

Mr Christopher Hodge
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Dear Mr Hodge

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

We welcome the opportunity to comment on the above consultation issued in December 2007. As discussed in our previous response to the review of the impact of the Combined Code, we are supportive of the ongoing commitment of the FRC to improve the quality and implementation of the Combined Code. Our views and recommendations on the issues on which the FRC is consulting are set out below.

Removing the restriction in provision A.4.3 on an individual chairing more than one FTSE 100 company.

We concur with the proposal to remove the restriction on the company chairman to chair more than one FTSE 100 company. We do not believe that additional safeguards are required.

For listed companies outside the FTSE 350, amending provision C.3.1 to allow the company chairman to be a member of, but not chair, the audit committee provided he or she was considered independent on appointment.

We appreciate the concerns raised by smaller companies that may be finding it difficult to comply with the Combined Code's recommendations on the composition of board committees. However, our experience indicates that the independence of the audit committee is a vital element of sound corporate governance. Therefore, whilst we are supportive of the FRC's initiative to lighten the burden on smaller companies, we do not believe that this should be done in a way that might jeopardise the independence of the audit committee.

On this basis, we do not oppose the recommendation that, for smaller companies, the company chairman may be a member of the audit committee in addition to a minimum of two independent non-executive directors, but only if he or she was considered independent on appointment and with the added caveat that no relationships or circumstances have arisen thereafter that would suggest that his or her independence has been compromised.

We do not believe that the chairman should be included in the cadre of independent non-executive directors for board composition purposes, but where chairmanship is the sole bar to perceived

independence, and the chairman is suitably qualified to contribute to the audit committee's deliberations, then we consider that his or her membership of the audit committee will be appropriate.

We do, however, have reservations about the chairman being the sole source of recent and relevant financial experience for the committee: the two independent non-executive directors may not provide an adequate counterbalance and may be susceptible to influence by the chairman. We consider that the calibre and robustness of the independent non-executive directors is key to the effectiveness of the committee.

Therefore, irrespective of the calibre of the chairman, our additional caveat would be that at least one of the two independent non-executive directors should have recent and relevant financial experience and, hence, be in a strong position to debate and challenge the chairman's views as appropriate.

Revised Preamble

We support the initiative of the FRC to reinforce some messages about the way in which the Combined Code should be viewed and implemented. We believe that these messages should include the importance of clear, concise and company-specific disclosures. As mentioned in our response to the consultation on the review of the impact of the Combined Code (dated 20 July 2007), we have observed a considerable increase in the length and volume of information included in the corporate governance statement, which in certain cases, results in incoherent and boilerplate reports.

Overlap with FSA Corporate Governance Rules

We concur with the FRC's proposals to add footnotes to those provisions of the Code that overlap with the FSA Rules, drawing this to companies' attention. We also agree with the FRC's proposal to update Schedule C so that it lists all corporate governance disclosure requirements, stemming either from the FSA Rules or the 'comply or explain' statement on the Combined Code. However, we recommend that Schedule C is clear as to the source of each disclosure requirement, to cover the instances where companies not subject to the Rules might voluntarily adopt the Combined Code.

Conclusion

Overall, we are supportive of the proposed changes to the Code, subject to the comments we raised. We trust that our comments and recommendations will be helpful and would be happy to discuss any particular issues with you further; Margaret Cassidy, Director of Corporate Governance, will be able to assist you with any questions you may have.

Yours sincerely

PricewaterhouseCoopers LLP