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Sir Adrian -

space for your
retention.

COMMITTEE

ON

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The Editor
The Law Society's Gazette
50 Chancery Lane
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Dear Sir,

I read with interest Michael Draper's examination of the draft report of the Committee on the Financial Aspects of Corporate Governance (8 July).

The article contained a generally fair review of the key question of enforcing the Code of Best Practice which is at the heart of the Committee's report. However I believe it came to an unnecessarily negative conclusion about the prospects for compliance, and I am prompted to write because one of its main arguments was based on a misreading of the Code.

The article referred to a survey by 3i plc which showed that a substantial majority of finance directors opposed giving shareholders representation on remuneration and audit committees. It went on to suggest that this undermined two of the main planks of the Code. This is not the case. Remuneration and audit committees are indeed key planks, but we do not recommend that shareholders should be represented on them.

The concept of audit and remuneration committees as committees of the board, made up wholly (or mainly) of non-executive directors, commands widespread support and indeed very many companies already operate committees on these lines. Shareholder representation on the other hand would be highly controversial not to mention difficult to operate in practice.

I am much more optimistic than Michael Draper about the prospects for compliance. Our proposals do have teeth. They are to be backed by a Stock Exchange disclosure requirement. Companies' compliance statements are to be subject to endorsement by the auditors. Progress will be monitored and in two years' time another group will take a hard look at how the system is working. And in the background there is the threat of something worse - statutory intervention - if only lip service is paid.

Another reason for my optimism derives in fact from the self-same 3i survey. It revealed that a majority of finance directors (53%) believed that there were flaws in the corporate governance system that needed to be remedied if the UK's economic performance was to improve. It is this underlying recognition that something needs to be done that convinces me that our Code will have a positive impact.

Yours Sincerely
Adrian Cadbury

Sir Adrian Cadbury
Chairman