

This Guidance Note is for the information of UKGI staff. It is not to be circulated outside of UKGI.

Guidance Note 2

'Overboarding'

Updated August 2020

This Guidance Note is intended to raise awareness of the concept of 'overboarding' and to provide a framework from which you can assess current and prospective non-executive directors' capacity in terms of time commitments and other pressures to perform their role adequately. It also gives some guidance on how to handle this issue with Departments as shareholders, boards and headhunters, to assist you when you are advising a board (especially a Nominations Committee) or shareholder, either as a shareholder team and/or as a NED.

Although the concept of NEDs having sufficient capacity to perform their roles adequately is not new, the latest guidance for listed companies suggests a more rigid approach to assessing the capacity of any individual board member, with board appointments becoming contingent on demonstrating sufficient capacity.

You may have to convince a Chair or serving NED of the need to reduce their external appointments/commitments to devote sufficient capacity to a UKGI portfolio role and/or advise a Minister or Perm Sec to act, where a board member is, or is at risk of, becoming 'overboarded'.

Further reading is included in the links below. Please send any views, experience and documents to Helen Mitchell or Tim Martin to add to our best practice database on the subject.

What is 'overboarding'? And why is it important?

UKGI considers it crucial to the governance of any organisation that directors have sufficient time and skill to perform their roles effectively.

New guidance issued during by FRC (see below), Institutional Shareholders' Services (ISS), and others suggests a more rigid approach to assessing the capacity of individual non-executive directors to perform their role adequately.

Where an individual exceeds the prescribed limits, they should be considered 'overboarded' and not considered for further appointment/reappointment.

FRC Code 2018

Principle H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Paragraph 15. When making new appointments, the board should take into account other demands on the director's time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. Full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.

Institutional Shareholders Services (ISS)

Where directors have multiple board appointments, ISS may recommend a vote against directors who appear to hold an excessive number of board roles at publicly-listed companies, defined as follows:

- Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.
- Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.

Key issues to consider include:

Approach to overboarding analysis

We may not often come up against the Listed company constraint for NEDs, (rather than Chair appointments) so it is important to be clear that it is not just about this measure but also 'other significant commitments' as referred to in the FRC guidance. This could also be the case where multiple public sector appointments are concerned.

We should be aware though that external experience can be very valuable in terms of career development and bringing new ideas and experience to the board room and concerns about overboarding should not inhibit these benefits.

Who should lead any 'overboarding' analysis?

This requires buy in from the shareholder and the directors themselves in the case of existing appointments. UKGI should lead but will need careful handling. We should also ensure that headhunter or other executive search functions are aware of the latest guidance and are following it for new appointments as appropriate in relation to UKGI portfolio businesses.

It should also form part of any external board review.

UKGI internal process

We recommend that an initial assessment (this can start just with the data on other appointments of each director) is made by teams for each portfolio business. This can form the basis of an assessment of overboarding as part of the UKGI portfolio review process for all portfolio businesses.

A Worked Example

Applying the new guidance, non-executive board members should hold no more than five mandates (one mandate is equivalent to a non-executive role on a listed company board, or on an equivalent public sector organisation):

NED A	Chair x 3 Listed Companies NED x 2 Listed Companies Chair x Industry Advisory Board Trustee x 3 small charities	8 mandates	NED A would be considered overboarded based only on the listed company roles
NED B	NED x 3 Listed Companies	3 mandates	Both NED B & C could be considered for appointment to a further NED role
NED C	Executive position	3 mandates	
NED D	Chair x very large public sector body Chair x large public sector body NED x 2 Listed Companies	6 mandates	NED D would be considered overboarded based only both the listed company roles and public

Further Reading

Financial Reporting Council – Guidance on Board Effectiveness

<https://www.frc.org.uk/getattachment/61232f60-a338-471b-ba5a-bfed25219147/2018-Guidance-onBoard-Effectiveness-FINAL.PDF>

Deloitte – 2018 Directors' remuneration in FTSE250 companies (page 27)

<https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/tax/deloitte-uk-tax-your-guidedirectors-remuneration-in-ftse-250-companies.pdf>