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3084

Date

29.7.92

Nigel Peace,
Secretary,
Committee on the Financial Aspects of Corporate
Governance,
P.O.Box 433,
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Dear Mr.Peace,

**COMMITTEE ON THE FINANCIAL ASPECTS OF CORPORATE
GOVERNANCE - DRAFT REPORT**

I would like to offer the following comments on the
above draft report:

(1) Non-executive directors

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The whole idea of non-executive directors parallels the European type system (in France and Germany for example) where a two tier board system is evident. In the U.K., as well as large companies, small banks have been encouraged to appoint non-executive directors, especially persons with professional qualifications. One could support the idea of 'qualified non-executive directors', who could be proposed and vetted by the DTI.

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These non-executive directors would be either professionally qualified (accountants, solicitors, etc) and not retained by the firm in their professional capacity or have demonstrated expertise in a particular area. This should help attain the independence mentioned in para 4.9 of the draft report.

Non-executive directors should have a limit to their liability as although they have the same right of access to information as executive directors (para 4.11), in practice this access may be more theoretical than real.

In summary, non-executive directors have an important role to play, but to perform that role effectively, they need independence, complete access to information and the protection of limited liability.

(2) **Board Remuneration**

Openness is seen as the overriding principle in respect of board remuneration, para 4.32. However, it would seem that of 440 annual reports published over the last nine months, only 10% disclose separately the figure for directors' bonuses, and 3% the underlying basis for the calculation (Source: Company Reporting).

It might also be considered unrealistic to state that executive directors should play no part in decisions on their own remuneration, para 4.34.

Therefore the level of compliance with the recommendations in paras 4.32 - 4.34 may prove to be disappointing.

(3) **Auditing**

There are recommendations that auditors report on the internal financial control statement issued by directors, para 5.16, and that the auditors check that a working system for monitoring compliance is in place, para 5.30. Both of these requirements seem to involve a degree of subjective judgement, which could place the auditor in a difficult position. Perhaps these requirements are more apposite to audit committees (in conjunction with internal audit).

I have found the Draft Report interesting and stimulating, and I hope that the comments above are useful.

I will be most interested to read the final report when it is published.

Yours sincerely,

Chris Mallin

C.A.MALLIN
LECTURER IN ACCOUNTING & FINANCE