



The Quoted
Companies Alliance

QCA Corporate Governance Committee

Minutes of the meeting held on: Monday 14 March 2011 at 4:30pm

Venue: Hermes Equity Ownership Services Ltd, Lloyds Chambers, 1
Portsoken Street, London E1 8HZ
(with Ian Wright, Financial Reporting Council, in attendance)

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|----------------|------------------------|---------------------------|------|
| Present: | Tim Goodman (Chair) | Hermes | (TG) |
| | Eugenia Jackson | F&C Asset Management | (EJ) |
| | Edward Beale | City Group plc | (EB) |
| | Louis Cooper | Crowe Clark Whitehill | (LC) |
| | Nick Graves | Burges Salmon | (NG) |
| | Dalia Joseph | Oriel Securities | (DJ) |
| | Cliff Weight | MM&K Ltd | (CW) |
| | Nick Teunon | FTSE | (NT) |
| | Colin Jones | UHY Hacker Young | (CJ) |
| | Kate Jalbert (minutes) | QCA | (KJ) |
| In attendance: | Ian Wright | FRC | (IW) |
| | Simon Redfern | QCA | (SR) |
| | Anthony Appleton | PKF LLP | (AA) |
| | Peter Chidgey | BDO LLP | (PC) |
| | Matthew Stellabross | Crowe Clark Whitehill LLP | (MS) |
| | Freddie Woolfe | Hermes | (FW) |

Actions

1. Welcome to Ian Wright, FRC, to discuss the FRC's paper on Effective Company Stewardship

TG welcomed IG to the committee and everyone introduced themselves.

IW explained the main areas of the consultation. IW touched on the proposal to get rid of the printed annual report, which has been the subject of some controversy. IW noted that they are trying to figure out the costs of producing an electronic or web-friendly version of the annual report versus the printed version.

IW noted that from the FRRP there are complaints on the front-end of the annual report and not very many on the back-end. For example, the KPIs presented in the front-end are only ones that have positive results rather than a measure against all in the year, and the Chairman writes on a new contract won, but not the major contract that was lost in the year. As such, there is a proposal on whether the whole report (including the front-end) should be balanced and fair throughout. The first proposal in the paper is that the whole board should be responsible for the whole document and that it meets the true and fair test.

IW explained that the foundation of this proposal should be that the audit committee should spend an hour summarising what they have spend their time on, which may show what judgements it spent time on rather than just focusing on the processes associated with the committee. IW noted that connected to this is the role of the auditors in evaluating the content of the front-end of the report and the proposal for an expanded audit report that identifies any matters that the auditors believe are inconsistent with the accounts or any information discovered during the audit.

IW stated that on Page 5 there is a question about who this model should apply to. IW explained that they are open-minded about this and that always welcome feedback as most models are written for the largest companies.

EB noted that his view on the proposals is that many of the proposals are existing best practice and that this paper may be codifying best practice. IW noted that there would be some guidance that would need to be updated with the proposals and the auditor standards may need to be updated too – as such this document is not going to change the Corporate Governance Code or the auditor standards, but rather exploring whether this is a good model or not.

TG explained that many of these problems are behavioural and noted that often time lawyers may end up watering down the disclosures in the report to something that is not meaningful. TG queried how the FRC would go about ensuring that this would not occur with the proposals in this consultation paper. IW noted that most of the governance disclosures tell us very little and are too focused on processes – as such IW is interested in how situation is improved and maybe a ‘true and fair’ view of the whole reports may achieve this.

NG noted that the annual reports and accounts are not the most up-to-date information for investors. NG also highlighted that the problem of enclosing too many risk factors is driven by lawyers, but also a fear of investors in other jurisdictions that may be more focused on litigating against something.

AA noted that he views the paper as giving the auditor the power to challenge some of the content of the front-end. IW agreed and noted that this would not be much more work than what was already done in the audit. NG queried what the cost would be for companies, especially smaller quoted companies, and what type of test work may be done to demonstrate the cost. IW believed that the costs would be marginal, however some committee members noted that the audit cost would be increased as the auditor would be required to offer a new opinion as part of the audit.

NG noted that in terms of cost, it may be useful to introduce some of these ideas a staged development rather than all together.

LC noted that the consultation paper states that these proposals will attempt to link into the BIS review on narrative reporting. IW noted that they are waiting for BIS to indicate any potential changes to the Business Review requirements before making any direct proposals.

EJ and AA noted that there is some overlap with recent consultations happening in Europe, e.g. the Audit Green Paper and Disclosure of Non-Financial Information. IW acknowledges this and noted that they are keeping a watching eye on this, especially since comply and explain doesn’t really work there. But, they are trying to get ahead of the debate with this consultation paper on narrative reporting.

MS queried where the demand for change to the annual report is coming from, if the investors are not speaking up about it. EB noted that an idea may be if the FRC has a way to bring together investors to find out what their issues are. IW noted that there could potentially be more in the Stewardship Code on this, e.g. encouraging investors to point out errors in reports to the regulator.

AA noted that it could prove difficult to have a discussion about a true and fair view because it is all qualitative judgement (e.g. no standards to measure against like accounting standards). IW noted that the discussion is focusing on materiality and how do we move between what is really important and all the information that could be put in a report and account.

IW noted that the FRC is particularly keen in hearing the views of smaller quoted companies on these proposals and looks forward to receiving the QCA’s response.

TG thanked IW for attending the meeting and IW left.

2. Apologies/Welcome to New Members

Apologies were received from Edward Craft, Tim Bird, Nigel Burton, Madeleine Cordes, Kate Eldson, Clive Garston, Derek Marsh, Georgina Marshall, Andrew Viner, and Tim Ward.

TG welcomed NT and CJ to the committee.

3. Minutes of last meeting (17 January 2011)

The minutes of the last meeting were approved.

4. Forthcoming issues and developments in Corporate Governance and projects for the Committee

- Financial Reporting Council: Effective Company Stewardship: Enhancing Corporate Reporting and Audit (RD: 31 March 2011):

TG thanked EB for drafting the first draft of the response. EB noted that he drafted it to be controversial and therefore expected some debate. TG noted that there may be some issues in tone. TG asked committee members to send comments to KJ and TG/KJ will work on updating the draft.

ALL

EB noted that a point that needed to be stressed in the response that there needs to be less of a focus on preventing bad behaviours/actions and more emphasis on trying to encourage improvement. TG noted that behaviour cannot be regulated and behaviour that is regulated will be defensive rather than helpful or informative.

Committee members noted that it would be important to stress proportionality. AA noted that the only rationale in the paper for these suggested changes is the financial crisis, but he does not understand how this applies to smaller companies and whether there is a problem with their reports. TG agreed that this would be a good argument in terms of proportionality, while also highlighting that there may be lessons to learn from the crisis even for smaller quoted companies.

EJ noted that the companies most responsible for boilerplate are smaller companies and so she viewed that in many ways these proposals are more important for them. EB noted that the issue is that the annual report is viewed largely as a compliance exercise, rather than a communications exercise – as such the wrong people are completing it. EB explained that the challenge is getting the chairman and chief executive to take ownership of what is included in the annual report and become an author of sections beyond their own individual reports.

MS noted the message that needs to come out of the document is that this is the result of conversations with investors rather than the financial crisis, which seems to be used too often – companies will react to this better. LC noted that maybe this highlights a problem with investor relations and potentially room for the QCA in updating its Investor Relations guide.

- Remuneration Committee Guide:

TG explained that the first two sections of the guide have been drafted and the third should be completed by 18 March. KJ noted that she will then compile it into one draft and eventually circulate it to the Corporate Governance and Share Scheme Committees for review. KJ explained that she is aiming for a May publication date.

- Remuneration Committee Guide Working Group:

TG reported that there was a meeting about this guide in December 2010. It was agreed to get the objectives of the guide agreed first and then draft the sections about how the committee is structured and runs and finally best practice.

- Financial Reporting Council publishes New Guidance on Board Effectiveness:

TG noted that this publication is the result of the Higgs Guidance Review.

- The Provision of Non-Audit Services by Audit Firms to their Listed Audit Clients (Report by a Working Group by ICAS) (for information only):

KJ explained that this document was for information only.

- European Commission: Green Paper on Audit Policy: Lessons from the Crisis (Summary of Responses):

KJ explained that this document was for information only.

- European Commission: Review of the 'Small Business Act' for Europe Report (for information only)

KJ explained that this document was for information only.

- Speech by Vince Cable: Cable vows to cut red tape for business:

KJ explained that this document was for information only.

- Financial Reporting Council announces Inquiry into Going Concern Assessments

TG noted that this announcement follows on from the FRC's exploration into going concern in 2008/2009. TG explained that there is no official consultation out as yet.

5. Communications and Future Meetings

- Guest invitations to future meetings:

TG noted that David Pitt-Watson of Hermes is involved in the FRC Inquiry into Going Concern Assessments and he would happily approach him as a guest at future meeting. **TG**

Committee members also suggested someone from BIS to discuss the narrative reporting proposals once the paper has been published.

KJ noted that she will prepare the QCA stakeholder chart for the next meeting. **KJ**

- Deputy Chairman:

TG asked committee members for nominations for a Deputy Chairman of the committee. **ALL**

- Venue for Monday 16 May 2011 meeting:

LC offered to host the next meeting at Crowe Clark Whitehill LLP.

- Joint Corporate Governance Guidelines with European organisations (Middlenext and DAI):

TG noted that the most recent version of the joint European guidelines were circulated and to please send any comments to TG/KJ asap. **ALL**

KJ also noted that the European Corporate Governance Green Paper should be published sometime in the first week in April and so it is key to get these guidelines developed.

6. Date for Next Meeting – Monday 16 May 2011 at 4.30pm (Venue: Crowe Clark Whitehill)

7. Action Points:

| Action | Person | Timing |
|-------------------------------------------------------------------------------------------------------------|--------|---------------------------------------------|
| Send comments on the first draft of the response to the Effective Company Stewardship consultation to KJ/TG | ALL | ASAP (before 31 March 2011 – Response Date) |
| Invite David Pitt-Watson to a future committee meeting | TG | ASAP |
| Circulate QCA Stakeholder Chart at the next committee meeting | KJ | For May Committee Meeting |
| Nominations for Deputy Chairman to KJ or TG | ALL | ASAP |
| Send comments on Joint European Corporate Governance Guidelines to KJ/TG | ALL | ASAP |