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Dear Sir

COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE:
DRAFT REPORT

The Committee asked for comments on their draft report of 27 May 1992.

With the important caveats set out below, I welcome the consolidation of many strands of thinking into one document which reflects a relatively common view across a range of constituencies. As such it will not, of course, fully satisfy any one constituency.

Firstly, however, I strongly support the intention of the London Stock Exchange to require all listed companies registered in the UK, as a continuing obligation of listing, to state whether they are complying with the proposed code and if not, why not.

Secondly, the proposed code purports to be a reflection of existing best practice. I have to say that in various areas the proposed code falls some way short of existing best practice.

- (i) Item 1.2 of the code (paragraph 4.6 of text) does not come out unambiguously against combining the roles of chairman and chief executive. No justification is given for why the roles can be combined just 'where the chairman is also the chief executive, it is essential that there should be a strong independent element on the board, with an appointed leader'. What is the case against making this appointed leader chairman? It seems to me that existing best practice is to have the roles separated for reasons associated with preventing an undue concentration of power, and in recognition of the very different skills required of a good chairman and a good chief executive.

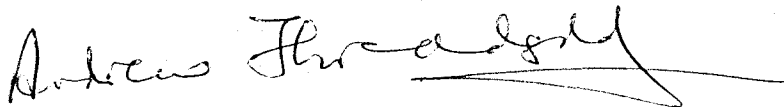
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- (ii) Item 2.2 of the code (paragraphs 4.9 and 4.10) allows that only a majority of non-executive directors (NED's) should be independent and free of any business or financial connection with the company (apart from their directors fees and any shareholding). Existing best practice is that all non-executives are independent. Certainly a non-independent director should not be called non-executive, and, in my view, such a person should not be on the Board but be hired as a consultant or adviser to the Board or management. I also think that paragraph 4.10 could have come out more strongly against NED's participating in share option schemes or receiving pensionable fees from the company.
- (iii) Item 2.3 (paragraph 4.4) is rather weak on the term of appointment of NED's. Best practice currently is that each term should be for no more than three years with usually only two terms of appointment and certainly not more than three.
- (iv) Item 3.1 (paragraph 4.33) condones rolling three year service contracts for executive directors. Best practice is that fixed term contracts on the few occasions that they are warranted should not exceed three years, and that rolling service contracts should be for no more than 12 months.

Thirdly, the report in one or two places comes dangerously close to undermining the concept of the unitary board. I do not believe, for example, that any one director should be specifically responsible for answering questions at the AGM. (Item 4.7, paragraphs 4.29, 4.34.) It is surely up to the Board Chairman to decide who should respond on behalf of the Board to a query raised by a shareholder on any topic.

Fourthly, on auditing the report is weak on the provision of non-audit services to the company. The recommendation in paragraphs 5.11 of disclosure of non-audit fees received by audit firms is a step in the right direction, but does not, I think, deal adequately with the conflict of interest.

Yours sincerely



A R Threadgold