



**The Quoted
Companies Alliance**

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Chris Hodge
Financial Reporting Council
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Aldwych House
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auditorliability@frc.org.uk

Friday 14 March 2008

Dear Chris,

FRC Working Group on Auditor Liability Limitation Agreements – Consultation Paper

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies (SQCs), which we define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m.

The QCA is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in twelve EU member states.

RESPONSE

We welcome the opportunity to comment on the draft guidance on Auditor Liability Limitation Agreements, which has been reviewed by our Corporate Governance committee (a list of members can be found at the Appendix).

We would like to make a number of general comments on the consultation paper, which we feel are of particular importance, especially with smaller quoted companies in mind.

- Firstly, for the guidance to be of practical use it must narrow the options available. To continue with a variety of options will only result in confusion and expense. It is important that one option is put forward that is acceptable, as far as possible, to all parties involved – company, investor, and auditor. We believe this option is one based on proportionality as put forward under version 2 in the consultation.
- We feel it is essential that the draft guidance emphasises that there is no compulsion for companies to agree to auditor liability limitation. In fact, in some cases it may be inappropriate for small companies. The current draft encourages directors to enter

into an agreement without consideration of how this might affect their personal liability nor how investors will react.

- Shareholder approval is necessary for all agreements. It is important, therefore, that this point is emphasised, as it should not be taken for granted that consent for limiting auditors' liability will be obtained. Guidance would be helpful to directors about how they should communicate the agreement to their shareholders.
- Greater clarity and guidance is needed regarding groups of companies. Shareholders will typically only be able to vote on agreements as far as the holding company is concerned, but not for the various subsidiaries. The FRC should consider whether it can provide further guidance in this area, in particular the application of liability limitation within groups and how requests for approval of such agreements could be drafted.

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 that reads "John Pierce". The signature is written in a cursive style and is underlined with a single horizontal line.

John Pierce
Chief Executive

THE QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE COMMITTEE

Edward Beale (Chairman)	City Group PLC
Stephen Armstrong	Autobar Group Limited
Nigel Burton	Granby Oil & Gas plc
Anthony Carey	Mazars LLP
Paul Clarke	Fuller, Smith & Turner P.L.C
Louis Cooper	Horwath Clark Whitehill LLP
Clive Garston	Halliwells LLP
Mark Harwood	Baker Tilly LLP
Paul Lee	Hermes Pension Management Ltd
Elaine New	Seven Arts Pictures plc
Giles Peel	Capita IRG plc
Andrew Viner	BDO Stoy Hayward LLP
Melanie Wadsworth	Faegre & Benson LLP
Nick Wargent	K & L Gates
John Pierce	The Quoted Companies Alliance
Laurence Davis	The Quoted Companies Alliance