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TOP PAY RESEARCH GROUP

INDEPENDENT ADVICE FOR REMUNERATION COMMITTEES, DIRECTORS AND INVESTORS

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23rd June 1992

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N 29/6/92

Mr. Nigel Peace
Secretary
Committee on the Financial Aspects of Corporate Governance
P.O. Box 433
Moorgate Place
LONDON EC2P 2BJ

Dear Mr. Peace

CADBURY COMMITTEE DRAFT REPORT

Thank you for sending me a copy of the draft report. You will not be surprised if we comment on paragraphs 4.32 - 4.37 as Remuneration is the area where we have experience and competence.

Our main point relates to the recommendation in paragraph 4.12 that Non-executive Directors (NED) would be entitled to take independent advice at the company's expense.

The need for this entitlement is borne out by our own experience that NED's are loathe to involve the company in external expense and are over-reliant on internal or consultant generated papers commissioned by Executive Directors.

As we have been instrumental in several cases in restructuring such Board remuneration recommendations in a way that met the needs of both the Directors and the Shareholders we are somewhat sceptical of the objectivity of Consultants, who advise the Executive Directors on other issues, being used for Independent Remuneration Committee input.

Several professional and regulatory bodies are floating the idea that Consultants or Auditors fees from the company should be detailed in full so that their objectivity and independence from related income pressures can be seen. We suggest this also applies to the Consultants asked to advise Remuneration Committees.

Could we suggest that in addition to the recommendation that Directors bonus schemes are explained in the Accounts. Any new or significantly amended schemes should also be voted on, as are option schemes, by Shareholders.

We agree with your remarks on the difficulty of having Shareholders vote on individual Directors remuneration but giving Shareholders the right to vote on the framework of the cash bonus scheme(s) available for Directors would seem justified.

The role and responsibility of NED's will be strengthened by the implementation of your recommendation. In some cases, NED's will become part-time Directors spending four to five days a month on the company's service. I think you need to give more thought to the setting of NED fees.

It will not have escaped your notice that BT's Annual Review the NED's are reported as "agreeing Executive's pay", whilst at the same time the Executive Chairman and Deputy Chairman are reviewing the NED fee ceiling of £20,000. The cynical could see this a mutual benefit at one remove.

The actual work required and undertaken by NED's in different companies can vary considerably although on the surface it appears to be rather similar.

We feel, from our experience of job evaluation and fee level advice for NED's that you could usefully recommend a rather more detailed assessment than the current "£15k seems to be the going rate" approach of many major companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Brown', with a stylized flourish at the end.

PETER BROWN
Chairman