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5th July 1992

Dear Sirs

Financial Reporting and Corporate governance of BES investment funds

I am responding to the public invitation to comment on The Cadbury Committee Draft Report on the Financial Aspects of Corporate Governance. The facts which concern me can be summarised as follows:

1. The Nationwide Building Society is responsible for managing BES investment funds in which the public have subscribed some £34 million.
2. The BES investment funds are managed by Nationwide Fund Management Ltd (NFM).
3. NFM do not produce audited accounts.
4. There are no provisions for investors to affect or control the NFM management.
5. Shares in each of the BES companies in which NFM have invested are specifically nominated by NFM to the individual subscribers to the Nationwide BES investment funds.
6. NFM refuse to supply copies of the statutory accounts of the BES companies or to allow those companies to supply statutory accounts to the individual subscribers to the Nationwide BES investment funds.
7. Neither the Department of Trade and Industry (to whose attention the provisions of Sec.246 of the Companies Act were drawn) or the Securities and Investments Board (the regulating authority) feel they are able to assist regarding the supply of statutory accounts to the individual subscribers to the Nationwide BES investment funds.

The net effect of the above is that despite the framework of Company Law, the existence of a Government Department responsible for controlling its implementation and a Financial Authority to safeguard the investing public, some £34 million of public investment is under the control of an organisation which is not required to provide statutory audited accounts or to answer publicly to its investors.

Whilst this situation appears to me to be unsatisfactory to the investor, the standing of the Nationwide Building Society and the existence of the SIB regulatory authority appear to offer the investor assurance of fair and efficient management of the invested funds.

No doubt the public would have been less enthusiastic in subscribing to these BES investment funds had they not been offered and managed by someone of the Nationwide's standing but nevertheless it is disconcerting that a structure which gives so little control to public investors can be created under our present laws. The Committee might wish to consider whether this type of situation is worthy of greater control by the authorities or whether greater public accountability is called for. I should be pleased to provide further information if you so require.

Yours faithfully

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