

CAD-02513

**CAMELOT**

Sir Adrian Cadbury  
Chairman  
Committee on Financial Aspects of  
Corporate Governance  
The Stock Exchange  
London, EC2N 1HP

21 April 1994

*Dear Adrian*

I should be grateful for clarification on a point arising from the Cadbury Committee Report.

I have no need to remind you of the discussions we had about non-executive directors and the distinction we drew between non-executives directors in general and the independent non-executive director. We say in Section 4.11 the following:

'Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. We recommend that the calibre and number of non-executive directors on a board should be such that their views will carry significant weight in the board's decisions. To meet our recommendations on the composition of sub-committees of the board, all boards will require a minimum of three non-executive directors, one of whom may be the chairman of the company provided he or she is not also its executive head. Additionally, two of the three should be independent in the terms set out in 4.12'.

Having explained why we reached the conclusion that with a minimum of three non-executive directors, two needed to be independent, we generalise in the next paragraph to the effect that the majority of the non-executives on a board should be independent of the Company.

I find myself as the Chairman of one of the companies contending to run the National Lottery with nine non-executive board members, of whom five come from our five shareholders and four (including myself) are independent. I was clear in my mind at the time of the decisions we were making what the Cadbury Committee intended. But the Code itself refers to having a majority of independents in the non-executive cadre (independent of the number) and taking that outside the context of the passage in the Report we appear to have departed from the Code.

I should be grateful if you could confirm that my understanding of the Committee's intention is correct.

R E Dearing

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