

# Fit for the future

## The 2018 UK Corporate Governance Code

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Financial Reporting Council

# Who We Are & What We Do

- The FRC's 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)

# Section 172 reporting

Directors must include a statement in their strategic report explaining how they have had regard to the matters set out in section 172 of the Companies Act 2006

A director must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other things) to:

- The likely consequences of any decision in the long term.
- The interest of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the company.



# Annual Report & Accounts

- The purpose of the annual report is to provide shareholders with relevant information that is useful for making economic decisions and assessing stewardship
- Encourages companies to adopt a structure that allows the company to “tell its story”
- Cross-referencing and signposting



# Elements of the Strategic Report Framework



# 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: 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: 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)



# 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

# 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



# Any Questions?

**For further information, please contact:**

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