



Mr Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

29 May 2009

Dear Mr Hodge

Review of the effectiveness of the Combined Code

We welcome the opportunity to contribute to the above consultation process, as detailed in the "Call for Evidence" document dated 18 March 2009.

FD (Financial Dynamics) is a leading investor relations and financial communications adviser to UK listed companies and one of the largest in the world. We have over 700 employees operating out of 28 offices throughout the world, and provide strategic communications advice to Board Directors on all aspects of their businesses.

Recent events, particularly in the financial sector, have indicated how important it is for company boards to have effective communication channels with investors. This is an area where we have particular expertise and my comments are therefore in respect of Sections D and E of the Combined Code.

While all companies express compliance with the principles of these sections – "There should be a dialogue with shareholders (or companies) based on the mutual understanding of objectives" – we believe that corporate investor relations practices vary widely.

In our experience, there are companies that truly conduct an open and honest dialogue between the Board and their shareholders through a structured process, often supported by objective non-attributable investor feedback. At the other end, are those that aim to deliver the same through a matrix of informal conversations with selected investors, internal feedback and a review of sell-side analyst research notes.

While the informal approach can work extremely well, it can equally be open to unintended distortion. Individual investors with good company contacts may not necessarily hold views that are representative of broader market sentiment (particularly in an increasingly global market), sell-side analyst notes may be written with more short term trading objectives in mind, and not all investors are comfortable providing feedback on sensitive issues direct to the company. It is also at times of corporate distress when investor communication is arguably most critical, that the informal approach can sometimes fail to the detriment of the company, its board and its stakeholders.

With that in mind, we believe that the Combined Code would benefit from giving more formalised recommendations of the type of activities companies should consider, to ensure that



the dialogue with investors is both open and transparent, but also demonstrably available to the whole Board, including non-executive directors.

In our experience, key aspects of this best practice include:-

- Identification of a large pool of investors / sell-side analysts that are representative of investor sentiment - based on size, market reach, etc.
- A full independent audit of investor opinions (drawn from the pool) provided to the Board at least once a year, covering areas such as strategy, management and financial performance.
- Non-executive / independent directors to actively consider having their own independent third party review conducted of investor opinions towards the business, its management and performance.
- A regular analysis of internal versus external earnings expectations provided for the Board, such that all members are aware of potential challenges and proposed management actions to address any gaps as they arise.

We hope that our comments are helpful in what is an increasingly crucial area of corporate life. Principles based regulation must remain at the heart of our system. However, it is increasingly important for all companies and their management that best practice is not only applied, but seen to be applied.

If you would like to discuss further any of the issues raised, please do not hesitate to contact me or my colleague Edward Firth, who is head of our UK Investor Relations practice.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoffrey Pelham-Lane', written in a cursive style.

Geoffrey Pelham-Lane
Chief Executive Officer