

CAD-01241
Sir A.
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(copy for retention)

RECORD OF MEETING WITH MR ALAN DIAMOND ON 17 JULY 1991

Present:

Alan Diamond
Sir Adrian Cadbury
Nigel Peace

1 Mr Diamond said that he was a member of the Stock Exchange and of Lloyds. He was riled by the huge emoluments being paid to directors.

2 Mr Diamond said that he had raised top salaries at the AGMs of Tesco and Prudential and had not been impressed to be told that the basis for the chief executive's performance pay was 'too complicated to explain'. He said that as a small shareholder he had achieved something at Glaxo (he did not say what) but that he could not stand up at the AGMs of all the 70 to 80 companies in which he had a small shareholding.

3 Mr Diamond handed over a copy of the attached memorandum 'The Counter Proposals to Arrest Corporate Greed' and ran through the main points. On stock options (point 4), he said that options were seen by directors simply as a means of increasing their remuneration and were exercised as soon as possible. Directors should be required to retain some of the holding for a period if the incentive was to be effective.

4 Sir Adrian said that it was not for his Committee to say whether particular incentive schemes were legitimate, but it was for the Committee to say what information should be released to shareholders, and he did believe that the principles of incentive schemes should be made clear so that shareholders could exercise their rights as shareholders.

5 Mr Diamond made particular reference to note 7.1 to the Argyll accounts dealing with directors pay. He said it was extremely complicated and open to misinterpretation, and urged Sir Adrian to look into it.

6 Mr Diamond said that it was unsatisfactory when two or more major plcs held their AGMS at the same time. He had written to the IOD suggesting that they held a register of dates in order to avoid clashes, but had received a negative reply.

NDP

29.8.91

The Counter Proposals To Arrest Corporate Greed

1. How entirely independent are the remuneration committees, normally comprised of non executive directors, in their relationship with a dominant executive chairman, especially if the non executive director is also a professional adviser retained by the company and receiving fees over and above his director's emoluments?
2. Performance related bonus schemes should be declared in full detail as to how they are calculated and shown in the report and accounts. All directors 'perks' should also be disclosed in similar fashion.
3. These arrangements should be subject to shareholders approval to be voted upon at annual general meetings.
4. Performance related bonus schemes should not be permitted to be measured against the growth in earnings per share in any one year, for there is a danger that a board, in a dash for quick growth, can harm the balance sheet and damage the company. Burtons being the classic example. For profit related bonus if rewarded on one years results only, may not necessarily take into account the longer term ultimate fate of the actual business executed. This maybe accentuated if the executives concerned have limited shareholdings and therefore little personal downside to the risk involved, or in the case of utilities, profits can be influenced by freak weather conditions. The preferred incentive measure should be confined to granting of options to be exercised over a period of time with the proviso that when called a quarter of the holding must be retained for a period of not less than three years. This would enable a director to enjoy growth sought for the company and at the same time afford him the opportunity to increase his personal wealth. Other shareholders would gain comfort that he had increased his shareholding rather than as so often happens at present, to see him encash his entitlement as soon as his stock option can be exercised.

5. The solution to some of these problems might be resolved if urgent tax reforms were to be introduced with regard to capital gains tax with further incentives to the individual to encourage direct personal investment into equities, to help restore the balance between the institutions and the private investor in equity ownership. In the late 1950's the private shareholder owned over 60% of many public quoted companies now individuals own less than 18%. The reversal of this trend would help to restore the balance and thus alleviate the problems now associated with Corporate governance. It is hard to believe that a majority body of private shareholders would have voted through some of these remuneration packages which have caused such furore. Not so for prominent institutions who after all have rewarded their top management in a similar fashion as the Corporate sector. For as long as it remains more tax efficient to invest via institutional managed funds, for example unit trust transactions contained within the trust are exempt from capital gains tax, tax shelters or alternative investments such as 'gilts' or even owning ones own home and receiving tax mortgage relief, there is less incentive for personal direct ownership or quoted investments.
6. The reduction in tax rates from 60% to 40% in recent years has automatically given a sharp increase of 33% to high earners. It particulally manifests when salaries are in the region of £400,000 or more, thus making the necessity of further large increases unwarranted in the present recession.
7. Socially it is unacceptable, to a fair minded person, to expect the labour force to agree to pay increases at or below the rate of inflation whilst boardroom salaries have, in some cases, increased by 66%. Is it right that directors emoluments have risen out of all proportion to the average salary paid to other staff?
8. Comparisons with earnings from foreign countries is erroneous because of the different life styles and cost of living. This argument could equally well apply to the labour force who could use it in their pay negotiations with management.

9. In the belief that the Labour Party might form the next government and will introduce special tax measures on high boardroom salaries, the rush to increase emoluments has accelerated because of what has been perceived as a favourable tax climate.
10. Sharp increases in directors emoluments can sometimes be found in the last year of service just before retirement. Whilst this is most helpful to the retiring director, it is not of benefit to the ordinary shareholder.
11. Quis custodiet ipos custodiet? The answer lies with the private individual shareholder with help received from reasonable tax reform.

AD

REPLIED
10/7/91



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9 July 1991

Dear Adrian

I think you were aware that I was due to see Alan Diamond, which I did last week.

I attach a copy of a note which he left with me. We are discussing this within the CBI and perhaps on some suitable occasion you and I might have a talk. Certainly I have for some time been concerned at the way in which performance bonus and stock option arrangements operate.

Best wishes.

*Yr.
Brian*