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Lord Sharman of Redlynch CHAIRMAN

Sir Christopher Hogg
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17 July 2007

Thank you for your letter of 18 April 2007 regarding the FRC's consultation on the Combined Code.

From my perspective I have no major concerns about the Code and how it operates, indeed I believe that as the Code has evolved it has undoubtedly improved board governance, transparency and effectiveness. The central feature to its success is the flexibility that the principles based approach of 'comply or explain' provides and I think that over time the box-ticking approach which some institutions initially applied has now largely diminished. However, in some areas there is still the feeling that the 'explain option' is in some respects a deviation from accepted practice i.e. it is seen somewhat in a negative light rather than as a perfectly valid point which the company has sought to justify, and thus placing an onus on the institutions to make a valid judgement on whether they accept the justification or not.

You asked about the application of the Code to smaller companies. I see no particular reason to dilute the Code for smaller companies and indeed if the comply or explain principle works properly smaller companies should be able to explain and justify why certain aspects of the Code are not appropriate for their company/circumstances.

Regarding the cost effectiveness of Code disclosures in annual reports, most companies now include numerous pages devoted to governance disclosures. However, in the context of the overall contents of report and accounts, including the need to include substantial business reviews, the governance disclosures are not excessive and arguably form a valid part of the overall stewardship disclosures. Consideration could be given to requiring the disclosures to be made on companies' websites in due course when shareholder e-communication has become a more widely accepted practice.

Finally, one thought which occurred to me when considering the consultation paper was the name i.e. Combined Code. I recall that the Code in its current form originally combine the Cadbury, Greenbury and Hampel and subsequently the Higgs reports. Would now be an appropriate time to consider removing reference to the 'combined' aspect of the Code in its title?

Yours

A handwritten signature in black ink, appearing to be 'Gur' or similar, with a horizontal line underneath.