

12 July 2007

Mr Chris Hodge
Corporate Governance Unit
Financial Reporting Council
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Email: codereview@frc.org.uk

Dear Mr Hodge

Review of the impact of the Combined Code

Thank you for the opportunity to comment on this consultation. CIMA has over 158,000 members and students in 161 countries who work across all business sectors and is the only international accountancy body with a sole focus on business. CIMA is committed to supporting and upholding the highest standards of corporate governance.

CIMA agrees with the general opinion that the Combined Code continues to have a positive impact and we do not believe that major changes are required at this stage to the code itself. Indeed, in view of the code's success, we would not welcome any major overhaul as we believe that change for change's sake would undermine the current corporate governance regime.

We were interested to note that company Chairs have indicated that "strong and good leadership by the Chair, working with the CEO, is necessary" to overcome the challenges that can impede board effectiveness. CIMA believes that it cannot be emphasised enough quite how important it is for the board to set and demonstrate by example an appropriate tone from the top reinforced by high ethical standards. It may be useful for the supporting principles to the main principle A.1 to state this more strongly and explicitly than is currently the case, in particular the importance of leading by example in accordance with high ethical standards.

Our other comment relates to the working of the "comply or explain" principle. CIMA agrees that this principle is a cornerstone of the code's flexibility and we believe that every effort should be made that it is well understood and operates in the spirit in which it was first intended. However, some of the literature that we have reviewed suggests that there might not be a consensus on the meaning of the principle. For example, one interpretation, based on the preamble to the code, is that a company should comply with most of the code's provisions and provide an explanation for the few provisions where there are exceptional reasons for departure. This view puts a heavy emphasis on compliance and expresses surprise that a significant number of companies are choosing to depart from the code's provisions. A different view, which we share, is that, in theory, a company is not obliged to comply with any of the code's provisions – provided, of course, that it explains the reasons for this to the satisfaction of investors. We would therefore suggest that there is scope for further clarification and guidance on the spirit of the "comply or explain" principle to ensure that its flexibility is maximised.

I trust that these comments will prove helpful in your deliberations and CIMA looks forward to supporting the further development of high standards of corporate governance in the UK.

Yours sincerely

A handwritten signature in black ink, which appears to read "Charles Tilley".

CHARLES TILLEY
Chief Executive