group statutory auditor and the Group Finance Director and the Head of Group Internal Audit, allowing members to discuss freely matters relating to the auditor's remit and issues arising from the audit. The Committee's remit also includes the consideration of the appointment, resignation or removal of our Head of Group Internal Audit.

Ongoing training and development

In addition to other ongoing training and development activities in each non-executive director's engagement or induction plan, the Committee attended a half-day informal meeting in May to consider the strategic oversight and infrastructure and controls of equities and collateral management

A second half-day informal meeting was held in November to consider core banking systems and information security and technology investment programmes and the progress that had been made in these areas. All non-executive directors were invited to these sessions.

Speaking Up Policy

The Committee also reviewed the Group's Speaking Up Policy, which allows our employees to raise, in confidence, any concerns that they may have about possible improprieties in matters of financial reporting or other areas. The Committee reviewed these arrangements and ensured that any matters of concern were investigated appropriately.

What were the findings of the Committee effectiveness review?

In conjunction with the overall board effectiveness evaluation, an internal committee effectiveness review was also conducted. The Committee feels that it is effective in that it covered the areas of its terms of reference thoroughly with the right balance between oversight and challenge. Committee papers are of the highest quality and strike a balance between brevity and detail. However, it was acknowledged that as a result of the Audit and Board Risk Committees being separated in 2010 there is a need to continue to ensure that the risk of duplication or gaps are managed appropriately, and a need to continue to focus on forward looking challenges on control and compliance. The Committee felt that it benefited from the deeper-dive half-day sessions and that the opportunities for these sessions should increase. As a result the number of these sessions has been increased to three in 2011.

What qualities do the members bring to the Committee?

In 2009, the committee effectiveness review suggested that an additional committee member was required who would bring fresh input to complement what was already in existence and that more informal sessions with internal audit would be useful. In response to these observations, Richard Delbridge was appointed to the Committee with effect from 1 January 2010. Richard has been the group comptroller and managing director of JPMorgan's London offices, group finance director at HSBC Holdings plc and group chief financial officer of National Westminster Bank Plc. Richard brings with him a wealth of financial experience as part of a wide-ranging banking career. The already existing members of the Committee possess a balanced mix of legal, financial and banking professional experience combined with complementary business experience and skills.

One of the findings of our 2010 committee effectiveness review was that the Committee's size and composition are appropriate and that the Committee members possess the necessary accounting, financial, legal, banking and investment knowledge and skills that are needed.

Our Committee members have detailed and relevant experience. Details of their experience can be found in their biographies on pages 84 to 86. All of the Committee's members are independent. The Board is satisfied that Rudy Markham as Chairman has recent and relevant financial experience and that all other Committee members have broad experience and knowledge of financial reporting and international businesses. The Board and the Committee members believe that Rudy Markham is a highly effective chairman who reacts with balance to issues and ensures that all Committee members are included in discussions.



Dear Shareholder

Recognising the increasing importance to the Group's business of its reputation and values, as seen by all external stakeholders and encapsulated in our brand, the Brand and Values Committee was established in March 2010.

The Committee's remit includes oversight of the Group's brand positioning, reputational risk, client/customer-focused strategies including Treating Customers Fairly, regulatory relationships, sustainability issues and our culture and values. These issues are rightly seen as key drivers of the long-term success of the Group and potential sources of business and competitive advantage. During a period of rapid growth it is also important that the underlying strength of the Group's culture and values is maintained.

I am pleased to report that the Committee made a positive start to its work in 2010 and has established clear priorities for 2011. During 2010, the Group has made significant investments in its Here for good brand positioning. It is very encouraging to

see the positive impact our brand has had on customers, employees and other stakeholders. These investments have further strengthened the Group's public standing and reputation across the geographical areas in which we operate.

On behalf of the Committee I can confirm that we receive a sufficient and transparent flow of good-quality information from the relevant executive teams to enable us to discharge our responsibilities on behalf of the Board.

Paul Skinner
Chairman of the Brand and Values Committee



Brand and Values Committee Members

	Scheduled ¹
Number of meetings in 2010	4
P D Skinner (Chairman) (3)	4/4
J F T Dundas (1)	4/4
V F Gooding (5)	4/4
Dr Han Seung-soo, KBE (6)	3/4
J W Peace (4)	4/4
P A Sands (2)	4/4

¹ The final meeting of the Sustainability and Responsibility Committee, the precursor to the Brand and Values Committee, was held on 11 February 2010 and has not been included in this number as the Committee membership changed when the Sustainability and Responsibility Committee transitioned into the Brand and Values Committee and the meeting attendance number would not be comparable

Highlights

- Reviewed our brand, ensuring there are clear strategies in place to increase its value, focusing on our Here for good campaign and the development of our Liverpool Football Club sponsorship
- Conducted a review of the governance of brand implementation to ensure that it is consistent and fit for purpose
- Conducted a review of the reputational risk management processes to ensure they are effective and transparent
- Reviewed Wholesale and Consumer Banking's client-focused strategies against our Here for good brand promise
- Conducted a robust review of our approach to Treating Customers Fairly to ensure that it is embedded within the Wholesale Banking and Consumer Banking strategies
- Conducted a review of the Group's approach to sustainability
- Conducted a strategic overview of the Group's environmental impact
- Reviewed the community investment programmes undertaken in 2010, including the developments in employee volunteering throughout the year
- Reviewed management's efforts over the last two years to reinforce and sustain our culture and values
- Conducted a review of the current status and future plans in relation to employee wellbeing and diversity/inclusion
- Reviewed our approach to our main government and regulatory relationships in major markets

• Our priorities in 2011

- Secure continued value from our brand investment programmes
- Consolidate our Here for good brand promise across the Group
- Conduct an annual review of reputational risks including processes and outcomes, in line with the Group Risk Appetite Statement, while regularly tracking shifts in reputational risk
- Provide oversight on the implementation of our client-focused strategy in Wholesale Banking and the delivery of our customer-focused strategy in Consumer Banking against our Here for good brand promise
- Continue to ensure that the Group can demonstrate how we are Treating Customers Fairly
- Oversee the Group's approach to maintaining business ethics
- Continue to review our environmental strategy and processes for measuring and monitoring our environmental impact
- Conduct a full review of the community investment strategy and monitor expenditure against the plans on a bi-annual basis
- Ensure that we maintain and develop our culture and values as the Group continues to grow
- Oversee the progress of employee volunteering

What has the Committee's role and focus been in 2010 and how has it aided the Board with the delivery of its strategy?

Brand

The Committee has focused on ensuring that value is achieved from our Here for good campaign and our Liverpool Football Club sponsorship to ensure that brand awareness and value is increased over time. The Committee has oversight of the processes to ensure brand consistency throughout the Group and intensify brand governance, and has conducted regular reviews of brand tracker data. Looking forward, the Committee will continue to review the direction of brand development, aiming to grow the value of the brand.

Reputational risk

On behalf of the Board, we have reviewed the Group's approach to managing reputational risk in line with the Group Risk Appetite Statement. The Committee's view was conveyed to the Board Risk Committee, whose remit is to consider the wider aspects of risk, which then fed into the Board discussion. The common membership of Paul Skinner and Jamie Dundas on both Committees has ensured an integrated co-ordinated approach in this important area. We regularly review risks on an existing and forward looking basis; together with the actions that management are taking to mitigate these risks.

Client/customer focus and Treating Customers Fairly

On behalf of the Board, we have provided oversight on the implementation of our client-focused strategy in Wholesale Banking and the delivery of our customer-focused strategy in Consumer Banking. We have robustly reviewed management's approach to Treating Customers Fairly to ensure that these principles are clearly embedded in the Group's operations. We will continue to conduct an annual overview of these strategies in Wholesale Banking and Consumer Banking to reinforce the Here for good brand promise. Robust reviews of Treating Customers Fairly will be carried out by the Committee bi-annually.

Sustainability

Our role has covered policies falling within the Group's sustainability agenda. This has included the Group's social, economic and environmental contribution. We reviewed the Group's approach to building a sustainable business model; as well as its community investment programmes and have had oversight of the Group's processes for measuring and monitoring its environmental impact and the strategies being followed.

We want to measure the positive and social and economic impact on the communities where we operate. As a result, we commissioned an independent study of our impact in Ghana, to help us to understand our contribution and how we can deepen it. One of the highlights of the study confirmed that our impact amounted to \$400 million of value-added in 2009, equivalent to 2.6 per cent of Ghana's Gross Domestic Product. Further details can be found in our separate online Sustainability Review.

Culture and values

As the Group's culture and values are important sources of competitive advantage, our role has been to oversee the way the Group reinforces and nurtures the culture and values and to challenge future priorities.

Government and regulatory relationships

We conducted reviews of the Group's approach to government and regulatory relations and we will continue to conduct an annual overview of our approach to government and regulatory relationships in our major markets.

In 2010, the Group was included in the 2010 Dow Jones Sustainability World Index for the first time, enabling us to achieve one of our major sustainability objectives for 2010. Also, we continued to be listed on the FTSE4Good and FTSE4Good Environment Indexes as well as the 2010 Ethisphere World's Most Ethical Companies. We won the FT ArcelorMittal Boldness in Business Award for Corporate Responsibility and were named as a Top 8 Group in Managing Environmental, Social and Governance Issues by GS Sustain. Further details can be found in our separate online Sustainability Review.

What skills and experience do the members bring to the Committee?

Paul Skinner, the Committee Chairman has extensive experience of brand management and sustainability issues from his prior experience at Royal Dutch Shell and Rio Tinto. He is also active in public sector work in the UK.

Both Jamie Dundas and Val Gooding were members of the Sustainability and Responsibility Committee (the precursor to the Brand and Values Committee) from its inception. Their membership of the enhanced Committee has provided continuity as the Committee has become embedded over the course of the year. Val has extensive experience of customer facing, branded businesses.

Dr Han, KBE, joined the Committee in 2010, and brings with him a strong background in sustainability, climate change and governmental relationships, having been special envoy of the UN Secretary-General on Climate Change.

Peter Sands represents executive management's perspective in the Committee discussions while John Peace has extensive brand management and retail experience.

The Chairman of the Brand and Values Committee, Paul Skinner, is also a member of the Board Risk Committee, the Remuneration Committee and the Nomination Committee, and as a result he can ensure that the relevant issues such as the approach to reputational risk are taken into account in these other committees.

What were the findings of the Committee effectiveness review?

Our 2010 Committee effectiveness review recognised that the Committee is operating under enhanced terms of reference. Considerable time has been taken to understand the context and history around each of the key areas and this has provided a strong foundation for good quality discussions. We feel that the right balance has been struck between the Committee's size and composition, that a good start had been made, and that the Committee has the potential to create value for the Group.

There were four main actions arising from the Committee effectiveness review. Firstly, to identify further opportunities where a wider group of senior business leaders can contribute to the Committee's discussion on relevant topics. Secondly, to review and clarify any potential linkages that exist with the other committees, for example, on the area of regulatory relationships to avoid overlap. Thirdly, to explore opportunities for Committee members to participate in Corporate Social Responsibility activities first hand whilst visiting overseas markets. Fourthly, to benchmark the Committee's activities against other global organisations to ensure that best practice is being followed.

Remuneration Committee

The role and focus of the Committee are set out in the directors' remuneration report on pages 106 to 125.



Dear Shareholder

The Board Risk Committee was established in March 2010 following the separation of the responsibilities of the former Audit and Risk Committee. Having a separate Board Risk Committee has enabled a deeper understanding and focus on key issues whilst being mindful that the Committee's remit is to have oversight and provide

assurance to the Board that management's approach to the management of risk is appropriate.

During its first year, the Committee considered a wide range of risk-related matters and has overseen the restructure and enhancement of the risk information reporting system, and this is summarised in the report below. The individual members of the Committee have benefited from a risk-related induction programme that was appropriate and relevant to the remit of the Committee and designed to complement their existing skills and experience. The Committee has achieved good linkages with the Board and other board committees, and there has been excellent interaction with the Audit Committee to ensure there is no unnecessary duplication of work and responsibilities.

I can confirm that the information that the Committee has received has been balanced, appropriate and timely and has enabled the Committee to fulfil its remit.

The Committee will continue to build on the work carried out during 2010.

Jamie Dundas
Chairman of the Board Risk Committee



Board Risk Committee Members

	Scheduled ¹	Ad Hoc
Number of meetings in 2010	7	2
J F T Dundas (Chairman) (4)	7/7	2/2
R Delbridge (6)	7/7	2/2
R H P Markham (3)	7/7	1/2
R Markland (1)	7/7	2/2
P D Skinner (5) ²	5/7	2/2
O H J Stocken (2) ²	5/7	1/2

¹ Two of the scheduled meetings were as the joint Audit and Risk Committee prior to the separation of the two committees in March 2010

² Became a Committee member following the separation of the Audit and Risk Committee

Our highlights

- Established Committee in March 2010
- Developed the overall structure, content and design of the Risk Information Report
- Reviewed and approved the Group's Risk Management Framework
- Conducted a deeper dive into the subject of risk appetite and provided specific recommendations to the Board on risk appetite policy for 2011
- Provided input to stress testing for specific areas of the Group's business, and reviewed the results
- Held detailed discussions on the framework for Internal Ratings Based modelling
- Reviewed the due diligence processes and potential effect on Group Risk Appetite of several inorganic transactions considered in 2010
- Maintained oversight of the mechanisms used to manage the Group's balance sheet with a particular focus on capital liquidity and funding
- Reviewed detailed plans for enhanced management of operational risk

Our priorities in 2011

- Continue to build on the work carried out by the Committee in 2010 on the Group's risk appetite, taking into account the macroeconomic and financial environment
- Optimise and enhance the Committee's effectiveness through refining the reports it receives and continuing to evolve our terms of reference and rolling agenda
- Continue to conduct deep dives into selected areas of risk

What has the Committee's role and focus been in 2010 and how has it aided the Board with the delivery of its strategy?

The Committee's role, as set out in its terms of reference, is to have oversight and to challenge where appropriate management's approach to the identification and management of risks.

Risk management

At each of its meetings since establishment, the Committee has reviewed and discussed data regarding the Group's exposure to all major risk types, including especially (but not limited to) credit risk, market risk, liquidity risk and capital adequacy. In line with one of the recommendations of the Walker review of 2009, the Committee has ensured that its consideration of Group exposures has taken into account macroeconomic and other external factors likely to affect the Group's business.

The Committee has also sought to build assurance around the risk management procedures in the Group. Substantial focus has also been given to ensuring that all members of the Committee have a sound understanding of the Group's established risk management framework and of the organisational mechanisms in place to manage all risk types across the Group's business and geographies. This groundwork has been valuable, and will help to underpin the Committee's work in 2011 and beyond.

Risk appetite statement

The Committee has devoted considerable time to its review of the Group's overall position regarding risk appetite, taking as its starting point the risk appetite policy approved by the Board in 2009. In particular, the Committee has questioned and reviewed the processes by which compliance with Board-approved risk appetite is monitored and tested, and has discussed in detail the assumptions made in all such testing. We have also probed the consistency of our overall strategy, our budgets and performance targets with approved risk appetite, and vice versa. This process, which we expect will roll forward on a continuing basis, culminated in the Committee making recommendations to the Board in late 2010 to the effect that it was satisfied that existing risk appetite policy continued to be fit for purpose and consistent with the Group's strategy and business aims.

Stress testing

During the year the Committee has reviewed the Group's programme for stress testing at various levels. This programme included carrying out stress testing within

businesses, at country and client segment levels and using Group-wide scenarios. As well as noting the Group's overall stress testing plan the Committee built an understanding of how stress testing works and noted the stress tests carried out specifically on Eurozone fragmentation. We also reviewed the framework for Reverse Stress Testing being established by the Group in the context of the FSA's regulatory requirements.

Quality of risk information

It is vital that non-executive directors have open access to risk information, but simply inundating them with large volumes of information may do little to enhance risk management. Much effort has therefore been devoted to the formulation of a standard set of relevant risk information metrics. The Committee needs to be able to review all risk areas but, perhaps more importantly, be able to identify key risk issues that require Committee and, if appropriate, Board focus. To address this issue a Risk Information Report (the Report) was developed in 2009 in conjunction with the use of external consultants to ensure that the Report captures industry best practice. During 2010 the Report has been regularly reviewed and refined. For example, over the course of the year, more informative and useful information has been provided regarding operational risk metrics. This Report is submitted to each Committee meeting and an extract from the Report is also provided to the Board at each meeting.

Risk induction

All the members of the Committee have taken part in individual and collective risk induction briefings and the Committee chairman has regular meetings with the Group Chief Risk Officer and the Group Finance Director.

Committee members have also participated in specialist risk-related sessions, provided by our in-house experts on either a one-to-one basis or for the Committee as a whole, to help Committee members understand and interpret the data contained within the Risk Information Report. These sessions have occasionally focused on specific key risk issues that are particularly topical or current. In addition to the induction sessions, all Committee members have unfettered access to management at all times and in all geographies. During 2010, members of the Committee have met with risk management staff in many locations including Singapore, Seoul, Shanghai, Mumbai, Chennai and London. This has provided more granular insight regarding how risk management is operationalised on the ground.

What qualities do members bring to the Committee?

The Committee members have a wide range of experience and bring a wealth of detailed relevant knowledge and expertise to the Committee's deliberations.

In our view, it is essential that the Committee should benefit from deep and broad experience of banking and of the risk factors affecting it, but also from very senior experience of other industries and professions. The composition of the Committee, with three members possessing deep banking and finance experience (Jamie Dundas, Richard Delbridge and Oliver Stocken) and three with a broader business and professional background at a very senior level (Rudy Markham, Ruth Markland and Paul Skinner) reflects these considerations. Four Committee members sit on both the Board Risk and Audit Committees and two of the Committee members sit on the Remuneration Committee, providing important linkages between the three Committees.

The Committee's insight and awareness regarding relevant management processes have been facilitated through individual committee members attending, as observers, Group Risk Committee and Group Asset and Liability Committee meetings. Reports from those committees are prepared and presented to the Committee at each of its meetings.

What were the findings of the Committee effectiveness review?

The findings of the committee effectiveness review evidence that members of the Committee believe that having a dedicated Board Risk Committee has enabled fresh thinking around risk appetite, and significantly enhanced both risk management reporting to the Board and the Board's ability to digest and make best use of the information it receives.

Looking ahead, the Committee believes it will benefit from further deep dives into selected topics such as liquidity, exposure to banks, reliance on models, and stress testing. The Committee also expects that as it moves into its second year, it will wish to allow more time for 'white space' discussion regarding less easily identifiable risks to the Group's business, and for a deeper review of management's approach in relation to operational risk management. In addition to regular meetings of the Committees (six scheduled in 2011), individual members expect to visit a variety of our major markets during 2011 and will continue to engage with many levels of the Group's risk management across the Group's footprint.



Governance Committee Members

	Scheduled
Number of meetings in 2010	3
J W Peace (Chairman) (2)	3/3
R H P Markham (3)	3/3
P A Sands (1)	3/3

Our highlights

- Formation of this new enabling committee within the Group's governance structure
- Oversight of the process for reviewing the effectiveness of the Board, board committees, Chairman and individual directors
- Reviewed the geographic governance framework that is applied consistently across the Group
- Reviewed the findings of the subsidiary governance review and the subsequent actions that were taken
- Monitored developments in the regulatory environment and the potential impacts on our corporate governance practices
- Considered the proposed corporate governance disclosures for the 2010 Annual Report and Accounts

Our priorities in 2011

- Continue to monitor closely corporate governance best practices with a view to recommending enhanced practices for adoption by the Board as appropriate
- Provide oversight of the development of the Group's refreshed Governance Manual
- Monitor progress to implement actions arising from the Board and Committee effectiveness evaluation and reviews
- Continue to review the effectiveness of the Group's governance framework in consultation with our Governance Chief Executive Officers
- Consider and agree the most appropriate mechanisms for reviewing the Board's, board committees' and individual directors' effectiveness in 2011

What has the Committee's role and focus been in 2010 and how has it aided the Board with the delivery of its strategy?

The Governance Committee was formed in 2010 as an enabling body to provide a more formal and structured mechanism to consider corporate governance issues (such as industry governance reviews) as well as to drive and oversee the annual board effectiveness evaluation process. Our remit also includes oversight of the Group's governance framework including the way that our subsidiaries are governed.

The creation of a separate Governance Committee was one of the recommendations arising from the internal governance review that we conducted in 2009. In addition to allowing for more in-depth discussions on governance matters, it has also created space for the Board as a whole to focus even more on key strategic issues. Another benefit arising from the creation of the Governance Committee is that the Nomination Committee has more time to concentrate on key issues such as board and senior management succession.

During 2010 we considered recommendations arising from the new Stewardship Code, the Walker review and the UK Corporate Governance Code as well as numerous other European and international reviews relevant to governance. Given the importance that we place on corporate governance, Standard Chartered took a proactive role in contributing to both the Walker and the Financial Reporting Council's reviews of the Combined Code. At each meeting, the Committee receives an update on events in the corporate

governance environment in terms of industry consultations, developments and best practice in our markets. The update includes consideration of any emerging trends such as governance codes, standards and legislation that are being enhanced and implemented in the markets in which we operate.

During the year, we reviewed the process for reviewing the effectiveness of our Board, each of the board's committees, our Chairman and each individual director. This included the consideration of the findings of the report by the independent facilitator, Boardroom Review, prior to discussion by the Board.

The Committee has oversight of the mechanisms by which the Group is governed and this includes governance of subsidiaries. During the year, we considered the findings arising from a review of our subsidiary governance practices. Messrs Bindra and Shankar, who have geographic governance responsibility across the network, met with the Committee and shared insights regarding the Group's governance practices and emerging market trends across our geographic footprint.

The Committee consists of the Group Chairman, the Senior Independent Director and the Group Chief Executive. The Group Company Secretary is an important contributor to the Committee as one of her key roles is to support the Chairman and Group Chief Executive in enhancing the effectiveness of the Board, its committees and the individual directors.

Each of the Governance Committee's members is either a member or regularly attends most of the other committees. This is important as often matters are discussed in the Governance Committee that fall within the remit of another committee or the Board as a whole. Committee members understand that one of their roles is to channel such matters to the appropriate forum for discussion. There is particular room for overlap between the remit of the Governance and Nomination Committees. John Peace (who chairs both Committees) is mindful to ensure that all directors are kept informed and involved as appropriate, particularly regarding Board composition, governance and succession.

In addition, the Governance Committee has reviewed the geographic governance framework that is applied consistently across Standard Chartered, including the linkages that are in place between our Board and our banking subsidiary boards and the additional governance measures implemented as a result of our subsidiary governance policy for our subsidiaries and special purpose entities.

What were the findings of the Committee effectiveness review?

The Committee had three scheduled meetings in 2010. Although the Committee is new, feedback arising from the effectiveness review was that the Committee is proving to be effective in providing a forum where corporate governance issues are considered and discussed together with consideration of the findings of Board effectiveness evaluations.



Nomination Committee Members

	<u>Scheduled</u>
Number of meetings in 2010	2
J W Peace (Chairman) (4)	2/2
J F T Dundas (5)	2/2
R H P Markham (1)	2/2
R Markland (6)	2/2
P A Sands (3)	2/2
P D Skinner (2) ¹	1/1

¹The first Committee meeting took place prior to appointment in March 2010

Our highlights

- Maintained oversight of executive succession planning
- Considered the new mentoring programme for selected members of the Group's senior management
- Continued our review of the Board structure, size and composition, particularly in light of changes made during 2010
- Reviewed and made recommendations to the Board on the directors seeking re-appointment and/or re-election at the Annual General Meeting
- Considered the performance and continued independence of non-executive directors
- Reviewed conflicts or potential conflicts of interest for all directors

Our priorities in 2011

- Continuation of the structured approach to Board and committee succession, considering the range of attributes, perspectives and experience needed over the long-term
- Continued focus on executive succession planning including consideration of diversity issues

What has the Committee's role and focus been in 2010 and how has it aided the Board with the delivery of its strategy?

The Nomination Committee consists of the Group Chairman, Group Chief Executive and the chairman of each board committee. We primarily focus on the existing and future composition and balance of the Board and its committees. We seek to ensure that the individuals in place are those best able to discharge the responsibilities required by the Group at all times. When considering Board composition, we believe that a board that is comprised of people with different backgrounds, skills and experiences can provide diverse perspectives that support the functioning and effectiveness of the Board. We recognise that any board appointment should be meritocracy based, and we ensure that the individual selected possesses not only the right skills and experience, but also the right behavioural strengths and skills to fulfil the role.

Over the course of the year, the structure, size and composition of the Board and its ongoing leadership needs were continuously reviewed.

Supplementing our activities, during the year John Peace has facilitated several informal discussions with the non-executive directors regarding executive succession planning.

Succession planning

In addition, on behalf of the Board, we reviewed the planning and development processes that are in place designed to ensure that the Group has appropriate senior executive management to deliver the Group's strategy.

During the year our members (and other non-executive directors) interacted with many of the senior management of the Group. For instance, most of the members participated in parts of the Group's leadership programme Leading the Journey attended by the most senior management. Our member's participation provided an

opportunity to observe the strength of the leadership cadre across the Group as well as providing the delegates with an opportunity to have more interaction and open dialogue with members of the Board.

We also established a mentoring programme between some of our non-executive directors and several of our most senior high potential leaders. This programme provides development support to these leaders whilst also allowing our members to gain a more in-depth perspective of the strengths and capabilities of these individuals.

We reviewed the long-term succession plans for non-executive directors looking at the balance of skills and experience available to the Board. In addition, this analysis was applied to the Board Committees. In 2011, we will place even greater focus on ensuring a structured and smooth succession for all key roles on the Board, particularly the chairman roles for each Committee.

Re-election of the Board

We reviewed and made recommendations to the Board on the directors' re-appointment and/or re-election. As described previously, we have decided to propose all directors for re-election this year. As a result, the Group Chairman reported to the Committee on the outcome of his performance evaluation of each individual director. The Committee used this information, along with details of meetings attended, time commitment, overseas visits, fulfilment of other activities outlined in each non-executive director's engagement plan as well as other contributions. As a result, we were comfortable to recommend to the Board that each of the directors are eligible for re-election by shareholders at the next Annual General Meeting in May 2011.

Situational conflicts

As part of its remit, we reappraised authorisations that it had provided for situational conflicts under the Companies Act 2006.

What were the findings of the Committee effectiveness review?

We will need to build on the work that it has done in 2009 and early 2010 in terms of succession planning for the Board and its committees. In particular, we are mindful that a number of non-executive directors have similar tenure and most of these play key roles as chairs of our various Committees. It will be important to ensure that there is a structured and smooth succession for these chairmanships.

We felt that the Committee should continue to focus on executive succession planning and that it would be helpful to share periodically the findings of this review with the rest of the Board's non-executive directors. This practice was already in place during 2010 when several briefing sessions with the rest of the non-executive directors were scheduled to keep them updated on developments and issues. The general consensus is that these were helpful and should continue.

Exemplary corporate governance

We believe that strong corporate governance is essential for delivering sustainable shareholder value and as a leading international bank, we are at the forefront of corporate governance. We believe that simply complying with written corporate governance standards is not enough. It is vital for companies to have an underlying culture with behaviours and values that support effective corporate governance. At Standard Chartered, our open, challenging yet cohesive and collaborative culture enables us to aim for the highest standards of corporate governance.



Annemarie Durbin
Group Company Secretary
2 March 2011



ICSA Hermes
**Transparency
in Governance**
AWARDS 2010

Improving narrative disclosure in annual reports



Assessment methodology
Delivering transparency, changing behaviour

Contents

1	Introduction – back to basics	3
2	Why aim for best practice in governance?	5
3	Why aim for best practice in governance disclosure?	6
4	The challenge – how can best practice governance disclosure be assessed?	7
4.1	The code – the mechanistic ‘what’ rather than the strategic ‘why’	7
4.2	Value creation through governance	8
4.3	Assessment methodology	8
	Appendix A: s417 Companies Act 2006	10
	Appendix B: s172 Companies Act 2006	12
	Appendix C: Guidance offered in the voluntary OFR	13
	Appendix D: Award categories	14

1 Introduction – back to basics

- 1.1 The landmark interpretation of corporate governance was provided in the Cadbury Report 1992:

‘Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board’s actions are subject to laws, regulations and the shareholders in general meeting.’

- 1.2 The OECD definition of corporate governance established the international benchmark in 1999:

‘Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.’

- 1.3 In 2002, Sir Adrian Cadbury, reflecting on the development of corporate governance policy and practice over the years, offered a wider perspective on the issue:

‘Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.’

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- 1.4 In his closing remarks in the Preface to the formal consultation document (*Consultation on the Revised UK Corporate Governance Code, 2009*), Sir Christopher Hogg stated that:

‘It is hoped that chairmen will choose to report personally in their annual statements how the principles (in Sections A and B of the new Code) relating to the role and effectiveness of the board have been applied. Not only will this give investors a clearer picture of the steps taken by boards to operate effectively but also, by providing fuller context, it may make investors more willing to accept explanations when a company chooses to explain rather than to comply with one or more of the provisions. Above all, the personal reporting on governance by chairmen as the leaders of boards might be a turning point in attacking the fungus of ‘boiler-plate’ which is often the preferred easy option in sensitive areas but which is dead communication.’

- 1.5 Furthermore, in March 2010, in his speech at the ICSA Corporate Governance conference, Stephen Haddrill, CEO of the FRC stated that:

‘The desire to see greater engagement by long-term shareholders led Sir David Walker to propose a Stewardship Code for institutional investors to mirror the Code for listed companies. One of the issues highlighted by our work on the Stewardship Code is the complexity of the investment chain. Can companies be sure that the intermediaries with whom they deal are representing the long-term interests of the beneficial owners rather than their own interests? Can the beneficial owners be sure that their mandates are being implemented to best effect? What are the respective responsibilities of the different parts of the investment chain?’

These are all big questions to which there are no easy answers. But if the Stewardship Code can help to shed some light on them, and increase the transparency and accountability throughout the investment chain, that in its self will be a benefit. If the result of that increased transparency is that the long-term interests of the ultimate owners – pensioners, policy holders and so on – are conveyed more clearly to companies and pursued more vigorously, then those benefits are potentially significant.’

2 Why aim for best practice in governance?

- 2.1 The value proposition underlying best practice governance can be framed in terms of the need to maintain and grow the legitimacy, credibility and capability of the company to deliver the business plan and strategy. The pursuit of best practice governance can be seen as offering competitive advantage, because it strengthens the process and quality of decision-making and, hence, the overall efficiency and effectiveness of the board and, ultimately, the company.

3 Why aim for best practice in governance disclosure?

3.1 The disclosure equation sets out an important set of causal relationships:

disclosure → transparency → accountability → confidence → trust → reputation

3.2 In other words, it is not possible to generate the necessary levels of support from members of the investing community, and other stakeholders, unless a company has a clear disclosure policy, the aim of which is to persuade the target audience(s) that the company is well run and will achieve its stated objectives. As pointed out in the Institute's evidence on boardroom behaviours to the Walker review, appropriate boardroom process is ultimately driven by issues of reputation and reputation risk.

3.3 Because best practice disclosure is often viewed by stakeholders as a proxy for the degree to which the company is well run, it carries with it a range of other benefits associated with supportive stakeholder behaviours. This is especially true for members of the investing community, for whom best practice disclosure provides the conditions which make it possible for companies to access capital at a lower cost.

3.4 There is a correlation between how a company talks about its business and how it runs its business and, because disclosure changes behaviour, what change the company needs to effect to deliver against stakeholders' expectations.

3.5 Given the demand for greater emphasis on governance as a fundamentally-important aspect of a company's operations, best practice disclosure on governance reassures business-critical stakeholder constituencies. Improvements in disclosure are a driver of improved governance performance, an outcome which, in terms of identifying and rewarding high standards of disclosure, the Transparency in Governance Awards seeks to encourage.

4 The challenge – how can best practice governance disclosure be assessed?

4.1 The Code – the mechanistic ‘what’ rather than the strategic ‘why’

While companies continue to make progress in strengthening the narrative contained in the (enhanced) business review – meeting and moving beyond the requirements of the Companies Act 2006, and the standards set out in the voluntary Operating and Financial Review (OFR) – disclosure on governance has made less progress. Governance, and its disclosure, has traditionally been considered a hygiene issue, with companies following the ‘comply or explain’ approach advocated by the Code, itself viewed as a necessary but, at best, value-neutral regulatory requirement stemming from the Listing Rules.

4.1.1 The circumstances of the credit crunch, and the resulting financial crisis, and subsequent economic downturn, mean that governance is now recognised as a strategic priority, requiring a higher-quality level of disclosure found, sometimes, in other parts of companies’ annual reports.

4.1.2 The definitions of corporate governance (paragraphs 1.1 – 1.3), largely focusing on the mechanistic ‘what’ rather than the strategic ‘why’, are reflected in the contents of the Code, whose requirements are listed under Main Principles, Supporting Principles and Code Provisions, covering the areas of:

- The board
- Chairman and chief executive
- Board balance and independence
- Appointments to the board
- Information and professional development
- Performance evaluation
- Re-election
- The level and make-up of remuneration
- Procedure for developing policy on remuneration
- Financial reporting
- Internal control
- Audit committee and auditors
- Dialogue with institutional shareholders
- Constructive use of the AGM
- Institutional shareholders
- Evaluation of governance disclosures
- Shareholding voting

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- 4.1.3 Disclosure against this framework can produce low-value information. Allocated to a discrete and self-contained section of the annual report, it conveys the impression of being focused on aspects of corporate process which directors generally do not find interesting.
- 4.1.4 High-quality governance disclosure, on the other hand, is based on the recognition that the systems of direction and control needed to protect and create value require a more compelling standard of communication. This might be marked by the degree to which companies move away from and beyond the (self-imposed) straitjacket of the Code, and provide evidence – as necessary, throughout the narrative – that they have policies, processes and systems in place which will deliver the business plan and strategy.

4.2 Value creation through governance

From the ICSA Hermes perspective, therefore, the Code's reporting 'signals' do not adequately capture the essence of value creation through governance, and disclosure based on the existing Code approach – particularly viewed against the improvements in disclosure performance some companies are achieving elsewhere in the annual report – may not be sufficiently strong to reassure stakeholders.

4.3 Assessment methodology

As stated in the guidance issued to companies at the inception of the initiative, the aim of the Transparency in Governance Awards is to encourage companies to provide value-added evidence of:

- innovative and creative forms of disclosure, which move away from 'boilerplate' reporting that repeats or imitates the language of the Code – or of other companies – with no, or little, attempt to bring the narrative to life
- comprehensive explanations of departures from Code provisions
- the integration of governance considerations into the strategy and day-to-day operations and decision-making of the business, including the embedding of risk in the business model
- an understanding of the link between governance, shareholder value creation, and the avoidance of value destruction
- the fact that governance is an essential consideration, not an afterthought, through coherent cross-referencing to other sections of the annual report, including the business review and the remuneration report

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- holistic thinking that has due regard for different shareholder and stakeholder priorities and perspectives
- the company being well run and that directors have satisfied their statutory duties, including the duty to promote the success of the company
- the relevance of governing for the long term, and
- the scope for delivering improved governance disclosure and performance.

- 4.3.1 To provide the link between the requirements of the Code and the form of value-added disclosure increasingly being demanded by stakeholders as evidence that a company is well-run, the judging process will look at the guidance detailing best practice disclosure, and related market commentary, to help the judges make an assessment of whether a company has successfully communicated that it has policies, systems and processes in place to deliver the business plan and strategy.
- 4.3.2 In particular, the judges will bear in mind the requirements of s417 of the Companies Act 2006, concerning the content of the business review in the directors' report, s172 of the Act relating to the duty to promote the success of the company, and the guidance offered in the voluntary OFR (respectively, Appendices A, B and C).
- 4.3.3 Based on this approach, with the judges using their own knowledge, skills and experience – and guided by the reporting expertise of the ICSA Hermes Steering Group – reports will be long-listed and short-listed, and winners selected for each of the award categories listed in Appendix D.

Appendix A: s417 Companies Act 2006

417 Contents of directors' report: business review

- (1) Unless the company is subject to the small companies' regime, the directors' report must contain a business review.
- (2) The purpose of the business review is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).
- (3) The business review must contain–
 - (a) a fair review of the company's business, and
 - (b) a description of the principal risks and uncertainties facing the company.
- (4) The review required is a balanced and comprehensive analysis of–
 - (a) the development and performance of the company's business during the financial year, and
 - (b) the position of the company's business at the end of that year, consistent with the size and complexity of the business.
- (5) In the case of a quoted company the business review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include–
 - (a) the main trends and factors likely to affect the future development, performance and position of the company's business; and
 - (b) information about–
 - (i) environmental matters (including the impact of the company's business on the environment),
 - (ii) the company's employees, and

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- (iii) social and community issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies; and
 - (c) subject to subsection (11), information about persons with whom the company has contractual or other arrangements which are essential to the business of the company. If the review does not contain information of each kind mentioned in paragraphs (b) (i), (ii) and (iii) and (c), it must state which of those kinds of information it does not contain.
- (6) The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include–
- (a) analysis using financial key performance indicators, and
 - (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.
- 'Key performance indicators' means factors by reference to which the development, performance or position of the company's business can be measured effectively.
- (7) Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the directors' report for the year need not comply with the requirements of subsection (6) so far as they relate to non-financial information.
- (8) The review must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.
- (9) In relation to a group directors' report this section has effect as if the references to the company were references to the undertakings included in the consolidation.
- (10) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.
- (11) Nothing in subsection (5)(c) requires the disclosure of information about a person if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.

Appendix B:

s172 Companies Act 2006

172 Duty to promote the success of the company

- (1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—
 - (a) the likely consequences of any decision in the long term,
 - (b) the interests of the company's employees,
 - (c) the need to foster the company's business relationships with suppliers, customers and others,
 - (d) the impact of the company's operations on the community and the environment,
 - (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
 - (f) the need to act fairly as between members of the company.
- (2) Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.
- (3) The duty imposed by this section has effect subject to any enactment or rule of law requiring directors, in certain circumstances, to consider or act in the interests of creditors of the company.

Appendix C: Guidance offered in the voluntary OFR

- Description of the business and external environment
- Strategy and objectives
- Current development and performance of the business
- Future development and performance of the business
- Resources
- Principal risks and uncertainties
- Capital structure and treasury policies
- Cash flows and liquidity
- Environmental, employee and social issues, and material contractual arrangements and relationships
- Key Performance Indicators (KPIs), both financial and non-financial

Appendix D: Award categories

There will be 15 governance awards in total, with separate awards made for FTSE100 and 250 companies in the first seven categories and one, self nominated award, for the best small cap report.

Best annual report

A comprehensive high quality report, providing an insight into the company, its strategy and how its board behaves and works which includes meaningful reporting for each of the disclosure award categories.

Best sustainability and stakeholder disclosure

Recognition and evidence that long-term stakeholder interests and non-financial factors are critical and inextricably linked to a company's strategy, objectives and ultimately its sustainability.

Best audit disclosure

A clear insightful explanation of the audit committee's function which reflects shareholder interest in how the committee ensures good quality audit and avoids boilerplate commentary.

Best risk management disclosure

Clear explanation of the company's strategic and operational risks stemming from its strategy and operations, its risk management policies, procedures, controls and mitigation with evidence of dynamic risk management, which is integral to strategy and operations.

Best board disclosure

Descriptive, reasoned and explanatory disclosure regarding director development, skills, board evaluation and succession planning with clear links to the company's strategic purpose.

Best strategy disclosure

An illustration of how strategy is formulated and executed by providing a clear description of the business, its key drivers, objectives and risks, with effective discussion of appropriate KPIs and performance against them.

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Best remuneration disclosure

Illustration of how remuneration policy is explicitly linked to the delivery of strategy and long-term value to shareholders, with explanations of targets, changes in policy, practice and a sense of how the remuneration committee has thoughtfully discharged its obligations.

Small cap and AiM report

A comprehensive high quality report, providing an insight into the company, its strategy and how its board behaves and works which includes meaningful reporting for each of the disclosure award categories for the FTSE 100 and FTSE 250 awards.