

The logo for UKSIF (UK Sustainable Investment and Finance) is displayed in a grey rectangular box. The letters 'UKSIF' are in a bold, white, sans-serif font.

9 October 2009

Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN
Email: codereview@frc.org.uk

Dear Chris

**2009 Review of the Effectiveness of the Combined Code:
Progress Report and Second Consultation**

Thank you for the opportunity to provide additional comments to this review.

I attach a table giving comments and/or proposals that we hope are useful to your deliberations.

These build on our response to the 16 July report of the Walker Review.

I enclose also a copy of our response to the Walker Report. This response is available online at www.uksif.org/resources/publications/publications_archive/policy_submissions.

We would be happy to discuss any of these points in more detail.

With best wishes

A handwritten signature in black ink that reads 'Penny Shepherd'. The signature is written in a cursive style with a long underline for the name 'Penny'.

Penny Shepherd MBE
Chief Executive
UKSIF – the sustainable investment and finance association

UKSIF Response to FRC Review of the Effectiveness of the Combined Code: Second Consultation

Progress Report and Second Consultation: Topic	Progress Report and Second Consultation: Page Number	UKSIF comment and/or proposal
Board balance and composition	11	Board diversity and sustainability insight: An increased emphasis on relevant industry experience must not dilute the importance of diversity and of insight into key environmental and social risks and opportunities.
Binding advisory votes on specific issues	13	Governance of sustainability strategies: We are keen to see major companies required to produce a forward looking sustainability strategy ie. a strategic description of how they will respond to major social and environmental trends like climate change and associated public policy responses, so that they maintain or increase shareholder value. This should be subject to investor vote. It might be a stand-alone report or part of a wider report that investors vote on.
Risk management and internal control	19	Governance of sustainability strategies: See our comments above on board responsibility for forward looking sustainability strategies.
Remuneration	24	Strengthening non-remuneration motivators: Companies should demonstrate that they are using non-remuneration motivators effectively to deliver high quality sustained performance. We believe that absolute levels of remuneration will cease to act as a dysfunctional aspect of motivation only when there is greater focus on more socially desirable incentives. This may be a suitable area for more guidance.
Engagement between boards and shareholders	33	Principles of Stewardship: We warmly welcome the proposal for Principles of Stewardship. The Principles need to be implemented in such a way that there is a “race to the top” in implementation not a compliance-driven approach. The governance structure adopted to oversee the Principles (whether by the FSC and/or others) should involve a range of key stakeholders as well as investment industry executives and regulators. Our Walker Report response lists some recommended stakeholder groups. We would also like to see a broader range of implementation measures in addition to those proposed in the Walker Report – our response identifies some additional measures that we would recommend.

These recommendations build on UKSIF’s response to the Walker Report. This contains further detail and is available online at www.uksif.org/resources/publications/publications_archive/policy_submissions.