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Mr N Peace
Secretary
Committee on Financial Aspects of
Corporate Governance
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Your Ref.
Our Ref. DF/IM/ST
Enquiries to: Mr Southern

Date: 10 August 1992

Dear Mr Peace

Attached are the Authority's comments on the draft report of the Committee on the Financial Aspects of Corporate Governance. I am sorry that these have not been submitted by the published deadline but unfortunately this was not possible given the Authority's committee timetable. I understand that indications have been given to Mr MacDougall of PIRC Limited that late submissions may be considered.

The comments, in keeping with the format of the draft report, deal with board structures and accountability, auditors and shareholder participation. Comments which it is believed should be embodied in the Code of Best Practice are indicated.

I hope these views can be considered in the Committee's future deliberations.

Yours sincerely

Director of Finance

Appendix

COMMENTS ON THE REPORT OF THE CADBURY COMMITTEE

Board Structures and Director Accountability

- (i) It should be regarded as best practice for corporate governance procedures to be embodied in a company's Memoranda and Articles of Association. Recognising the complexity of such documents, this should be adopted as and when practicable.
- *(ii) The separation of the roles of Chairman and Chief Executive should be recommended without exception.
- *(iii) All directors should be required to seek re-election by the shareholders, with at least one third seeking re-election each year.
- *(iv) The committee should consider issuing guidelines on the number and proportion of non-executive directors on the Board.
- (v) It is proposed that the committee give explicit support for widening the pool from which non-executive directors are drawn.
- (vi) Where practicable, the Audit Committee should consist only of independent non-executive directors.
- (vii) Remuneration and Nomination Committees should consist of a majority of independent non-executives and be chaired by an independent non-executive director.
- (viii) The committee should consider offering further guidance on the definition of an independent director, possibly with reference to the criteria issued by the ISC.
- (ix) More information should be provided to shareholders on the candidates proposed for election or re-election to the board. Particular emphasis should be given to wider biographical material.

Shareholder Participation

- (i) The use of written questions at AGMs should not preclude the opportunity for shareholders to raise questions at the meeting.
- (ii) To enable improved shareholder contact, consideration should be given to :
 - identifying beneficial owners on shareholder registers; and
 - making available shareholder lists on an annual basis showing shareholders by size of holding and alphabetically.

Auditors

- (i) Whilst accepting the recommendation that audit firms should be allowed to provide other service to their corporate clients, it is suggested that full disclosure of the nature of such services should be made in the report and accounts.
- (ii) Compulsory rotation is not desirable but disclosure to shareholders of the duration of the existing audit arrangements would be helpful.

* indicates items for inclusion in the Code of Best Practice