



cc Sir Adrian

News Release

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STOCK EXCHANGE RESPONDS TO CADBURY COMMITTEE PROPOSALS

The London Stock Exchange has today (31 July 1992) issued its formal response to the draft report by the Committee on the Financial Aspects of Corporate Governance. The response, a copy of which is attached, emphasises the Exchange's strong support of the initiative taken by the Cadbury Committee and the general approach taken in the consultative proposals.



London STOCK EXCHANGE

31 July 1992

The Secretary to the Committee
Committee on the Financial Aspects of
Corporate Governance
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Sir Andrew Hugh Smith
Chairman

Dear Nigel,

THE FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

I am writing to give the London Stock Exchange's views on the Committee's draft report. The Exchange strongly support the initiative taken by the Committee and the general approach in the proposals which it has put forward for consultation.

Code of Best Practice

The Exchange supports the concept of a Code of Best Practice which, it believes, has been drafted by the Committee to reflect prevailing best practice.

The Committee has proposed that a new continuing obligation of listing be introduced to require a company to make a statement, in its report and accounts, about its compliance with the Code together with reasons for any areas of non-compliance. A proposal that such a continuing obligation be introduced will be presented to the Board of the Exchange once the Cadbury Committee proposals have been approved.

Enforcement of the obligation

Whilst the Exchange believes that every listed company should report on its compliance with the Code, it does not intend to require compliance since it is the responsibility of shareholders to take whatever action they deem appropriate in the light of the statement of compliance. This is particularly important in the case of smaller companies, for which aspects of the Code may be of questionable benefit and which will often be able to justify areas of non-compliance to their shareholders.

The full effects of these reports on compliance will depend on the use made of the information they contain by shareholders, institutional shareholders in particular.

The Exchange will be talking to representatives of major investors to discover what features of the Code are of particular interest to them, and where evidence of non-compliance by companies in which they hold stakes would prompt them to take action.



The Secretary to the Committee/Page 2

The Code itself will not appear as part of the Yellow Book, although reference will be made to it. The Exchange already adopts a similar approach in the case of the appointment of non-executive directors where it draws the attention of companies to PRONED guidance.

New Applicants

The Exchange will not require compliance with the Code to be a condition of admitting a company's securities to listing. However, new applicants would be expected to report on the degree to which they comply with the Code as part of their listing particulars.

Board of Directors

We believe that the clear statement of the roles and responsibilities of non-executive directors will do much to define and clarify their position. However, the Exchange will continue to regard the Board collectively and individually as wholly responsible for the conduct of a listed or quoted company's affairs.

Financial Reporting

The Exchange is considering whether balance sheet information should be included in interim reports, as a condition of continuing obligation. We support additional information being given provided that the unaudited nature of the figures and the basis of the review carried out are clearly explained.

Review of the Code of Best Practice

We welcome the proposal that the Code be reviewed in two years' time and hope that the London Stock Exchange will be fully involved in that review.

Conclusion

The Exchange has long been a firm advocate of high standards of corporate governance and financial reporting. We believe that this report, by codifying best practice and ensuring that companies have to account publicly for their compliance, will prove a helpful means of maintaining and raising standards.

Successful implementation of the Committee's recommendations depends not just on regulatory authorities such as the Exchange but on the whole-hearted commitment of all involved in any way in corporate governance.

Yours sincerely,

Andrew Hugh Smith