

23rd July 1992



Vickers House
Millbank Tower
Millbank
London SW1P 4RA
Telephone 071-828 7777

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

TO	DATE RECV	DATE PASSED ON
N. Peace	29/7	
ASSTD TO (FOR ACTION)		

Dear Adrian,

I am enclosing a copy of a letter which I have written to Nigel Peace as Secretary of your Committee, giving Vickers' comments on your Committee's Draft Report.

You will see that some of these comments go beyond the financial aspects of corporate governance: this is because my colleagues and I feel that, in order to gild the lily, your Report perhaps should pay more heed in your final version to certain behavioural aspects which are, in our view, central to a Board's effectiveness.

Your Draft Report takes the whole subject a great step forward from the earlier days when I looked at this subject, first as a member of the Wilson Committee and then as a member of David Nickson's CBI Task Force.

Martin Taylor, who is Chairman of the CBI Companies Committee, which has commented to you, is a member of Vickers' Board.

Yours ever

Dix

RICHARD LLOYD

23rd July 1992



Vickers House
Millbank Tower
Millbank
London SW1P 4RA
Telephone 071-828 7777

Nigel Peace, Esq.,
Secretary,
Committee on The Financial Aspects
of Corporate Governance,
P.O. Box 433,
Moorgate Place,
LONDON,
EC2P 2BJ

Dear Mr Peace,

You will by now have had many responses to your request for comments on your Draft Report; in adding from Vickers some more now, I shall try not to duplicate other than occasionally for emphasis what I know has already been submitted, e.g. by the CBI, with most of which I am in agreement. My comments, therefore, are deliberately selective.

1. Code of Best Practice

In general, Vickers supports your Committee's proposal for a Code of Best Practice, and we would, again in abroad terms, plan to accept and to implement each of the clauses of the Code if it is issued as now drafted.

2. Sanction

We agree that a sanction will be needed to compel compliance with the Code but, like the CBI, we feel that a threat of withdrawal of Stock Exchange quotation is perhaps too draconian, and too far removed from what I see as institutional shareholders' responsibilities to intervene where necessary in corporate governance of companies in which they invest. I would prefer it if the sanction could instead take the form of organised and harnessed pressure from the companies' larger institutional shareholders as an exercise of their ownership role, perhaps within guidelines to be devised by the Institutional Shareholders' Committee.

Cont'd...

3. Effectiveness of U.K. Unitary Boards

Much of the effectiveness of a U.K. Unitary Board of Directors is related to the frequency of its meetings and the time it spends on directing the company, as well as on its size. Vickers' Board meets monthly and our Board is relatively small. We have a Board presently of eight, which happens to be half executive and half non-executive. Experience shows that when a Board exceeds, say, twelve, then free and reflective discussion and debate can be hampered, giving way too often to individual interventions of a more "set piece" nature. In my view, frequency and size are more relevant to your Report than the present Draft shows.

It is of interest that U.K. Boards' behavioural patterns and size, when compared with those prevalent in Canada and the U.S.A., indicate that most U.K. Boards, anyway those of medium-size companies, are probably more intimately involved in the knowledge, understanding and direction of the business than is the case with counterparts across the Atlantic. The reasons lie firstly in our U.K. practice of treating the Board as more genuinely unitary in its nature, rather than more nearly supervisory, and secondly in the much lower U.K. proportion of non-executive Director component.

4. Unity of a Unitary Board

When previously Sir David Plastow combined the roles here of Chairman and Chief Executive, I was then, as Deputy Chairman, the appointed "Convenor" of the non-executive Directors. In the event that your Committee conclude that any designated person is required from among the non-executive Directors, I would commend this word "Convenor" to you for your final Report. It is a more felicitous and less divisive one than your choice of "leader" (your paragraph 1.2 of the Draft Code).

Cont'd...

4. Unity of a Unitary Board (cont'd.)

To have two leaders on any Board can only accentuate the "we" and "they" rankings which, if too constantly emphasised in Boardroom behaviour, seriously weaken a Board's effectiveness and stewardship in carrying out its main task. That task is to choose the company's strategy and to guide, direct and motivate colleagues in its successful execution.

The monitoring/financial reporting function, and checks and balances of power within a Board need to fit in to that greater framework of Corporate Governance. We hope that your Final Draft could draw more attention to the larger framework so that the financial aspects of Governance are shown more clearly in context.

Yours sincerely,

Rich Lloyd

RICHARD LLOYD
Chairman