

By e-mail: codereview@frc.org.uk

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1st March 2010

Dear Mr Hodge,

CONSULTATION ON THE REVISED UK CORPORATE GOVERNANCE CODE

Following our comments in relation to the July Review, and subsequent meeting with you, we have just a few suggestions in respect of the December Consultation. We do not wish to comment on Sections A and B, nor are we qualified to do so, other than to say that it all appears to be moving in the right direction.

Section C.3 You will remember that at our meeting we had a brief conversation about the relationship of the auditors to the shareholders. Looking at this again we think that anyone reading the Code might infer that the auditors' report is made to the board. In fact, of course, S.495 of the Companies Act 2006 requires that it should be made to the members. We would like to see a reminder of this which could be achieved by adding a paragraph at the end such as: "In carrying out all the above provisions in relation to the external auditors, the audit committee must keep in mind that, in accordance with the Companies Act 2006, the auditors' report is made to the members and not to the board."

Section E.1 We are very pleased to see the wording on page 6 recognising the possible involvement of private shareholders. However, the Code will become a stand-alone document, without the benefit of the preamble. Accordingly we fear that the number of references to "major shareholders" in the text will inevitably lead to the inference that only major shareholders need be considered even though the opposite is intended. Moreover the wording makes no recognition of the possibility of collective engagement as referred to in Annexes 7 and 8 of the Final Recommendations of the Walker Review. From evidence to the Treasury Committee, we understand that smaller institutions particularly welcome collective engagement.

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All these points would be dealt with if it could be made clear somehow that the expression "major shareholders" should be taken to include groups of, or representative groups of, shareholders. This would also have the advantage that it would admit of the possibility of shareholder committees without specifically mentioning them. As you may remember these are an ambition of ours, were referred to positively in Sir David Walker's final recommendations and are now listed among the objectives in section 1 of Part Three of our recent booklet, *Responsible Investing – for the Individual and for Society*.

If you could not go this far a step, but only a step, in the right direction would be to move "major" in the third line of Supporting Principle to come between "shareholders' " and "issues".

Section E.2 Here we simply want to say that we very much welcome the clarification which results from adding the words "on a show of hands" and to thank you for this.

Yours sincerely,

Eric Chalker

Director

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