

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

3rd September, 1991

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SiAdria

Long for you
retention. Jeremy
recall that in
Falconer asked if he
could sit on our
Committee as a represent-
ative small shareholder.

N3/9

Dear Mr Falconer,

I am writing on the Committee's behalf to thank you very much for your letter of 2nd September, and to confirm that it will be taken into account during the Committee's deliberations.

Yours sincerely,
Nigel Peace

Nigel Peace
Secretary

061-487 1704

223 Bramhall Moor Lane
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2nd September, 1991

The Working Party on the Financial Aspects of Corporate Governance
(Chairman Sir Adrian Cadbury)
Moorgate Place, London EC2P 2BJ

Gentlemen,

I hope I am not too late to contribute to your deliberations.

I regard the Non-Executive Director system as potentially a major safeguard, that does not approach its full potential because NEDs are recruited far too narrowly. Almost all are or have been executives, in banks or institutions or other firms, or leading major bodies with similar responsibilities.

You see better with binocular vision. Our perceptions are clouded by our experience; a different background imparts a different view of a world that will impact upon a company *whether the mechanism is spotted or not*. To maximise the chances of warning you need the widest possible representation on Boards. All-executive NEDs are particularly dangerous here, for they duplicate the expertise of the officers and are similarly sympathetic to business imperatives. I don't myself care about top salaries, but the public reaction to recent increases surprised many and demonstrated this blindness.

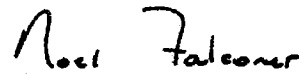
Again, I value a loyal opposition, though not in the Parliamentary sense where every position must be attacked for electoral advantage. Divergent thinking means following a different route to the conclusion - *because the correct conclusion is independent of the approach to it*. The best example is the National Health Service. Never, not in four decades under Governments of both hues, has the concept of this been disputed. Most business matters will be correct, and hopefully accepted as uncontentiously.

I am arguing for variety. There is nothing wrong in an executive being a NED - but it is a weakness if *every* NED comes from this selected, trained *and conditioned* group.

Beyond this, the great are the busy. It wasn't hard, in Polly Peck or BCCI or Brent Walker, to see the hazards - but it took a lookout continuously in the bows, a NED with the time to spend hours every week pondering what was going on, probing for insight. A NED who wasn't a hard-worked executive?

Achieving a wider spread of NEDs is a wider issue. In the short term, the urgings of groups such as yours are all we have - and neither Chairmen nor Institution managers will be persuaded easily for, being themselves executives, they will value executives. I can only beg that, if you find value in this, you try.

Yours sincerely

A handwritten signature in cursive script that reads "Noel Falconer".

(Noel Falconer)