

COMMITTEE
ON
THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

c/o The London Stock Exchange
London EC2N 1HP
Tel: 071-797 4575
Fax: 071-410 6822

FAX TRANSMISSION

To: *Sir Adrian Cadbury* Date: *3 November 1994*

From: *Grian Cole* Page *1* of *3*

Dear Sir Adrian

Committee's Successor Body

Both Sir Sydney Lipworth and Andrew Likierman are keen to speak to you on the phone, I am not sure when you are returning from America, but I thought it might be useful if you could have a chance to read this fax to give you some background information, and hopefully help prepare you for any questions they may pose.

Sir Sydney spoke to me yesterday. The FRC is due to meet on 22 November when the successor body will be on the agenda, he is currently working on a brief put to him by Sydney Treadgold. He wishes to explore with you the idea of whether there needs to be a successor body at all. He is intending to arrange a meeting of the Committee's sponsors to discuss this proposal, and if it is agreed that there does need to be some sort of body he will put forward two options:-

- (a) that it should be the same body, with some "new blood";
- (b) that it should be a completely new body.

His preference is for (a). His thinking is that the work of the successor body will be relatively easier than the current Committee, in that it will not be breaking new ground. (I think this is debatable, in that it could be breaking new ground if the sponsors decided to widen the body's remit beyond the purely financial aspects of corporate governance.) However, he also asked whether I thought you would be willing to continue as Chairman. I gave him no encouragement - but he may well try and persuade you to carry on. I also expressed the view that several other Committee Members would be likely to wish to retire. I subsequently realised that none of the Committee hold the positions they did when it was formed, and therefore may not necessarily be best placed to carry on work in this area - especially if the successor body is again to work on the basis of consensus. I would see it as essential to have new members with active involvement in corporate governance

issues, from as wide a range of interested parties as possible. I took away one or two other impressions from the conversation with Sir Sydney which I will speak to you about on the phone, rather than commit to paper.

Andrew Likierman has also spoken to me on this subject. He is very concerned that the work of the Committee should not lose its momentum. He intends to speak to contacts at the Bank of England to find out their views and perhaps to Michael Lawrence, whom I believe he knows personally. [I am speaking to Michael Lawrence's assistant tomorrow to brief him on the background to the intended role of the successor body so that the Stock Exchange can be prepared to respond to any proposal put to them by the FRC.] My impression is that Andrew feels not enough work has been done to set up the successor body and that very little time is left before the current Committee is disbanded.

Internal Control

At the risk of making this a very long fax, I feel I should also report to you the substance of a conversation I have had with Nigel Macdonald on internal control. There is some very strong last-minute lobbying going on to delay publication of the Internal Control guidance, and to delete the word "encouraged" from the sentence on page 2 which currently reads "Directors may also wish and are encouraged to state their opinion on the effectiveness of the system of internal financial control."

He considers that if this amendment is made, it will strengthen the arm of the APB who are reluctant to get auditors to endorse public statements on internal controls, in case they increase their professional liabilities. NM is very strongly of the view that the self-interest of any one group should not be paramount and that it should be resisted by the Committee. If there is no public statement on internal controls, there will just be a dialogue between the external auditors and the Audit Committee and any doubts will be hushed up and not brought to the attention of the shareholders.

Both the APB and the Internal Control Working Group are meeting ^{later} this week, so I think we should just sit back and await developments. It could be that the Working Group bow to pressure and resubmit their proposed guidance to the next meeting of our Committee on 7 December.

Committee Dinner

At the end of our Sub-Committee meeting several members agreed that it would be proper to have a dinner to celebrate the work of the Committee. If you are in agreement, I suggest the following:-

- (a) that it is sometime during the last three weeks in May 1995;
- (b) that all former Committee members should be invited

to attend; (*in addition to serving ones of course!*)

- (c) that it should be held in London
- (d) spouses should also be invited to attend.

As you will be the most important attendee, can you please give me a few dates when you would be available so that I can start making the necessary arrangements.

With best wishes

Gina.