



Senior Independent Directors

Introduction

The role of the senior independent director has evolved over the past 10 years or so and became formally established when the Combined Code on Corporate Governance was introduced in 2003. By the time of the introduction of the new UK Corporate Governance Code in 2010 (the *Code*), the position of senior independent director was firmly established. Only minor amendments have been made to the duties of the senior independent director in the Code. Code Provision A.4.1 states that a board should “appoint one of the independent non-executive directors to be the senior independent director”. Where there is a senior independent director it is a requirement that they are identified in the annual report.

The role of Senior Independent Director

The fact that there is a senior independent director on the board is designed to give independent shareholders comfort that there is a director on the board to whom they can turn if ever they have concerns about the way that the board is being run which they cannot address with the chairman. Consequently, the key responsibilities of the senior independent director as prescribed by the Code are:

- To provide a sounding board for the chairman and serve as an intermediary for the other directors when necessary.
- To 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.

To 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. To meet with the other non-executive directors at least annually to appraise the Chairman’s performance (taking into account the views of the executive directors) and on such other occasions as that may be deemed appropriate.

The FRC Guidance on Board Effectiveness sets out further considerations for companies to consider when defining the senior independent directors’ role. The guidance suggests that the senior independent director may take responsibility for the orderly succession process for the chairman. It also highlights the importance of the role at times of crisis. Boards should be clear about when the senior independent director might intervene in order to maintain board and company stability. Examples included are 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.

The NAPF Corporate Governance Policy & Voting Guidelines highlight the importance to shareholders of having a senior independent director as a key contact for shareholders when other channels of communication have failed. PIRC's Shareholder Voting Guidelines require companies to make available a summary of the senior independent's responsibilities and may vote against the chairman if a senior independent director is not appointed.

The time commitment required from a senior independent director is usually relatively light with their principle responsibilities and time commitment continuing to be that required of them as an independent member of the board. However he/she will be regarded as an "elder statesman" on the board and it is usual for the senior independent director to be an individual with gravitas, good reputation and lengthy experience in the quoted company environment.

The Appointment of a Senior Independent Director

The Code specifies that the board should appoint a senior independent director from among its existing independent directors. Sometimes a senior independent director will be appointed as a new director but it is more usual for an existing non-executive director who has experience of the company to be appointed as the senior independent director. The decision to appoint the senior independent director is one for the whole board and this is usually specified in the schedule of matters reserved for the board. The appointment should be made on recommendation of the Nomination Committee who will be aware of the board balance and skills of particular directors.

The responsibilities of the senior independent director will be added into the normal appointment letter for an independent director rather than being set out separately. When setting out the responsibilities of the Chairman and Chief Executive in writing as required by the Code, the responsibilities of the senior independent director may also be added to this document for completeness and this is a recommendation of the FRC's Guidance on Board Effectiveness.

It is usual for the senior independent director to be paid an incremental fee for taking on this responsibility. The senior independent director may continue to perform the other duties of an independent non-executive director e.g. membership of board committees.



The Prism Perspective

Ordinarily the role of the senior independent director does not require a substantial time commitment and thus can be seen as being more symbolic than actually important. However, the requirement was introduced to provide a useful “check and balance” in the governance process and the role does provide shareholders with an outlet for addressing concerns about the operation of the board. Thus, having a senior independent director is valuable where there is an Executive Chairman on the board; especially so if the chairmanship is combined with the Chief Executive’s role. In these situations, shareholders will gain comfort from the presence of a non-executive leader.

Useful Sources

UK Corporate Governance Code
FRC Guidance on Board Effectiveness
IA/EY Board Effectiveness: Continuing the journey April 2015

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