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COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

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1st July, 1992

Edward Adeane, Esq.,
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Dear Mr Adeane,

Thank you for your letter of 24th June. By 'independent and free of any business or financial connection with the company', the Committee means that non-executive directors who qualify as independent should be independent of management and free of any business or financial (or other) relationship which could interfere with the exercise of their independent judgement.

I would have thought that in the third of your examples, the non-executive director's independence would have been compromised, but not in the first two. However it should be for the board itself to make a judgement in each case, taking into account all the circumstances of the individual concerned.

I hope this is helpful. The Committee recognises that it would be very difficult to draw up a detailed, hard and fast definition of 'independent' to apply in all cases.

Yours sincerely,

Nigel Peace

Nigel Peace
Secretary



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24th June 1992

Nigel Peace Esq
Secretary
Committee on the Financial Aspects
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Dear Mr. Peace,

Draft Report of Cadbury Committee

I am uncertain as to the intended effect of paragraph 2.2 of the proposed Code of Best Practice. Do the words "...independent and free of any business or financial connection with the company..." mean that the "independent" non-executive director should not, for instance, have an account with the Bank of which he is a director, or a life policy with the Insurance Company of which he is on the Board? Again, if for instance he was a director of a Merchant Bank advising the company of which he was a non-executive director, would that mean that he was not "independent"?

If the answer to all these questions is "Yes", I suspect that there may not be enough potential non-executives of the appropriate calibre to sit on the Boards of the 1800 or so companies listed on the Stock Exchange.

*Yours sincerely,
Edward Adeane*

Edward Adeane.