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GNM/amb
21st July 1992

Mr. Nigel Peace
Secretary
Committee on the Financial Aspects of
Corporate Governance
P O Box 433
Moorgate Place
London EC21P 2BJ

Dear Sir,

The Financial Aspects of Corporate Governance

My Board has considered carefully the draft report and support most of the conclusions and recommendations made. We have also reviewed our own arrangements which are already broadly in compliance with recommended good practice.

However, my colleagues and I are concerned by a number of general issues raised by the report:-

1. The report is entitled "The Financial Aspects of Corporate Governance." Governance by definition implies control, discipline and authority. It is by nature a negative word of repression and will, we believe, be viewed that way by unconnected observers and indeed by authority, whether they are private or public regulators. Business in these difficult times needs enlightened, responsible leadership to further private enterprise and to benefit from innovation and change in technology. This vital factor of leadership seems to be missing from the arguments supporting the case.
2. By recommending a Code of Best Practice and assuming that such a code will be incorporated in the listing agreement, it would seem that companies could be subjected to a strait-jacket of compliance and that any departures from the Code, however well-justified, will attract criticism. We believe that it is important to ensure that there is scope for reasonable flexibility in applying these guidelines in order to:-
 - a) Avoid companies being unreasonably criticized
 - b) Enable companies to arrange their methods of governance to suit their own strengths and circumstances, and
 - c) Provide for improvement of procedures by responsible experiment.

Companies are different in their composition, business and the people involved. Therefore it is important that there should be scope for variations in the application of good practice which can be built around the qualities of the individual talents available. In some cases it may well be appropriate for the Chairman and Chief Executive to be one and the same person, subject of course to certain safeguards. We are also concerned that the proposals may in their strictest application shift too much power to the non-executive element of the Board, thus limiting the essential unity of the Board.

3. Whilst recognizing the merits of many of the proposals regarding financial stewardship and reporting, it does appear that the strict application of these rules will attract additional cost of compliance and a greater dependency on expensive professional advice. Such additional burdens should be avoided when business in general is being assailed by narrowing margins, increased overheads and recession.
4. We believe that many businessmen will view the proposals cynically as a means of generating additional fee income for professional firms without sufficient benefits being derived by the businesses concerned and their shareholders who are supposed to be better-protected by these proposals.
5. As Chairman of the Advisory Board on Deregulation at the DTI, I am particularly concerned that the measures -
 - a) Impose additional regulation on business albeit of a non-statutory kind
 - b) Do not in the concept necessarily match the essential criteria normally required of good regulation
 - c) Have not been costed as to their effect and impact on business. Should not the Committee produce a "Compliance Cost Assessment" as is becoming customary in Government and the EEC and publish the assessment.

More specifically, we would comment as follows on the question of Financial Reports:-

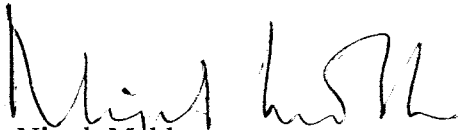
- a) Statements of going concern will need to be audited based upon a review of budgets and long-term plans. This will increase the audit work-load and to some extent the subjectivity of audit reviews.
- b) Interim balance-sheets and in time cash-flow statements will increase the work-load and considerably add to both internal and external costs and auditors will be required to provide at least partial audit comfort.

- c) It would be helpful if the Committee could convert the loose wording of a proposed "Operating and Financial Review" into a more focused code of implementation without necessarily requiring all companies to make both a qualitative and quantitative "forecast" with all the implications that such a course entails.

In conclusion, we are supportive of many of the proposals and believe that well-managed businesses are largely in compliance already but we remain concerned that the Code will be too well-defined and that there are significant unassessed costs of compliance.

My colleagues and I would be happy to expand on these issues.

Yours faithfully,



Nigel Mobbs
Chairman & Chief Executive

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