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Secretary

Committee on the Financial Aspects of Corporate Governance
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20 July 1992

*Adrian (confirming
that letter would
consider further
the question of
NEO's independence).*

Dear Adrian,

You kindly invited me to send any ideas when you set up your committee on Corporate Governance. At the time, I did not feel I had anything sufficiently worthwhile to offer, especially as friends and colleagues like Dermot de Trafford and Ian Butler and other excellent people were working with you.

I would now however like to make one comment on your important draft report. A consultative meeting held by the Institute came to the conclusion that two vital issues were (1) responsible leadership by boards, including the question of their personal rewards and (2) the true independence of non-executive directors. The first is not susceptible of a structural solution but rather of example and encouragement. But the second, which you so rightly emphasize in 4.9 and 4.10 could perhaps benefit from some strengthened reporting arrangements. Should not the directors' report list any and all the interests of the non-executive directors (the main principle being that they should not have any, unless they are avowedly there in a representative role)? Should it not also list all the board committees on which each non-executive serves and the remuneration received for those duties (the principle being that very high total remuneration gives a disincentive to offer to resign on principle.)? Finally, should there not be a note of any "cross-holdings" whereby members of a company's board themselves serve on the boards of non-executives' companies?

John Laing

Neville Cooper

Patrons

The Archbishop of Canterbury
The Cardinal Archbishop of Westminster
The Moderator of the Free Church Federal Council
The Moderator of the General Assembly of the Church of Scotland
The Chief Rabbi

The Institute of Business Ethics seeks to clarify ethical issues in business, to propose positive solutions to problems and to establish common ground with people of goodwill of all faiths. Its funds have charitable status, being separately administered on behalf of its subscribers, by the founding body.