



Grant Thornton

Our Ref NJJ/SAM/1207
Your Ref CODE REVIEW

Financial Reporting Council
5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN
For the attention of Chris Hodge

National Office

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100
F +44 (0)20 7383 4715
DX 2100 EUSTON
www.grant-thornton.co.uk

11 March 2008

Dear Sirs

2007 REVIEW OF THE COMBINED CODE: CONSULTATION ON PROPOSED CHANGES TO THE CODE

We welcome the opportunity to respond on the above review paper. We support the approach taken by the FRC in seeking views from stakeholders, and we support initiatives to facilitate debate and discussion on issues relating to corporate governance.

We note the scope of the consultation paper relates to proposals arising from the 2007 review, and restrict our comments accordingly. We have some comments on development of the Code that we will pass to the FRC when the 2008 review commences. For ease of reference, we comment on proposals in the order which they are addressed in the consultation paper.

Timing

We note that the FRC anticipates that revisions will apply to "financial years beginning on or after 29 June 2008". It is not clear whether the FRC intended for revisions not to apply to short accounting periods, but it is normal for new provisions to apply to "accounting periods beginning...".

Regulatory Impact Assessment

We note the FRC's intention to publish a regulatory impact assessment (RIA) when issuing the revised Code. While the proposed changes are not going to affect a wide cross-section of companies, we observe that in principle the RIA will be most effective if it informs debate when the proposals are considered and debated, as opposed to when those proposals are implemented.

Chairing more than one FTSE 100 company

We support the proposed changes to provision A.4.3 which would remove the restriction on an individual chairing more than one FTSE 100 company. In response to the FRC's question posed in paragraph 9 on whether additional safeguards are required, we observe that the answer will depend on the circumstances. In our view, the provisions in the Code are sufficient to support the principle that the chairman devotes sufficient time to the company, and additional safeguards would risk being unnecessarily restrictive on the majority of companies. The "comply or explain" model allows directors to give shareholders the information they need to make an informed decision.

Chartered Accountants

Member firm of Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Company chairman sitting on audit committee

In our view it is acceptable for the chairman to serve on the audit committee, provided that a majority of the committee are independent directors. We support the proposed changes to provision C.3.1.

Revised preamble

The preamble to the Code, which we accept has no formal status, nevertheless puts the Code in context and sets the tone for the principles which underpin good corporate governance. If the FRC thought it appropriate, we would be happy to comment on a draft revised preamble prior to publication in a revised Code.

Overlap with FSA corporate governance rules

We note that the revised Code will come into effect at the same time as the new FSA rules needed to implement the corporate governance requirements of the 4th and 8th Directives. We observe that the Code is more detailed, and in some cases more onerous, than the equivalent rules. This is not necessarily a bad thing, but if a company complies with the Code, then the company should be able to assume that it has automatically complied with the FSA rules. It will be unhelpful if companies have to refer to two different places to consider two sets of words that are intended to achieve the same result.

Where there is a difference in wording, the Code should be amended to be consistent with the FSA rules. For example, when considering the audit committee, "recent and relevant financial experience" as currently expressed in the Code should be amended to "competence in accounting and/or auditing" as will be expressed in the FSA rules. The Code should highlight those minimum requirements of the Directives, for example in bold italic text (ie those Code provisions where companies must comply, and explain is not an option).

If amended, highlighted text in the Code is not possible, then as a minimum the updates set out in paragraph 16 of the consultation paper should be implemented.

Interim recommendations from the Market Participants Group

After the 2007 review of the Code, in October 2007 the Market Participants Group (MPG) made a package of recommendations in its final report into Choice in the UK Audit Market. The 2008 review of the Code will need to consider stakeholder reaction to the MPG's recommendations for audit committees before deciding on the most appropriate action.

In our view, the emergence of best practice for audit committees is currently an area where additional guidance could make a substantial difference to investor understanding of the financial reporting process and the key areas of judgement in that reporting. Grant Thornton would be delighted to assist the FRC in generating guidance for audit committees if required.

If you have any questions on this response, please contact Steve Maslin (phone: 020 7728 2736; email Steve.Maslin@gtuk.com) or Nick Jeffrey (phone: 020 7728 2787; email Nick.Jeffrey@gtuk.com).

Yours sincerely

Steve Maslin
Head of External Professional Affairs
For Grant Thornton UK LLP

Direct T: 020 7728 2736
Direct F: 020 7728 2736
E: Steve.Maslin@gtuk.com