

RECORD OF MEETING WITH MR HUGH COLLUM, 100 GROUP OF FINANCE
DIRECTORS, ON 1 JULY 1991

Present: Hugh Collum
 Sir Adrian Cadbury
 Nigel Peace

Mr Collum referred to his recent article in IASC News on the diversity of accounting standards internationally. He said that he felt there was a window of opportunity to reduce some of the diversity. If the heads of the Financial Reporting Council and Accounting Standards Board could not make progress then there was no hope. He was encouraged by David Tweedie's willingness to listen to the views of his colleagues on the current drafts, and by his contact with Art Wyatt, Chairman of the International Accounting Standards Committee. Problems such as the treatment of goodwill were soluble even though there was some co-ordinated opposition. If the UK could get its accounting act right then it would be able to take the lead in Europe.

2 Mr Collum continued that there was a lot of interest in corporate governance issues among the 100 Group. A recent talk by Martin Lipton had attracted lively discussion and Finance Directors felt they had a contribution to make to the debate. On non-executive directors, for example, they recognised the role that non-executives could play as arbitrators but questioned whether they knew enough about the business to contribute in other ways.

3 Sir Adrian said that he saw Finance Directors as occupying a central position between the auditors and the board and that they therefore had a crucial contribution to make to the exercise. He assumed their interest was in having auditors who were no pushover but were also sensible and had clearly defined responsibilities. Any help which the 100 Group could give in defining the precise boundaries between the auditors and directors would be very helpful.

4 Mr Collum commented that the Chairman of his company's audit committee was able to talk independently to the auditors. He had no objection to that situation. He believed there was a role for audit committees and that they should be able to spot any areas where the auditors had done a deal with management. On rotation

of auditors, he had come to the view that a change every seven years would be desirable. Following its recent merger, his company now had two auditors and in his view the new ones were more objective. A fixed term would remove the problem of having to remove the incumbents. He had no objection to the same accountancy firm providing both audit and consultancy services, but felt that the latter should be negotiated separately and not included in the audit fee.

5 Mr Collum agreed that Sir Adrian's Committee could play a useful role in lending its weight to the statements of best practice being developed by the Institutional Shareholders Committee. He thought that the recent action of the institutional shareholders in the case of Tace would have a beneficial effect because other boards would take care to avoid similar treatment.

6 Sir Adrian said that it had been suggested that auditors should report on a statement by the directors which gave confirmation that the company had adequate resources to undertake its plans for the coming year. Directors would have the opportunity to set out their stall for their plans, as Cadbury Schweppes had done in 1984. Mr Collum said that he no objection to making strategies known in outline, and that his company was trying to do so in the belief that it had reasonable credibility to explain why things changed if they did. However disclosing too much detail carried the risk of trouble in 2 to 3 years time if things did not work out. On R & D expenditure, his company did make a specific disclosure (that it spent 14% of sales on R & D), but he could see no advantage to companies who spent small amounts in disclosing the fact. He was not impressed by the Sciteb exercise although it had been supported by the CBI.

7 Mr Collum said that there were differences between British and American reporting standards, although not as great as one might expect. He doubted that the SEC would shift its position and accept foreign standards.

8 Mr Collum commented that Sir Adrian's Committee would lack credibility if its report appeared to be too much driven by the accountants. There was an inclination to forget who the customers (the users of accounts) were. It was very much a matter of strengthening transparency.

9 Mr Collum said that the 100 Group had a Technical Committee which was there to consider and respond to proposals on the basis of common sense and experience. It would also be prepared to try proposals out. The group would be collecting its thoughts over the next 2 to 3 months and if there was anything Sir Adrian's Committee wanted it to look at in particular, he would be pleased to oblige.

NDP

8 July 1991