

RESPONSE OF ROGER MOORE



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Derek Higgs Esq.
Non-Executive Directors Review
Department of Trade & Industry
Room 2142
1 Victoria Street
London
SW1H 0ET

Dear Derek

Thank you for your letter of 7 June giving me the opportunity to comment on non-executives directors, which I set out below.

I believe non-executive directors play an important role in Boardrooms and should be seen as custodians of a Company primarily looking after shareholder interests, but also in safeguarding the future of a company as an ongoing organisation. In order to carry out these tasks all non-executive directors need to have reasonable knowledge of their responsibilities, of a company's history, its structure and of the management they have entrusted to carry out the executive responsibilities. By having independent views and using their own wide range of expertise they should be capable of asking relevant questions of the executive board. These questions should concentrate on group structure and policy, financial matters and how best these policies can be implemented. The questions should be thought provoking and objective and set off a wide ranging discussion of the decision making process and its likely impact on all areas of the company's business.

My feelings are that all non-executive directors should be encouraged and



paid to attend relevant courses and try to understand the industry they represent. In addition all non-executive directors should have access to and be encouraged to meet senior management on a regular basis and to discuss any issues outstanding. It may be that this could be supplemented with a monthly update on the company's overall progress. This would be additional to any board papers.

To achieve these objectives, companies should seek a wide representation of non-executive directors both from industry and commerce and from full time, part time and retired executives. All boards should have equal numbers of executive and non-executive directors and at least three of the non-executives should be independent, and by this I mean people who have no current financial relationship with or significant shareholding in the company. The non-executives should be split between those with ongoing executive experience and those who have 'retired' from full time executive roles. The former should encompass a wide section of commerce and finance while the latter should include one director who is available to spend extra time on company affairs if required.

Existing structures are at present too cosy as many Boards do not have three independent directors and many only have non-executives who are full time executives in their own right. While this brings in considerable depth and breadth to management's future thinking, these executives can have little time to fully investigate a company's structure and philosophy to see if such policies can be carried through. Therefore, when problems do arise they do not have enough time available to exploit all options with executive directors and senior management. By the time the problems hit the headlines non-executives are seen as stumbling old men /women who have not kept their eye on management's direction.

Non-executives should be the shareholders' eyes and ears and be able to react positively and quickly to any situation.

Under existing rules non-executive directors are re-elected on a rotational basis every three years and other than attend AGM's they rarely have the opportunity to see or hear the views of other shareholders. I believe one role



for non-executives is that they should report to the board, on a semi-annual basis, the collective views of shareholders and the relationship between the top shareholders and management. This proposal could be achieved with a meeting, twice a year, of the non-executive directors with perhaps the top five shareholders, even if the only comment passing is that the shareholders think the existing management is doing an excellent job! They should also meet all organisations involved in promoting the company to make sure that there are no major issues or concerns outstanding. Non-executive directors should also be encouraged to meet privately, maybe before a full board meeting to discuss any issues or problems outstanding.

I believe the auditors should continue to be appointed by the executive board although there should be a rotation of the audit partner in charge and all fees received by the auditors, in any capacity, should be fully disclosed. The audit committee should remain the main forum for concern to be raised by both parties on any accounting or financial policy issue. It should be a mandatory right for non-executive directors to see the auditors privately to discuss any issues and for them to have the right to call in senior management without an executive board member being present. As I mentioned to you in an earlier letter, for the Real Estate Sector a similar exercise could be carried out with the valuers to ascertain how realistic the valuation of the investment portfolio was and to ascertain whether any pressure had been put on them to arrive at their valuations.

I think the nomination and remuneration committees should remain in the hands of the non-executive directors subject to them having access to outside professional organisations to guide them along with their task.

The Chairman's role will largely depend on his former executive post if this was within the company or within the relevant industry. He should be fully aware of the management's strategy and of the company's strengths and weaknesses. He should also be available, if necessary, to all levels of senior management and should be seen as someone within the organisation who can be approached if a problem arises. He should also spend time outside of board meetings with the executives understanding their strategy and physically



visiting the group's operations. In addition he should be well connected in financial circles to enable him to pick up any vibes about the company's progress.

Financial rewards are more dependent on the size of the company and the complexity of its operations but the pay offered should be structured to attract a wide cross-section of people. I believe a figure of around £20,000 to £35,000 is appropriate in today's markets although this may well need to be increased if more responsibility is to be placed on their shoulders. I would also have no objections if part of the reward was in shares as this puts non-executive directors onto the same playing field as shareholders. However I think share options are inappropriate as this could lead to a lowering of standards to ensure certain option triggering criteria were met.

I hope you find these comments useful in your role and I look forward to receiving a final copy of your report in due course.

Yours sincerely



Roger Moore

