CAD-01249

RECORD OF MEETING WITH MR IAN BUTLER, CBI (AND CHAIRMAN OF COOKSON GROUP), ON 18 JUNE 1991

Present: Ian Butler
Sir Adrian Cadbury
Nigel Peace

1 Mr Butler said that he had served as Chairman of the CBI's Companies Committee for six years, and would be pleased to accompany Sir Adrian when he met the CBI's Steering Group on Corporate Governance on 25 July.

2 Asked what he would like to see emerging from the work of Sir Adrian's Committee, Mr Butler said his principal area of concern was the expectation that had grown up that information would be 'smoothed' between company management and analysts. Analysts wanted to get their information right and companies did not want them to put out overly pessimistic or optimistic forecasts. There was also pressure in the media for companies to be more forthcoming. However he felt this was an unattractive and dangerous pastime. There was the risk that the Stock Exchange would deem the information as 'forecasts', and if companies did make forecasts public they were expected to carry their auditors with them. Sir Adrian commented that it came down to a question of professional standards on both sides. Finance directors were caught between board pressures and loyalty to the standards of the accountancy profession. It was useful that the Committee had Hugh Collum as a member.

3 In discussion of the shortcomings of company reports, Mr Butler said that increased disclosure requirements would lead to increased problems and costs for companies. The motherhood statements that had to go in Directors' reports were already farcical. On disclosing R & D expenditure, Mr Butler said that he had no difficulty differentiating between capital and operating expenditure, and itemising the former, but it would be absurd to segregate an overall figure for R & D because of the impossibility of allocating operating expenses to R & D accurately. It had been his practice over the last ten years to see brokers and analysts after the publication of the company's results - never once had he had a question about R & D. If ever R & D was mentioned, the question would immediately be asked when the return would be, giving rise once more to the problem of forecasting. Sir Adrian commented that as a matter of principle he believed it was helpful for Boards to give an indication of how much they were ploughing back into the business. In the case of Cadbury Schweppes, the key point had been how much was being invested in marketing, because that was so important to the future of the company. Mr Butler said that he would distinguish between information that was important to management and shareholders, and information that was simply required so that someone could add up all the figures.

4 Mr Butler said he agreed it was desirable for explanatory narrative to accompany the figures in annual reports. There could however be a problem if the narrative was not repeated in any shortened version of the report.

5 Mr Butler commented that the audit requirement could bear very hard on the small company and the audit fee could account for a substantial portion of the profits. However he had not obtained a lot of support when the issue was discussed in the CBI's Small Firms Committee.

NDP
24 June 1991