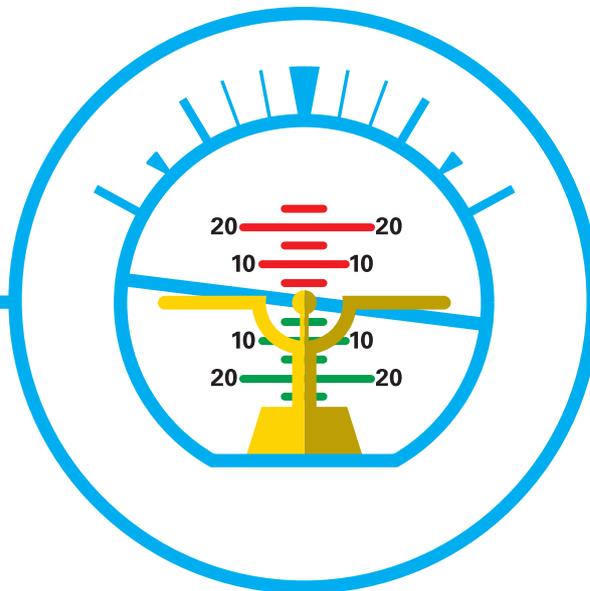


The role of the Senior Independent Director

When it matters (and what to do)





The role and importance of the Senior Independent Director has grown enormously. Shareholders really value this safety valve and not just in extreme situations. Best practice is still evolving and examples exist where early planning and a clear job description would have helped companies in tough situations. Through LGIM and Zygus' different experiences, this guide is meant to help SIDs and Boards define the role and continue to evolve best practice.

Sacha Sadan,
Director of Corporate Governance,
Legal & General Investment Management



Legal & General Investment Management (LGIM) is one of Europe's largest asset managers and a major global investor, with total assets of £853 billion*. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

*as at 30 June 2016, including derivative positions and advisory assets. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor.



**THE ZYGOS
PARTNERSHIP**

The Zygus Partnership is the preeminent specialist firm advising on UK Board appointments. In the past ten years, we have advised on CEO, Chairman, CFO and Non-executive Director appointments for 59 FTSE 100 companies and 95 FTSE 250 companies. The majority of our clients work with us repeatedly over a long period and we, with them, are resolutely committed to building highly effective boards.

The role of the Senior Independent Director

The Senior Independent Director (SID) burst into the Corporate Governance world with the Higgs Review of the UK Combined Code in January 2003. In the wake of the high profile failures of Marconi and Equitable Life, Higgs suggested that the role of the SID was important in the relationship between major shareholders and the board, stating that “The senior independent director should be available to shareholders, if they have reason for concern that contact through the normal channels of chairman or chief executive has failed to resolve.”

Fourteen years on the role of the SID is well established and widely accepted, but it did cause some controversy when it was first proposed. There was a grave concern that it would make governance more cumbersome and weaken the role of the Chairman, but the newborn SID first appeared in the revised version of

the Code brought out in July 2003. Today, the SID is an established feature of UK Corporate Governance. However, there could be said to be a whiff of the awkward teenager about it. The role is not always well understood, even by those asked to undertake it, and expectations are less clear than in the case of the Chairman or Committee Chairman.

What follows is a snapshot of the SID at 14, and an attempt to both capture best practice and give some guidance on what the role has become at its best. It is based on numerous conversations with SIDs themselves, as well as on our experiences of dealing with them in sometimes testing circumstances. In the past 14 years we have witnessed and benefited from the value of a number of effective SIDs, and we are sincerely grateful to them.

**THE ZYGOS PARTNERSHIP AND
LEGAL & GENERAL INVESTMENT MANAGEMENT, 2017**

When it matters

At different times and from different perspectives, the SID is sometimes ambassador, kingmaker, conciliator, counsellor, senior prefect, and occasionally self-appointed heir. The role of the SID as a highly versatile intermediary is indispensable on a well-run Board. While the role description in the UK Corporate Governance Code no longer seems entirely sufficient covering the scope of the role, it is a starting point.

COMETH THE HOUR, COMETH THE SID?

There is a duality to the role of SID made clear by the distinction between 'normal times' and 'during a crisis' in company descriptions of the role. This gives the impression that the SID should be indistinct from the other Non-Executive Directors on a Board, only stepping into the fray at big moments. This impression is reinforced in the FRC Guidance on Board Effectiveness' comments on the SID role.

To fulfill the roles highlighted above effectively, however, the SID requires healthy and actively-maintained relationships with both fellow directors and investors. The effective SID's role is one of continuous diplomacy, rather than sporadic action. At times of stress, such as a takeover or major reputational incident, investors would certainly like the SID to make themselves available proactively, but it is preferable if this is the continuation of a relationship, rather than its initiation. Relationships are key.



UK CORPORATE GOVERNANCE CODE

A.4.1. The board should appoint one of the independent Non-Executive Directors to be the senior independent director to provide a **sounding board** for the chairman and to serve as an **intermediary** for the other directors when necessary. The senior independent director should be **available to shareholders** if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.

A.4.2. The chairman should hold meetings with the Non-Executive Directors without the executives present. **Led by the Senior Independent Director, the Non-Executive Directors should meet without the chairman present** at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

B.6.3. The Non-Executive Directors, led by the Senior Independent Director, should be responsible for **performance evaluation of the chairman**, taking into account the views of executive directors.

E.1.1. The senior independent director should attend sufficient **meetings with a range of major shareholders** to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

THE GUIDANCE ON BOARD EFFECTIVENESS (FRC, 2011)

1.9. In normal times the senior independent director should act as a sounding board for the chairman, providing support for the chairman in the delivery of his or her objectives, and leading the evaluation of the chairman on behalf of the other directors, as set out in the Code. The senior independent director might also take responsibility for an orderly succession process for the chairman.

1.10. When the board is undergoing a period of stress, however, the senior independent director's role becomes critically important. He or she is expected to work with the chairman and other directors, and/or shareholders, to resolve significant issues. Boards should ensure they have a clear understanding of when the senior independent director might intervene in order to maintain board and company stability. Examples might include where:

- there is a dispute between the chairman and CEO;
- shareholders or non executive directors have expressed concerns that are not being addressed by the chairman or CEO;
- the strategy being followed by the chairman and CEO is not supported by the entire board;
- the relationship between the chairman and CEO is particularly close, and decisions are being made without the approval of the full board; or
- succession planning is being ignored.

1.11. These issues should be considered when defining the role of the senior independent director, which should be set out in writing.

It is a dangerous view to hold that the SID is useful in a crisis, but otherwise it is a quiet role.

FTSE 100 Chairman and SID



The role for most companies is just an internal role. For 95% plus of SIDs they are not going to get shareholders wanting to talk to them. The reality of the job is minding Chairman related issues, and acting occasionally as senior statesman on the Board. Most would say their major responsibility is doing the Chairman review each year and that's all they do; but that in itself is an important role. To do it well requires having a good communication line with the other NEDs, and not just once a year.

FTSE 250 SID



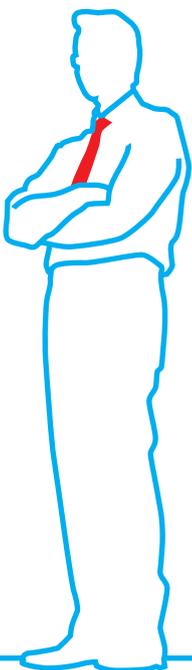
I am great believer in people talking when it isn't a crisis. One common question in my meetings with shareholders as newly appointed SID was about how the relationship between [the current CEO and the former CEO who remained on the Board] really works, and it enables them to ask that kind of question freely.

FTSE 250 SID



The job description is being a safety valve; the difficulty is how you keep the safety valve tested, so you can use it when needed.

FTSE 100 SID



APPRAISING CHAIRMAN PERFORMANCE, AND ACTING AS THE SOUNDING BOARD

As the Chairman is to the CEO, so the SID is to the Chairman. The SID is to be the supportive sounding board for the Chairman, keeping a keen eye on whether the Chairman is still performing his or her role to the Board's satisfaction without losing objectivity or

independence. The Code is clear that the SID should meet with the Non-Executive Directors at least annually to appraise the performance of the Chairman, taking into account the views of the executive directors.

The process was simple, but effective. There was already a NED only discussion in the diary. I called all of the EDs and asked them: "what do you want more of and less of" and took notes; I asked NEDs the same questions and we discussed openly in that meeting. The Chairman came out well, but there were substantial issues with the executive; the new CEO was doing a great job but had never been anywhere near a listed company, so how to get him quickly up to speed, to understand what good would look like in a CFO, and 'what is our role in helping you do that, Chairman'. The Chairman was very pleased to hear all of that as he does have a tendency to have a worry list, and he has huge resources, but it was good for him to know that the other NEDs shared it. We are now helping the CEO develop his new leadership team. So, via the Chairman performance appraisal, we were effectively tackling how the Board functions between the NEDs and EDs. The Chairman and I now have regular sessions when we sit down, and he has asked me to give him more frequent feedback.

FTSE 250 SID



I give five or six questions to all Board members and ask them to write back to me or call me to talk through their answers. They focus on positives and negatives, then I do a report and sit down with the Chairman and go through the pluses and minuses and we try to do it as a real development exercise. I think it works well. Chairmen do need lots of positives; you imagine that they are all confident chaps and chapesses, but they're not. The Chairman and I habitually sit down for lunch once a quarter. I think long and hard before going to those lunches, and what I try to do is get the Chairman to think long and hard about the tricky decisions that he's avoiding; I then try and coax him to get things on the agenda.

The key areas of focus tend to be:

- 1) The company/shareholder relationships
- 2) The CEO/Chairman relationship
- 3) The Chairman/NED relationship
- 4) The SID/Chairman relationship

FTSE 100 SID, and Chairman elsewhere



One of the SID's key responsibilities in the performance evaluation will be to monitor the relationship between the Chairman and the CEO, and ensure that it is a well-functioning working relationship. However the relationship should not be one where the two become too close, and too powerful, for the rest of the Board to challenge successfully. This requires keen antennae.

A few years ago when I was a CEO, I had a Chairman with whom the relationship was very difficult. As a CEO, that's a hard situation to cope with; you think who do I go to? You think, I'm going to have quite a high threshold for complaining about this. To the great credit of my then SID, he spotted the issue and proactively came to me and dealt with it, rather than me having to go out to the end of the gangplank and say 'this is a Chairman I can't work with.'

FTSE 250 SID and former CEO



Chairman performance will also be a topic of the regular external Board evaluation. Investors have suggested that the SID should be involved in planning the Board review, and that its findings should be fed back to the SID as well as to the Chairman. The SID is then in a stronger position to engage with shareholders if required following a review, to give a sense of outcomes and action points.



REMOVING THE CHAIRMAN

The need to change a Chairman ideally comes about as part of the natural evolution of a Board, and with the understanding and support of the outgoing Chairman, usually after they have served between six and ten years in the role. However, as in any succession process, the SID may have to deal with a Chairman who is reluctant to leave, or who is unfit for the job. If the Non-Executive Directors or the shareholders become convinced that the Chairman is underperforming to the point that they need to be asked to stand down, the SID has a particularly delicate task. The process by which a Chairman may be asked to leave before the end of his or her terms is often poorly defined, if at all, in their terms of appointment, which makes it very difficult to force a reluctant Chairman to go. Chairman terms of appointment should be examined to ensure that they do make both the SID's powers and the process for removal of the Chairman sufficiently clear, and good records need to be kept of Chairman performance discussions.

You have to go through the Board process of evaluating the Chairman, and that gives you the opportunity to have a very open discussion with the other NEDs, and then they come to you in between the evaluation process. So there is a lot of discussion which is quite rich.

FTSE 100 SID



Where I've seen Chairman succession go wrong is where everyone's had their head in the sand until the last minute, whereas if you are talking about it on a regular basis you've got time to socialise it. The ones I've seen go wrong are where no one has raised it, and so you haven't known where the SID and the Chairman are coming from, and that's when people get *ideés fixes* and there is an assumption that a person is a shoo-in.

FTSE 100 SID



In the case of a previous Chairman whom I had to move on, the SID had done a decent job of his appraisal, but no note was kept, which made it tricky when I had to tell him it was time to go.

FTSE 100 SID



APPOINTING THE CHAIRMAN

Although the Corporate Governance Code does not specify who should chair the Nomination Committee when the time to appoint a new Chairman comes (other than making clear that the outgoing Chairman should not), the usual practice is that this responsibility falls to the SID. However, for the SID to undertake this role it is of paramount importance that they harbour no desire to become Chairman, or there is a risk that they will “throw the match”. It is a paradox that the SID should be someone who can take over from the Chairman in a heartbeat if necessary, but who doesn’t harbour a strong desire to do so permanently.

From the search firm’s perspective, the key task of the SID in the Chairman appointment process is to keep the CEO onside while ensuring the person appointed is what the CEO needs, and not just what the CEO wants. The Chairman appointment process is often an uncomfortable experience for the CEO. The CEO is the person who will have the closest working relationship with the Chairman, and so has a keen vested interest in the outcome. However, selecting the Chairman is one of the few major decisions a Board makes over which she or he has very limited control. If the ambitious SID can engineer the outcome of the process in their own favour in certain circumstances, so can the frustrated CEO. It will take plenty of work from the SID to ensure that the CEO feels properly heard and is comfortable with the process at every stage, while the SID marshals the Board towards the appointment of the Chairman who is the right one not just for the CEO, but for all stakeholders, including the shareholders.

The big moment comes when you have to do the Chairman replacement role. The most difficult thing you have to do in that process is manage the existing Chairman. A Chairman finds it very hard to just stand back while their successor is being appointed; as Chairman you move psychologically from feeling ultimately responsible for everything in the company to a critical decision where you don’t have any involvement, and that’s very difficult for anyone. A good SID is running the process in close conjunction with the CEO, but managing the outgoing Chairman, and remaining clear that this isn’t the CEO’s appointment.

FTSE 250 SID, and current and former
Chairman elsewhere



I have found that getting the SID to undertake an annual Board Effectiveness Review works well. We use a 3 year rotation, year 1 external, year 2 done by the chair and year 3 done by the SID.

FTSE 250 SID



INCAPACITATED CHAIRMAN

If a Chairman is taken seriously ill and needs to be relieved of their role for a period, the SID has some difficult decisions to make. If recovery is confidently expected, the SID will usually either assume the role of Interim Chairman, or if they believe another individual would be more suitable, will lead the Nominations Committee in selecting another Non-Executive Director to do so. Keeping the Chairman's seat open for the individual to return to can feel like an important signal to send to the incapacitated Chairman at a difficult moment. Nevertheless a careful decision needs to be taken about whether or when it is more in the company's interests to end a period of uncertainty and appoint a permanent replacement. A key consideration here will be whether this is taking place during a time of change elsewhere on the Board, particularly if executive succession is either imminent or recent.

DEPUTY CHAIRMAN?

Where does the role of the SID leave the role of the Deputy Chairman? At the time of writing, in the FTSE 350, there are currently 54 individuals who hold the role of Deputy Chairman or Vice Chairman. In one of these cases, this is an advisory role focusing on the company's ethics, and the individual does not sit on the main board, leaving the SID's role unchanged. In 26 cases, the role is combined with that of SID, and so is essentially the same role. In some of these situations, the Deputy Chairman title is added because the Chairman is non-independent, and so the role is essentially the same as the SID's role, but amplified. In one such example, the SID/Deputy Chairman is responsible for running the CEO appointment process, and shaping the Board agenda with the Chairman, but otherwise the role is the same as a SID plays elsewhere where the Chairman is independent.

In a further 22 cases where the company has both a SID and a Deputy Chairman, the Deputy Chairman is non-independent and is any of a major shareholder, shareholder representative, longstanding NED who has been retained, current executive and/or ex officio CEO. In one case of a German controlled company, one Deputy Chairman is an employee representative. In these cases, the function of the SID is clearly separate from the function of the Deputy Chairman, and unaffected by it.

Of the few remaining cases where there is both a Deputy Chairman and a SID present on the Board, three Deputy Chairmen undertake the role because the Chairman is non-independent. The final two individuals are Deputy Chairmen of two of the largest banks. In both of these scenarios a distinct role for the SID is retained. One of the banking Chairmen described the role of his deputy Chairman *vis à vis* the role of his SID as follows:

I tell the SID things for information, whereas I share the problems with the Deputy Chair when I want help in solving the problem. There are whole projects that I can pass over to the Deputy Chair, for example our response to [a regulatory enquiry]. The SID acts as the umpire and communicator between the Chairman and the CEO, and as the lightning rod. The SID's role in understanding the mood of the other directors is very important.

FTSE 100 Banking Chairman



A Deputy Chairman to a non-independent Chairman where the company also has a SID makes the following distinction:

Like any NED role, the first thing you have to do is to be comfortable and happy with people to the point where in your judgment it is very unlikely there will ever be an issue that requires you to be grumpy, awkward and difficult, and all the other things that you've been chosen for. I'm there as an umbrella in case it rains. The difficult things I've had to deal with as Deputy Chairman, I've dealt with with the Chairman: that tends not to be things where he's in the wrong place, more where it takes two of us to deal with or I'm better qualified to deal with. In one situation where we had to get rid of a senior executive, it was easier for me to handle because of the longstanding relationship.

FTSE 100 Deputy Chairman to
non-independent Chairman



In most instances, there should be no need for both a SID and Deputy Chairman. However, if both roles are required, shareholders would prefer it if clear job descriptions for each role were outlined.

SAFETY VALVE FOR SHAREHOLDERS

AN EXAMPLE OF HOW THIS WORKS IN PRACTICE

Following a turbulent period for a FTSE 100 company, including poor financial performance and accounting issues, LGIM met with its Senior Independent Director to discuss our various concerns. We had previously met with the SID during better times. When performance and governance deteriorated, it was beneficial having previously had contact and built a relationship with the SID. We were able to have a frank and open conversation; this was constructive for the SID too. They were able to manage the Chairman transition in a quick but orderly fashion; behind the scenes and with no leaks. We were able to help the SID with identifying the skills and experience requirements for the new Chairman, as well as being involved in the selection process. The company is performing better and perceived externally to be better governed.

Selecting and changing a SID

WHAT TO LOOK FOR WHEN SELECTING A SID (AND HOW THIS HAS CHANGED)

In 2003 when the role was first mooted, the SIDs appointed were predominantly those who were already familiar to the investor community, such as individuals who in their executive career had served as either PLC CFOs or CEOs. Occasionally they were those who came from a background in institutional investment. They were usually male.

As the role has broadened in scope, the value of a broader set of skills and experiences and EQ has become more clear, and today's population of SIDs is more diverse. Of the 308 individuals who hold either SID or combined SID and Deputy Chairman roles in the FTSE 350, there are now individuals who made their executive careers as advisers, consultants, private company general managers, senior civil servants, and one or two former HR Directors who have since gained Remuneration Committee Chairman experience. 32 of the 308 are now female.

The current expectation that the SID will have a relationship with the shareholders in normal times, as well as in times of crisis, allows some latitude for those with more limited pre-existing shareholder relationships to develop them in the job. A number of mid cap companies combine the role of SID with the role of Chairman of Audit or Remuneration committees. Both roles can add to the SID's knowledge, authority and credibility, and give the SID more reasons to interact with the shareholders and build relationships in doing so.

We have a policy of making the person who is Chair of RemCo the SID, precisely because as Chair of RemCo you do have the opportunity to get through the door with investors, and its easier then to have that SID-type conversation.

FTSE 250 SID



However for companies with larger Boards, which usually loosely correlates to the size of the company, it may become preferable to split the roles:

Somebody asked our Chairman if it was good practice to have a SID who is also Chair of Remuneration. Usually when shareholders have a problem, it's with remuneration. So maybe that's not ideal and I may finish my term as Chair of Remuneration earlier for that reason. It's quite difficult to do a NED role without being Chair of a committee, so it's also important to share out the roles for that reason.

FTSE 250 SID



The broad criteria for the appointment of a SID are usually:

- Ability to serve as a sounding board for the Chairman: this will be enhanced if the SID brings a complementary set of skills and experience to the Chairman's own. This individual should be capable of constructively challenging the Chairman.
- Ability to take the lead in evaluating the Chairman's performance, and to serve as an intermediary for the other directors: this will require strong interpersonal skills and the ability to craft a relationship with the Chairman that is both appropriately supportive, but also sufficiently independent when required.
- By virtue of his or her experience, the SID should be in a position to become more knowledgeable about the company, its performance, its markets and its stakeholders than the other NEDs.
- The SID should have, or should have the ability to develop, strong relationships with the company's key shareholders. He or she should be approachable and proactive in offering meetings, and through these meetings should be capable of developing a balanced view of major shareholders' issues and concerns.

There is however an inherent paradox here. As the SID role becomes more distinct from the Chairman role, there may increasingly be a group of SIDs who are outstanding SIDs but not natural Chairman successors as they possess different skills. But in a number of cases, the criteria above will mean that the SID is the most obvious internal candidate for the Chairmanship. Some companies declare in the SID role description that the SID is ineligible for the Chairmanship. However, a common way of resolving this is for an acting SID to be clear at the start of the process whether they would like to be a candidate.

It's a bit self-fulfilling in a way; if you are bringing someone in with all of the characteristics that the role requires, you are also bringing in an obvious Chair successor.

FTSE 100 SID



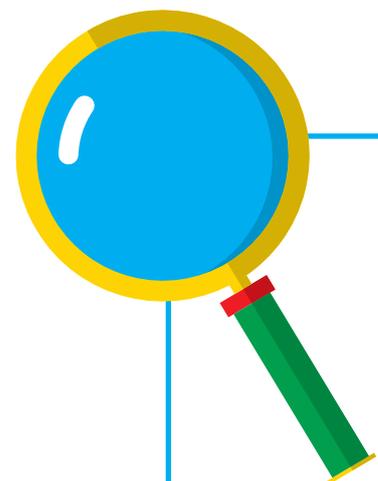
As long as the number of SIDs who become Chairmen in that company stays high, it's quite clear that it's a route to the Chairman role and it's quite difficult to insist that they shouldn't step up.

FTSE 100 SID



When the Chairman asked me, I said "I don't think I'm qualified to be a SID." If the Chairman falls under a bus, or if the shareholders have a problem, I need to step up to the Chairmanship, and I'm not qualified to do that as I'm not steeped in corporate finance if there's M&A, or whatever. The Chairman told me that as SID one relies very heavily on advisers; the biggest part of the role is understanding the different personalities around the Board, working with that, and where necessary with the help of advisers, representing the Board elsewhere. The Chairman said also "I want someone to be my sounding board on a regular basis, to help me work out whether we were doing the right things for the Board as a whole" The speaker then contrasted this with another situation on another board where the SID was less well able to shape the Board dynamics, albeit he had strong investor relations: "I knew I could play a steadying role that some of the others had got too emotional about. If we'd ended up with the succession crisis taking place the SID would have been the right person to go out to investors, but in terms of avoiding it, that fell to me."

FTSE 250 SID



APPOINTMENT FROM WITHIN?

Given the role of the SID as primus inter pares, and the high requirement for knowledge and understanding of the company that is usually gained by prior service on the Board, it can be preferable for a SID to be appointed from among the existing NEDs. However, there is a risk if the appointment could compromise the SID's independence. The Nomination Committee should play a role in the appointment of the SID, whether internally or externally appointed; if internally appointed, as a minimum a nomination committee discussion should take place (possibly led by the outgoing SID) about whether the intended individual is indeed the most suitable, and whether an external search should be undertaken. If there is more than one internal candidate, it is appropriate for each individual director to have the opportunity to make their views known on whom they believe should be a candidate for the SID role, rather than it being left to the Chairman and/or outgoing SID to determine.

I have seen the sort of “Buggins’ turn” approach to SID appointment, which I think is inappropriate. There are a number of circumstances where the Board might be better served by appointing a SID from outside.

FTSE 100 SID



How to set them(selves) up for success

Job description Each company should have a clear role description for the SID in place. The duties outlined in the UK Corporate Governance Code are a starting point for a mandate, but given that the Code still operates on a “comply or explain” basis, having a job description tailored for the individual company makes the expectation that the SID will perform all aspects of the role explicit, and makes it easier for the SID to go about their business. This can also provide the basis for some performance appraisal of the SID themselves, as they can be assessed against the job description in the course of the Board appraisal. The SID should also sit on the majority of Board committees to enhance their knowledge and understanding of the company.

An example SID job description can be found at the end of this document.

SID induction A programme of induction for the SID can also help, whether the individual is already an existing NED on appointment or whether they are a newly appointed director of the company. This usually includes one-to-one sessions with the committee Chairs and the executive directors, as well as with the Chairman to agree the best way to fulfil the “sounding board” aspect of the role, and also how to conduct the annual performance evaluation of the Chairman. The SID should also offer to meet major shareholders on appointment; not all will be as enthusiastic as LGIM to take up the offer of such a meeting, but even if investor appetite to build the relationship in “business as usual” times is limited, the SID could usefully be introduced in the course of a series of the CEO/CFO/Chairman investor roadshows. Some of the impetus for this should come from the SID themselves. The key focus in all of these induction meetings, with colleagues and with shareholders, needs to be on building the relationships that will enable the SID to fulfil their role particularly in testing times.

The Chairman [was offering a round of investor meetings and] offered me as the newly appointed SID to join the meeting if they wished. I was invited to four meetings and went to three (I couldn't get to one for some reason). Because I'd recently done a Rem round with two of my companies, a lot of them knew me anyway. We were quite pleased that there were that many willing to see the Chairman, and I think the world is changing, as when the previous Chairman had offered the same Chairman/SID meetings, hardly anyone wanted to see [the then SID]. A few shareholders said they knew me already and so didn't need to see me. Very often those meetings are two corporate governance guys; it's rarely with the fund manager. But it's very much in our interests to have a good relationship with the corporate governance guys.

FTSE 250 SID



WHO GUARDS THE GUARDS?

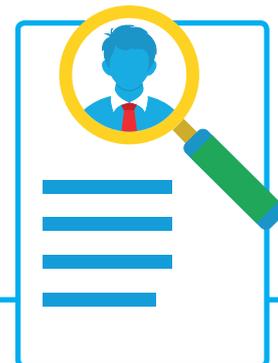
If the SID is the safety valve for Chairman performance, it is of course important that the SID's own performance is subject to scrutiny. The best way to achieve this is for SID performance to be assessed as part of the routine Board appraisal process. It can be helpful to identify the expected means of SID performance appraisal as part of the SID role description.

21st century job descriptions

Where job descriptions for the role of the SID do exist, in a large number of cases they are simply a representation of the relevant clauses in the UK Corporate Governance code (which can be found at the start of this document). However in some cases more developed job descriptions are now emerging. Some of the best of these focus the different aspects of the role on the key relationships involved, and group duties under duties to the Chairman, to the other Non-Executive Directors, and to the shareholders. In the example on the right, the standard clauses are given in plain text; other additional and potentially useful clauses that some companies have seen fit to include are shown in highlighted text. We hope that this is a small but helpful contribution to the evolution of best practice that is enabling SIDs to perform their now indispensable role.

THE ROLE OF THE SENIOR INDEPENDENT DIRECTOR

The role of the Senior Independent Director is to support the Chairman on all governance issues, to provide an alternative communication channel between the Chairman and the Board and to provide a point of contact for principal shareholders to raise issues and concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate. **The Senior Independent Director will be required to facilitate the resolution of any issues that may occur during periods of stress in the company. The Senior Independent Director is not eligible to be Chairman, except on an interim basis to cover an unexpected vacancy, and so if he or she becomes a Chairman candidate, an acting SID will be appointed who will run the Chairman appointment process.**



THE PRIMARY DUTIES AND RESPONSIBILITIES OF THE SENIOR INDEPENDENT DIRECTOR ARE:

To the Chairman

- To provide a sounding board for the Chairman to discuss confidential issues relating to governance, Board performance and the performance of individual directors and concerns raised by directors, shareholders or employees.
- To lead the Non-Executive Directors in an annual performance evaluation of the Chairman, taking into account the views of Executive Directors.
- To lead the process for the selection and appointment of a Chairman and, as and when appropriate, to chair the meetings of the Nomination Committee when the Committee is considering succession to the role of Chairman.
- **To be the focal point for Board members for any concerns regarding the Chairman, or the relationship between the Chairman and the Chief Executive; if necessary, to facilitate the resolution of any disputes between the Chairman and the Chief Executive.**
- **To agree and review the Chairman's portfolio time commitments to ensure they do not compromise the fulfilment of his duties to the company.**
- **To consider the initial fee proposals for the Chairman for the Board to consider and approve.**

To the other Non-Executive Directors, and the Board

- To act as a trusted intermediary for Non-Executive Directors where this is required to help them to challenge and contribute effectively. **The SID should make himself available for confidential**

discussions with other Non-Executive Directors who may have concerns which they believe have not been properly considered by the board as a whole.

- To lead a meeting with the Non-Executive Directors without the Executive Directors and Chairman present at least annually. **The SID has the authority to call a meeting of the Non-Executive Directors if, in his or her opinion, it is necessary.**
- **To take the initiative in discussion with the Chairman or other Board members if it should seem that the Board is not functioning effectively.**

To Shareholders

- To be available to address shareholders' concerns which have failed to be resolved by the Chairman, Chief Executive or Chief Financial Officer, where such contact is appropriate.
- To attend sufficient meetings with shareholders and financial analysts to develop a balanced understanding of their issues or concerns and report these back to the Board.

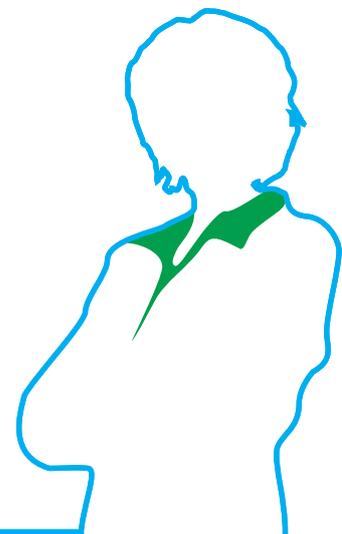
Performance review

- **The Chairman and Non-Executive Directors are responsible for reviewing the performance of the Senior Independent Director.**
- **The Senior Independent Director's remuneration is reviewed by a committee of the Board comprising the Chairman and Chief Executive Officer and submitted to the Board for approval.**

A final thought from an experienced 21st Century SID

If a SID does their job well, you should never notice. When things are going well it can feel like there's nothing to do, but you need to keep your lines of communication open. If a fire is beginning to smoulder, as SID you know about it and deal with it, but you don't go crashing around the forest looking for fires and starting them by mistake. All this means alpha males with huge egos probably are not the best candidates!

SID of several FTSE 100s



CONTACT US

For further information on anything you have read in this report or to provide feedback, please contact us at corporategovernance@lgim.com. Please visit our website www.lgim.com/corporategovernance where you will also find more information including frequently asked questions.

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