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Leaders in governance

UK — FRC proposes significant changes to corporate governance code

The Financial Reporting Council (FRC), the United Kingdom's regulatory body for corporate governance and reporting, has proposed a number of substantial changes to the Combined Code, including changing its name to the 'UK Corporate Governance Code'.

While the Code remains principles-based, the FRC suggests that the Code be restructured so as to divide the existing principles and provisions into Section A (leadership) and Section B (effectiveness) with a significant emphasis on the board's collective responsibility. The aim of this is to highlight the factors that underpin board effectiveness and mirror the recommendations of the Walker review of governance in the banking sector.

Some new principles are proposed and others are earmarked for amendment, including the following.

- Supporting principles on the roles of the chairman and non-executive directors, and the time commitment for directors are to be upgraded to main principles.
- A new principle should be introduced to state that the board should have an appropriate balance of skills, experience, independence and knowledge of the company to discharge its responsibilities effectively (replacing the existing Principle A.3).
- A new principle should be added to make clear that the board is responsible for overseeing risk management and setting a company's risk appetite and tolerance.
- A new principle should be added to recommend that board evaluation should be externally facilitated every three years, with any other connections between external consultants and the company disclosed.
- A new provision should be introduced to recommend that the annual report explain the company's business model and wider financial strategy.
- A new principle should be added to recommend that either the chairman or the whole board be proposed for re-election annually.
- Existing provisions on remuneration (relating to the link between risk and remuneration policies) and non-financial performance measures should be revised.
- A new Section E should be introduced to govern communication with shareholders. The existing Section E should be developed into a separate stewardship code for institutional investors (see the Walker Review for more details).

The effect is that some existing provisions will move between principles.

The FRC has commissioned the Institute of Chartered Secretaries and Administrators (ICSA) in the UK to lead the work to update the good practice guidance from the 2003 Higgs Report. In addition, the FRC has acted on a number of ICSA's submissions to the FRC in its review of the Combined Code and ICSA's own report on boardroom behaviours.

A draft of the UK Corporate Governance Code is available for consultation. Comments can be submitted until 5 March 2010. It can be viewed at www.frc.org.uk.