



2007 Review of the Combined Code: Consultation on Proposed Changes to the Code

The ABI's Response to the FRC Consultation Paper

Introduction

1. The Association of British Insurers, on behalf of its Members who are institutional investors owning some 17 per cent of the shares of UK-listed companies, welcomes the opportunity to comment on proposed amendments to the UK Combined Code.
2. We continue to believe the Code works well and that there is no pressing need for significant change. The Code continues to make a vital contribution to the effectiveness of the UK's corporate sector, avoiding unnecessary and burdensome regulation. We would stress that our approach as investors is to operate the Code in a way that fosters sensible governance arrangements without standing in the way of entrepreneurialism. Against this criterion, the Code ensures that through an appropriate measure of accountability to shareholders, governance structures are balanced and effective and help companies pursue their business activities in a manner that creates sustained value.
3. We were pleased to note that following the FRC's review there are only two changes being proposed to the Code. We consider this reflects the Code's inherent strength and continuing relevance.

Specific comments on Consultation

Chairing more than one FTSE-100 company

We have argued in favour of this change and support the new wording.

Company chairman sitting on audit committee for smaller companies

As a matter of principle the ABI is opposed to carve-outs in the Code relating to a company's size. The ABI does not believe that the principles of good governance are directly or solely related to a company's size, while carve-outs always create a problem of thresholds.

Our members support the principle that a company's audit committee should consist solely of independent directors. The Code already provides for smaller companies to have a two-person independent audit committee, which the chairman is able to attend as an observer. Given this, and the fact that under the "comply or explain" regime it is possible for a company to derogate from the Code's provisions providing an explanation is given, the ABI does not consider there is presently a prima facie need to introduce further flexibility.

This view is strengthened by institutional investors' track record of considering explanations for exemptions conscientiously, discussing them where necessary with companies and supporting the vast majority of them at the voting stage.

Furthermore, we consider that attempts to alter the Code in this respect would impact on the Smith Guidance, which would also need amending.

Revised Preamble

We strongly support the view that the preamble should emphasise that good governance should support wealth creation and entrepreneurship as well as protect shareholder value. Company-specific disclosures should be relevant and the Code's provisions should not be seen as being overly prescriptive. However, companies should continue to seek to apply the core principles of good governance.

Overlap with FSA Corporate Governance Rules

We agree it is sensible that the revised Combined Code should come into effect at the same time as the new FSA Rules, which are needed to implement the corporate governance requirements in the 4th and 8th Company Law Directive. We will be commenting on the FSA's proposals separately.

