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14 March 2008

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Dear Mr Hodge

2007 Review of the Combined Code: consultation on proposed changes to the Code

INTRODUCTION

1. Ernst & Young LLP is grateful for the opportunity to offer its comments on the FRC's proposed changes to the Combined Code, following its review of the Code in 2007.
2. We agreed with the findings of an earlier review in 2005, which said that 'overall, the Code was bedding down well and having a positive impact, contributing to improvements in corporate governance practice and disclosure, and greater engagement between boards and shareholders'. As such we welcome the FRC's periodic review of the Code, last completed in July 2007, to find ways to improve it rather than attempt to develop a new one. To this end we support most of the FRC's proposed changes and clarifications in this consultation.
3. We also welcome the FRC's timing of this consultation, which coincides with an FSA consultation on proposed changes to their rules to accommodate the 4th and 8th Directives (corporate governance statements and audit committees). This will help to ensure that the FRC's changes and the new FSA Rules take effect at the same time, on or after 29 June 2008. The resultant continuity should help to remove what might otherwise have been an unnecessary and unwelcome complexity.

GENERAL COMMENTS

4. We support in general the proposed changes to the Code, specifically:
 - a) removing the restriction on individuals chairing more than one FTSE 100 company; and
 - b) allowing company chairmen (of listed companies outside the FTSE 350) to be a member of, but not chair, of their companies' audit committees (on the proviso that they were considered independent on appointment as company chairmen).

5. We would like to add that while we support in principle the idea of allowing company chairmen to join audit committees of smaller companies, subject to the various provisos, there would need to be checks and balances in place to ensure their independence was not only assessed properly from the outset, but also on a continual basis. If concerns should arise that these precautions are not working satisfactory, we would encourage the FRC to review this change and take action that would avoid jeopardising the integrity of audit committees.
6. We also support the proposed clarifications, to accommodate the overlap with the new FSA rules, specifically:
 - c) additional footnotes to those provisions of the Code that overlap with the FSA rules, to help ensure that companies do not overlook the need to comply with the rules when considering whether to comply or explain against the Code; and
 - d) updates to Schedule C of the Code, so that it lists all corporate governance disclosure requirements (FSA and FRC).
7. There was, however, one recommendation we made in last year's consultation which has not surfaced in the proposed changes to the Code or any other FRC communication. We again encourage further explicit promotion of the Code itself by the FRC, and in particular the encouragement of companies to provide more and better explanations, if or when they elect, or find themselves in, an 'explain' circumstance.
8. We hope our response is helpful and respectfully ask the FRC to publish it alongside other responses shortly after the consultation closes. If the FRC would like further clarification on the points raised by Ernst & Young, please contact me.

Yours sincerely



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