

Chris Hodge  
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16 July 2012

Dear Mr Hodge,

**Financial Reporting Council – Revisions to the UK Corporate Governance Code and Guidance on Audit Committees**

***Introduction***

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

***Response***

We welcome the opportunity to respond to this consultation from the Financial Reporting Council regarding the revisions to the UK Corporate Governance Code and Guidance on Audit Committees.

**Effective Company Stewardship**

**Proposed revisions to Section C of the Code and the Guidance on Audit Committees, including whether the right balance has been struck between changes to the Code (which is subject to ‘comply or explain’) and the Guidance (which is not).**

As regards the balance between revisions to the Code and the Guidance (in that the Guidance, as pure guidance, should not be subject to comply or explain) the balance towards the Guidance including greater substantive detail seems appropriate, in light of our comments below regarding the potential administrative burden that the changes will impose.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

**Whether the proposed revisions to Section C of the Code achieved the desired effect and if not, how they might be improved.**

As regards the revised wording in paragraph C.1.3, whilst the intention may be good in principle, it seems that the approach to be taken by directors in achieving the objectives outlined in the bullet points is likely to be fairly uniform. Therefore the basis for considering that they have achieved these objectives is likely to be similar in every case.

Accordingly, the most likely way in which directors would seek to comply with this provision is by the inclusion of more 'boilerplate' type provisions within the annual report. This is counter to other initiatives, including those of the FRC, with regard to 'cutting clutter' within annual reports.

The revised provision C.3.2 effectively extends the remit of the audit committee to include the accountability for the whole annual report. We believe that the integrity of a company's annual report should be the responsibility of the entire board. While the board may task the audit committee to carry out this assessment, the Code should not be prescriptive on this matter, nor should it take the accountability away from the board as a whole.

With regards to the proposed amendments to C.3.7, it is appreciated that scrutiny of the auditor is essential to the audit committee's role. However a separate section of the audit report describing the work of the committee and in particular an assessment of the effectiveness of the external auditor arguably goes too far in shifting the onus of responsibility for the annual report from the board to the audit committee.

In particular, an assessment of the effectiveness of the external auditor such as would be required for publication in an annual report, would in all likelihood require companies to engage external consultants to assist in providing such an assessment or lead to the inclusion of further standard "boilerplate" sections. The results would be either the administrative burden would be considerable, or there will be a reliance on standardised clauses - neither of which seems desirable.

**Transitional arrangements**

**Whether the transitional arrangements outlined in a consultation documents are workable and whether there are any alternative arrangements that should be considered. Any data or the frequency of pattern tendering of FTSE 350 companies will also be very welcome.**

Limiting the general requirement for tendering for audit services to FTSE 350 companies in the first instance is welcome. The transitional arrangements seem reasonable.

A clear concern for small to mid-size quoted companies would be the additional administrative burden of requiring a tender process and loss of familiarity with the company's operations potentially impairing added value business advice within the audit context. This should be balanced with the benefit expected to be derived from the measure, particularly in context of the existing requirement for partner rotation.

In addition, we would note that this proposal is also under consideration in the European Parliament with the review of the Statutory Audit Directive and potential introduction of the Regulation on Statutory Audit for Public Interest Entities. As such, we would caution against introducing any new aspects on this in the UK Corporate Governance Code ahead of the conclusion of this review. The result may be that companies will have to comply or explain on this for one year and the next be required to adopt another regime. Consistency in the regulatory environment is essential, especially for small to mid-size quoted companies that have limited resources internally to manage multiple changes.

**The quality of explanations**

**Whether it would be helpful to identify the features of a meaningful explanation in the introduction to the Code and, if so, whether the proposed edition correctly identifies those features.**

With regard to paragraph 3 of the Section “Comply or Explain”, the suggestion that an explanation should indicate whether the deviation from the Code’s provisions is limited in time and if so, when the company intends to return to conformity with the Code’s provisions does not accord with the ‘comply or explain’ principle. An appropriate explanation is conformity with the Code’s provisions. Therefore a requirement to make such a statement will be unduly burdensome in the case of derogations which have been decided upon for good reasons and intended to be permanent.

**Other proposed changes**

**Views on other proposed changes.**

As regards the new wording in paragraph 8 of the Preface to the revised Code, we can see no reason why listening to the concerns of bond investors, insofar as these are relevant to a company’s overall approach to governance, should not be encouraged by the Chairman.

We would be very welcome to attend a meeting to further consider any of these points if it would be useful.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', is positioned above the typed name.

Tim Ward  
Chief Executive

**QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE EXPERT GROUP**

Edward Craft	Wedlake Bell LLP
Edward Beale	Western Selection plc
Tim Bird	Field Fisher Waterhouse
Dan Burns	McguireWoods
Anthony Carey	Mazars LLP
Louis Cooper	Crowe Clark Whitehill LLP
Madeleine Cordes	Capita Registrars Ltd
Kate Elsdon	PricewaterhouseCoopers LLP
Nicola Evans	Hogan Lovells International LLP
David Firth	Penna Consulting PLC
David Fuller	CLS Holdings PLC
Clive Garston	DAC Beachcroft LLP
Tim Goodman	Hermes Equity Ownership Services
Nick Graves	Burges Salmon
David Isherwood	BDO LLP
Kate Jalbert	The Quoted Companies Alliance
Colin Jones	UHY Hacker Young
Dalia Joseph	Oriel Securities Limited
Doris Ko	Aviva Investors
Derek Marsh	China Food Company PLC
Claire Noyce	Hybridan LLP
James Parkes	CMS Cameron McKenna LLP
Julie Stanbrook	Hogan Lovells International LLP
Jacques Sultan	The Quoted Companies Alliance
Eugenia Unanyants-Jackson	F&C Investments
Melanie Wadsworth	Faegre Baker Daniels LLP
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