

19 September 2013

Dear Chairman

### **Board leadership, transparency and governance – principles**

Since I became Chairman of Ofwat I have emphasised the importance that we place on the sector operating to the highest standards of Board leadership, transparency and governance. In [‘Observations on the regulation of the water sector’](#) I set out my concerns and also the steps that we might consider to remedy those concerns.

Over the past six months we have had extensive dialogue about these issues, including our expectations of companies. We have also been clear about our intention to set out the principles that should apply in this sector. We have welcomed this engagement and have been pleased to see some improvements to disclosures that some companies have made in their 2012-13 annual reports. These have contributed to improving the transparency of reporting.

There is significant public pressure on companies to operate to high standards of governance and transparently demonstrate that they do so. We have seen unwelcome criticism, in the media, of some companies’ Board leadership and governance arrangements. Some of that public criticism has been directed at individual companies operating in this sector.

The attached paper sets out the principles that we consider should apply to companies operating in this sector. In considering our approach we have considered whether we should pursue licence obligations to set out the minimum standards that we expect from companies; or whether in accordance with progressive regulation we should set out the principles that we consider should apply **as a minimum** that companies can use to develop their own codes that demonstrate how they meet and exceed our minimum expectations.

Our Board considers that a self-regulatory approach is preferable but this relies on companies responding promptly in the same vein. It remains open to us, however, in the public interest to pursue licence modifications to secure the principles in companies' licences if we find that a significant number of companies do not accept the approach set out in our principles or are not indicating an intent and plan to meet our minimum expectations in the timescale. Early indications of a willingness to conform to our approach will enable Ofwat's executive team to focus limited resources on non-conforming companies. Early adopters can be assured that, post consultation, Ofwat would not make later revisions which would cause such companies to regret having moved early.

As you will be aware we have been working with a group of investors to consider a series of principles that could be used as a guide at the holding company level. We expect to share these principles with you later this year.

We are seeking your agreement or any views you wish to express on the principles set out in the attached paper by 31 October 2013.

Sincerely

A handwritten signature in black ink, appearing to read 'Jonson Cox', written in a cursive style.

**Jonson Cox**  
**Chairman**