CLEVELAND & CO

External in-house counsel

FRC's Proposed Revisions of the UK Corporate Governance Code

Background

In May 2023, the Financial Reporting Council ("**FRC**") launched the UK Corporate Governance Code consultation document (the "**Consultation**") which includes the proposed revisions of the UK Corporate Governance Code (the "**Code**"). This launch was a result of the government's invitation to enhance specific areas of the Code, which was initiated following last year's consultation on Restoring Trust in Audit and Corporate Governance. While listed companies are typically subject to mandatory adherence of the Code, the Code's voluntary adoption by private companies is encouraged and can provide valuable guidance for other organisations aiming to enhance their governance practices.

Key Proposals

The FRC has proposed key changes with the aim of enhancing the Code's effectiveness in promoting good corporate governance and ensuring its alignment with evolving expectations and standards in the business and regulatory landscape. These proposed changes include:

Section 1 - Board leadership and company purpose

The changes made aim to improve companies' governance reporting by implementing a framework that focuses on demonstrating the impact of governance practices and Code application. Adjustments have been made to focus on Environmental, Social and Governance ("**ESG**") matters.

Section 2 - Division of responsibilities

As part of the proposed revisions, companies would need to include a comprehensive list of significant directors' appointments in their annual reports. Also, to ensure transparency, an annual performance evaluation and review of directors' commitments and capacity to fulfil their responsibilities is suggested.

Section 3 – Composition, succession, and evaluation

The changes made in Section 3 aim to promote diversity beyond gender and ethnicity, by encompassing all protected and non-protected characteristics. These revisions align with the Financial Conduct Authority's new board diversity targets outlined in the listing rules.

Section 4 – Audit, risk, and internal control

This section incorporates essential amendments to the Code, reflecting the board and audit committee's responsibilities in sustainability and ESG reporting, ensuring alignment with the company's audit and assurance policy.

Section 5 – Remuneration

The revisions in this section aim to strengthen reporting on malus and clawback arrangements, which serve as mechanisms to address misconduct or poor performance by reducing or recovering executive remuneration.

Next Steps

The FRC welcomes comments from various stakeholders on its Consultation and the deadline for doing so is 13 September 2023. The Code is set to apply to accounting years from 1 January 2025 onwards, allowing organisations time to implement necessary changes before the effective date. At Cleveland & Co, we are well-placed to assist firms with their obligations under the revised Code, by examining corporate governance codes, ESG provisions, Division of Responsibilities, Board Diversity, Internal Controls, and Remuneration practices.

if you need any further assistance or information, please contact:

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