



FINANCIAL REPORTING COUNCIL

JUNE 2008 CHANGES TO THE COMBINED CODE

MAY 2008

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Changes to the provisions of the Code

Changes will be made to two provisions in order to:

- remove the restriction on an individual chairing more than one FTSE 100 company (provision A.4.3); and
- for listed companies below the FTSE 350, allow the company chairman to be a member of, but not chair, the audit committee provided he or she was considered independent on appointment (provision C.3.1).

Provision A.4.3

Current wording:

For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and included in the next annual report. No individual should be appointed to a second chairmanship of a FTSE 100 company.

Revised wording:

For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.

Provision C.3.1

Current wording:

The board should establish an audit committee of at least three, or in the case of smaller companies two, members, who should all be independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience

Revised wording:

The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

Other changes to the Code

Schedule C to the Code – which summarises the disclosure requirements in the Listing Rules and the Code – will be updated to include the disclosure requirements under the new FSA Corporate Governance Rules, which implement EU requirements on audit committee and corporate governance statements.

The Preamble to the Code will be updated to reflect some of the findings of the FRC's 2007 review of the impact and implementation of the Code.

Overlap with the new FSA Rules

Eight provisions of the Code overlap with the new FSA Rules. These are:

A.1.1: the annual report should include a statement of how the board operates.

A.1.2: the annual report should identify members of the board and board committees.

A.4.6: the annual report should describe the work of the nomination committee.

B.1.4: a description of the work of the remuneration committee should be made available.

C.2.1: the annual report should include an internal control statement.

C.3.1: the composition of the audit committee.

C.3.2: Sets out the recommended minimum terms of reference for the audit committee

C.3.3: the annual report should describe the work of the audit committee.

The FSA Rules will state that, where a company complies with these provisions of the Code, it will also be deemed to have complied with the relevant requirements in the Rules. However, where a company chooses to explain rather than comply with any of these provisions, it will need to ensure that it nonetheless meets the requirements in the Rules.

Timing

The revised Code will be published at the end of June, at the same time as new FSA Rules. The revised Code and new Rules will apply to accounting periods beginning on or after 29 June 2008. In practice this means that most companies will begin to apply them in 2009, and will report against them for the first time in 2010.

Financial Reporting Council
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