



**The Quoted
Companies Alliance**

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

codereview@frc.org.uk

Friday 14 March 2008

Dear Chris,

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

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies (SQC), which we define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m.

The QCA is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in twelve EU member states.

RESPONSE

We welcome the proposed changes to the Combined Code as laid out in the consultation paper and would like to comment specifically on two parts of the paper.

Company chairman sitting on audit committee for smaller companies

We believe the audit committee should be made up of independent directors, which in our view can include the chairman if independent on appointment and if he/she remains independent by virtue of not being involved with the operational running of the business. We, therefore, support the proposal that the company chairman at smaller companies should be allowed to sit on the audit committee, BUT only if classified as independent on appointment **and if he/she remains independent.**

However, we disagree with the FRC's analysis that the chairman should not count as one of the independent non-executives. It is the view of the QCA that if a chairman is considered independent on appointment **and remains independent**, he/she should be considered

independent for the composition of the audit committee also. Therefore, we feel there is room for further improvement in this area.

Revised Preamble

We note that you plan to update the Preamble to the revised Code. We agree that there is a need to emphasise the benefits of good governance, which includes supporting wealth creation and entrepreneurship along with investor protection and that the Preamble can achieve this.

We also feel that the FRC should state the purpose of good governance, as we believe this will:

- assist companies in giving more informative disclosures explaining why they are doing things as well as what they are doing;
- help companies to provide explanations of how the objectives of good governance are achieved despite certain provisions not being applied; and
- aid users in understanding whether the corporate governance systems put in place by a company are appropriate for that company and in particular to judge the validity of explanations for deviation from certain provisions of the code.

The QCA definition of the purpose of corporate governance as presented in our *Corporate Governance Guidelines for AIM Companies* is:

to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term.

The Corporate Governance Committee of the QCA would very much appreciate the opportunity to contribute to the re-draft of the Preamble if this would be helpful.

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,

A handwritten signature in black ink that reads "John Pierce". The signature is written in a cursive style and is underlined with a single horizontal line.

John Pierce
Chief Executive

THE QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE COMMITTEE

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