

Sir David Walker
Walker Review
C/O Financial Services Authority
25 The North Colonnade
Canary Wharf, London
E14 5HS

May 10th, 2009

Dear Sir David

EXCERPT

Following our meeting this morning, I have provided five principle statements of fact, personal observations, and, where appropriate, suggestions for improvement below.

Board Effectiveness Review/Evaluation

Given the Terms of Reference for the Walker Review, a well conducted board effectiveness review process would provide an important catalyst for awareness, improvement and change in the areas outlined, including strategic development and risk management, executive alignment and remuneration, board composition and individual contribution, levels of board process and support, and the effectiveness of the delegated committees.

- 1 Statement: Currently the Combined Code recommends that the Chairman of a FTSE company conducts or commissions an internal or external board effectiveness review annually. The Combined Code is not prescriptive with regard to the approach or disclosure of the review.

Observation: It is difficult to calculate exact numbers of companies who are conducting internal and external reviews each year due to poor disclosure. In 2008/9 it appears that over 50% of the FTSE 100 did not conduct an external review, although some of them have conducted external reviews within the last three years. There are a number of FTSE 100 companies who have never commissioned an external review.

Suggestion: The disclosure statement in the Annual Report should explain the Board's cycle of internal and external reviews, and the year of the last external review. Chairmen should explain why an external review has not taken place within a three year period.

- 2 Statement: Common wisdom and practice suggest that an external review should take place every three years, replaced by internal reviews in the intervening two year period.

Observation: For those companies already using a periodic external review, this cycle appears to work well. Occasionally Chairmen decide to commission an additional external review within a three year period due to a dramatic change in Board composition, financial restructuring or business focus.

- 3 Statement: Many companies do not disclose the outcomes of an external board effectiveness review in a meaningful or transparent way.

Observation: The reluctance to disclose the outcomes of a review relates partly to the nature of the review process, which in many cases protects confidentiality and anonymity, and partly due to fear of litigation.

Suggestion: The annual disclosure should explain the review process (e.g. on-line or off-line questionnaires, interviews, board and committee observation, review of papers, workshop, written report, board discussion), significant recommendations and/or any changes or improvements that the Board has committed to following the review.

- 4 Statement: Many annual disclosures do not reveal the name of the reviewer, and there is no requirement to state their independence.

Observation: It is difficult for shareholders and stakeholders to judge the quality, objectivity and integrity of an external review - companies are still reluctant to name the reviewer in their Annual Report, and in many cases the reviewer has ongoing and significant relationships with the Board.

Suggestion: The annual disclosure should always name the reviewer, and disclose whether the reviewer provides any other services to the Board and/or the Company.

- 5 General Statement: There is very little comment or questioning on the review process and its outcomes from shareholders and stakeholders.

Observation: Shareholders and stakeholders, including regulators, appear to be unaware of the impact and value of the review process, and very few questions are asked about the review in private or public meetings with Chairmen.

Suggestion: Shareholders and stakeholders should proactively assess the way in which Boards evaluate and improve their own performance, and should take particular note of the internal and external review cycle, stated outcomes, and commitments to change in the annual disclosure.

**Dr Tracy Long
Boardroom Review**