

18 March 2008

Chris Hodge
Financial Reporting Council
5th Floor, Aldwych House
71 - 91 Aldwych
London
WC2B 4HN

david.paterson@napf.co.uk
Direct: +44 (0) 20 7808 1337

Dear Chris,

Auditor Liability Limitation

The NAPF, with its members, has taken a close interest in the development of company law in the UK and was involved in the Company Law Review and many of the consultations which were undertaken during the drafting of the Bill. Since the passing of the Act the NAPF has continued to monitor its implementation either directly or through feedback from members and we therefore welcome the debate on the important issue of auditor liability. As major investors in UK equities, our members have a real interest in the protection of their rights as shareholders.

As you state in your Draft Guidance the NAPF has indicated that its members should, in all but the most exceptional circumstances, only support proportionate liability limitation. You have had detailed comments on the guidance from a number of our members, which we support, and we do not propose to re-iterate their views here, except to confirm a few high level points.

Our discussions with several members indicate the following concerns around liability limitation:

- Members have been prepared to accept a reduction in auditor liability to a system of proportional liability, by exception, by exception, but in the expectation that such a move would be associated with an improvement in audit quality.
- The number of alternative forms of agreement should be reduced from the current four to one or two.
- Specifically we suggest that the fixed cap option should be dropped and we would retain the fair and reasonable option.
- There is a clear indication from among our members that a proposal to introduce a fixed cap would not receive a favourable vote from shareholders.
- We also ask whether directors will be willing to propose such a form of words given the uncertainty which will remain.

I hope that the above is helpful and look forward to continuing our discussions on this important issue.

Yours sincerely



David Paterson
Head of Corporate Governance