



**The Quoted
Companies Alliance**

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Sir David Walker
c/o Review Secretariat
Email: feedback@walkerreview.org

1 October 2009

Dear Sir David,

A review of corporate governance in UK banks and other financial industry entities

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's Corporate Governance Committee and Legal Committee examined this paper and advised on its response and a list of Committee members is at Appendix A.

RESPONSE

The Quoted Companies Alliance is pleased to submit its views on this report. Our general views on the consultation are as follows:

Healthy banks are vital to success of smaller quoted companies

The QCA welcomes the proposals in the review for the substantial strengthening of the governance of banks operating in the UK, as they have a major impact on smaller quoted companies, many of which have been adversely affected by the recent banking crisis both in terms of their ability to raise loan capital and the cost of doing so. Smaller quoted companies need a healthy, responsible and sustainable banking sector if they are to prosper and achieve their full potential as major creators of wealth and providers of employment in the economy.

It is important to recognise the unique features of the banking sector

The banking sector has a unique role in the economy in terms of the systemic risk associated with it, not least because transactions between banks can, as has been very clearly seen, spread risk across the sector and into the wider economy in a way that is not usual for other businesses. Moreover, the highly leveraged way in which banks use their capital adds to the systemic risk in this sector.

Care is needed in extending the recommendations to other financial institutions and to listed companies

The 39 recommendations in the Walker Review seem to have been primarily prepared with the needs of major banks in mind. Recognising the unique features of the banking sector discussed above, we believe care and more detailed analysis is needed in extending them to other parts of the financial services sector and especially to smaller quoted companies in that sector but outside banking, e.g. brokers and insurance brokers, where the systemic risk will generally be much lower. A proportionate response, carefully applying a robust cost/benefit test is needed here.

We note that behaviour was a major factor in the financial crisis of banks, rather than the structure of fundamentals of corporate governance. As such, we urge Sir David Walker to consider and explain in his final report how each of the recommendations will change behaviour in order to avoid another similar crisis.

Furthermore, particular care is needed before applying recommendations which would lead to a change in the Combined Code on Corporate Governance to listed companies more generally both due to the unique features of the banking sector and the fact that the main *prima facie* evidence to date of failures in corporate governance in the current recession relates to those in the banking sector. Moreover, if any individual Recommendations in the Walker Review are thought to have more widespread applicability to listed companies generally, analysis is required to determine whether the recommendations concerned should apply to all listed companies or just to the largest ones in the FTSE 350 or FTSE 100. We stress the need for the 'Think Small First' principle to be applied when considering any extension of the Walker Review's recommendations.

With regard to the specific recommendations, we believe the following are among those that may be primarily of relevance for large banks:

- Recommendation 3, that NEDs on BOFI boards should have a minimum expected time commitment of 30 to 36 days;
- Recommendation 7, that the chairman should be expected to commit probably not less than two-thirds of his or her time to their role;
- Recommendation 23, that the board of a BOFI should establish a board risk committee separately from the audit committee; and
- Recommendation 24, that a BOFI board should be served by a Chief Risk Officer.

We are not convinced of the merit of proposing the appointment of a Risk Committee separate from the Audit Committee as the functions of the two committees for listed companies (other than banks) will be inherently closely intertwined. In the case of smaller quoted companies it may be preferable for reasons of practicality to continue to combine the review of issues related to risk with the other issues of oversight currently dealt with by the Audit Committee.

More generally, a number of the recommendations in the Walker Review are reaffirmations of good boardroom practice and would not seem to call for an adjustment to the Combined Code for Corporate Governance or whilst in concept of general applicability, e.g. those related to remuneration, there is not the same degree of pressure or need for change outside the banking sector.

Support for Principles for Stewardship – Engagement is vitally important for smaller quoted companies

We strongly support Recommendations 16-18 concerning extending the remit of the Financial Reporting Council (FRC) to cover the development and encouragement of adherence to principles of best practice in stewardship by investors and fund managers.

Many smaller quoted companies find it difficult to attract the attention of their institutional investors, as the institutions argue that the value of their holdings in smaller quoted companies are only a small proportion of the total value of their holdings and that with limited resources they cannot devote much time to them. We do not believe such an approach is in the public interest or that of the ultimate beneficiaries of institutions' funds, given these companies important role in UK wealth and employment creation and that it is from some of these smaller quoted companies that the major listed companies of the future will grow.

The Quoted Companies Alliance would welcome the opportunity of working with the FRC to ensure that the proposed Principles for Stewardship address issues of engagement with smaller quoted companies in an appropriate manner, just as the QCA has previously worked with the FRC to ensure the Combined Code on Corporate Governance is relevant to the needs of smaller quoted companies.

If there is to be effective engagement between boards and their shareholders, we believe it is essential that boards be aware of who has the voting rights to their shares at any given time and, in this context, the scope of Recommendation 14 concerning changes in the share register should cover stock lending and related issues. We believe the interests of a responsible market economy are best served by companies having owners committed to the long-term and who fully exercising their stewardship responsibilities.

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'TWL', is positioned above the typed name and title.

Tim Ward
Chief Executive

THE QUOTED COMPANIES ALLIANCE**CORPORATE GOVERNANCE & LEGAL COMMITTEES****Corporate Governance**

| | | |
|-------------------------|---|-------------------------------|
| 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 |
| Mark Harwood | - | Baker Tilly LLP |
| Andrew Viner | - | BDO LLP |
| Melanie Wadsworth | - | Faegre & Benson LLP |
| Nick Wargent | - | K & L Gates |
| Tim Ward | - | The Quoted Companies Alliance |
| Kate Jalbert | - | The Quoted Companies Alliance |

Legal

| | | |
|------------------------------|---|--|
| Nicholas Narraway (Chairman) | - | Moorhead James LLP |
| Jai Bal | - | Farrer & Co |
| Chris Barrett | - | Bird & Bird |
| Richard Beavan | - | Nabarro LLP |
| Matt Bonass | - | Denton Wilde Sapte |
| Andrew Chadwick | - | Bircham Dyson Bell LLP |
| Jonathan Deverill | - | Stikeman Elliott |
| Jeanette Gregson | - | Davenport Lyons |
| Carol Kilgore | - | Curtis, Mallet-Prevost, Colt & Mosle LLP |
| Philip Lamb | - | Lewis Silkin LLP |
| Hannu Mikkola | - | Rosenblatt |
| Ross Bryson | - | Mishcon de Reya |
| Laura Nuttall | - | McGrigors LLP |
| Chris Owen | - | Manches LLP |
| June Paddock | - | Fasken Martineau LLP |
| Tom Shaw | - | Speechly Bircham LLP |
| Donald Stewart | - | Faegre & Benson LLP |
| Gary Thorpe | - | Clyde & Co |
| Tim Ward | - | The Quoted Companies Alliance |
| Kate Jalbert | - | The Quoted Companies Alliance |

*Main Author

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 and 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

As the only organisation dedicated solely to the particular interests of the small and mid-cap quoted sector, the QCA has four primary goals:

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, 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 smaller 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' contribution to the economy:

- there are approximately 2,000 small and mid-cap quoted companies
- they represent around 85% of the total of quoted companies by number
- they employ 2 million people
- this figure represents around 10% of total private sector employment
- every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 100,000
- They generate:
 - corporation tax paid of £2.0 billion pa
 - income tax paid of £5.0 billion pa
 - social security paid of £2.0 billion pa

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

For more information contact:

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