The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.quotedcompaniesalliance.co.uk
Email: mail@quotedcompaniesalliance.co.uk

The Quoted Companies Alliance

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

codereview@frc.org.uk

5 March 2010

Dear Mr Hodge,

Financial Reporting Council: Consultation on the Revised UK Corporate Governance Code

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

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

The QCA Corporate Governance Committee has examined your proposals and advised on this response. A list of Committee members is at Appendix A.

RESPONSE

Overview

We welcome the emphasis on behaviours rather than relying solely on revised structures and processes. However, we continue to believe that the main body of the Code would benefit from being re-structured to be more outcome orientated, i.e. objectives should be clearly set, and then supported by behaviours, structures and processes, and then to outcomes.

It is our concern that the minor changes proposed may not improve the quality of corporate governance reporting, which we see as being a key component in improving dialogue with investors, and therefore will fail a cost/benefit test. We would appreciate some clarification of what companies are expected to do differently as a result of the Code changes.

In particular, we have two major concerns over the proposed changes and these are:

1) The Preface states that “It is hoped that chairmen will choose to report personally in their annual statements how the principles (in Sections A and B of the new Code)….”. We strongly recommend that this should be a requirement rather than an aspiration and should cover all of the corporate governance structures and processes, not just sections A & B. In our view the approach of the Chairman is key to good corporate governance and the Chairman needs to be seen to be active in ensuring the maintenance of high standards of corporate governance.

2) The status of Schedule A (relating to the design of performance related remuneration for executive directors) is unclear. If Schedule A is intended to have the same status as the provisions in the body of the Code, its provisions should appear in the main body of the Code. Otherwise, its status needs to be clarified.

We have restricted our comments below to the proposed content of the Code and have not repeated other comments that we made in earlier consultation stages.

Specific comments

Format

To improve clarity, different Provisions should be separately identified. For example, Provision A.1.1 actually consists of 3 Provisions:

a) The board should meet sufficiently regularly to discharge its duties effectively.

b) There should be a formal schedule of matters specifically reserved for its decision.

c) The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

Section A

We think that Main Principle A.3 should clarify that the Chairman is responsible for corporate governance. This could then lead into a Provision requiring the Chairman to report on corporate governance.

The Supporting Principles to A.4 focus on the “value protection” element of the Non-Executive’s role. Space should also be given to the “value creation” part of their role, e.g. advice, mentoring, contacts.

Section B

The Supporting Principles to B.2 should clarify that succession planning should cover both planned and unexpected vacancies.

The first paragraph of the Supporting Principles to B.5, needs to be reworded to emphasise the responsibility of the Chairman. We suggest “The chairman is responsible for ensuring that management provide directors with accurate, timely and clear information. Directors should seek clarification or amplification where necessary.”

We do not believe that only the Chairman should stand for re-election every year. This may lead to all concerns relating to the Board being focused on the Chairman's re-election, which could be destabilising, and would seem unfair. Of the two proposals, overall, our preference leans towards annual re-election of all directors. We will be commenting separately in our response to the consultation on the ISC Stewardship Code about how shareholders should approach such votes.

Section B7 should not simply require "biographical details" but should require an additional explanation of how an individual's skills, experience and personality are relevant to the role.

Section D

To reduce complexity, Provisions that overlap with the Listing Rules and Disclosure and Transparency Rules requirements should mirror LR/DTR wording. If they go further than the LR/DTR requirements this additional requirement will need to be separately identified and will then be obvious.

Section E

The chairman should be the owner of corporate governance responsibilities and needs to be available to meet with shareholders regularly to demonstrate the board's commitment to good corporate governance and the fiduciary role held by directors. E1 needs to be amended to emphasise this. We note that many of the Code Provisions in E1 are at best aspirations for small and mid-cap quoted companies, as shareholders have not in the past made time for the recommended meetings.

Apart from the required reporting by the Chairman, Corporate Governance reports are "static" information and as such do not necessarily need to be bound into the annual report. Reference can be made in the annual report by providing the URL for the webpage where they can be found on a web site.

Cost/Benefit

Changes to the Code may only lead to benefits if they flow through to improved corporate governance reporting about (improved) corporate governance, a key component in improving dialogue with investors. As stated above, it is our concern that the proposed changes may not lead to reporting improvements, and "boilerplate" disclosures will be merely updated for the new Code. In particular, the preface and other introductory sections of the Code may be read once and then ignored.

Given the above, we believe that any additional benefits that may flow from the new Code are unlikely to outweigh the costs of becoming familiar with the new provisions and updating supporting documentation and reports.

We will be encouraging small and mid-cap quoted companies to improve reporting, but in the absence of major changes to the Code, it is difficult to identify how we can effectively encourage improvements in reporting.

The greatest possible benefit is most likely to arise from more shareholders engaging in meaningful discussions with companies. We will be responding separately to the consultation on the ISC Stewardship Code. Hopefully widespread adoption of the ISC

Stewardship Code will, over time, provide the necessary trigger to change corporate governance reporting.

We look forward to discussing our response in detail with you at our Corporate Governance Committee meeting on 15 March 2010.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

QCA CORPORATE GOVERNANCE COMMITTEE

Edward Beale* (Chairman)	-	City Group PLC
Mirza Baig	-	F & C Asset Management
Nigel Burton	-	Advanced Power
Anthony Carey	-	Mazars LLP
Louis Cooper	-	Horwath Clark Whitehill LLP
Clive Garston	-	Davies Arnold Cooper LLP
Tim Goodman	-	Hermes Equity Ownership Services Ltd
Mark Harwood	-	Baker Tilly LLP
Murray Steele	-	Cranfield School of Management
Andrew Viner	-	BDO LLP
Melanie Wadsworth	-	Faegre & Benson LLP
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author(s)

APPENDIX B

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European**Issuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
    - corporation tax payable of £560 million per annum
    - income tax paid of £3 billion per annum
    - social security paid (employers' NIC) of £3 billion per annum

- employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

Tim Ward
The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
020 7600 3745
www.quotedcompaniesalliance.co.uk

-o0o-