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Sir Adrian Cadbury
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My Dear Adrian,

You must feel quite drained after yesterday, but I thought we made excellent progress.

I promised you two pieces and have pleasure in enclosing them. One is my definition of corporate governance. You will see that I have made a particular point about employees; I think this is not only right in principle, but politic.

The second passage concerns the first paragraph of the forward and 7.2 of the conclusions, and I think substitutes for both. It sets the background for the whole report and I think this is better than it had been at the beginning and does not need repeating in the conclusions so that 7.2 can be omitted.

I have also tried my hand at a ~~redraft~~ ^{on} of the question of tenure but I feel much less certain of my ground on this so please amend it as you think fit.

Please let me know if I can help in any other way.

*Yours ever
Jonathan*

Corporate governance is the system by which companies are run. It therefore includes not only the structure but also the relationships between the principal parties: employees including management, directors and shareholders as well as customers, suppliers, bankers and government.

It includes not only the formal structure of governance, but also the relationships between the principal parties: shareholders, directors, managers & employees as well as

1) The country's economy depends on the drive and efficiency of its companies. The effectiveness with which their boards discharge their responsibilities is crucial to Britain's competitive position. They must have the freedom to drive their companies forward but to exercise it within a framework of effective accountability. This is the essence of any system of good corporate governance.

2) *The Ctee has sought to bring fwd. proposals which will advance corp. govt. without diminishing the competitive ability of cos. The Ctee's recs are primarily directed at the control & reporting functions of boards and at Tenure the role of auditors. This reflects the Ctee's prime purpose which was to review those aspects of corp. govt. related to fin. rep'tg. & ability, not corp. govt. as a whole.*

The independence of non-executive directors on which we have laid much stress, both on the main board and on committees of the board such as the audit committee, will be undermined if they are uncertain about tenure. If, for instance, a member of the board - usually the chairman or CEO - commands a majority or substantial proportion of the votes, they hold office in effect at his pleasure. We regard this as unsatisfactory and worthy of careful investigation. It is not a case of *entrenching* ~~enbinding~~ them for all time, but of ensuring that they can act as independent directors should without fear of being sidelined or dismissed. There are various ways of achieving this result which we believe should be examined.