



KPMG LLP
1-2 Dorset Rise
London EC4Y 8EN
United Kingdom

Tel +44 (0) 20 7694 8082
Fax +44 (0) 20 7694 8096
DX 38050 Blackfriars

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

Our ref tc/815

8 January 2008

Dear Chris

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

We welcome the opportunity to comment on the proposed changes to the Combined Code.

Since its inception, we have strongly supported the Combined Code and are pleased to see that only limited amendments are proposed rather than a major overhaul of the Code.

Both proposed changes have been posed as questions in the KPMG sponsored Audit Committee Institute's annual audit committee survey. As a result, we will be in a position to feed back the views of UK audit committee members in due course.

Our own views on the two proposals are set out below.

Removal of recommendation that no individual chairs more than one FTSE 100 company - Provision A.4.3

We recognise that the current wording might be considered both unnecessarily prescriptive and fail to recognise those other commitments that might have a serious impact on an individual's ability to devote an appropriate amount of time to their chairmanship duties. As such, we agree that the sentence "No individual should be appointed to a second chairmanship of a FTSE 100 company" could usefully be deleted.

However, we would wish to see the Supporting Principle A.4 strengthened to recognise that the time commitment required of the non-executives, particularly the chairman of the board, might increase significantly in times of crisis. Whilst this is currently referred to within provision A.4.3, we feel that, in view of the proposed change, this point is important enough to be raised to the level of Supporting Principle.

Removal of recommendation restricting company chairman from sitting on the audit committee (for smaller companies only) – Provision C.3.1

Whilst recognising that this proposal reflects an earlier relaxation in respect of remuneration committees, we are not in favour of the proposed change which appears designed to increase levels of compliance with the Code rather than further a stronger governance regime.

First, we do not believe that specific exemptions for smaller companies are in the wider interests of the 'comply or explain' framework. The best practice provisions within the Combined Code should be applied to all companies regardless of size or complexity: the 'comply or explain' principle allows small companies (and others) the flexibility to depart from particular provisions where they feel it appropriate and it is for investors to take the size of a company into account when considering explanations of non-compliance.

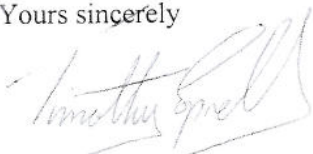
Derogations from the Code for smaller companies simply reinforce the commonly held view that companies 'must' comply with the Code and that any non-compliance is a bad thing.

We are also concerned as to the rationale behind offering such a relaxation for small companies. Sir Derek Higgs' 2003 report *Review of the Role and Effectiveness of Non-executive Directors* hints at why the Code currently recommends that the chairman of the board should not sit on the audit committee. Public companies should not be the personal fiefdoms of overly dominant individuals. Checks and balances are required and effective audit committees must be independent, objective and headed by strong audit committee chairmen who, when necessary, can stand firm against an overly dominant CEO or Chairman.

It is a mute point perhaps, but if the combination of dominant board chairman and weak audit committee chairman were to arise, it is likely to be more prevalent outside the FTSE 350.

Of course the current version of the Combined Code does not restrict the chairman of the board from attending audit committee meetings and it could be argued that an overly dominant individual might exert significant influence merely through attendance. Nevertheless we believe the current recommendation restricting membership of the audit committee to solely independent non-executive directors to be a provision that can usefully be used to support the audit committee's effectiveness – albeit in a limited number of cases.

Yours sincerely



Timothy Copnell
Director