

Fit for the future

The 2018 UK Corporate Governance Code

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Financial Reporting Council

Who We Are & What We Do

- Our mission is to promote transparency and integrity in business
- We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work
- We monitor and take action to promote the quality of corporate reporting & operate independent enforcement arrangements for accountants and actuaries



UK Framework for Corporate Governance

Company Law (Government)

- Directors' duties (Companies Act S.170-177)
- Shareholder rights (e.g. voting, pre-emption rights)
- Reporting requirements (e.g. Directors' remuneration)

Listing Rules and FCA Handbook

- Set voting and reporting requirements, include requirements to report on how the Codes are applied

'Comply or Explain' Codes (FRC)

- The UK CG Code (for listed companies)
- The UK Stewardship Code (for investors)



Drivers of change

- Changing governance landscape
- Declining public trust in business
- Government and Parliamentary interest
- Legislation - stakeholders, remuneration and large private companies
- 25 years old



Revision of the UK Corporate Governance Code

Structure

- Principles and Provisions
- Use of Board Effectiveness Guidance

Language

- Shorter and clearer

Content

- Overall purpose, stakeholders and workforce (culture); chair – tenure and independence; board diversity composition and succession; remuneration committee

Key Issue: Stakeholder Engagement

Principles A & D and Provision 5

- The 2018 Code references the board's responsibility for considering the needs and views of a wider range of stakeholders
- This approach follows our observations from the Culture Report that companies benefit when considering all wider stakeholders



Key Issue: Purpose & Culture

Principle B and Provisions 2 & 6

- 2018 Code requires the board to establish the company's purpose, values and strategy
- These need to be aligned with company culture
- Board should assess and monitor culture and the annual report should give details of this work
- Whistleblowing arrangements make link to ensuring that behaviours align with culture



Key Issue: Workforce

Principle E & Provision 5

- The 2018 Code asks companies to take into account the views of the 'workforce'
- For workforce engagement one or a combination of the following methods should be used: a director appointed from the workforce; a formal workforce advisory panel; or a designated non-executive director
- If the board has not chosen one or more of these methods, it should explain its alternative & why effective



Key Issue: Significant Votes Against

Provision 4

- Companies should engage in the event of a significant votes against the board recommendation for a resolution
- Significant = 20% or more
- Companies should:
 - (i) immediately explain what actions they intend to take to consult with shareholders;
 - (ii) no later than 6 months after the vote, publish an update; and
 - (iii) publish a final account in the next annual report.



Key Issue: Tenure & Independence (1)

Principle F and Provisions 9, 10 & 19

- The chair should demonstrate 'objective judgement throughout their tenure'
- The chair should be independent on appointment when assessed against the circumstances set out in Provision 10 – same as in 2016 Code



Key Issue: Tenure & Independence (2)

Principle F and Provisions 9, 10 & 19

- 2018 Code retains the current independence criteria for non-executive directors to be classed as independent, but expects a clear explanation when the board 'overrules' these
- New Provision (19) asks chairs to be on a board no more than 9 years; a limited extension is possible but the company should explain



Key Issue: Composition, Succession and Diversity

Principle J and Provisions 17, 18 & 23

- Strengthens the role of the Nomination Committee
- 2018 Code intensifies efforts to build diversity both at board level and in the executive pipeline.
- Focus on succession planning and effective board evaluations.
- The new Code requires directors to demonstrate individual effectiveness in board evaluation.



Key Issue: Audit and Risk

Section 4

- Introduces a requirement to carry out a robust assessment of emerging risks as well as principal risks
- Greater emphasis placed on ensuring the integrity of the narrative statements
- Some changes to the Audit Committee role in relation to external audit tender and in reporting on how internal assurance is achieved if no internal audit function
- Closely aligned with legal requirements



Key Issue: Remuneration Committee

Principles O & P, Provisions 33 & 37

- Remuneration Committee has an expanded remit which takes into account wider workforce pay and conditions when setting executive pay
- Board has wider discretion with regards to remuneration outcomes
- Chair of Remuneration Committee must now have 1 year prior experience on a Remuneration Committee
- Requirement to engage with workforce (cf. reporting on this in Provision 41)



Key Issue: Removal Sub-FTSE 350 Opt-Outs

Following now apply to all Code companies:

- Overall board independence (Provision 11)
- Annual re-election of all directors (Provision 18)

Exemptions remain for:

- External board evaluations (Provision 21) but chairs of all companies expected to consider regular externally facilitated board evaluations
- Audit and RemCo membership – smaller companies just need two independent NEDs (Provisions 24 & 32)

Aim High!

A successfully embedded Code should encourage:

- improved governance practices and culture
- better quality information for investors and others
- support long-term sustainable business success
- improved public trust in business

This will be accompanied by enhanced
monitoring from 2020



What does it mean for you?

- Accountability
- Focus on outcomes (Principles)
- Focus on 'explain' not simply 'comply' (Provisions)
- Listening to key stakeholders
- Clear purpose and aligned culture



Work in progress

- 2018 CG Code – embedding and monitoring
- UK Stewardship Code – we will consult in December on a fully revised Code
- ‘Wates’ Principles – consultation closed early September, with final publication in December



Additional Sources of Information

- [Structure of 2016 Code compared to 2018 version](#) – annex to Feedback Statement
- [Key highlights of the Code](#)
- FAQs – soon to be added to FRC website (highlights some of the questions on the 2018 Code we have had)



Any Questions?

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