

MARKETS AND RISK MANAGEMENT

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Agenda

- The UK Governance Regime
- Effect of the Financial Collapse
- UK Market Reaction
- BWB's Response

The UK Governance Regime

- Private companies:
 - Minimal regulation
- Listed companies:
 - Combined Code:
 - ◆ Standards of good governance
 - ◆ Best practice guidelines

Combined Code

- UK Listing Rules require annual report and accounts to state how Code was applied
- Key areas:
 - board composition and development
 - remuneration
 - accountability
 - audit
 - relations with shareholders
- Principle of “comply or explain”

Collapse of Markets

- FRC reviews impact of Code on corporate governance every 2 years
- Latest review was March-May 2009
- Various groups have responded to consultation
- FRC will produce final report in late 2009
- Now under sharper focus than ever before
- Pressure to ensure robust governance regime

Market Reaction

Confederation of British Industry:

- Keep “comply and explain”
- Increased regulation is not the answer
- Responsibility on boards to manage risk
- Directors to challenge more

Market Reaction

Institute of Chartered Secretaries and Administrators:

- Supports new concept of “apply” or explain
- Recommends changes to Code to:
 - ensure risk dealt with by boards
 - strengthen secretariat role to support boards
 - statement confirming board responsibility to manage risk
- Increased regulation not the answer



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Market Reaction

Institute of Directors:

- Against greater regulation
- Emphasis on training directors
- Shareholders primary responsibility is to oversee board
- Professionalise role of Director – Chartered Director qualification

Market Reaction

Standard Life (major listed company and institutional investor):

- Against extra regulation
- Principles based approach best
- Use Code compliance as communication channel with stakeholders
- Emphasises need for board training
- Institutional investors to be more probing

Market Reaction

Stuart Spense – interviews with FTSE Chairmen:

- Code not at fault
- Poor director competencies/board behaviour/culture cause problem
- Emphasis on need for rigorous recruitment and evaluation procedures
- Complex companies need separate risk management committee

Market Reaction

Common Themes:

- Keep comply or explain
- Avoid greater regulation
- Focus on director competencies and board effectiveness
- Recruit carefully
- Institutional investors have responsibility to oversee board

BWB's Response

OnBoard Service:

- Governance Development in:
 - Corporate Sector
 - Social Enterprise/charity sector
 - Internationally

BWB's Response

- Re-launch to include:
 - Board leadership training
 - Selection and induction of new board members
 - How to withstand lender due diligence
 - Defining board roles and job descriptions
 - Board effectiveness

Conclusion

- Governance can no longer be ignored
- Access to lending requires good governance
- Realisation that governance is critical to managing risk
- Well governed companies will survive recession
- Relevant to all companies regardless of size

A Final Thought...

Will the current review of governance and risk management highlight the need for diverse boards and create opportunities for women to participate fully in the running of listed companies?

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