

**SmithKline Beecham**

Hugh R. Collum
Finance Director/Chief Financial Officer

HRC/sh

1st August 1991

Sir Adrian Cadbury,
The Chairman,
Committee on Financial Aspects
of Corporate Governance,
P O Box 433, Moorgate Place,
London EC2P 2BJ.

Dear Adrian

Many thanks for your letter of the 31st July. I will ensure that The Hundred Group team looking at corporate governance give particular attention to the points you have raised. Obviously, this is a subject that is being extensively addressed by Ron Dearing and The Accounting Standards Board with whom we are keeping in close contact but there will, inevitably, be issues in the future on which we will agree to disagree!

In this context, I enclose a copy of a letter I wrote recently to David Tweedie which specifically addresses "the users of accounts" and, by implication, what we report, particularly if it has competitive implications.

I will do my best to get The Hundred Group views back to you to meet your deadline but, I must say, I was expecting a bit more time!

If it is any help, I am quite happy to meet Nigel Peace, or yourself, for an informal discussion outside our regular meetings.

Best wishes,

*Yours
Hugh*

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The Hundred Group of Finance Directors

Chairman: Hugh R. Collum
Secretary: Richard Q.P. Tannahill

19th July 1991

Dear David

The Technical Committee of The Hundred Group responded recently to the ASB's publication of the discussion papers on The Structure of Financial Statements and The Statement of Principles.

Quite intentionally, the tone of our submission was essentially technical. I think, however, that it might be helpful if I added a few thoughts, on behalf of The Hundred Group, which, at a philosophical level, I am sure you will wish to consider.

Each of the discussion drafts makes reference to 'users of accounts,' presumably on the understanding that there is agreement on the specific types of users covered or that all users require or are looking for the same level of information. However, it must be difficult, if not impossible, for one document to reflect the requirements of a broad church without leaving some readers dissatisfied by too little detail and others irritated by too much.

Between them the two discussion drafts refer to the purpose of financial statements as being to:

1. Assist users in understanding performance
2. Assess future results and cash flows
3. Provide information to a wide range of users in making economic decisions

Traditionally users of financial statements were the shareholders, who used them to review company performance. The philosophy underpinning the ASB discussion drafts has moved on from this outlook to require, in point 2 above, a statement of future expectations in terms of profit and cash terms. This is extended, in point 3, to a wide range of users to facilitate economic decisions, implying investment.

This is helpful and valid information for shareholders but, I believe, requires some consideration in its own right. Financial statements are no longer predominantly for the shareholder but are also even more extensively, being prepared to provide background information for other groups including analysts, potential investors and even competitors. When a management commentary is added for further clarification it may be that we are proceeding too far, too fast - especially with respect to our continental colleagues, who do not have to meet the same disclosure requirements. Level playing fields have yet to be constructed.

The key issue, I believe, revolves around the definition of the users of financial statements, whose needs we are trying to satisfy. As a Director of a public company, my responsibility is to my shareholders. The dilemma which we face lies in meeting their valid requirements without compromising the integrity of the business by making life easier for our competitors and potential predators, who may be operating to different rules.

In short, it is not only a question of what we report but also to whom. You might wish to consider clarification of this point in the discussion drafts.

Yours sincerely

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