



CAD - 02331

FINANCIAL REPORTING COUNCIL

Holborn Hall, 100 Gray's Inn Road, London WC1X 8AL. Telephone 0171-404-8818. Fax 0171-404-4497

Chairman: Sir Sydney Lipworth QC

Deputy Chairmen: John Kemp-Welch, Roger Lawson, Sir Bryan Nicholson

Secretary: Sydney Treadgold

Mrs Gina Cole
Secretary
The Committee on the Financial Aspects
of Corporate Governance
c/o The London Stock Exchange
London
EC2N 1HP

22 February 1995

Dear Gina,

Thank you for your letter of 17 February - one more to add to the growing list of those who are making bids to be part of the successor committee.

I am glad that Sydney Lipworth was able to bring you up to speed on the successor arrangements. To complete the story I enclose, for your personal information, a copy of my note of the meeting held on 29 January. It is proving extremely difficult to find a date for the next meeting (at which Ron Amy of the NAPF and Allan Bridgewater of the ABI will join the party) and it looks as though it may have to be deferred until April. You will see from the minutes that those present at the 29 January meeting were anxious that you and yours - and you in particular - should remain in post, at least until the new committee is fully underway. Assuming that you are not desperate to make your escape, is there anything that you or I should be doing to ensure the continuation of your secondment? Perhaps we could have a word about this.

Yours sincerely,

Sydney

S W TREADGOLD



SUCCESSOR TO THE CADBURY COMMITTEE

Note of meeting held at 41 Lothbury at 10.00am on 29 January 1995

PRESENT:

Sir Sydney Lipworth, Chairman, Financial Reporting Council (in the chair)
John Kemp-Welch, Chairman, Stock Exchange
Roger Lawson, President, Institute of Chartered Accountants in England and Wales
and Chairman, Consultative Committee of Accountancy Bodies
Michael Mander, Chairman, Institute of Directors
Sir Bryan Nicholson, President, Confederation of British Industry

Secretary:

Sydney Treadgold, Secretary, Financial Reporting Council.

Introduction

The meeting had been called by Sir Sydney Lipworth, in his capacity as chairman of the Financial Reporting Council, to take up the remit given to the Financial Reporting Council by paragraph 3.12 of the Cadbury Report to convene the Cadbury Committee sponsors in order to appoint a successor to the committee.

The meeting had before it a background paper prepared by the FRC secretariat, a memorandum prepared by Mr Lawson, and a list of relevant points prepared by the chairman.

The following were the main points made in discussion of the issues indicated.

Is a successor Committee necessary?

Although on one view the Cadbury Committee had largely completed its job there were some aspects of unfinished business that needed to be pursued. If no succession arrangements were set in hand any follow up action needed might fall to Government to pursue, which would be contrary to the aims and spirit of the Committee's report. But it would be important to be clear about the objectives to be achieved and the remit to be covered by the successor committee.

A measured approach was needed because implementation of the Cadbury Committee's recommendations was relatively recent, notably the recommendations on internal control and going concern, the results of which would only begin to be seen in financial reports published during the first quarter of 1996.



The meeting concluded that arrangements for a successor committee should be set in hand on the basis indicated.

Sponsors

It was concluded that the role of sponsors should be to set the remit of the new committee, appoint its membership and make arrangements for its financing. The sponsors would thus provide the core membership of the new committee, but membership of the committee would not be confined to them.

It was important that both sponsors and other members should be those with a real locus. Thus for example it would not be appropriate to include bodies such as the Royal Society of Arts (RSA) in connection with the RSA's Tomorrow's Company work.

It would not be right to invite Government to become a sponsor, since this would change the essentially private sector and self-regulatory nature of the committee.

Nor would it be appropriate to seek sponsorship from individual companies. Any additional sponsors should represent a collection of interests.

It was concluded that the sponsors should be the interests represented at the meeting together with the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) if they were willing to serve. Mr Kemp-Welch reported that representation from these bodies was supported by the Stock Exchange's Listed Companies Advisory Committee and Institutional Investors Advisory Group.

It was noted that when a new chairman had been appointed to the successor committee the FRC would cease its sponsorship role was likely to diminish or cease.

Finance

It was agreed that the new committee should look to its sponsors for financial support. At this stage it was reasonable to assume that the Stock Exchange, CBI and IOD would continue to provide finance. So also would the accountancy profession, though at this stage Mr Lawson could not say by what means. The most logical channel for the accountancy profession was the Consultative Committee of Accountancy Bodies (CCAB) both for representation and as a channel of finance. There might however be resistance within CCAB to it acting as the finance providers. If this turned out to be the case then Mr Lawson's expectation was that finance would be forthcoming either from the Institute of Chartered Accountants in England and Wales (ICAEW) or from the major firms. It was acknowledged that



finance from the major firms was not an ideal arrangement; it would be preferable if finance came from a collective body rather than individual interests.

Membership - the Chairman

The feeling of the meeting was that the ideal chairman should be someone who was chairman of a major listed company, as Sir Adrian Cadbury had been. It would be important to have as chairman someone who still had his finger on the pulse. An outline of the characteristics that were regarded as necessary would be discussed at the next meeting.

Membership - other members

It was important that the committee should be kept as small as possible, so as to be effective. A target of 11 or 12 members would be of the right order. One possible profile was an independent chairman; representation from the sponsors - Stock Exchange, CBI, IOD, CCAB, ABI, and NAPF; a lawyer, a representative of smaller listed companies (where CISCO were likely to be interested); and one two or three listed company chairmen, as individuals, ideally with one from the smaller listed company area.

Ideally all the representatives should be at chairman level, so that chairmen of companies generally could not criticise the committee on the grounds of not having understood the issues.

If possible there should be some continuity between the old and the new committee.

Ideally the accountancy profession representation needed to be of more than one person, but the aim might be to find an accountancy representative in one of the other categories identified.

One other possibility for representation would be the small investor sector where, for example, someone from Proshare, such as Jill Nott, might be appropriate. There were however other investor groups claiming to represent small shareholders and further thought would need to be given to whether this category should be included.

The members of the committee need not be office holders in their respective institutions but it would be important that they were senior representatives.

As regards appointments procedure, it would seem desirable to have a somewhat greater degree of formality than for the original committee and the appropriate course might be for the sponsors to make formal appointments.



Remit

If the new committee was to be successful it was very important that its remit should be carefully defined and clear boundaries set, which the new committee could not go beyond without referring to the sponsors. A starting point might be Sir Adrian Cadbury's view that if other groups were producing acceptable recommendations on particular issues then these need not to be tackled substantively by the new committee; it would suffice if the new committee endorsed them.

It would be for the sponsors to set the remit and those present, plus any new sponsors, should put forward ideas for consideration at the next meeting. It would seem difficult to have a formal arrangement whereby the committee reported back to the sponsors from time to time, but informal meetings might be held between the sponsors and the new committee chairman from time to time.

One issue was whether the remit of the committee should be confined to the financial aspects of corporate governance, as had been the Cadbury Committee. One difficulty had been that confining the Cadbury Committee remit to financial matters only had conveyed a wrong perception of the role of non-executive directors. On the other hand, widening the remit beyond financial aspects could risk an unacceptable expansion of the new committee's scope, and the solution might be to deal specifically with non-executive directors' issues in the terms of reference.

A number of issues had been suggested by various interests for the new committee. Apart from the follow up of the existing committee's recommendations there was for example the issue of director's remuneration and the role of shareholders at annual general meetings.

From the Stock Exchange standpoint the test would be investor protection - the basis of the Stock Exchange's Yellow Book - since this was the area that could be subject to an enforcement process.

Timing

Closely associated with the question of remit was the question of the timing of the activities of the new committee. The Stock Exchange Listed Companies Advisory Committee and Institutional Investors Advisory Group both took the view that time was needed to allow the changes brought about by the Cadbury Committee, eg on internal controls and going concern, to work through. More generally a period of reflection and absorption was needed. This would also help to ensure that the remit of the new committee was got right. There was therefore a strong case for the new committee not beginning work until early 1996.



It was agreed that it would be helpful if the present committee could if necessary continue in being a little beyond its June 1995 deadline. The point might be put to Sir Adrian Cadbury that it was not helpful for the new committee to be formed with the June 1995 pistol to its head.

It was however felt that it was important to get a new chairman and the new committee in place, together with the associated financial arrangements, as soon as possible. The new committee thus formed need not begin work immediately.

Administration and secretariat

It was agreed that it would be desirable that the present Cadbury Committee secretariat should continue in being so as to provide continuity for the new committee.

Mr Kemp-Welch confirmed that the Stock Exchange would continue to house the secretariat on the present lines.

CONCLUSION AND ACTION

It was agreed that

- i) Sir Sydney Lipworth should approach the ABI and NAPF at chairman level to invite them to become sponsors. If they agreed they would be invited to attend the next meeting of sponsors.
- ii) The target date for the next sponsors meeting should be during March. (Secretary's note: It is proving very difficult to find a mutually convenient date, and the next meeting may need to be deferred until early April.)
- iii) It would be helpful if all present could submit to the FRC secretariat their ideas on
 - (a) remit
 - (b) chairmanship
 - (c) membership
 - (d) (if possible) financing.

On the chairmanship it would be helpful to draw up a profile of the kind of person needed as well as receiving specific suggestions naming individuals.

On the basis of these submissions the FRC secretariat would circulate a paper before the next sponsors' meeting.

FINANCIAL REPORTING COUNCIL

21 February 1995