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Dear Chris,

Combined Code Amendments

The NAPF has consulted with a number of its larger members about the two amendments which you have proposed to the Code and I can confirm that there is broad support for them. However we see the situation envisaged in each as an exception to the norm and therefore suggest that additional guidance is provided to reduce the likelihood that they are adopted as standard practice.

A.4.3 : We suggest adding a line to the revised rule: “.....Changes to such commitments should be reported to the board as they arise, *considered as part of the annual board evaluation process* and included in the next annual report.”

C.3.1 As you know the NAPF adopted this approach in its revised guidelines in 2006, in response to lobbying by smaller companies. However we always envisaged it as being exceptional and really only applying to those companies towards the bottom end of the Small Cap Index for whom the expense and difficulty of recruiting additional quality NEDs for compliance purposes seemed an unnecessary burden on shareholders. You are proposing a wider application which makes the rule easier to apply. We would prefer that it remains an infrequent occurrence, so suggest the following: “..... In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non executive directors, provided he or she was considered independent on appointment as chairman, *that independence has not subsequently been compromised and he brings relevant financial experience to the committee*. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

I hope that the above is helpful and as always appreciate the effort which you put into consulting with investors on the Code.

Yours sincerely

David Paterson
Head of Corporate Governance