

Lalitha Colaco-Henry
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Financial Services Authority
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17 March 2008

Dear Ms Colaco-Henry

Consultation Paper 07/24 - Implementation of the 8th Company Law Directive

We welcome the opportunity to comment on the above consultation, issued in December 2007. We are generally supportive of the FSA's proposals for implementing the aspects of the Statutory Audit Directive and Company Reporting Directive related to audit committees and the corporate governance statement. Our responses on the specific questions raised in the consultation paper are set out below.

- Q1: Do you agree with, or have any comments on, our proposed approach to the implementation of the Statutory Audit Directive?

We concur with the FSA's proposed approach for implementing the Statutory Audit Directive. The approach endorses the key points we raised in our response to the Department of Trade and Industry's ('DTI') consultation in June 2007.

However, we are concerned about the current drafting of the rules in relation to third-country issuers and auditors, presented in Appendix 1 to the consultation paper. As currently drafted, rule 4.1.7 does not appear to take into consideration Article 46 of the Statutory Audit Directive; and the associated exemptions from registration for third-country auditors on the basis of equivalence.

To reflect Article 46 of the Statutory Audit Directive, we suggest that an exemption should be inserted into rule 4.1.7, in order to exempt third country auditors, where the Professional Oversight Board or the European Commission have determined that the systems of public oversight, quality assurance and investigations and penalties in the country where the issuer is incorporated are equivalent to requirements contained within the Statutory Audit Directive.

Equally, the rules should reflect the transitional arrangements that the European Commission released in relation to the registration of third-country auditors of 37 jurisdictions. According to these, Member States shall not apply Article 45 of the Statutory Audit Directive in relation to third-country auditors' registrations for audit reports concerning annual accounts or consolidated accounts, for financial years starting during the period from 29 June 2008 to 1 January 2011.

In addition, we draw to your attention that the proposed rule DTR 1B.1.1 could give the impression that individuals other than board members may be members of a company's audit committee.

- Q2: Do you agree that LR 9.8.6R (5) should be deleted?

We acknowledge the concerns raised in the recent review of the Combined Code on Corporate Governance concerning the quality of disclosure included in corporate governance statements.

However, we do not support the FSA's proposal to delete LR 9.8.6R (5) and discontinue the associated narrative statement concerning the application of the principles of the Combined Code. This change would mean that companies would be required only to provide the 'comply or explain' statement, associated with LR 9.8.6R (6); in practical terms, all that would be required is a brief statement on compliance with the provisions of the Combined Code. Whilst we believe that market forces would discourage companies from providing the bare minimum required by LR 9.8.6R (6), we do not support deletion of the current requirement in order to address the problem of boiler-plate language. In many instances, the narrative statement provides meaningful and valuable information. Where it doesn't, rectifying action focused on improving the quality of the statement and encouraging companies to provide clear, concise and company-specific disclosure should be taken. The FRC already appears to be taking steps in this direction; in its current consultation, it has announced it intends to revise the Preamble to the Combined Code to reinforce some important messages about the way that the Combined Code should be viewed and implemented.

- Q3: Do you agree that the exemption should apply to issues of preference shares and issuers of securities convertible to shares that do not have such securities admitted to trading on a multilateral trading facility?

We support the application of the above exemption.

- Q4: Do you agree with, or have any comments on, our proposed approach to the implementation of the Company Reporting Directive?

We concur with the proposed approach for implementing the Company Reporting Directive.

- Conclusion

Overall, we support the FSA's approach for implementing the Statutory Audit Directive and the Company Reporting Directive. We would be happy to discuss any particular issues with you further; Margaret Cassidy, Corporate Governance Director, will be able to assist you with any questions you may have.

Yours sincerely

PricewaterhouseCoopers LLP