



FINANCIAL REPORTING COUNCIL

Holborn Hall, 100 Gray's Inn Road, London WC1X 8AL Telephone 071 404 8818 Fax 071 404 4497

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Sir Adrian Cadbury
 Chairman
 Committee on Financial Aspects of Corporate Governance
 P O Box 433
 Moorgate Place
 EC2P 2BJ

Dear Adrian,

There was a suggestion at the end of the yesterday's meeting we should think about areas of vulnerability.

Before the vulnerabilities, I count my blessings.

My own motivation as a co-sponsor of the Cadbury Committee was to strengthen the position of the auditor and to get the responsibilities of directors into clear focus. In those terms the draft report is excellent and will do much good. Even if it did no more the Committee would have made an important contribution that was much needed. And of course it has done more.

Turning to the vulnerabilities, by the end of the meeting Andrew Likierman had ten, and I cannot compete with that.

But I would like to focus on one which we noted in the early part of our discussion yesterday morning. This was that whilst we had identified accountability as one of our three building blocks, and while we are provided a much better information basis for exacting accountability, what we have to say on its exercise is limited.

On accountability the critic might well say that we have looked after the large institutional shareholder - who could look after himself anyway - but done nothing for the ordinary shareholder, or the worker.

The Worker

It must be the practice in many companies to put out a special publication for the workforce. I would think it would do good in its own right - as well as give our report greater credibility if there was an incoming Labour Government - if we put that into our code of good practice. In saying this I recognise it is conveying information rather than providing accountability, but most companies have arrangements of one

kind or another for discussions with either the workforce or representatives of it, and this material could be on the agenda.

This could with advantage, occupy a paragraph under a small heading.

The Ordinary Shareholder

This is the real difficulty, and there was no-one at the meeting, apart from yourself with some support from myself, who felt the game was worth a candle. But I suggest it is worth trying to do something and as with workers having a small section in the report under the heading 'the ordinary shareholder'.

We could pick up the point made in the 'Gillibrand Document' about making annual general meetings more shareholder friendly and providing an atmosphere within which participation is encouraged and facilitated.

Whilst there must always be scope for questions from the floor at the AGM, I like the idea, which perhaps you aired, of questions sent in advance.

If one wanted to take this seriously it would be perfectly possible, wouldn't it, to have a tear off section in the annual report of about half a page on which the ordinary shareholder could write a question and post it off, subject to it being received not later than say two weeks before the AGM.

Against the possibility that there would be more questions than could be answered - quite a likely possibility I should have thought given the suggestion above - it would be possible to have a shareholder committee with the single limited function of selecting those questions submitted in advance, that should be put to the board. They would be selected on the basis of those which captured the most common elements in shareholder interest, and those which bore most strongly on the performance of the company. Given such a limited role, the company need not be too concerned about the people that got themselves elected, but as a safeguard against people buying shares just to be a nuisance or to advance a cause, members of the shareholders committee could be limited to those who held shares for more than five years.

The members of the shareholders committee might be elected on the basis of members putting forward brief details about themselves, which would be made available in printed form at the AGM, and given the limited role of the committee it might be limited to three or four members.

As a safeguard against cranks slipping through and becoming an actual nuisance, membership might be limited to two years, with no re-election.

You may have better ideas and I can imagine the committee groaning about the idea, but if we face up to the fact that to the great mass of ordinary people, accounts are incomprehensible; that the AGM is an intimidating occasion for the ordinary man or woman, and that they do have a legitimate interest, to do nothing would I think be a legitimate basis for criticising our proposal in terms of our own proclaimed objective of improving accountability.

The Research Exercise

I made some comments at the end of yesterday's meeting on the research work the ICAEW is prepared to finance. My first point was that we should identify what information the group set up in two years time, will need to make a judgement on further action. The most obvious basic need is for them to know the extent to which there has been compliance with the code, and, much more difficult, the extent to which it has been nominal rather than the substantive. I imagine the first of these could be established by setting up some mechanism for reviewing annual reports when they come in. The second would probably need at least postal enquiries of a sample of firms, and arguably some interviewing.

I make this off the cuff contribution because the ICAEW was looking for an input from us quickly and I would see no grounds for inter-institutional jealousies if they were asked to undertake the first of those tasks, leaving decisions on the second for another day.

James
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