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COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

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1 June 1995

To all Committee Members

Dear Committee Member

Minutes of Meeting on 10 May 1995

Please find attached a copy of the minutes of the Committee meeting on 10 May . As we will not be holding a further meeting at which they can be approved, I should be grateful if you could pass any suggestions for amendments to me as soon as possible. I will then circulate a revised version which will be put on the file as a true record.

Compliance Report

I am also enclosing copies of three letters received by Sir Adrian from company chairmen in response to being sent a copy of the Report on Compliance. I hope that this positive feedback is representative of the views of the majority of companies.

Yours
Gina

Gina Cole
Secretary

**COMMITTEE ON THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE**

**Minutes of the final Meeting of the Committee, held on 10 May 1995 at the
London Stock Exchange**

<u>Present:</u>	Sir Adrian Cadbury	Andrew Likierman
	Sarah Brown	Sir Sydney Lipworth
	Jim Butler	Nigel Macdonald
	Jonathan Charkham	Mike Sandland
	Hugh Collum	Mark Sheldon
	Sir Dermot de Trafford	Martin Taylor
	Sir Andrew Hugh Smith	Gina Cole

Agenda Item 1 - Apologies for Absence

1. All Committee members were present.

Agenda Item 2 - Minutes of the Last Meeting

2. The minutes were agreed.

Agenda Item 3 - Matters arising from the Minutes

3. The Chairman asked Sir Sydney Lipworth to bring other committee members up to date on progress in convening the successor body. Sir Sydney advised that the current Committee's sponsors, together with the chairmen of the ABI and the NAPF, had met and agreed the draft remit of the successor body. Sir Sydney was acting as convenor, but the FRC would not be a sponsor of the successor body. It was likely that the word "financial" would be dropped from the new Committee's title. The view was held that it should not be concerned with governance in the abstract, but governance with the aim of investor protection.

4. The new committee would consist of 12 members, plus a chairman. The chairmanship was being considered by one potential candidate at the present time. The membership of the committee would be broad-based, with the financial sponsors each nominating one person, although the person would not necessarily be a representative of that organisation. It was hoped that the committee would be in place by the end of June.

5. The Chairman offered the new committee every support and encouragement. In response to his query, Sir Sydney Lipworth advised that although the committee may not start work before the end of the year, this date could be brought forward, dependent on the outcome of the Greenbury Committee, and whether the committee's members and chairman needed any familiarisation with the workings of the current Report and Code. The Chairman added that in view of the fact that the Committee's Secretary would be returning to the DTI in June, he was hopeful that the administrative support provided by the Stock Exchange could remain in place to provide continuity during the handover period. Sarah Brown advised of the DTI's willingness to provide a replacement secondee to act as Secretary. It was agreed that the timing of the appointment, the level of skills needed and hours worked would be dependent on the views of the new chairman, but Sir Sydney was of the view that a new Secretary would be needed around September.

Agenda Item 4 - Proposed Changes for Amendment 5 to the Listing Rules by the London Stock Exchange

6. The Chairman summarised the proposals made by the Stock Exchange in their discussion document for the Code's paragraphs on going concern and internal control to be made listing requirements in their own right. It appeared at this stage that the Stock Exchange did not intend to amend paragraph 12.43 (j) of the Yellow Book (which is the paragraph requiring companies to make a statement of compliance with the Code). He advised that the matter had been raised with the Stock Exchange as it was not clear on what grounds they were proposing their amendments. In his letter to the Secretary, the Head of Listing, Nigel Atkinson, had advised that internal control and going concern had a "clear investor protection role". The Chairman raised the question of whether other points in the code, such as those relating to Audit Committees, did not have such a role. Again quoting from Mr Atkinson's letter, the Chairman said that "There is a view that the current approach to Cadbury should be changed." He said that this begged the question of whose view this was, and to what end the changes should be made.

7. Secondly, the Chairman considered that if the Stock Exchange were to look at the codes under their auspices, it might be a more opportune time to do so after the Greenbury Committee had reported.

8. Sir Andrew Hugh Smith said that the listing rules were introduced in order to provide information and for decisions to be made on an informed basis. It would be relatively easy to bring the points suggested by the Exchange within the listing rules, but more difficult for the remainder of the Code. Sir Sydney Lipworth advised that during the sponsors meeting, John Kemp Welch had not suggested it was in the Stock Exchange's mind to take action on the requirement to make a statement of compliance with the Code. However, Sarah Brown reported that during her meetings with the Stock Exchange Chief Executive, she had received a different impression.

9. Mark Sheldon considered that it was essential that paragraph 12.43 (j) should be retained; it had proved a very effective tool in raising standards of corporate governance, one which was admired by other countries. He felt that it should be given separate consideration from other codes of practice. Nigel Macdonald said he considered it ironic that the two points proposed for incorporation into the listing rules did not relate to best practice. In the absence of a body such as the FRC granting it authority, he said the successor body would either have to draw its power from the Stock Exchange or from statute. He held some sympathy for the Stock Exchange's desire to tidy up codes which they had been asked to enforce, and felt that it would be essential for the successor body to liaise with them closely from the outset.

10. Sir Andrew Hugh Smith said that such co-operation had not proved difficult when drafting the Report and Code. While the Stock Exchange rightly had a primary interest in investor protection, the Committee operated in a wider context of restoring confidence in corporate governance and general financial reporting. The Stock Exchange should share this wider, more public, interest.

11. The Committee agreed that the best way forward would be for the Chairman, accompanied by Sir Sydney Lipworth, to request a meeting with the Chairman and Chief Executive of the Stock Exchange together, to establish their long term objectives for the enforcement of the Code of Best Practice.

Agenda Item 5 - Report on Compliance

12. Mark Sheldon expressed concern that there was a discrepancy between the information contained in Tables 2 and 10. Andrew Likierman explained that this arose because Table 2 was based on information provided by the companies themselves in their report and accounts, and Table 10 used the information gained by the researcher, i.e. some companies had stated that they complied in full with the Code, but on investigation it may have been found that they did not all provide their NEDs with formal terms of service. However, he added that he was very aware of the need to have defensive briefing for questions of they type which would undoubtedly arise the press briefing. Jonathan Charkham reiterated the need to be prepared for questions relating to the independence of NEDs. Sir Dermot de Trafford suggested that the press notes could quote from the Chairman's preface.

13. A vote of thanks to the monitoring Sub-Committee for the hard task they had undertaken was proposed by Mark Sheldon.

14. The Committee agreed that a further payment of £5,000 could be made to the ABI to fund the continuing research into compliance with the Code. This would cover the period September-December 1995, and would bridge any gap in funding which could occur between the Committee and the successor body.

Agenda Item 6 - Any Other Business

15. The Chairman referred to the case of Mr Gillum, which had been discussed at the meeting on 7 December 1994. He advised that Mr Gillum was disappointed that the Committee were not going to take further action, however, he was of the view that the substance of his case related more to accounting issues than corporate governance. It was agreed that the Chairman should refer the case to Ian Plaistowe at the Auditing Practices Board. Nigel Macdonald would also speak to Ian Percy.

16. The Chairman mentioned that he had been in correspondence with Sir Owen Green on the role of NEDs and the appointment of Chairmen/CEOs to companies.

17. Finally, the Chairman advised of the APB's discussion paper on Internal Financial Control Effectiveness. A meeting was to be held on 13 June which he would be unable to attend. However, the APB had signalled that they would be communicating with the successor body at the end of the discussion period .

18. Sir Sydney Lipworth proposed that a formal record should be made of the Committee's thanks to the Chairman for his masterful and outstanding chairmanship. Although sometimes touching on controversial issues, the Committee, under his chairmanship, had had a profound effect on both business confidence and business ethics.

Gina Cole
Secretary
31 May 1995