



The Governance  
Institute

# Consultation

Review of the effectiveness of independent  
board evaluation in the UK listed sector



Institute of Chartered Secretaries  
and Administrators

May 2019

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Contents

|                                    |    |
|------------------------------------|----|
| 1. Introduction                    | 3  |
| 2. The purpose of board evaluation | 6  |
| 3. Analysis of current practice    | 9  |
| 4. Overview of suggested actions   | 14 |
| 5. Actions for service providers   | 17 |
| 6. Actions for listed companies    | 22 |
| 7. Consultation questions          | 26 |

## Appendices

|  |    |
|--|----|
| A. Extracts from the UK Corporate Governance Code          | 29 |
| B. Extracts from the FRC's Guidance on Board Effectiveness | 30 |
| C. Draft code of practice for service providers            | 34 |
| D. Draft principles of good practice for listed companies  | 41 |
| E. Draft disclosure guidance for listed companies          | 43 |
| F. Members of the Steering Group                           | 46 |

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 1: Introduction

1. The purpose of this review is to assess the quality of independent board evaluation in the UK listed sector and identify ways in which it might be improved.
2. It is being carried out at the request of the Department for Business, Energy and Industrial Strategy. In its feedback statement on its 'Insolvency and Corporate Governance' consultation paper,<sup>1</sup> the Department noted that:

"Several respondents, particularly institutional investors, suggested that the market for independent board evaluations should be reviewed with a view to introducing minimum standards... Respondents argued that whilst many companies are embracing best practice in dealing with issues identified in evaluations, some do not. Additionally, some respondents pointed out that the standards or thoroughness of these evaluations can vary significantly.

"The Government believes that there is scope to build on the provisions [*in the UK Corporate Governance Code*]. It is therefore inviting ICSA: The Governance Institute to convene a group including representatives from the investment community and companies to identify further ways of improving the quality and effectiveness of board evaluations including the development of a code of practice for external board evaluations."

3. As the Department noted, the Financial Reporting Council has already taken action to encourage robust independent board evaluations and to improve reporting on the process and outcomes of such evaluations.
4. The provisions of the UK Corporate Governance Code, which include an expectation that FTSE 350 companies should undertake an externally facilitated evaluation at least every three years, were strengthened when the Code was updated in 2018 to require clearer disclosure on the content and outcome of evaluations. Board evaluation is also addressed extensively in the FRC's revised Guidance on Board Effectiveness, published at the same time as the Code. The relevant extracts of the Code and Guidance can be found at Appendices A and B.

---

<sup>1</sup> 'Insolvency and Corporate Governance: Government Response'; BEIS; 2018

# Review of the effectiveness of independent board evaluation in the UK listed sector

5. As part of this review we wish to identify whether any further action is needed, and if so what specific actions would be appropriate. Before considering possible actions, it is necessary first to define what the purpose of board evaluation is in order to establish whether it is currently being achieved and – if not – to identify solutions that will address its shortcomings.
6. The first section of the consultation document therefore seeks views on the purpose of board evaluation. This is followed by a summary of the evidence on current practice in the conduct of, and reporting on, independent board evaluation in the listed sector.
7. The consultation document then invites suggestions for actions that should be considered, and in particular seeks views on whether there is a need for:
  - a code of practice for the providers of board evaluation services, and formal arrangements for implementing and monitoring such a code;
  - voluntary principles to be applied by listed companies when engaging external reviewers to undertake board evaluations; and
  - guidance for listed companies on disclosure of the conduct and outcomes of their board evaluation, in accordance with the 2018 UK Corporate Governance Code.
8. Appendices C to E contain draft versions of a code of practice for independent reviewers and voluntary principles and guidance on disclosure for listed companies. It should be emphasised that no decision has yet been taken on whether any or all of them should be introduced. That said, any comments on the drafts would be welcome in addition to views on whether they are needed.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## How to respond

**Responses to the consultation should be sent by email to [policy@icsa.org.uk](mailto:policy@icsa.org.uk) by Friday 5 July 2019.**

**All responses will be published, unless the respondent specifically requests otherwise.**

9. We would particularly welcome comments from companies and board reviewers, as the users and suppliers of independent board evaluation services, as well as from investors and other stakeholders as the beneficiaries of more effective company boards.
10. While the primary focus of the review is on board evaluation practices in listed companies, some outputs may also be relevant for other organisations. We would therefore also welcome views from organisations, reviewers and stakeholders in other sectors.

## What happens next?

11. After analysing the responses to the consultation and consulting fully with the Steering Group, ICSA will publish a report containing ICSA's recommendations and revised versions of the draft codes and guidance appended to this consultation paper (if it is concluded they are needed).
12. The report will be formally submitted to BEIS, and it will be for the Department to consider whether, and how, to act on the recommendations.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 2: The purpose of board evaluation

13. Regular board evaluation for listed companies in the UK was first recommended in 2003 by Sir Derek Higgs in his report on the role and effectiveness of non-executive directors. His view was that:

“Every board should continually examine ways to improve its effectiveness. Boards can benefit significantly from formally reviewing both individual and collective board performance ... A board performance appraisal gives the chairman the information and confidence to manage the board more effectively. It helps the chairman to identify and address the strengths and weaknesses of the board and consider whether the board has the right balance of skills for the future.”<sup>2</sup>

14. Sir Derek did not specifically consider what additional benefits might accrue from involving an independent third party in the evaluation, but Sir David Walker did so in his 2009 report on the corporate governance of banks and other financial institutions. In his view:

“Where a board is ready to commit time and effort to an external review process, it seems clear that a qualified external reviewer can make a substantial critical input so that the overall review process becomes a catalyst for board awareness and improvement in the areas identified in the review.”<sup>3</sup>

15. Sir David also considered that there was an important additional purpose; namely, that “the key *external* objective of the review process is to give assurance to shareholders that their board is functioning effectively”.

---

<sup>2</sup> ‘Review of the Role and Effectiveness of Non-Executive Directors’; Department of Trade and Industry; 2003

<sup>3</sup> ‘A Review of Corporate Governance in UK Banks and Other Financial Industry Entities’; HM Treasury; 2009

# Review of the effectiveness of independent board evaluation in the UK listed sector

16. This external objective has come to be seen as increasingly important in the ten years since Sir David's report, with investors and others (including some regulators) taking greater interest in the outcomes of board evaluations and the FRC adding to the disclosure requirements in the UK Corporate Governance Code, most recently in 2018.
17. Accountability is obviously important, particularly to the company's owners but to other stakeholders as well. But it is also important to be clear about what conclusions can fairly be drawn from the information companies share.
18. Broadly there are two schools of thought, which are informed by different views on the purpose of evaluation, and which in turn inform views and expectations about how the evaluation should be carried out and what it is expected to achieve. They are:
  - That the purpose of evaluation is to inform a continual process of self-improvement, which might include making changes to the board, and that disclosure should provide evidence of a robust process and a willingness to act on the outcomes. By doing so, the board can provide some *reassurance* to shareholders and others that it takes its responsibilities seriously and is endeavouring to carry them out to the best of its ability; or
  - That the purpose of evaluation is to provide an assessment of whether the board is or is not effective, in either absolute or relative terms, and that the purpose of disclosure is to provide *assurance* as to the future performance of the board and company.
19. In our view, the first of these positions is more realistic in terms of the expectations it sets. We believe that it would be dangerous to assume that the process of evaluation can ever result in a '100% effective' board – most of all this is dangerous for boards themselves if it leads them to become complacent.

# Review of the effectiveness of independent board evaluation in the UK listed sector

20. Equally, it would be dangerous to assume that disclosures can be relied on as some sort of guarantee or prediction of the board's effectiveness in the future. Even the most robust evaluation is at best a snapshot of how the board performs at a particular point in time.
21. For the purposes of this review, we therefore propose that the purpose of independent board evaluation should be defined as:
- firstly, to provide a robust and objective review of the board's effectiveness to help the board continuously improve its own performance and the performance of the company; and
  - secondly, to demonstrate to shareholders and other stakeholders that the board is committed to performing to a high standard, and that it understands and is addressing any areas of weakness in its effectiveness.
22. We would welcome views on this definition.

## Question:

- 1. Do you agree that the purpose of independent board evaluation is to help boards continue to improve their performance and to demonstrate to shareholders and others that they are committed to doing so? If not, what do you consider the purpose should be?**

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 3: Analysis of current practice

23. This section summarises the available evidence of how independent board evaluation is conducted in the listed sector, to provide some context for considering whether any actions are required.
24. Most of the data relates only to the FTSE 350, as they are the only companies required under the UK Corporate Governance Code either to conduct regular independently facilitated evaluations or to explain why not. Data on the quality of individual evaluations, and individual evaluators, is hard to come by, and this section therefore relies in part on anecdotal evidence from companies, reviewers and investors.

### The use of independent board evaluation

25. In their annual reports published in 2018, 35% of FTSE 100 companies and 32% of FTSE 250 companies reported that they had carried out an externally facilitated evaluation the previous year.<sup>4</sup> Extrapolated over the three-year period within which the Code expects such reviews to be carried out, this suggests nearly full compliance with this provision. By comparison, on average only 37.5% of listed companies across Europe carry out an externally facilitated evaluation at least every three years.<sup>5</sup>

---

<sup>4</sup> 'Annual Review of Corporate Governance and Reporting 2018'; Financial Reporting Council; 2018

<sup>5</sup> 'Regulatory Briefing: Board Evaluation in Europe'; Minerva Analytics; 2019

# Review of the effectiveness of independent board evaluation in the UK listed sector

## The availability of board reviewers

26. On some measures, the market for independent board evaluation services in the FTSE 350 appears to be fairly healthy. An analysis of annual reports issued in 2018 identified that 32 different individuals and organisations had been used the previous year.<sup>6</sup> By comparison, 51 different reviewers had been used in 2012.<sup>7</sup> This might perhaps suggest that some of the less well qualified reviewers have been ‘weeded out’, and that the market is therefore operating efficiently.
27. However, there is also quite a high level of concentration. The 2018 data shows that four organisations undertook 63% of evaluations, with two-thirds of those completed by just two firms. One organisation completed 30% of all evaluations.<sup>8</sup> The corollary of this concentration is that the majority of the 32 reviewers have only one or two clients in the FTSE 350 (although this should not be taken as an indication of either their competence or independence).
28. The UK Corporate Governance Code requires companies to state if the reviewer has any other connection with the company or individual directors, but data on this aspect of compliance is not currently available. Nor is there data on how many of the reviewers offer other services that might create a potential conflict if provided to their clients.

---

<sup>6</sup> ‘Corporate Governance Review 2018’; Grant Thornton; 2018

<sup>7</sup> ‘Developments in Corporate Governance’; Financial Reporting Council; 2013

<sup>8</sup> Grant Thornton; 2018

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Selection of reviewers

29. In our discussions with both board reviewers and investors, the process by which companies decide who will undertake the independent evaluation was identified as an indicator of the likely robustness and independence of the evaluation. If a reviewer was selected without a formal process involving at least two bidders, or if only one individual within the company (for example, the chair) was involved in making the decision, it was considered that this should raise red flags.
30. There is currently little reliable data on the appointment process. Anecdotal evidence suggests this is usually relatively formal, at least in larger listed companies, with nomination committees or even the full board increasingly asked to endorse the choice of reviewer before they are appointed. It seems that the claim that some reviewers are appointed because they are 'the chair's mate' is less true than it might have been in the past (this may or may not account for the reduction in the number of different reviewers being used in recent years).
31. That said, it appears that the practice may not have been eliminated entirely, and that there are also examples of reviewers being appointed because they have worked with a board member previously in other companies. A 2018 survey carried on for the All-Party Parliamentary Corporate Governance Group (APPCGG) suggested that 'word of mouth' is still the most common means by which companies identify potential reviewers<sup>9</sup> although, in itself, this is not necessarily incompatible with a formal and competitive selection process.
32. There is no available data on the repeat use of board reviewers. Anecdotally, it appears to be relatively common for companies to ask reviewers to carry out a second full evaluation three years after their first engagement, and many of the companies and reviewers we spoke to argued that there was value in them doing so. They also recognised, however, that repeat use could raise concerns about independence, so many had self-imposed limits on the number of times they would work with a reviewer or client (usually two or three full evaluations).

---

<sup>9</sup> '15 Years or Reviewing the Performance of Boards'; All-Party Parliamentary Corporate Governance Group; 2018

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Review process and quality

33. Information from listed companies on the process followed when evaluating the board's effectiveness is variable. Currently, only 41% of the FTSE 350 companies provide good or detailed explanations of how the evaluation was carried out, and this figure includes companies that conducted internal evaluations as well as externally facilitated evaluations.<sup>10</sup> As noted, the changes made to the UK Corporate Governance Code in 2018 are intended to address this issue.
34. In its 2018 review of corporate governance and reporting, the FRC states that: "in the FTSE 100, 79 commented on methodology, with 45 of these (57%) stating a more in-depth evaluation was conducted. In the FTSE 250, there was a small majority preference for the use of questionnaires."<sup>11</sup>
35. This variability in levels of disclosure means it is not possible to make a judgement about the overall quality of independent board evaluation. This would be difficult to do even with more complete reporting, not least because there is no evidence to suggest that any methodology currently being used is a reliable indicator of quality; although more reporting might enable readers to identify where an individual evaluation appeared to be sub-optimal in terms of either scope or process.
36. There is some evidence that companies are generally satisfied with the quality of the services received from independent reviewers. The APPCGG review found that 85% of respondents were satisfied with their most recent experience of external facilitation,<sup>12</sup> and that:
- "Greater engagement in the Board Review process was also identified as a change that has occurred over the past five years. It was felt that Reviews had become more professional, and interestingly there was a suggestion that the level of engagement has improved among external facilitators as well as Boards over this period."
37. Many board reviewers provide information on their websites about their approach to board evaluation, their qualifications and their track record, but the level of detail is variable.

---

<sup>10</sup> Grant Thornton; 2018

<sup>11</sup> Financial Reporting Council; 2018

<sup>12</sup> All-Party Parliamentary Corporate Governance Group; 2018

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Outcomes

38. As with reporting on the process followed, reporting on the outcomes of board evaluations is variable. In annual reports published in 2018, only 47% of the FTSE 350 outlined their outputs and actions.<sup>13</sup> This figure includes all evaluations, not just those facilitated externally.
39. While in some respects this represents a marked improvement on previous practice – in 2016 the figure was only 37%<sup>14</sup> – it is still a low level of disclosure in absolute terms. Some investors have identified this as a subject on which they would like more information.
40. In 2018, the FRC added to the UK Corporate Governance a ‘comply or explain’ requirement that companies should disclose “the outcomes and actions taken [following the evaluation], and how it has or will influence board composition”.

---

<sup>13</sup> Grant Thornton; 2018

<sup>14</sup> ‘Corporate Governance Review 2016’; Grant Thornton; 2016

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 4: Overview of suggested actions

41. Our view is that more effective board evaluations cannot be achieved solely by targeting service providers. The responsibility for ensuring that an independent evaluation is robust and objective is shared by the reviewer and the company – the reviewer needs to be both willing and able to challenge the board’s perceptions of its own performance, and the board needs to be willing to allow them to do so. Addressing the issues identified as a result of the evaluation, however, is the sole responsibility of the company (even though the reviewer may be able to assist in this process).
42. Our view therefore is that if any actions are required – and that is an open question – then they should be addressed to listed companies as well as to board reviewers.
43. In this consultation document we are seeking views on a package of measures that, taken together with the enhanced provisions in the 2018 Code, might incentivise both service providers and boards to ensure that independent evaluations are robust and objective, and enable companies to demonstrate that this is the case. The proposed measures are:
  - a voluntary code of practice for the providers of independent board evaluation services, possibly supported by some form of accreditation and/or oversight;
  - voluntary principles to be applied by listed companies when engaging external reviewers to undertake board evaluations; and
  - guidance for listed companies on disclosure of the conduct and outcomes of their board evaluation, in accordance with the 2018 UK Corporate Governance Code.
44. The thinking behind having principles and guidance for listed companies is that they would provide additional leverage for investors (and other stakeholders) to press for the adoption of good practice. If a company disclosed that it had not applied the principles, or that it had engaged a reviewer that was not a signatory to the code of practice, shareholders could challenge them. If this happened, then in turn it would create an incentive for service providers to adopt the code of practice.

# Review of the effectiveness of independent board evaluation in the UK listed sector

45. More details of the suggested package, and drafts of the code, principles and guidance, are in Parts 5 and 6 and Appendices C to E.
46. Our current view is that the code and principles, if adopted, should be voluntary. However, we would welcome views on whether either or both should be mandatory, and if there any other actions (either mandatory or voluntary) that could be taken to improve the quality of board evaluation in the listed sector.
47. In its feedback statement, the Department said it would consider whether shareholders should have a role in the appointment of the external evaluator, although it did not specify what form any such role might take. We would welcome views on this issue.
48. While this review is specifically addressing board evaluation in the listed sector, a code of practice for reviewers and principles for organisations conducting externally facilitated board evaluations might conceivably be useful in other sectors as well. We would welcome views on whether this would be the case and, if so, whether the code of practice and principles appended to this consultation document are suitable for broader application.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Questions:

2. Will the changes made to the UK Corporate Governance Code in 2018 be sufficient on their own to improve the standard of board evaluation and reporting by listed companies, or would additional actions be helpful?
3. If further action is desirable, do you support the proposed package of a code for board reviewers and principles and disclosure guidance for listed companies? If so, should they be mandatory or voluntary? Are there any parts of the package you consider to be unnecessary or inappropriate?
4. Are there other actions that should be taken to improve independent board evaluation in the listed sector as well as or instead of these suggested measures? If so, please specify.
5. Should shareholders have more direct influence on the appointment of the independent board evaluator? If so, what form should this take?
6. Should the code and principles be applied to other sectors as well?

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 5: Actions for service providers

### Content of the code

49. The draft code starts with a definition of ‘independent board evaluation’ to establish who is and is not eligible to become a signatory. In our view, the determining factor of whether an evaluation is truly independent is whether the analysis of the board’s effectiveness has been independently conducted and reported, rather than whether a specific methodology has been followed. The proposed definition is therefore relatively broad, but it would rule out, for example, evaluations that are carried out by purchasing software packages with standard questionnaires that companies then use without any further independent input.
50. The draft code then identifies the commitments that service providers would take on if they wish to become signatories. We consider it appropriate for signatories to commit to meet certain standards and/or participate in any oversight arrangements if a code is to have the necessary ‘teeth’. The commitments listed in the draft are provisional ones, and dependent on what is decided about accreditation and oversight.
51. The main body of the draft code contains three sections; they cover ‘competence and capacity’, ‘independence and integrity’ and ‘client engagement’. Each section consists of principles (in bold) and good practice guidance.
52. The sections of the draft code take a slightly different approach. The ‘competence and capacity’ section is essentially a disclosure framework. This section aims to identify the activities a reviewer should be able to carry out, and the attributes that might enable them to do so, and puts the onus on signatories to demonstrate that they have the ability and capacity to do so.
53. The draft code takes this approach because, in our view, it is not appropriate to prescribe in detail the scope of an evaluation, the methodology to be followed, or the qualifications and experience needed to be able to carry it out. All of these may vary depending on the needs of a particular assignment. That said, it might be possible to specify some particular processes that must be undertaken on all engagements – for example, attending a board meeting – for a reviewer to be eligible to be a signatory. We would welcome views on whether that would be appropriate and, if so, which processes should be specified.

# Review of the effectiveness of independent board evaluation in the UK listed sector

54. By contrast, the sections on ‘independence and integrity’ and ‘client engagements’ set out certain minimum standards. While the scope of board evaluations and the skills and resources required to undertake them properly might legitimately vary, the same cannot be said for the robustness and integrity of the evaluation process.
55. These proposed standards are intended to mirror the draft principles for listed companies (see Section 6 and Appendix D). Both drafts reflect discussions with the members of the Steering Group and with a selection of independent board reviewers which identified some ‘red flags’ that an evaluation may not have been either thorough or truly independent.
56. The proposed standards include:
- Signatories should not undertake any other work with a client that might create a conflict of interest;
  - Signatories should not undertake more than three consecutive ‘full’ board evaluations for the same client (that is to say, the evaluation typically carried out every third year in accordance with the UK Corporate Governance Code);
  - Signatories should not take on an engagement if they are uncomfortable with the terms proposed; and
  - Signatories should not take on an engagement without an assurance that they will be able to approve any public disclosures describing what they did and said.
57. We would particularly welcome views on how potential conflicts of interest arising from board reviewers providing other services should be addressed. The approach proposed in the code of practice and the principles for listed companies is that a reviewer should not simultaneously provide any other services to a client, and should not subsequently provide any other services to that client that might retrospectively suggest a conflict of interest, for example, if an executive search firm carried out an evaluation that recommended changes to the board, and was then awarded the contract to recruit new board members.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Questions:

7. Do you agree with the proposed definition of 'independent board evaluation'?
8. Do you agree that a disclosure approach to understanding a signatory's competence and capacity is appropriate? Should the code identify specific processes that must form part of evaluations carried out by signatories?
9. Should the code should set out minimum standards in relation to the independence and integrity of the reviewer? If so, are the suggested standards the right ones?
10. Do the code of practice and the principles for listed companies deal adequately with potential conflicts of interest?
11. Are there any other issues that should be addressed in the code?

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Accreditation, oversight and monitoring

58. Designing appropriate arrangements is not straightforward. It is important that signatories are seen as credible by companies, investors and other stakeholders if being a signatory is to become a quality 'kite mark'.
59. That will not be achieved if it is too easy for service providers to sign up, if there are no commitments associated with being a signatory, if there are no consequences when those commitments are not met, or if there is no monitoring of implementation and impact.
60. On the other hand, if the conditions to be met in order to become a signatory are too onerous or too prescriptive, there is a risk that the code becomes a means of entrenching the more established providers or benefiting larger organisations at the expense of smaller reviewers, thus reducing choice and capacity in the market. Reviewer size does not necessarily correlate with quality. Oversight arrangements that incur significant costs could have the same effect if the cost had to be met by signatories, and possibly might deter even some established reviewers from signing up to the code. Either of those outcomes would be counterproductive.
61. In this consultation document, we are not proposing specific oversight arrangements. The purpose of the consultation is to seek views on whether any oversight is required and, if so, what form it might take.
62. However, we have reviewed a number of different existing oversight models for voluntary, sectoral codes or reporting frameworks, including those for private equity firms, proxy advisors, and remuneration and recruitment consultants. Some or all of them contain features that could be suitable for the proposed code of practice. We would welcome views on whether formal oversight arrangements are required and, if so, which if any of these features should be incorporated in them.
63. Existing models usually include some form of accreditation process. This involves, as a minimum, setting specific requirements to which providers must commit before they can state that they are signatories. It might also involve establishing an oversight body to confirm that the requirements have been met, rather than relying on self-certification.

# Review of the effectiveness of independent board evaluation in the UK listed sector

64. The specific requirements might either be ones that need to be met in order to be accepted as a signatory in the first place (for example, only remuneration consultants that have worked with at least one FTSE350 company are eligible to become signatories to that code), or ones that the signatory must agree to abide by once accepted – as is the case in the draft code of practice at Appendix C.
65. The structure, composition and remit of the oversight body, where one exists, also varies. In some cases, it is comprised of some or all of the signatories; in others, there is some degree of independence from the signatories (for example, the Private Equity Reporting Group has a majority of independent members).
66. As well as accreditation, other functions carried out by oversight bodies sometimes include:
  - *Monitoring* individual signatories' compliance with the code;
  - Operating a *complaints* procedure for clients of signatories (or others affected by their activities) who believe that the standards set out in the code have not been adhered to; and
  - *Reviewing* the impact of the code on a regular basis, and *revising* it where necessary.

## Questions:

- 12. Is there a need for oversight and/or accreditation, or should service providers be able to self-certify that they are meeting the standards set out in the code of practice?**
- 13. If there is a need for a formal oversight body, which of these functions should be included in its remit – accreditation, monitoring of compliance, dealing with complaints, reviewing and revising the code?**
- 14. Do you have any suggestions for how oversight arrangements might operate in practice (including who might undertake them and how they might be funded)?**

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 6: Actions for listed companies

### Voluntary principles for listed companies

67. The effectiveness of an external board evaluation is not just determined by the quality of the service provided, but by the attitude of the company as well. It is the company that sets the terms of the engagement, facilitates the evaluation by providing the reviewer with support and access, and decides how to respond to and report on the findings.
68. In order to improve the standard of board evaluation, therefore, it is in our view necessary to encourage companies to adopt good practices in the way that they engage with the external reviewer, as well as seeking to improve the quality of the services provided by independent reviewers. Anecdotal evidence from our discussions with independent reviewers suggests that, in a small number of cases, companies place barriers in the path of the reviewer – for example, by refusing to allow them direct access to board members – or may intentionally or otherwise distort the reviewer’s findings when reporting on them.
69. The UK Corporate Governance Code sets the expectation that all Code companies will consider regular externally facilitated reviews, with FTSE 350 companies undertaking one at least every three years. The FRC’s updated Guidance on Board Effectiveness provides guidance on how such reviews might be carried out (relevant extracts from the Code and Guidance are at Appendices A and B).
70. We see no need to produce supplementary guidance for companies engaging external reviewers on how they should *commission* or *conduct* independent evaluations (as opposed to guidance on *disclosure*, which is covered in the next section).
71. We do, however, consider that there may be merit in setting out some short principles to which companies would be invited to commit when engaging external reviewers, and that they should certify whether or not they had followed the principles when reporting on the results of the board evaluation.

# Review of the effectiveness of independent board evaluation in the UK listed sector

72. These principles would be designed to mirror the standards expected of board reviewers in the draft code of practice, with the objective of ensuring the integrity of the review process. As with the proposed code for service providers and the FRC's Code and Guidance, they would not impose a methodology.
73. We have considered whether the principles should include a requirement on companies that adopt them only to engage external reviewers that are themselves signatories to the code of practice (if one is introduced). On balance we consider they should not, but would welcome views on that point.
74. On the one hand, asking companies to commit only to using signatories to the code of practice could incentivise independent reviewers to sign up. On the other, there could be unintended consequences. For example, if investors and their advisors took a box-ticking approach and 'marked down' companies that did not use signatories, it could either discriminate against some good quality non-signatories (if the code of practice sets demanding conditions for being accepted as a signatory) or result in a lot of poor quality reviewers signing up to the code (if there are no such conditions), undermining its usefulness and credibility.

## Questions:

- 15. Is there a need for some good practice principles aimed at listed companies conducting externally facilitated board valuations? If there is a need for such principles, do you agree that adoption by companies should be voluntary?**
- 16. Do the draft principles cover all the relevant aspects of the relationship between the company and external reviewer? Are they reasonable and appropriate? Do they go far enough?**
- 17. Should the principles include a requirement that companies should only engage board reviewers that have signed up to the code of practice for reviewers?**

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Guidance for listed companies on disclosure

75. As described in Part 3, both the FRC and investors consider that there is considerable room for improvement in how listed companies report on their board evaluations. In response to these concerns, the 2018 version of the UK Corporate Governance Code is more specific about what companies should cover when reporting on the board evaluation in the annual report. Provision 23 of the Code states that:
- “The annual report should describe the work of the nomination committee, including... how the board evaluation has been conducted, the nature and extent of an external evaluator’s contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition.”
76. We would welcome views on whether companies and investors would find it helpful to have guidance on how listed companies that report against the Code might report on this provision. Draft guidance can be found at Appendix E.
77. The main objective for producing guidance would be to assist listed companies seeking to comply with the Code and provide their shareholders with information that they would find useful in assessing how diligently the board is seeking to improve its effectiveness. However, as explained in paragraph 44, it might also provide investors with leverage to incentivise companies and board reviewers to sign up to the proposed principles and code of practice respectively.
78. Although the guidance is envisaged as being part of a package with the proposed code of practice and principles, it is somewhat broader in its scope as the reporting required under the UK Corporate Governance Code applies to *all* board evaluations, not just to those that have been externally facilitated.
79. The draft guidance therefore covers both internal and external board evaluations. It sets out suggested good practice disclosures for all evaluations, and then recommends additional disclosures for externally facilitated ones.

# Review of the effectiveness of independent board evaluation in the UK listed sector

80. For external evaluations, the draft guidance specifically covers the selection and evaluation processes, in a way that hopefully will help readers to assess whether both were carried out with appropriate rigour. It recommends that companies disclose whether they have applied the proposed principles, and whether the reviewer was a signatory to the proposed code of practice.
81. The guidance also suggests that, when external reviewers have been used, companies should indicate whether this section of the annual report has been agreed with them. The absence of such a statement might be a potential red flag for shareholders.
82. Some investors to whom we have spoken felt that it might be appropriate to go further and include in the annual report a statement from the independent reviewer confirming that the description of the process that was followed and any views attributed to them are accurate. We would welcome views on this suggestion.

## Questions:

- 18. Is there a need for guidance on how companies should report on board evaluations in order to comply with the provisions of the UK Corporate Governance Code?**
- 19. Does the draft guidance cover all the relevant issues of interest to investors and other users of annual reports? Are the expectations it places on companies appropriate?**
- 20. Should the independent reviewer be expected to certify that the disclosures made by the company are accurate? If so, what form should this take?**

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Part 7: Consultation questions

### The purpose of board evaluation

1. Do you agree that the purpose of independent board evaluation is to help boards improve their performance and to demonstrate that they are committed to doing so? If not, what do you consider the purpose should be?

### Overview of suggested actions

2. Will the changes made to the UK Corporate Governance Code in 2018 be sufficient on their own to improve the standard of board evaluation and reporting by listed companies, or would additional actions be helpful?
3. If further action is desirable, do you support the proposed package of a code for board reviewers and principles and disclosure guidance for listed companies? If so, should they be mandatory or voluntary? Are there any parts of the package you consider to be unnecessary or inappropriate?
4. Are there other actions that should be taken to improve independent board evaluation in the listed sector as well as or instead of these suggested measures? If so, please specify.
5. Should shareholders have more direct influence on the appointment of the independent board evaluator? If so, what form should this take?
6. Should the code and principles be applied to other sectors as well?

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Actions for service providers

7. Do you agree with the proposed definition of ‘independent board evaluation’?
8. Do you agree that a disclosure approach to understanding a signatory’s competence and capacity is appropriate? Should the code identify specific processes that must form part of evaluations carried out by signatories?
9. Should the code set out minimum standards in relation to the independence and integrity of the reviewer? If so, are the suggested standards the right ones?
10. Do the code of practice and the principles for listed companies deal adequately with potential conflicts of interest?
11. Are there any other issues that should be addressed in the code?
12. Is there a need for oversight and/or accreditation, or should service providers be able to self-certify that they are meeting the standards set out in the code of practice?
13. If there is a need for a formal oversight body, which of these functions should be included in its remit – accreditation, monitoring of compliance, dealing with complaints, reviewing and revising the code?
14. Do you have any suggestions for how oversight arrangements might operate in practice (including who might undertake them and how they might be funded)?

# Review of the effectiveness of independent board evaluation in the UK listed sector

## **Actions for listed companies**

15. Is there a need for some good practice principles aimed at listed companies conducting externally facilitated board valuations? If there is a need for such principles, do you agree that adoption by companies should be voluntary?
16. Do the draft principles cover all the relevant aspects of the relationship between the company and external reviewer? Are they reasonable and appropriate? Do they go far enough?
17. Should the principles include a requirement that companies should only engage board reviewers that have signed up to the code of practice for reviewers?
18. Is there a need for guidance on how companies should report on board evaluations in order to comply with the provisions of the UK Corporate Governance Code?
19. Does the draft guidance cover all the relevant issues of interest to investors and other users of annual reports? Are the expectations it places on companies appropriate?
20. Should the independent reviewer be expected to certify that the disclosures made by the company are accurate? If so, what form should this take?

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Appendix A: Extracts from the UK Corporate Governance Code (2018)

### Principle L

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

### Provisions

18. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.
21. There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. The external evaluator should be identified in the annual report and a statement made about any other connection it has with the company or individual directors.
22. The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified.
23. The annual report should describe the work of the nomination committee, including... how the board evaluation has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Appendix B: Extracts from the FRC's Guidance on Board Effectiveness (2018)

106. Boards continually need to monitor and improve their performance. This can be achieved through evaluation, which provides a powerful and valuable feedback mechanism for improving effectiveness, maximising strengths and highlighting areas for further development. The evaluation process should be objective and rigorous.
107. Like induction and board development, evaluation should be bespoke in its formulation and delivery. The chair has overall responsibility for the process, and should select an effective approach, involving the senior independent director as appropriate. The senior independent director should lead the process that evaluates the performance of the chair and, in certain circumstances, may lead the entire evaluation process.
108. The chair should consider ways in which to obtain feedback from the workforce and other stakeholders – for example, the auditors – on the performance of the board and individual directors. Chairs of board committees should be responsible for the evaluation of their committees.
109. Board evaluations should inform and influence succession planning. They are an opportunity for boards to review skills, assess their composition and agree plans for filling skills gaps, and increasing diversity. They can help companies identify when new board appointments may be needed and the types of skills that are required to maximise board effectiveness.
110. The outcomes from the board evaluation should be shared with and discussed by the board. They should be fed back 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 review how effective the board evaluation process has been and how well the outcomes have been acted upon. The chair is encouraged to give a summary of the outcomes and actions of the board evaluation process in their statement in the annual report.

# Review of the effectiveness of independent board evaluation in the UK listed sector

111. The Code recommends that FTSE 350 companies have externally facilitated board evaluations at least every three years. Chairs of smaller companies are also encouraged to consider doing this periodically. External facilitation can add value by introducing a fresh perspective and new ways of thinking, and a critical eye to board composition, dynamics and effectiveness. It may also be useful in certain circumstances, such as when there is a new chair, if there is a known problem requiring tactful handling or there is an external perception that the board is, or has been, ineffective.
112. The nature and extent of an external evaluator's contact with the board and individual directors are defining factors in quality. Questionnaire-based external evaluations are unlikely to get underneath the dynamics in the boardroom. The external evaluator should also meet with the executive team to gain their views of the board.
113. Whether facilitated externally or internally, evaluations should be rigorous. They should explore how effective the board is as a unit, as well as the quality 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 and knowledge on the board, in the context of developing and delivering the strategy, the challenges and opportunities, and the principal risks 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 chair and the chief executive;
  - key board relationships, particularly chair/chief executive, chair/senior independent director, chair/company secretary and executive/non-executive directors;
  - effectiveness of individual directors;
  - clarity of the senior independent director's role;
  - effectiveness of board committees, and how they are connected with the main board;

# Review of the effectiveness of independent board evaluation in the UK listed sector

- quality of the general information provided on the company and its performance;
- quality and timing of papers and presentations to the board;
- quality of discussions around individual proposals and time allowed;
- process the chair uses to ensure sufficient debate for major decisions or contentious issues;
- effectiveness of the company secretary/secretariat;
- clarity of the decision-making processes and authorities, possibly drawing on key decisions made over the year;
- processes for identifying and reviewing risks; and
- how the board communicates with, and listens and responds to, shareholders and other key stakeholders.

114. When selecting a board evaluator, the chair needs to:

- be clear what the board evaluation will offer – each provider will have a different method and experience with cost and approaches varying greatly across providers;
- evaluate the skills, competencies and references of each individual involved in the evaluation against a specification agreed with the board;
- be mindful of existing commercial relationships and other conflicts of interests, and select an evaluator who is able to exercise independent judgement; and
- agree with the evaluator the objectives and scope of the evaluation, expected quality, value and longevity of service, and communicate this to the board.

115. To ensure a more valuable review, the chair will need to ensure full cooperation between the company and the evaluator, including full access to board and committee papers and information, to observe meetings, and meet with directors individually.

# Review of the effectiveness of independent board evaluation in the UK listed sector

116. The chair is responsible for making sure the board gets the most from an externally-facilitated board evaluation and should ensure it is not approached as a compliance exercise. The chair is likely to find the board evaluation process more valuable if:

- its recommendations are constructive, meaningful and forward-looking;
- there is a clear set of recommendations and actions, and a time-period for review of progress against agreed outcomes by the evaluator with the board;
- it includes views from beyond the boardroom, e.g. shareholders, senior executives who regularly interact with the board, auditors and other advisors, and the workforce;
- it includes peer reviews of directors and the chair plus feedback on each director;
- good practice observed in other companies is shared;
- the evaluator observes the interaction between directors and between the chief executive and chair;
- there is a robust analysis of the quality of information provided to the board;
- feedback is provided to each individual board member; and
- the board is challenged on composition, diversity, skills gaps, refreshment and succession.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Appendix C: Draft code of practice for service providers

### Eligibility

All providers of independent board evaluation services can become signatories to the code, subject to them agreeing to abide by the commitments set out below.

For the purposes of this code, an 'independent board evaluation' is defined as one where the analysis of the board's performance and the writing of a report on the findings has been undertaken by a third party independent of the company. The definition does not include the provision of proprietary material to companies undertaking their own evaluations.

### Commitments

In order to be a signatory to the code of practice, service providers must commit to:

- Publish on their website a statement of how they apply the principles of the code, including information on their expertise and experience and how they maintain independence and confidentiality. This statement should be updated at least annually;
- Discuss the code with clients on appointment to ensure that the terms on which they are hired are compatible with the code;
- [Co-operate with the investigation of any complaints brought against them under the complaints procedure – *if there is one*]; and
- Participate in any monitoring of the implementation of the code [undertaken by the oversight body – *if there is one*].

# Review of the effectiveness of independent board evaluation in the UK listed sector

## The code of practice

### Competence and capacity

**Signatories should have – and be able to demonstrate to potential clients – the expertise, experience and capacity necessary for each engagement they undertake. They should only accept work that they are qualified to perform and in which the client can be served effectively.**

**Signatories should publish on their website sufficient information about their experience, expertise and resources and how they would typically undertake an evaluation to enable potential clients and their shareholders to assess how well suited they are for a specific engagement.**

While the range of topics and skills required will vary depending on the assignment, evaluators should have the ability to:

- assess the degree to which, individually and collectively, the board and its directors display rigorous thought processes leading to breadth, depth and independence of thinking, in addition to attributes such as skill, experience, knowledge and capability;
- assess the behavioural dynamics of the board;
- appreciate the critical importance of diversity on a board;
- conduct deep-dive observations and reviews across the board and its committees;
- assess the contribution of individual directors;
- assess wider succession issues, such as that of the executive team;
- analyse the effectiveness of specific decisions made over time which were critical to the success of the business;
- review board and committee documentation;
- solicit and understand external perspectives on the board's performance, including those of the company's major shareholders;
- advise the board on how to address the issues identified in the evaluation; and
- provide an action plan for the board.

# Review of the effectiveness of independent board evaluation in the UK listed sector

While there are no minimum qualifications for signatories, they should demonstrate the required levels of competence to ensure their contributions are informed and constructive. Areas of capability might include:

- A track record of carrying out independent board evaluations;
- Direct experience of board practice – derived from being a director, company secretary or other professional;
- Knowledge of, and expertise in, governance and behavioural issues;
- Management and commercial experience;
- Financial expertise;
- Communication, personal and interpersonal skills including tact and discretion; or
- Possession of relevant professional qualifications and up-to-date professional knowledge.

In addition to their qualifications and resources, signatories should describe on their website in broad terms the process or processes they would typically follow when carrying out a board evaluation (while recognising that all individual evaluations will be tailored to the needs of the client). This might include, for example:

- Whether and how they make use of questionnaires;
- The extent to which they have direct contact with board members individually or collectively (for example, one-to-one interviews or attending board and committee meetings);
- Whose views they seek on the board's performance, in addition to those of the board members;
- Whether they review board papers and other documentation.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Independence and integrity

**Signatories should have and publicly disclose procedures for addressing potential or actual conflicts of interest that may arise in connection with the provision of services.**

**Signatories should not provide any other services to a client during the course of an engagement, or subsequently accept any work from them which might create a perception of a conflict of interest.**

The value to the company and to its investors of an independently facilitated board evaluation is that it brings an external focus to the process. The possibility for conflicts of interest can arise in all businesses. While conflicts cannot always be eliminated, they can be declared, managed and mitigated. The overriding objective of this principle is to ensure, as far as reasonably possible, that business conduct is independent, fair, clear, not misleading and free from possible bias or undue influence.

Independence can be undermined if a service provider becomes over-familiar with, or overly dependent on, a particular client. For that reason, it is good practice for signatories not to undertake more than three consecutive evaluations and follow up for the same client.

All signatories should disclose on their website what other services they provide, if any.

Signatories should carry adequate Professional Indemnity Insurance (PII) to cover any work undertaken.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Client engagements

### *Terms of engagement*

**Signatories should ensure that the terms of engagement for each board evaluation have been clearly and unequivocally agreed in writing with the company before the evaluation commences.**

**There should be a formal confidentiality agreement. Signatories should commit to keeping all information received during the engagement confidential, with the exceptions of the discovery of unlawful practices or where information is demanded by regulators.**

The terms of engagement will differ for each assignment, but should usually include:

- The identity of the lead contacts at the company and the service provider, the identity of the board evaluator if different, and the process for consultation between them.
- The identity of the contact at the company with whom the service provider can discuss in confidence any concerns about how the review is being managed – this would normally be one of the independent board members.
- Agreement on the process which will be followed to deliver the assignment – what will be in or out of scope and what access the service provider will have to directors, staff and other parties, and to documentation. This should include the process by which the board will receive and review the service provider's report.
- Agreement on deliverables, the timescale for completion and remuneration.
- Arrangements, if appropriate, for any follow-up or review by the service provider. Where a full board evaluation has been undertaken, it is good practice for the service provider to hold follow-up discussions with the company within twelve months to review progress on the agreed outcomes.
- Agreement on the arrangements for the service provider to approve public statements by the company about the evaluation, for example in its annual report.
- A confidentiality agreement to cover all aspects of the engagement, including all interviews for the period of, and after, the engagement.
- How the insider status of the service provider will be managed by the company and what obligations are placed on the service provider and/or its individual staff.

# Review of the effectiveness of independent board evaluation in the UK listed sector

The agreement should also cover how the service provider should treat particularly sensitive information or information about differences of view, attitude and approach that should be respected and not included in the main report, for example whistle blowers, and how this should be brought to the chair or board's attention in a way that ensures matters are aired without compromising the information or individual(s) concerned.

Where the service provider has a potentially conflicted business this should be specifically addressed to manage potential conflicts.

## ***Scope and conduct of the engagement***

**Where a signatory is not able to agree with a potential client a scope for the evaluation that it believes will provide a true, fair and balanced assessment of the board's performance, it should decline the appointment.**

**If a signatory feels it has been put under inappropriate pressure by a client during an engagement, it should withdraw from that engagement.**

For each engagement, signatories should use their knowledge and experience to recommend a scope and methodology that they consider appropriate in the client's circumstances, guided by an objective view of the client's best interests. They should explain clearly to the client what access they will require to individuals and resources, the topics they will cover and how they will report their findings, in order to help the client manage the process and reduce the risk of misunderstandings at any stage.

There may be instances where clients attempt to constrain the reviewer's ability to make a robust and independent assessment, either when agreeing the methodology to be followed or during the course of the review; examples have included limiting the assessor's access to individual board members or other parties during the review and asking them to alter their findings.

If a signatory is faced with such circumstances, they should give careful consideration to the risk to their own reputation of agreeing to the client's requests. In the first instance, they should raise their concerns with the appropriate contact at the company to see whether they can be resolved.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## *Client disclosure*

**When a client discloses details of the process or outcomes of the board evaluation either publicly or to a regulator, signatories shall ensure they are given the opportunity to check the accuracy of the client's statement before it is published.**

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Appendix D: Draft principles of good practice for listed companies

### Selection

1. The company will not delegate the decision on the appointment of an external reviewer to a single board member or employee. It will ensure that the decision is ratified by either the full board or the nomination committee.
2. The company will not appoint external reviewers with which it has other current commercial relationships, or that have carried out more than two previous consecutive full board evaluations for the company.

### Scope and process

3. The company and reviewer will agree terms of engagement before the review commences. These must specify the objectives and scope of the evaluation, and the process to be followed. The company will not subsequently seek to amend the terms of engagement without the agreement of the reviewer.
4. The company will provide the reviewer with direct access to the board collectively and directors individually as part of the evaluation process. It will also provide access to board and committee papers, board committees, management and other internal and external stakeholders where necessary to meet the agreed objectives of the evaluation.
5. The company will provide the reviewer with an opportunity to present their findings directly to the full board.
6. The company will identify a contact with whom the reviewer can discuss in confidence any concerns they have about the way the process is being managed. This would normally be one of the independent board members.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Disclosure

7. In the annual report, the company will state whether it has followed these principles, and whether the board reviewer is a signatory to the code of practice for reviewers.
8. The company will obtain the reviewer's formal agreement that the description of the process followed and the findings of the evaluation to be included in the annual report is accurate.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Appendix E: Draft disclosure guidance for listed companies

1. **The 2018 UK Corporate Governance Code states that listed companies should include in their annual report information about:**
  - **How the board evaluation has been conducted (with further disclosures requested when the evaluation has been externally facilitated);**
  - **The outcomes of the evaluation and the actions taken as a result, including how the evaluation has or will influence board composition.**

### How the board evaluation has been conducted

2. The annual report should describe the objective and scope of the evaluation, including: whether it was a comprehensive review of all aspects of the board's effectiveness or focused on particular factors (for example, board composition and dynamics, or the quality of the information the board receives); whether the effectiveness of all or some board committees were evaluated; and whether the performance of individual directors was assessed.
3. The annual report should identify the different processes that were used to carry out the evaluation. These might include, for example, face to face interviews, observing board or committee meetings (where an external reviewer has been engaged), reviewing board and committee papers or procedures, and questionnaires.
4. The annual report should also identify whose views were sought as part of the evaluation. As well as the board members this might include senior management, the company secretary and other employees, the external auditor and other advisors, or shareholders and other external stakeholders.
5. The annual report should identify who in the company oversaw and undertook the evaluation or, where the evaluation was externally facilitated, who within the company was responsible for providing the external reviewer with the necessary access and support.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Externally facilitated evaluations

6. Where an external reviewer has been used, the UK Corporate Governance Code states that the company should disclose:
  - the name of the individual or organisation that carried out the evaluation;
  - whether they have any other connection with the company; and
  - the nature and extent of their contact with the board and individual directors.
7. In addition, the annual report should describe the process by which the reviewer was selected (for example, whether a formal tender process was followed and/or shortlisted candidates were interviewed before the decision was taken). It should identify who in the company was involved in taking the decision (for example, the chair, nomination committee or full board).
8. As well as disclosing whether the reviewer has any other current connections with the company, the annual report should state whether they have previously facilitated board reviews for the company (and, if so, how many) or for the chair (or the person who appointed them if not the chair).
9. The annual report should state whether the reviewer is a signatory to the code of practice for independent board reviewers, and whether the company itself has applied the principles for external board evaluations.
10. In addition to disclosing what contacts the reviewer had with the board members, the annual report should identify from who else they sought views on the board's performance (for example, senior management, the internal and external auditor or major shareholders and stakeholders).
11. Where an external reviewer has been used, the company should state whether the sections of the report that describe the process followed and the findings of the evaluation has been agreed with the external reviewer, and whether the reviewer has been engaged to monitor the implementation of the actions agreed following the review.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## The outcomes and actions taken

12. It is recognised that some findings of the board evaluation, and some actions to be taken as a result, will relate to issues that raise commercial or other sensitivities for the company, which it might understandably be reluctant to disclose publicly.
13. On the other hand, boards that can demonstrate they have carried out a robust evaluation of their effectiveness and are able to identify specific follow-up actions will have greater credibility with investors than those who assert they have given themselves a clean bill of health.
14. Companies will need to balance these considerations in deciding what to disclose about the results of their evaluation. However, the annual report should at least identify, for each of the aspects of the board's performance that have been evaluated, where they have concluded there is a need for improvement. Wherever possible, the specific actions should be identified and a timetable for completing them given.
15. Where companies have identified in previous annual reports specific actions that they intend to take as a result of the evaluation carried out in that reporting year, they should report on whether those actions have been implemented, and if not explain why not.

## Board composition

16. The UK Corporate Governance Code specifically states that companies should explain how the findings of the board evaluation have or will influence board composition. Where this was reviewed as part of the evaluation, companies should summarise the assessment of whether the board has the necessary mix of skills, knowledge and expertise, and of its diversity; this should be done whether or not the company has concluded that some refreshment of the board is required.
17. Where the company has concluded that changes to the board composition are needed it should indicate, as a minimum, what specific shortcomings those changes are intended to address, and the time frame over which the changes are intended be made.

# Review of the effectiveness of independent board evaluation in the UK listed sector

## Appendix F: Members of the Steering Group

Roger Barker (Institute of Directors)

Claire Davies (Solicitor and Chartered Company Secretary)

Jessica Ground (Schroders)

Alison Kennedy (Aberdeen Standard Investments)

Ben Mathews (BP plc)

Andrew Ninian (The Investment Association)

David Parkes (BAE Systems plc)

Will Pomroy (Hermes Investment Management)

Sacha Sadan (Legal & General Investment Management)

Tim Ward (Quoted Companies Alliance)

Victoria Whyte (GlaxoSmithKline plc)

Peter Swabey (ICSA: The Governance Institute) – Chair

Chris Hodge (ICSA: The Governance Institute)



The Governance  
Institute

**ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With over 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance.**

[www.icsa.org.uk](http://www.icsa.org.uk)

**ICSA: The Governance Institute**

Saffron House  
6–10 Kirby Street  
London EC1N 8TS

May 2019



Institute of Chartered Secretaries  
and Administrators