
Non-executive directors: the PRO NED code

On 21 April, PRO NED issued a new Code of recommended practise for non-executive directors. Copies of the Code were sent to all listed companies with a covering letter from the chairman of The Stock Exchange, Sir Nicholas Goodison. The Code is supported by all PRO NED's sponsors, ie

*Accepting Houses Committee
Bank of England
British Institute of Management
The Committee of London Clearing Bankers
The Committee of Scottish Clearing Bankers*

*Confederation of British Industry
Equity Capital for Industry Limited
Finance for Industry plc
The Institutional Shareholders' Committee
The Stock Exchange*

Its text is as follows:

Code of recommended practice on Non-Executive Directors

1 Effective Boards are essential to the success of British business. In quoted companies, Boards are more likely to be fully effective if they are comprised both of able Executive Directors and strong, independent Non-Executive Directors.

2 For the purposes of this Code, an independent Non-Executive Director is one who has the integrity, independence, personality and experience to fulfil the role of the Non-Executive Director effectively. Independence is more likely to be assured when the Non-Executive Director:

- (a) Has not been employed in an executive capacity by the company on whose Board he or she sits, within the last five years:
- (b) If a professional adviser, is not retained by the company (whether personally or through his or her firm) on a continuing or regular basis: and
- (c) Is not (whether personally or through his or her employer) a significant customer of or supplier to the company.

3 In larger quoted companies where the turnover is £50 million or more or whose employees number 1000 or more, the Board should normally include at least three independent Non-Executive Directors: and independent Non-Executive Directors (including the Chairman, if he or she meets the criteria in Clause 2) should comprise about one-third of the Board. In smaller quoted companies, or in larger companies which have small Boards, the provisions of this Code should be followed in a manner and to an extent appropriate to the size of the Board and commensurate with the company's resources.

4 The main tasks of the Non-Executive Directors are to contribute an independent view to the Board's deliberations; to help the Board provide the company with effective leadership; to ensure the continuing effectiveness of the Executive Directors and management; and to ensure high

standards of financial probity on the part of the company. If they are to succeed in these tasks the Non-Executive Directors will need to enjoy the full support of the Chairman, and will need to be provided with the information which in their view they require in order to carry out their duties. They will also need to receive such information in sufficiently good time to enable them to give it their proper consideration.

5 The Non-Executive Directors should be consulted on major issues of audit and control. Their task will be facilitated by the establishment of an Audit Committee whose functions should be to consider important financial information, the adequacy of systems of financial control, the scope of the audit and the auditors' remuneration; and to put recommendations on these matters to the Board. The committee should be composed mainly or wholly of Non-Executive Directors, and its Chairmanship and quorum should reflect this: the Non-Executive Directors on it should have the right to see the auditors alone if they wish.

6 The Board's most important functions include:

- (a) The appointment, dismissal and remuneration of top executive management:
- (b) The appointment and dismissal of Directors to or from executive positions, especially that of Chief Executive: and
- (c) The appointment and remuneration of all Directors.

The execution of these functions will be facilitated if an Appointments and Remuneration Committee is established, the majority of whose members are Non-Executive Directors.

7 Non-Executive Directors should normally be appointed on the understanding that they are joining the Board for a specific term, subject to re-election by rotation in the usual way. After the expiry of this term, renewal should not be considered to be automatic by either party.

8 Companies which do not at present comply with the provisions of this Code should aim to implement the necessary changes within a reasonable period of time.