



London **STOCK EXCHANGE**

1 October 1991

Nigel Peace Esq
 Secretary
 Committee on Financial Aspects of
 Corporate Governance
 PO Box 433
 Moorgate Place
 London
 EC2P 2BJ

London EC2N 1HP
 Telephone 071 588 2355
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AC Hugh Smith
 Chairman

Dear Nigel,

I am responding to Adrian Cadbury's letter of 24 September asking whether I would agree that Christopher Hogg should be involved on the basis that he describes.

I would be delighted that Christopher should indeed be taken on board and I am sure he will make a very real contribution to our report. It is particularly valuable that he is not involved in either the CBI or the IOD and he carries great weight with people who take an interest in the matters with which we are dealing.

In his last paragraph Adrian refers to bringing Chris on board "as a consultant". I would greatly prefer it if it were possible that he should be seen as a full member of the Committee if he is prepared to allow his name to be used in support of our eventual report. I am sure he will make at least as great a contribution as any other member of the Committee, even if it is provided in a slightly different way. If of course it is his own wish that he should be involved only as a consultant then we must I think agree, but I would greatly regret it.

Yours sincerely

Andrew Hugh Smith

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

24th September, 1991

PO Box 433
Moorgate Place
London EC2P 2BJ
Tel: 071-628 7060 ext 2565
Fax: 071-628 1874

Sir Ron Dearing, CB,
Chairman,
Financial Reporting Council,
Holborn Hall,
100, Gray's Inn Road,
LONDON, WCLX 8AL.

Dear Ron.

I approached Sir Christopher Hogg as I was asked to do at our last meeting. I have explained what we are about and he would be very prepared to help. The problem, inevitably, is his diary. He could only attend one of the meetings which we have arranged. In particular, he cannot manage the 20th and 21st January, as he has a Reuter's board meeting on the morning of the 21st.

He is, however, ready to go through any papers with me and to give me as much time as other Committee members, but to fit in with his own programme. I would be glad to settle for this. We would have the benefit of his intellect and judgement and his support for our recommendations would carry weight, even if he was a corresponding rather than a full member of the Committee.

All else apart, it will become increasingly difficult to co-opt anyone of standing to the Committee which was launched in May and asked to report by the end of the year. A further advantage is that he stands outside the Councils of CBI and IoD and so does not overlap with our existing membership. What is far more important is that I regard him as being clearly at the top of our short list in terms of the contribution which he could make to ensuring that our recommendations are to the point and workable.

I would be grateful if you could let Nigel Peace know whether you agree to our bringing Chris on board, as a consultant, in this way. If I have your support I will then write to the other Committee members asking them to agree to this arrangement and to my sending Chris our working papers.

Yours Sincerely
Adrian

Sir Adrian Cadbury

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Chairman,
London Stock Exchange,
LONDON, EC2N 1HP.

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Mark Sheldon, Esq.,
Linklaters & Paines,
Barrington House,
59-67, Gresham Street,
LONDON, EC2V 7JA.

Dear Mark,

I approached Sir Christopher Hogg as I was asked to do at our last meeting. I have explained what we are about and he would be very prepared to help. The problem, inevitably, is his diary. He could only attend one of the meetings which we have arranged. In particular, he cannot manage the 20th and 21st January, as he has a Reuter's board meeting on the morning of the 21st.

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Adrian

Sir Adrian Cadbury

Meeting with Chris Hogg. 25/10/19.

- 1) Principles. Specificity / generality balance.
- 2) Marketing idea of good corporate governance. How does it take effect, use sup. of bodies in cttee.
- 3) Arrive at set of principles, refer back. Never be foolproof.
- 4) Problem is market system. Sheer lig. of mkt. Behaviour of people starting with clm CEOs start with right intentions. System does not encourage institns. to act individually. Collective effort wld. cost like be in public good & in their own interests. Investment Cttees do not have that, independence, stdy. Will to do it and sup for accepted principles. Make ^{people} behave responsibly. Spell out limits. ~~Not~~ put down markets, rather than change decis. Use of AGMs.
- 5) Progress can never be taken for granted. Fosters risk-taking initiative imagination. Running cost is hard. Infallibility of systems, progress can be taken for granted, mgt. is in control of events. Degree of uncertainty / risk. If understood, wld. encourage openness.
- 6) Shld. one audience — customers / employees. Mgt. requires feedback shld. not be burdensome. Explaining action plans. Inv / Commun. Institutional feedback helpful. Benefit of dialogue explain clearly what trying to do — needs — a/c — shld. — thing.

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13 October 1991

Sir Christopher Hogg
Chairman, Courtaulds plc
18 Hanover Square
LONDON W1A 2BB

Dear Chris,

I am delighted that you are prepared to help the Committee in the way we discussed on the telephone. I reported back to a number of our members the terms on which you felt you would be able to contribute. They entirely understood your position and urged that I should sign you up without further ado.

I am arranging for Nigel Peace, the Committee Secretary, to send you separately the minutes of the two meetings we have held so far, the papers for our third meeting on 17th October, and one or two of our other main documents. We have put you on the circulation list, so you will receive all the Committee's papers from now on.

When you have had a chance to look at them, I would very much like to come and see you to discuss where we have got to and how you think the Committee might best proceed. You did say that you might be able to manage one of our meetings, which would give you the chance to see the Committee in action. We are meeting on 17th October at 4pm, on 13th November at the same time and at 3pm on 18th December, all at the Bank.

Then we have our one and a half day session at the London Business School from 9am January 20th to midday on the 21st. I know this is not possible for you due to travel and a board meeting.

What I would like to do, once you have caught up, would be to consult you in advance of our meetings. This would mean that your views could be taken into account at the discussion stage, rather than after the event. The issues on which I will particularly welcome advice are the form our recommendations should take (Code?) and their practicality from the point of view of one who is in the frontline.

We will want to acknowledge your help in our report and can discuss how best to do this.

Yours ever

Adrian

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October 1991

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I am arranging for Nigel Peace, the Committee Secretary, to send you separately the minutes of the two meetings we have held so far, the papers for our third meeting on 17 October, and one or two of our other main documents. We have added you to our circulation list so you will receive all the Committee's papers from now on.

When you have had a chance to read yourself in, I would very much like to call to see you to discuss the Committee's progress so far. I would also like to explore whether you would want to attend our future meetings if you are available. At present, we have meetings scheduled for 4pm on 17 October, 4pm on 13 November, 3pm on 18 December, and a one and half day session at the London Business School from 9am on 20 January to 12 noon on 21 January, at which we hope to finalise the basis of our draft report. I appreciate that most of these dates are out for you but we would be very pleased for you to join us at any meetings which you can make. In particular you would be very welcome to come along for the first day at the London Business School even if you cannot attend the second.

For those meetings that you do not attend, may we work on the basis that you will put in comments on papers in advance of meetings rather than afterwards? This will enable me to represent your views during the meeting, and avoid the situation of re-opening issues on which the Committee has reached agreement. I should be pleased either to meet you or to receive a letter from you (as you prefer) shortly in advance of meetings.

One further point which I should like to check with you is whether you would wish it to become known publicly that you are assisting the Committee.

Adrian Cadbury

Sir Adrian

RECORD OF MEETING WITH SIR CHRISTOPHER HOGG, CHAIRMAN OF COURTAULDS, ON 25
OCTOBER 1991

Present:

- Sir Christopher Hogg
- Sir Adrian Cadbury
- Nigel Peace

Sir Christopher said that he genuinely believed that the Committee was on the right lines. He was a strong supporter of principles and substance rather than structures and form, and he thought the draft principles on non-executive directors were pitched at just the right level of specificity. The Committee's job was really to market the idea of good corporate governance, and to get boards to consider how they stood against best practice. The Committee was uniquely placed to do this given its representation. It should be possible to gain the support of all the bodies that counted, particularly since there was no reason why a set of principles should be burdensome to a properly run company, once they had been put into practice. The Committee would achieve a great deal simply by marketing good corporate governance and securing general acceptance of the principle. It should not worry unduly about enforceability: the objective was to get people to behave responsibly.

2 Sir Christopher said that he assumed that there would be a discussion of the problems at the beginning of the Committee's report. Aside from auditors, where he agreed that there were serious problems which were best left to the profession to sort out as far as possible, and aside from individuals, which no system could prevent, he did not believe that there was a great deal wrong with the present system in itself - the Companies Acts were satisfactory, it enabled shareholders to act, company reports could be very good, and so forth. One fly in the ointment however was the sheer liquidity of the market which enabled shareholders to vote with their feet by selling.

3 The institutional shareholders had enormous power and although their investment committees exercised it to some extent they did not quite have the clout or the co-ordination that was required. He did not accept the argument that the institutions could not justify spending extra effort on how companies were run in terms of their fiduciary duties to their investors. The effort and expense would be modest when shared around and not at all hard to justify. Indeed he would argue that institutions had a public duty of some kind to put

their minds to good corporate governance. Perhaps some form of increased co-operation between the institutions was called for. Where they were doubtful what was going on inside a company it was easy enough for them to get their own man on the board to have a look, and indeed even threatening to propose a candidate would be effective.

4 Sir Christopher continued that someone needed to say just how difficult it was to run a company. Companies made progress because people took risks, and knew they were doing so. Entrepreneurship was hard to foster and easy to shackle. There were three great illusions - that systems could be designed so that there were no exceptions; that progress could be taken for granted; and that management was in control of events (a proposition to which, incidentally, the whole of the Report and Accounts was dedicated.) Management did face a degree of uncertainty, and there was no harm in saying so.

5 Two features were the distinguishing mark of a good company - training; and constant exposure to feedback. Companies needed to communicate with customers, employees, and shareholders, and it took skill and courage to present a worthwhile picture so as to obtain good feedback. Disclosure of information should be a positive process to obtain dialogue and feedback, not simply a reaction to requirements. He spent a good deal of time visiting the institutions and sometimes encountered very perceptive questioning that genuinely affect his thinking. This was not to say however that institutions would always be creating waves for well-run companies.

6 Sir Adrian said that he wanted to gear his Committee's material so as to make it acceptable to people in Sir Christopher's position. Sir Christopher would play a most valuable role by enabling him to anticipate the intelligent reaction. He would pass emerging conclusions to Sir Christopher to get his feel for them; and he would be very pleased to see him at the Committee's December meeting.

7 Sir Christopher confirmed that he would read and comment on the Committee's draft principles as they came out; and that he would be pleased to act as Sir Adrian's 'informal consultant'.

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October, 1991

Sir Christopher Hogg,
Chairman,
Courtaulds, plc,
18, Hanover Square,
LONDON, W1A 2BB.

In his recent letter, Sir Adrian Cadbury promised that I would send you the Committee's main paperwork to date. Please find enclosed the following documents:

- an introductory note on the purpose of the Committee circulated by Sir Adrian in advance of the first meeting (CFACG(91)1);
- a draft framework for the Committee's report, and draft work programme, submitted to the second meeting and agreed there on the understanding that they would be subject to change as the Committee's thinking developed;
- a discussion paper on non-executive directors, prepared for the second meeting (CFACG(91)5);
- the minutes of the first and second meetings;
- the papers for the third meeting on 17th October, including a note by Sir Adrian proposing conclusions on non-executive directors in the light of discussion at the second meeting (in the orange folder).

Please let me know if you have any queries. If I may, I will contact your secretary shortly to arrange a call by Sir Adrian and myself.

Nigel Peace
Secretary