

To:

Sir Adrian Cadbury

From:

Nigel Peace
25th November 1992

"LISTED COMPANIES"

You asked for a note explaining which companies were to receive our draft report.

The Stock Exchange publishes a Daily Official List. The contents page of a recent issue is attached. You will see that securities are listed under various headings.

The letter and report will be sent to all of the 2,125 or so companies listed under the following three headings:

- Listed Companies (excluding Investment Trusts) - about 1,575 in total
- Investment Trusts - about 250 in total
- USM Appendix - about 300 in total.

A page from each category is attached.

You will see that the USM Appendix is headed 'The securities in the appendix have not been admitted to official listing on the Stock Exchange.' However the view of the Stock Exchange's Head of Listing, backed by Sir Andrew Hugh Smith, is that companies on the USM (a few of which are substantial undertakings) should be subject to the disclosure requirement. This has always been my understanding. We should have made the point clear in the report but unfortunately it is now too late to do so.

We therefore need to make the point clear in the covering letter, without drawing unnecessary attention to the lack of clarity in the report itself. The revised text attached attempts to do so. If any improvement occurs to you, I would be grateful if you would let me know tomorrow (Thursday).

Regards,

Nigel

Nigel Peace

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

1st December 1992

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Mr Alan Wheatley

3i Group plc

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Dear Mr Wheatley

I am writing to you and the chairmen of all other quoted companies to enclose three copies of the report of the Committee on the Financial Aspects of Corporate Governance, which is published today. I also enclose three copies of the Committee's Code of Best Practice, which for ease of reference is being published as a separate document with supporting notes drawn from the text of the full report.

The report's central recommendation is that the boards of all listed companies registered in the UK should comply with the Code. I know that you and your board will give it your careful consideration.

The Code is voluntary but it will be underpinned by a disclosure requirement through the mechanism of the London Stock Exchange's continuing obligations of listing. Under the continuing obligations, all listed companies (and companies quoted on the USM) will be required to state in their annual report whether they are complying with the Code and to give reasons for any areas of non-compliance. The continuing obligations will not require compliance itself, which is properly a matter for the company's shareholders. The Stock Exchange's role is to make sure that shareholders have information about the company's governance procedures so that they can take matters up with the company if they think it necessary.

The requirement to make a statement of compliance will not come into force at once. It will apply to annual reports in respect of years ending after 30 June 1993. This will provide you with adequate time to take action on any points in the Code with which you do not at present comply fully. It will also provide time for guidance to be developed for companies on reporting on internal control and going concern, the last two items in the Code.

I have been greatly encouraged by the action of some leading companies in describing their systems of governance in their recent annual reports. It would be most welcome if this example were to be followed by other companies reporting before the requirement to make a compliance statement comes into effect.

The Committee is to remain in existence to act as a source of authority on the Code and its other recommendations. A new Committee will be set up by the end of June 1995 to take stock of progress and examine whether the Code needs updating. Please write to me, care of the Committee's Secretary (address on page 3 of the full report) at any stage between now and then if there are issues which you would like to draw to the Committee's attention.

Finally I should point out that there are no restrictions on photocopying the report for internal purposes, but additional copies may be purchased from the publishers at a rate competitive with current photocopying costs. Printed copies of the Code may also be purchased in packs of ten. Please refer to page 3 of the report for details.

Adrian Cadbury
Chairman