



Our Ref GM/SAM
Your Ref 2009 CODE REVIEW - DECEMBER 2009

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For the attention of Chris Hodge

5 March 2010

Dear Sirs

2009: Consultation on the revised UK Corporate Governance Code

We welcome the opportunity to provide further comment on revised UK Corporate Governance Code. We support the approach taken by the FRC in seeking views from stakeholders at various stages within the process, and we support initiatives to facilitate debate and discussion on issues relating to corporate governance.

1 A thorough process

The FRC has undertaken a thorough process in revising the UK Corporate Governance Code (the Code). We are pleased that the FRC has listened to our comments and others who share our views.

In view of this, our response is limited to only those areas where we feel further consideration is required or are matters that you have specifically requested comment.

2 Annual re-election of directors might introduce instability into boards

We are supportive of the majority of the changes to the provisions but believe that the proposal to either seek annual re-election of the chairman or all directors might introduce instability within a board. Such a provision might inadvertently politicise the process or encourage an emphasis on short-term success in the mindset of the board.

In our view, an annual review of board performance combined with external facilitation every three years should provide sufficient accountability within the board under the existing re-election regime of no more than every three years.

3 A need for more transparency on audit committee governance policies on the provision of non-audit services

Our view on the provision of non-audit services to listed clients is set out in our public submission to the Auditing Practices Board. We also support the working group established by the Institute of Chartered Accountants of Scotland, which involves a cross section of stakeholders, to propose a framework for disclosure of non-audit services and governance policies and procedures adopted by audit committees, that would provide shareholders and other users with more helpful information.

Chartered Accountants

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A key recommendation relevant to the UK Corporate Governance Code from these submissions, is the need for more transparency and disclosure on the process that Audit Committees undertake when determining whether the audit firm is the most appropriate service provider and that their independence is not impaired. We believe the UK Corporate Governance Code should reinforce the importance of good quality and informative disclosure on this process.

4 Obligations on audit committees to report on contractual obligations that restrict audit firm choice

Given the heightened sensitivity around the disclosure of services provided by audit firms, we believe the time is right for more transparency on contractual obligations that restrict audit firm choice.

As a firm, we have numerous examples of contractual obligations that restrict choice to the largest four audit firms and whilst the FRC Guidance on Audit Committees (formerly known as the Smith Guidance) calls for disclosure on contractual obligations that restrict audit firm choice, we believe there are relatively few examples where disclosure is being made.

There has been very little change in the market for public company audits despite the FRC convening the Market Participants Group four years ago. At a minimum, the FRC should take the opportunity in its limited review of its Guidance on Audit Committees to increase the prominence of disclosure on contractual obligations guidance (section 4.22) and consider incorporating within section C.3 of the Code to bring this disclosure within the comply or explain principle of the Code.

If you have any questions on this response, please contact Steve Maslin (phone: 020 7728 2736; email: steve.maslin@gtuk.com) or Giles Mullins (phone: 01908 359609; email: giles.m.mullins@gtuk.com).

Yours sincerely



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