

Sedex Information Exchange

Corporate Governance

Sedex Board – Roles & Responsibilities

1. Corporate governance in Sedex is the system by which the company is directed and controlled. The Board of Directors is responsible for the governance of Sedex. The responsibilities of the Board include setting Sedex's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to Sedex's members on the Board's stewardship. The Board's actions are subject to laws, regulations and the members of Sedex in general meeting. *(General definition based on the Cadbury Report, 1992).*
2. Sedex Information Exchange is a Company Limited by Guarantee incorporated in the UK. Therefore, it bases its governance arrangements on the UK Code of Corporate Governance (latest edition: September 2012). This not only represents best practice for companies incorporated in the UK but is the standard to which all our UK-based member companies must comply (including those represented on the Sedex Board).
3. In September 2012 Sedex Information Exchange Limited ("Sedex") launched two subsidiary companies: Sedex Solutions Limited ("Solutions") and Sedex Information Exchange (Shanghai) Limited ("China"). These are wholly-owned by Sedex but are separate legal entities. Therefore, from the October 2012 Board meeting, the Board of Sedex Information Exchange Ltd has become, in effect, the Board of the Sedex group of companies. (For reference: Solutions and China both have their own Directors registered with the respective authorities. For Solutions these are the Sedex CEO, Jonathan Ivelaw-Chapman, and the Chair of Sedex, Steven Esom. For China it is the Sedex CEO, Jonathan Ivelaw-Chapman.)
4. The key principle of the UK Code of Corporate Governance, applied to Sedex, is that Sedex should be headed by an effective Board which is collectively responsible for the long-term success of the company and its subsidiaries.
5. Based on the Code the key functions of the Sedex Board are:
 - Setting out strategic aims
 - Making sure that resources are in place to secure company objectives
 - Reviewing management performance
 - Setting the company's values and standards
 - Ensuring that obligations to Sedex members and others are understood and met
6. The individual Directors of Sedex operate in accordance with the principles and duties laid down in the UK Companies Act 2006 and the Code. The key principle applied to Sedex is that a Director of Sedex must act in the interests of Sedex – and not in the interests of a group or groups within the company, such as their

employing company or a group of member companies, if these are at odds with the interests of Sedex.

7. In line with the Code, the general duties of each Sedex Director are:
 - A duty to promote the success of the Sedex company
 - A duty to exercise independent judgement
 - A duty to exercise reasonable care, skill and diligence
 - A duty to avoid conflicts of interest
 - A duty to act within the powers specified in Sedex's Articles of Association
8. In addition, specific to Sedex, Directors have two additional duties:
 - A duty to understand how the Sedex platform works and the services which Sedex offers and how these are used by the different Membership groups
 - Specifically, for elected Member Directors, a duty to understand the needs of the Membership group that elected them so that they can offer a broader perspective than their own company.
9. When fulfilling the general duty to promote the success of the company, Sedex Directors should consider the following factors in all their deliberations:
 - The likely long term consequences of a decision
 - The interests of the company's employees
 - Fostering the company's business relationships with members, suppliers, customers and other external stakeholders
 - The impact of operations on the community and the environment
 - Maintaining a reputation for high standards of business conduct
 - The need to act fairly between all of the stakeholders in the company
10. Sedex Directors are accountable for ensuring that Sedex meets all of its statutory obligations, including its financial, accounting and auditing obligations; its health and safety obligations; its employment protection obligations.

Membership of the Board

1. In line with the Articles of Association (as approved at the AGM in March 2013) the Sedex Board of Directors comprises up to 14 Directors. Nine are elected Member Directors, four are Independent Non-Executive Directors and one is an Executive Director (the CEO).
2. The nine elected Member Directors are drawn three from each of the three Membership groups and are elected by the members at the AGM, in accordance with the Articles of Association.
3. The Member Directors are responsible for appointing up to four Independent Non-Executive Directors (NED's) and the CEO. In line with the Code, "independent" is defined as independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. This would normally exclude any current employee of a Sedex Member company. One of the

NED's is to be appointed Chair of the Board. All of the NED's should be appointed on merit taking into account the following criteria:

 Their experience in corporate governance

 Their expertise in areas of critical importance to Sedex (e.g. finance expertise, IT expertise)

 That they complement rather than duplicate the expertise of the elected Member Directors

 That they add to the international awareness and diversity of the Board

4. The Articles of Association state that, for normal business, the quorum for a Board meeting is four which must include one elected Member Director from each of the three membership groups.
5. The Articles also state that only Member Directors can vote on the appointments and remuneration arrangements for CEO, Chair and NED's; and on changes to Membership fees.
6. In line with Sedex's historical practice, the nine elected Member Directors receive no remuneration for their service on the Board. However, personal out-of-pocket expenses can be reimbursed.
7. The Member Directors have the collective authority to approve payments to the NED's. Out-of-pocket expenses are normally reimbursed. Any additional payments to NED's should be at a level consistent with Sedex's non-profit status. Any special terms and conditions will be specified in each NED's individual Director's Service Contract.
8. Sedex Member Directors and Sedex NED's are expected to devote 10 days per year to their work as members of the Board of Sedex. This includes five days for Board Meetings. The additional five days is intended to cover preparation for/follow up after Board meetings; interaction where appropriate with the Executive, management and staff; participation in Board committees; participation in the AGM/Members Forum. The Nominations Committee can make exceptions to this and require additional days, for example for the Chair and for specific NED's where additional work is necessary.
9. In line with the Articles of Association, Member Directors serve for three year terms and can stand for re-election. NED's normally serve for two year terms. However the Nominations Committee can make exceptions and can renew terms. The specific term for each NED is stated in their individual Director's Service Contract.

Sedex Board – How it works in practice

1. The full Board meets quarterly. One Board meeting per year is for two days to include a Strategy Review and a Board Performance Appraisal.

2. The Board of Sedex has established three Board Committees to address specific tasks and to bring recommendations to the full Board. The three Board committees are:

Audit & Risk Committee: the general role is to ensure full compliance with all accounting, controls and auditing requirements. Specific tasks within Sedex include: defining and monitoring the authority limits of the executive and the powers reserved to the Board; ensuring that the subsidiaries are established and operate correctly; monitoring of contractual compliance by key suppliers; evaluating and monitoring any investment financing arrangements.

Nominations Committee: The Articles of Association state that the CEO, Chair and the other Independent Non-Executive Directors can only be appointed by the nine Member Directors. Therefore, collectively, they are the Nominations Committee. The Nominations Committee delegates tasks to ad hoc work groups (e.g. to screen NED applicants and/or recommend candidates). However formal appointments are only made by the Nominations Committee.

Remuneration Committee: the general role is to recommend the remuneration of the CEO; to recommend any payments to NED's (other than reimbursement of expenses) and to monitor the remuneration policies, procedures and practice for the management and staff of Sedex.

3. The Board Committees meet at least once per year, or more frequently, as the Chair of each committee decides, based on the tasks assigned to the committee by the Board.
4. In line with best practice, the Chair of each committee has the authority to invite appropriate external advisers to support the work of the committee (e.g. a legal adviser, auditor, Comp & Ben expert). We seek to do this on a goodwill basis (given Sedex's non-profit status). However, where the Chair of the committee believes it necessary, this support can be at Sedex's expense.
5. All Sedex Directors are covered by Directors and Officers Liability Insurance at Sedex's expense.

Sedex Board - Effectiveness

1. The desired culture of the Sedex Board is "constructive challenge". This is the best guarantee of Board effectiveness. In June 2012 the Board adopted a description of Board outcomes and desired Board behaviours in order to bring to life what "constructive challenge" means to us:

Board Outcomes we aim to Achieve

- Compelling vision & ambition leading to a clear mission
- Guardian of Sedex purpose & values
- Strong strategy to maximize upside opportunity/not obsessed by minimizing

risk

- Practical engagement around key issues and projects
- Clear direction/measurable goals/ setting the operating parameters
- Monitor/demonstrate board impact and benefit
- Understand executive roles & responsibilities
- Bringing diverse perspectives, knowledge, skills and experience

<i>Board behaviours we aim to demonstrate.</i>	<i>Schroder Model descriptors (for reference only)*</i>
Understanding each other's perspective Well informed Good listeners	Seeking information
Not limiting ourselves and being open to new perspectives Contributing new ideas	Forming concepts
Not limiting ourselves and being open to new perspectives Effectively evaluating new ideas	Conceptual agility
Being open and honest and allowing others to do the same Not limiting ourselves and being open to new perspectives	Enabling openness
Ensuring that everyone is involved in discussions and decisions	Facilitating interaction
Encouraging vs criticising, building relationships with the executive team	Developing capability
Challenging	Influence
Uniform support of decisions	Building confidence
Communicate with clarity (expressing your ideas so that others can understand)	Inspiring communication
Prepared, active participation Clear , prompt decision making/decisive, output focused	Enabling action
Setting measures, tracking performance measures	Measuring & monitoring performance

*Note: the Schroder model of Boardroom Behaviours is regarded as a good example of best practice and was used by the Board as a reference when developing its own descriptors.

2. All Directors participate in an annual Board Appraisal and also in an annual Board

Effectiveness development event (which can be combined with the Appraisal). These are focused on developing the Board's practice of constructive challenge through achieving the outcomes and demonstrating the behaviours described in the table above. The Chair is responsible for organizing these events.

3. Each Board member receives a confidential Annual Appraisal of their performance as a Director of Sedex intended to help them better fulfil their role. This is the responsibility of the Chair. The Chair also receives an Annual Appraisal. This is the responsibility of the Chair of the Nominations Committee.

Sedex – Corporate Governance – General Explanation

Approved: 8 October 2013

Last updated: 6 September 2016