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30th July, 1992.

Nigel Peace, Esq.,
Secretary,
Committee on the Financial Aspects of Corporate
P.O. Box 433, Governance,
Moorgate Place,
LONDON EC2P 2BJ.



Re: Draft Report of Committee

Dear Sir,

I am writing to you to let you have some of my views in connection with the draft Report issued on the 27th May.

Before commenting on specific items I would like to make some general overall comments as follow:

- (a) Legislation referred to is understandably U.K. legislation which does not apply in the Republic, we having our own legal system. In the final Report no doubt this will be taken into consideration.
- (b) I am unhappy that the emphasis appears to be more on control and monitoring than on what should be the main responsibility to ensure growth, profitability, adequate return on investment and increased value for shareholders. The issues of monitoring and controlling are means to an end and should not be seen as an end in themselves as is implied by the way in which they are highlighted in the draft Report.
- (c) I am most unhappy with what would appear to be an undue influence of the accounting and auditing professions on the thinking going into the Report. The expanded work suggested for auditors is in marked contrast to the lack of emphasis on their present responsibilities.
- (d) The importance of the role of Non-Executive Directors seems to me to be absolutely correct. However, as indicated already by a number of prominent business people, they should not be seen as apart from Executive Directors. It is only in what is after all a relatively small number of cases that the need for them to take specified action arises and the correct independent Director will have no problem in so acting.

Registered in Dublin
No. 12965

Directors
 J.D. Traynor *Chairman*
 A.D. Barry *Chief Executive*
 J.P. Culliton
 P.V. Dempsey
 D.J. Godson
 J.J. Hayes
 B.G. Hill
 D.M. Kennedy
 H.P. Sheridan
 P.D. Sutherland
 G. Valkier (Dutch)
 R.F. Wood
 Secretary J. Moore

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- (e) The Committee seems perfectly satisfied that Non-Executive Directors have control of Remuneration and Audit Committees and I might add I fully agree. However, the Committee then goes on to indicate such things as paragraph 3.10 requiring that statements of compliance may be published only after they have been subject to review by the Auditors. Surely this cannot be correct.

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Some specific points re Code of Best Practice:

- 1.1 If what is meant by monitoring the Executive Directors is to monitor the Chief Executive, this would be regarded by me as fully correct. If, however, it were to suggest the coming in between the Chief Executive and his executive team, we would be totally opposed. It cannot make for good management.
- 1.2 The suggestion that there be strong independent elements on the Board but it be necessary to appoint a leader of them cannot make sense. In any event this paragraph is just shirking the issue. The correct recommendation should be a separation of the posts.
- 2.2 The fees payable to Non-Executive Directors should reflect more than a mere time input. The overall question of responsibility must come into consideration.
- 3.2 In the U.K. legislation there is a requirement for certain disclosure. This differs from the Irish situation. We do not agree and certainly we think the suggestion of indicating the basis for performance measurement to be unsound. It would be implicitly inviting shareholders and press to carry out their own evaluations. How does this fit with the question of a Remuneration Committee made up of strong independent Directors?
- 4.3 I am unsure what this means or will mean in practice. It must be largely technical for assessments. A purely qualitative report on effectiveness must be a nonsense.
- 4.5 Surely the Board is responsible fully for the Accounts. What explanation of such responsibility can there be?

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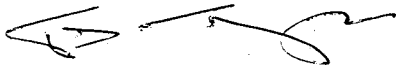
- 4.6 It is not clear what supporting assumptions or qualifications can be submitted in any intelligible way in the Report.
- 4.7 I would totally disagree. The Chairman of the Board at the Annual General Meeting should be the one in control and only after he calls on the Chairman of any Committee should that take place.

CRH

Before concluding these brief comments I would just like to emphasise two matters:-

- (1) the over-emphasis on the need to involve the accountancy profession beyond the clear responsibilities they have at the moment could be a costly and disruptive matter for companies, whilst of course financially very suitable for accountancy practices; and
- (2) none of the comments made above are intended to take from the overall work put in by the Committee in preparing the draft Report but merely to indicate that the Report should now be assessed in the light of the various comments coming back to the Committee and take a more balanced view rather than react to the few unfortunate cases.

Yours faithfully,



J.D. Traynor,
Chairman.