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Dear Adrian,

It was kind of you to send me the revised edition of your book and I very much appreciate the inscription.

Thank you for the record of your meeting with Michael Lawrence. I have had quite a few dealings with Michael and his colleagues in the wake of the Greenbury report and I think the Stock Exchange's intentions are now clearer. You may know that the Exchange rushed out a consultation document two weeks ago seeking views on the precise wording it should use in incorporating the main recommendations into the Listing Rules. I attach a copy in case you have not seen it. Points of particular interest include:

use of the compliance statement approach (the "Cadbury wrap-around" as Michael Lawrence describes it) to give effect to Part A of the Greenbury code dealing with remuneration committees;

incorporation of the disclosure rules into the body of the Listing Rules;

advance warning (in Part V of the document) that the Exchange proposes to consult in the autumn on proposals to require larger listed companies to appoint independent non-executive directors and to establish remuneration committees. (In other words, the option of disclosing non-compliance would disappear for such companies.)

I would say that Michael Lawrence is primarily interested in establishing the Stock Exchange as an effective regulator and he sees that this purpose will be served by incorporating the "hard" recommendations from the Greenbury Code and the Code of Best Practice into the Listing Rules. In the longer term he has told us he would like to make audit committees a listing requirement.



From a DTI perspective we certainly want to see the Stock Exchange strengthen its position as a credible regulator. We also see it as helpful that the Stock Exchange is prepared to implement the bulk of the Greenbury rules. We are however more circumspect about the gradual incorporation of the main rules from the Code of Best Practice into the Listing Rules. If the Code is unpicked then it seems to me that the consensus that has built up around it could start to fall apart. We have therefore urged Michael Lawrence to proceed cautiously, and he has responded by undertaking the "pre-consultation" described in the third indent above. I would add that we would strongly oppose any Stock Exchange move to drop the compliance statement for the parts of the Code not incorporated into the Listing Rules but Michael has not given any recent hint that he would wish to do so.

Moving on to the institutional shareholders, the Lancaster House dinner on 19 July went ahead, with Mr Lang presiding in place of Mr Heseltine. Perhaps predictably the institutions were concerned with defending their present approach and we did not sign them up to any dramatic initiatives. We shall however be following up some points and will continue to watch carefully developments both in this country in the USA (in which context I was grateful for the Elena Burg quote).

Directors' remuneration and associated issues continue to keep me fully employed, including the Greenbury recommendation that the full value of pension entitlements earned during the year should be disclosed, once the actuaries have pronounced on the appropriate methodology. With all the fuss about taxation of share options, this has escaped much press attention so far, but this may change once it is appreciated how large the sums disclosed are often likely to be...

If I can be a useful source of updates to you, please let me know. I should be delighted to see you if you have time to spare in London.

With best wishes,

Yours sincerely,

NJP

NIGEL PEACE

I found lots of birds at Lake Erie, tho' Southern Ontario - flat, agricultural, & prosperous - is rather unexciting. Perhaps Hurricane Felix will make Florida - whither I depart with family on Friday - a rather more exciting destination!