



Changes in corporate governance and reporting: Do then say.

GATHER

Reporting intelligence white paper

02/ Making sense of governance and reporting regulations

If you would like to explore how we can help you with your corporate reporting please contact:

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My role is to advise clients on the ever-evolving regulatory landscape and best practice in corporate governance and reporting.

I am a chartered accountant with close to 20 years' technical reporting experience, six of which I spent as a Governance and Reporting policymaker at the Financial Reporting Council.

About this white paper

This is the second paper in our series of white papers that explore the changing landscape of corporate governance and reporting, focussing on the implications to those preparing annual reports for listed companies.

Who is this paper for?

This paper is intended for those involved in the development, production and publication of the annual report, particularly those who have responsibility for the strategic report and corporate governance report, and those involved in investor relations and corporate communications.

The papers

The regulations around corporate governance and reporting are complex; keeping abreast of these ever-changing requirements is challenging. Our series of white papers help to break these down into bite-sized, manageable chunks:

2019

September

01/ Making sense of governance and reporting requirements

December

02/ Changes in corporate governance and reporting: Do then say.

2020

January

03/ The strategic report: Bringing your story to life

February

04/ Digital reporting: Implications of ESEF and XBRL reporting

March

05/ The future of audit, monitoring and enforcement: What does this mean for companies?

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Quick read

The regulations around corporate governance and reporting are complex; keeping abreast of these ever-changing requirements is challenging. The next three years will be an unusually busy period of fundamental change and is a pivotal moment in the evolution of governance and reporting regulation. In recent times, there has been increased activism and shareholder revolts over environmental and social issues, gender equality, diversity and inclusion and excessive executive pay.

This is a reaction to the high-profile corporate collapses of Enron and Worldcom in the early 2000s, the collapse of Lehman Brothers in 2008 and the financial crisis that followed and a continued string of corporate scandals and failures in the last five years including Carillion, household names such as Thomas Cook, Sports Direct, Tesco, BHS, Volkswagen and Patisserie Valerie, and even charities such as Kids Company and Oxfam.

The recent investor caution over the \$48 billion valuation of We Work for its IPO stemmed from underlying governance issues. Once exposed the IPO was withdrawn, the CEO and founder Adam Neumann stepped down and the company valuation dropped to \$8 billion. Ensuring transparent governance practices with clear reporting has never been more critical for businesses.

Inside this white paper

Corporate Governance Reform Package

Issued in August 2017, the Package set out the Government's action plan on how it is going to improve poor corporate governance and rebuild public trust in business. A number of regulatory changes have resulted including a revised UK Corporate Governance Code, new secondary legislation and additional supporting guidance from industry bodies such as the GC100, the Investment Association and ICSA: The Governance Institute.

Corporate Governance Code 2018

The FRC issued a revised UK Corporate Governance Code (the 2018 Code) in July 2018 and it is mandatory for all premium listed companies regardless of country of incorporation for accounting periods beginning on or after 1 January 2019.

The main changes introduced in the 2018 Code are:

- **Purpose, values and culture:** Boards are required to establish a company's purpose, values and strategy, and satisfy itself that these and its culture are aligned.
- **Workforce and stakeholder engagement:** A new provision requires greater board engagement with the workforce and other stakeholders to understand their views in discussions and decision making.
- **Succession and diversity:** To ensure that the boards have the right mix of skills and experience, constructive challenge and to promote diversity, the new Code emphasises the need to refresh boards and undertake succession planning.
- **Remuneration:** To address public concern over executive remuneration, remuneration committees should take into account workforce remuneration and related policies when setting director remuneration.

In terms of reporting against the 2018 Code, the governance report should relate coherently to other parts of the annual report – particularly the strategic report.

Miscellaneous Reporting Regulations

The Companies (Miscellaneous Reporting) Regulations 2018 (the Miscellaneous Reporting Regulations) were made on 17 July 2018 and amend the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, making the legal changes necessary to implement elements of the Government's Corporate Governance Reform Package, introducing the following new requirements:

- A requirement to provide a **s172 statement** as part of the strategic report. This is intended to motivate boards to be more accountable and have due regard for their duties as directors.
- New requirements in the directors' report around **employees and suppliers, customers and others in a business relationship with the company**. This is intended to provide greater detail into two fundamental parts of the directors' s172 duties.
- New requirements in the **directors' remuneration** report around executive pay ratios and the impact of share price on directors' remuneration. This is intended to increase transparency around executive pay.

The Guidance on the Strategic Report

The FRC issued a revised the Guidance on the Strategic Report (the Guidance) in July 2018 primarily to support the 2018 Code and interestingly, is the only place where purpose is defined as 'why an entity exists'.

The Guidance now has three sections setting out the content elements of the strategic report to cater for those entities that are required to produce a non-financial information statement and those that are not, as well as a new section for s172 reporting and includes some useful, 'best practice' communication principles.

What about audit, monitoring and enforcement?

Although not directly set out in the Government's Corporate Governance Reform Package, the corporate failures of the last few years, most notably the collapse of Carillion, have triggered the commissioning of two independent reviews, the Kingman Review investigating the effectiveness of the FRC and the Brydon Review investigating the effectiveness of audits, and a Competition and Markets Authority (CMA) study into the competitiveness and resilience of the statutory audit market. We explore these topics in more detail in our fifth paper to be published in March 2020 **The future of audit, monitoring and enforcement: What does this mean for companies?**

Making sense of governance and reporting regulations

Key:

- A Corporate Governance Reform Package
- B Kingman Review
- C CMA Audit Market Review
- D Brydon Review

- E EU Non-Financial Reporting (NFR) Directive
- F IFRSs
- G Energy and Carbon Report Regulation
- H RTS on European Single Electronic Format (ESEF)

2014

● E

April
NFR Directive agreed in EU

● F

May
IFRS 15 Revenue from Contracts with Customers issued

● F

July
IFRS 9 Financial Instruments issued

2016

● E

January
IFRS 16 Leases issued

● F

November
Government issues its green paper on corporate governance

● F

December
NFR Directive brought into UK law

2017

● E

1 January
NFR Regulation becomes effective

● F

May
IFRS 17 Insurance Contracts issued

● A

August
Government issues its Corporate Governance Reform Package

● A

September
ICSA: The Governance Institute and The Investment Association issue joint guidance The Stakeholder Voice in Board Decision Making

● H

December
Final draft RTS on ESEF published by ESMA

2018

● F

1 January

- IFRS 9 becomes effective
- IFRS 15 becomes effective

● B

April
Government launches Kingman Review of the FRC

● A

July

- The Companies (Miscellaneous Reporting) Regulations are made
- The FRC issues a revised UK Corporate Governance Code
- The FRC issues a revised Guidance on the Strategic Report

● A

October
GC100 issue Guidance on directors' duties: Section 172 and stakeholder considerations

● C

October
CMA launches audit market study

● G

November
The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 made

● B

December
Recommendations from Kingman Review published

● C

December
CMA issues update paper, inviting comments

● D

December
Government launches Brydon Review into audit quality and effectiveness

● H

December
RTS on ESEF approved by the European Commission

2019

● A

1 January
Governance and reform regulations become effective

● F

1 January
IFRS 16 becomes effective

● B

March
Government announces that FRC will be replaced with ARGAs with initial consultation

● B

March
CMA publishes final report and recommendations

● G

1 April
Energy and carbon report regulation becomes effective

2020

● H

June
RTS on ESEF approved by the EU

● D

By end of 2019
Expect final recommendations of the Brydon Review

● H

1 January
RTS on ESEF becomes effective

2021

● F

1 January
IFRS 17 becomes effective

Drivers of change

In recent times, there has been increased activism and shareholder revolts over environmental and social issues, gender equality, diversity and inclusion and excessive executive pay.

This is a reaction to the high-profile corporate collapses of Enron and Worldcom in the early 2000s, the collapse of Lehman Brothers in 2008 and the financial crisis that followed and a continued string of corporate scandals and failures in the last five years including Carillion, household names such as Sports Direct, Tesco, BHS, Volkswagen and Patisserie Valerie, and even charities such as Kids Company and Oxfam.

What were the causes for all these scandals and failures? Poor corporate governance? Poor quality reporting? Poor quality auditing? Limited monitoring and enforcement? Arguably, it is a combination of all four. The result of these factors is a loss of public trust in business. This is the regulatory challenge that the Government is trying to tackle with the Corporate Governance Reform Package and other initiatives.

**Kids Company:
charity's spiralling
financial black hole**
August 2015

**Carillion collapses
to cost taxpayers
£148m**
June 2018

**Sports Direct
effectively pays
below minimum
wage!**
December 2015

**Patisserie Valerie
discovers £10m of
secret overdrafts**
October 2018

**Why did
Thomas Cook
collapse after
178 years in
business?**
September 2019

**Rolls-Royce
apologises
in court
after settling
bribery case**
January 2017

Fool me once, shame on you...

Poor corporate governance

- Lack of board room accountability
- Unethical/questionable behaviour
- Short-termism
- Poor risk management and internal controls
- Unjustified executive pay packages

Poor corporate reporting

- Not decision-useful
- Boilerplate
- Cluttered with immaterial information
- Not fair, balanced and understandable
- Not transparent
- Inaccurate
- Incomplete
- Inconsistent
- Incoherent

Poor quality audit

- Poor quality assurance work
- Expectation gap between what stakeholders believe an audit should do versus what an audit actually does
- Information gap between what information stakeholders believe they need versus what information (whether audited or otherwise) is available

Limited monitoring and enforcement

- Limited monitoring work
- Limited scope of enforcement work
- Limited sanctions for non-compliance

Loss of public trust in business

**Corporate
Governance
Reform
Package
Do then say.**

What is the Corporate Governance Reform Package?

In August 2017, the Government issued its Corporate Reporting Reform Package. It was the Government's response to a green paper which explored specific aspects of corporate governance, namely:

- executive pay;
- corporate governance in large privately-held businesses; and
- the steps that company boards take to engage and listen to employees and other groups with an interest in corporate performance.

The Corporate Governance Reform Package set out the Government's intentions in respect of introducing secondary legislation and inviting other regulators and industry bodies to take action on the above topics.

The Reform Package has resulted in the following regulatory changes:

- The introduction of secondary legislation (SI 2018/860 The Companies (Miscellaneous Reporting) Regulations 2018) that amends company law and regulations to include new reporting requirements in relation to executive remuneration and engagement with employees, suppliers, customers and others.
- The FRC issuing a revised UK Corporate Governance Code and revised Guidance on the Strategic Report.
- Additional guidance and measures being introduced by industry bodies including ICSA: The Governance Institute, the Investment Association and GC100.
- It has also triggered the Government's commissioning of an independent review of the FRC (the Kingman Review), an independent review of audit quality and effectiveness (the Brydon Review) and a Competition and Markets Authority study into the statutory audit market.

We explore in more detail these regulatory changes in this paper.

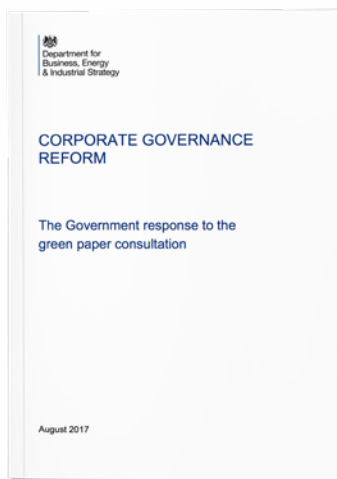
Objectives of the Reform Package

The primary objective of this Reform Package is to rebuild public trust in business by reforming the way companies are run and increase board effectiveness and accountability. The new reporting requirements are supplementary to this and as a consequence should not be approached with a tick box mentality. It is crucial that companies embrace the core principles of the Reform Package and implement changes to their internal governance and approach to conducting business first, before considering how the new regulations impact their reporting.



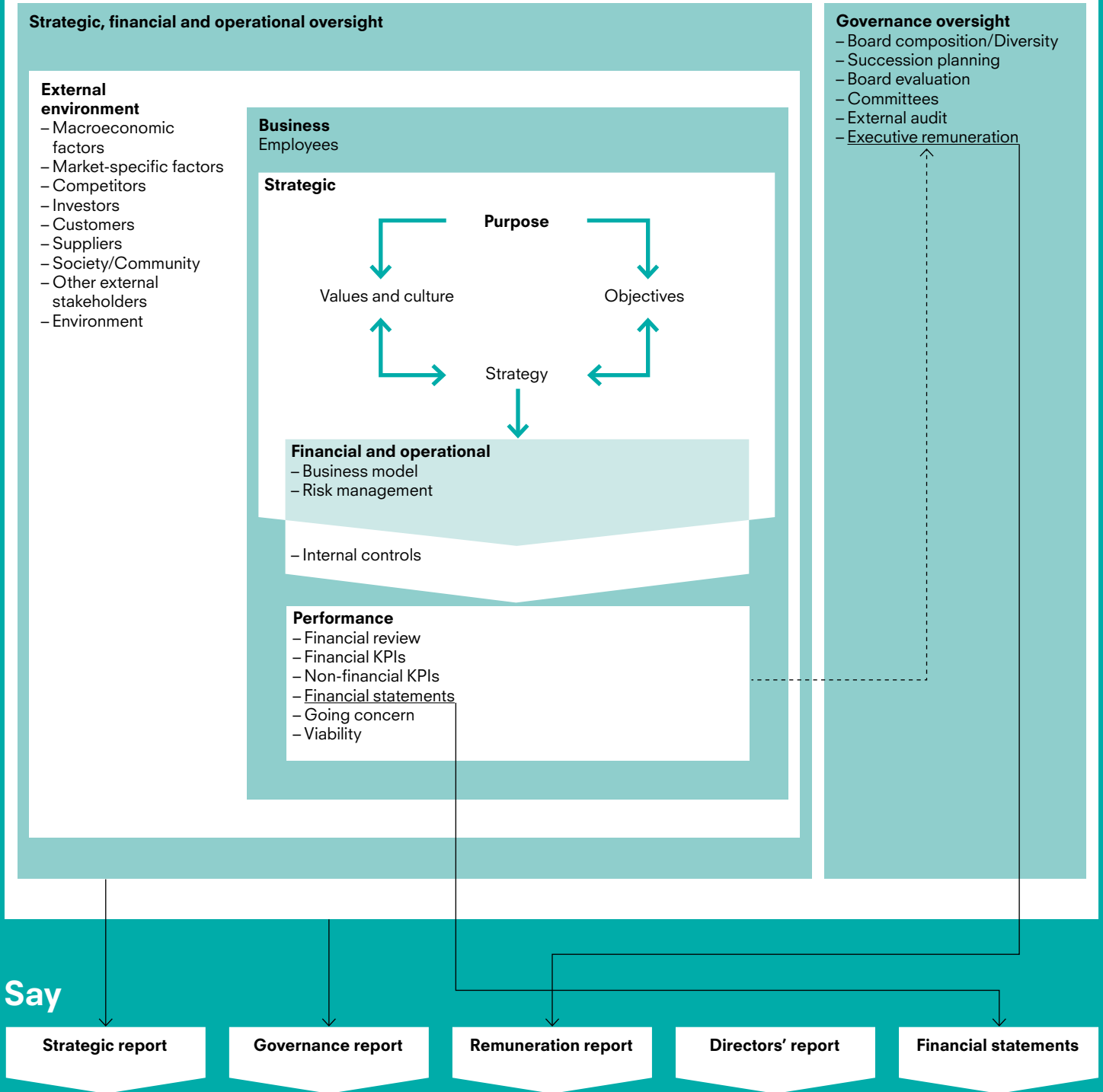
Teresa May, former Prime Minister

Our system of corporate governance is rightly envied and emulated around the world, but we must continue to improve if we are to retain our competitive edge... We are now setting out a range of legislative and business-led measures which **will improve corporate governance and give workers and investors a stronger voice**. This will be good for business. **Firms which listen** to their workers and **are responsive** to their shareholders see the benefits on their bottom line. So by giving **a stronger voice to those outside the boardroom**, we incentivise businesses to take the **right long-term decisions** and help **restore the public's trust**.



Do

Effective and accountable Board



Do

Revised UK Corporate Governance Code 2018



Issued by:

The Financial Reporting Council
(available on www.frc.org.uk)

Made in:

July 2018

Scope:

Mandatory for all premium listed companies
regardless of where they are incorporated.

Effective date:

Accounting periods beginning on or after
1 January 2019

Supporting documents:

Guidance on Board Effectiveness
(issued by the FRC, available on
www.frc.org.uk)

2018 UK Corporate Governance Code FAQs
(issued by the FRC, available on
www.frc.org.uk)

Guidance on Directors' Duties:
Section 172 and Stakeholder Considerations
(issued by the GC100, available on
uk.practicallaw.thomsonreuters.com)

The Stakeholder Voice in Board
Decision Making
(issued by ICSA: The Governance Institute
and the Investment Association, available
on www.icsa.org.uk)

The FRC issued a revised UK Corporate Governance Code (the 2018 Code) in July 2018 and it is mandatory for all premium listed companies regardless of country of incorporation for accounting periods beginning on or after 1 January 2019.

The revised Code consists of 18 principles and 41 detailed provisions set out in five sections:

1. Board Leadership and Company Purpose
2. Division of Responsibilities
3. Composition, Success and Evaluation
4. Audit, Risk and Internal Control
5. Remuneration

The main changes introduced in the 2018 Code are:

- **Purpose, values and culture:** Boards are required to establish a company's purpose, values and strategy, and satisfy itself that these and its culture are aligned.
- **Workforce engagement:** A new provision requires greater board engagement with the workforce to understand their views by requiring one or a combination of the following methods:
 - A director appointed from the workforce
 - A formal workforce advisory panel
 - A designated non-executive director
- **Stakeholder engagement:** The 2018 Code requires that boards understand the views of the company's other stakeholders and describe how they have considered the interests of stakeholders when performing their duty under Section 172 of the Companies Act 2006 in discussions and decision making.

- **Succession and diversity:** To ensure that the boards have the right mix of skills and experience, constructive challenge and to promote diversity, the new Code emphasises the need to refresh boards and undertake succession planning. Boards should consider the length of term that chairs remain in post beyond nine years. The 2018 Code strengthens the role of the nomination committee on succession planning and establishing a diverse board. It identifies the importance of external board evaluation for all companies. Nomination committee reports should include details of the contact the external board evaluator has had with the board and individual directors.
- **Remuneration:** To address public concern over executive remuneration, the 2018 Code emphasises that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration. Importantly formulaic calculations of performance-related pay should be rejected. Remuneration committees should apply discretion when the resulting outcome is not justified.

The 2018 Code is supported by additional guidance issued by the FRC; Guidance on Board Effectiveness and 2018 UK Corporate Governance Code FAQs. The primary purpose of the Guidance on Board Effectiveness is to stimulate boards' thinking on how they can carry out their role and encourage them to focus on continually improving their effectiveness. The FAQs were issued after the publication of the 2018 Code and addresses many questions that were raised by companies about the implementation of the 2018 Code.

The Government also asked a number of industry bodies to provide additional guidance to support the implementation of the Reform Package. The GC100 issued 'Guidance on Directors' Duties: Section 172 and Stakeholder Considerations' and ICSA: The Chartered Governance Institute and the Investment Association issued joint guidance called 'The Stakeholder Voice in Board Decision Making'.



Greg Clark, Former Business Secretary

The revised Corporate Governance Code will drive improvements in how boardrooms engage with employees, customers and suppliers as well as shareholders, delivering better business performance and public confidence in the way businesses are run. They will help the UK remain the best place in the world to work, invest and do business.

Do

Reporting on the 2018 Code

Guidance from the FRC

The introduction to the 2018 Code includes the following guidance from the FRC in respect to reporting against the 2018 Code:

- The Listing Rules require companies to make a statement of how they have applied the Principles, in a manner that would enable shareholders to evaluate how the Principles have been applied. The ability of investors to evaluate the approach to governance is important. Reporting should cover the application of the Principles in the context of the particular circumstances of the company and how the board has set the company's purpose and strategy, met objectives and achieved outcomes through the decisions it has taken.
- It is important to report meaningfully when discussing the application of the Principles and to avoid boilerplate reporting. The focus should be on how these have been applied, articulating what action has been taken and the resulting outcomes. High-quality reporting will include signposting and cross-referencing to those parts of the annual report that describe how the Principles have been applied. This will help investors with their evaluation of company practices.
- The effective application of the Principles should be supported by high-quality reporting on the Provisions. These operate on a 'comply or explain' basis and companies should avoid a 'tick-box approach'. An alternative to complying with a Provision may be justified in particular circumstances based on a range of factors, including the size, complexity, history and ownership structure of a company. Explanations should set out the background, provide a clear rationale for the action the company is taking, and explain the impact that the action has had. Where a departure from a Provision is intended to be limited in time, the explanation should indicate when the company expects to conform to the Provision. Explanations are a positive opportunity to communicate, not an onerous obligation.
- In line with their responsibilities under the UK Stewardship Code, investors should engage constructively and discuss with the company any departures from recommended practice. In their consideration of explanations, investors and their advisors should pay due regard to a company's individual circumstances. While they have every right to challenge explanations if they are unconvincing, these must not be evaluated in a mechanistic way. Investors and their advisors should also give companies sufficient time to respond to enquiries about corporate governance.
- Corporate governance reporting should also relate coherently to other parts of the annual report – particularly the strategic report and other complementary information – so that shareholders can effectively assess the quality of the company's governance arrangements, and the board's activities and contributions. This should include providing information that enables shareholders to assess how the directors have performed their duty under section 172 of the Companies Act 2006 (the Act) to promote the success of the company. Nothing in this Code overrides or is intended as an interpretation of the statutory statement of directors' duties in the Act.

So what does this mean in practical terms?

A company's corporate governance report should dovetail with its strategic report. It is important to strive to achieve greater integration between the two reports whilst avoiding duplication of content. Where several authors are contributing content to the annual report, we recommend putting together a high-level structure and content plan before any content is generated. The plan should set out the story for your annual report – with a beginning, middle and end – indicating what specific topics are included where, and the location of case studies.

We recommend that there is one 'point man' that checks the content for tone, consistency and repetition – this may be someone from the internal team, or it could be an external copy editor. The aim is for the annual report to read as if it has been written as one document penned by one author. Design devices and iconography can be used to signpost and cross-reference to between parts of the annual report.

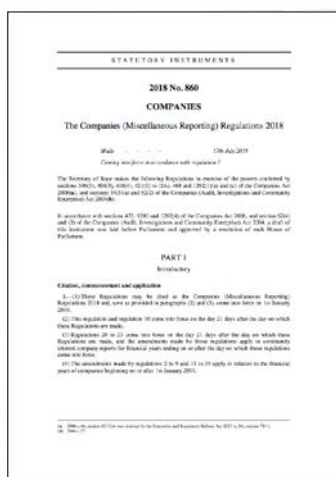


Sir Win Bischoff, Chairman, FRC

Corporate governance in the UK is globally respected and is a framework trusted by investors when deciding where to allocate capital. To make sure the UK moves with the times, the new Code considers economic and social issues and will help to guide the long-term success of UK business. This new Code, in its new shorter and sharper form, and with its overarching theme of trust, is paramount in promoting transparency and integrity in business for society as a whole.

Read our third paper **The strategic report: Bringing your story to life** (to be published in January 2020) to find out more about the revised Guidance on the Strategic Report and our recommended approach to writing a coherent annual report.

The Companies (Miscellaneous Reporting) Regulations 2018



Issued by:

The Government (available on www.legislation.gov.uk)

Made in:

July 2018

Scope:

Various – different requirements apply to different types of companies

Effective date:

Accounting periods beginning on or after 1 January 2019

Supporting documents:

Companies (Miscellaneous Reporting) Regulations 2018 Q+A (issued by BEIS, available on assets.publishing.service.gov.uk)

Guidance on the Strategic Report 2018 (issued by the FRC, available on www.frc.org.uk)

Guidance on Directors' Duties: Section 172 and Stakeholder Considerations (issued by the GC100, available on uk.practicallaw.thomsonreuters.com)

The Stakeholder Voice in Board Decision Making (issued by ICSA: The Governance Institute and the Investment Association, available on www.icsa.org.uk)

What are directors' s172 duties?

Duty to promote the success of a company:

1. A director of a company 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 matters) to:
 - (a) the likely consequences of any decision in the long term,
 - (b) the interests of the company's employees,
 - (c) the need to foster the company's business relationships with suppliers, customers and others,
 - (d) the impact of the company's operations on the community and the environment,
 - (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
 - (f) the need to act fairly as between members of the company.

What is the definition of a 'quoted' company?

'Quoted' is defined in the Companies Act 2006 as UK incorporated companies that are quoted on the UK Official List, the New York Stock Exchange, NASDAQ or a recognised stock exchange in the European Economic Area. It does not include companies listed on the Alternative Investment Market.

What are the size thresholds in the Companies Act?

Size is determined by satisfying two or more of the following criteria:

	Turnover	Balance sheet total	No. of employees
Micro	≤ £632,000	≤ £316,000	≤ 10
Small	≤ £10.2m	≤ £5.1m	≤ 50
Medium	≤ £36.0m	≤ £18.0m	≤ 250
Large	> £36.0m	> £18.0m	> 250

The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860) (the Miscellaneous Reporting Regulations) were made on 17 July 2018 and amend the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, making the legal changes necessary to implement elements of the Government's Corporate Governance Reform Package. In summary, the Miscellaneous Reporting Regulations introduce the following new requirements:

- A requirement to provide a **s172 statement** [link to section] as part of the strategic report. This is intended to motivate boards to be more accountable and have due regard for their duties as directors.
- New requirements in the directors' report around **employees and suppliers, customers and others in a business relationship with the company** (see page 11). This is intended to provide greater detail into two fundamental parts of the directors' s172 duties.
- New requirements in the **directors' remuneration** (see page 12) report around executive pay ratios and the impact of share price on directors' remuneration. This is intended to increase transparency around executive pay.

TIP: The Government issued a Q+A document to support the implementation of the new reporting requirements. It is very user-friendly and explains in simple language which companies are within scope for each requirement, and what is expected to be reported.

Say

s172 Statement – Greater board accountability

Who?	Large companies.
What?	<p>A s172 statement describing how directors have had regard to the matters set out in section 172 when performing their duties under section 172.</p> <p>A separate s172 statement is required at an individual company level, for all large companies within a group. There is no exemption for parent or subsidiary companies. Directors of subsidiary companies owe their section 172 duties to their company and therefore their statement should reflect that.</p>
Where?	<p>The s172 statement must be a separately identifiable statement within the strategic report. It must also be made available on a website. Companies that make a copy of their annual report available on their website will fulfil this latter requirement.</p> <p>Although the s172 statement is a reporting statement included in the strategic report, first and foremost companies need to consider how directors discharge their s172 duties in their every day work and what governance procedures are needed to be put in place. Companies that are doing the right things internally will find reporting against the new disclosures straightforward.</p>

TIP: It is more important than ever to present an integrated and coherent story across your strategic and governance reports. The directors' s172 duties are a governance matter, yet the new requirement in the Miscellaneous Reporting Regulations is a disclosure in the strategic report. Inevitably, companies that are doing the right things from a governance perspective will find reporting against the new disclosure requirement more straightforward, albeit that thought will need to be given to how to integrate the narrative throughout.

Read our third paper **The strategic report: Bringing your story to life** (to be published in January 2020) to find out more about the revised Guidance on the Strategic Report and our tips on how to present your s172 statement and supporting evidence.

Reporting on employees, and suppliers, customers and others

	Employees	Suppliers, customers and others
Who?	Companies with a monthly average number of UK-based employees in excess of 250.	Large companies.
What?	<p>A statement describing the action that was taken to introduce, maintain or development arrangements aimed at:</p> <ul style="list-style-type: none"> providing employees with information on matters of concern to them as employees. consulting employees on a regular basis so that views of employees can be taken into consideration in making decisions which are likely to affect their interests. encouraging involvement of employees in the company's performance through an employees' share scheme or other means. achieving a common awareness on the part of employees of the financial and economic factors affecting the performance of the company. <p>Summarising:</p> <ul style="list-style-type: none"> how the directors have engaged with employees. how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year. 	<p>A statement summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions taken during the year.</p>
Where?	Directors' report but can be included in the s172 statement in the strategic report instead if directors judge the information to be of sufficient strategic importance. Where this is done, the directors' report must state that fact.	

These two disclosure requirements in relation to employee matters and supplier, customer and other stakeholder matters are linked to Provision 5 in the 2018 UK Corporate Governance Code (the 2018 Code) requiring companies to describe in the annual report how stakeholder interests and the matters set out in section 172 have been considered in board discussions and decision-making. The disclosures are required to be included in the directors' report unless directors judge the information to be of strategic importance and therefore choose to report them in the strategic report.

It should be noted that the scope of these requirements are different and it is possible for a company to meet the definition of large, yet have less than 250 UK-based employees thus only requiring disclosure on matters relating to supplier, customer and other stakeholders only.

Say

Directors' remuneration reporting

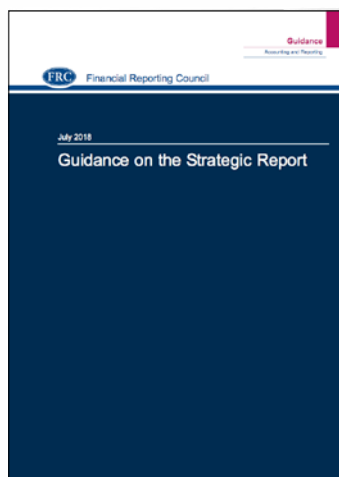
	Executive pay: Pay ratio reporting	Executive pay: Share impact reporting
Who?	Quoted companies with a monthly average of UK-based employees calculated at group level in excess of 250.	Quoted companies.
What?	<p>A table showing the ratio of the CEO's latest single total figure of remuneration to the median, 25th percentile and 75th percentile full-time equivalent remuneration of the company's UK employees.</p> <p>Supported with information on the methodology chosen, the reasons for any changes in the ratios compared to the prior period and in the case of the median ratio, whether, and if so why, the company believes this ratio is consistent with the company's wider policies on employee pay, reward and progression. The table must cover a ten-year period, initially building incrementally over time.</p>	<p>In the next new directors' remuneration policy, an illustration of the possible impact share price growth on executive remuneration outcomes are linked to performance periods of more than one year.</p> <p>An additional disclosure under the single total figure remuneration table, an estimate of the amount the STFR that may be attributable to share price appreciation of 50% and whether, and if so how, discretion has been exercised as a result of share price appreciation/ depreciation to remuneration outcomes reported in the year.</p>
Where?	The s172 statement must be a separately identifiable statement within the strategic report. It must also be made available on a website. Companies that make a copy of their annual report available on their website will fulfil this latter requirement.	The s172 statement must be a separately identifiable statement within the strategic report. It must also be made available on a website. Companies that make a copy of their annual report available on their website will fulfil this latter requirement.

It should be noted that the 250 UK-based employees threshold does not apply to share impact reporting.

The Regulations are lengthy and set out the three methodologies permitted for calculating the pay ratios, the required tabular presentation and supporting commentary. The Q+A document that supplements the Miscellaneous Reporting Regulations published by the Government in June 2018 provides additional guidance to support companies in producing this information.

Say

Revised Guidance on the Strategic Report



Issued by:

The Financial Reporting Council
(available on www.frc.org.uk)

Made in:

July 2018

Scope:

Medium-sized and large companies.

Effective date:

No effective date as it is guidance but supports the Miscellaneous Reporting Regulations and the 2018 Code which are both effective for accounting periods beginning on or after 1 January 2019.



Paul George, Executive Director Corporate Governance and Reporting, FRC

The revised guidance underpinned by legislation will improve the effectiveness of section 172 and stimulate Board discussions on how companies are considering various factors to ensure their business is sustainable over the long term including the impacts on the company's key stakeholders. The revisions to the Guidance on the Strategic Report complement the recent changes to the FRC's Corporate Governance Code and as a package will contribute to enhancing trust and transparency in business.

The FRC issued a revised the Guidance on the Strategic Report (the Guidance) in July 2018 primarily to support the 2018 Code and interestingly, is the only place where purpose is defined as 'why an entity exists'.

The way in which the EU Non-financial Reporting Directive has been introduced into UK law is complicated. The Directive introduced a requirement for certain entities to produce a non-financial information statement. Unhelpfully there is a lot of crossover between these requirements and the newly introduced requirements in relation to s172 statements. The Guidance attempts to simplify some of this confusion and now has three sections setting out the content elements of the strategic report to cater for those entities that are required to produce a non-financial information statement and those that are not, as well as a new section for s172 reporting.

The Guidance also includes some useful, 'best practice' communication principles such as it should:

- be clear and concise, yet comprehensive;
- have a forward-looking orientation;
- be entity specific; and
- provide linkages between different pieces of information with the annual report.

The appendices to the Guidance are also useful check lists of all the requirements for the strategic report and directors' report.

Read our third paper **The strategic report: Bringing your story to life** (to be published in January 2020) to find out more about the Guidance on the Strategic Report, and our tips on producing your strategic report.

What about audit, monitoring and enforcement?

Although not directly set out in the Government's Corporate Governance Reform Package, the corporate failures of the last few years, most notably the collapse of Carillion, have triggered the commissioning of two independent reviews, the Kingman Review and Brydon Review, and a Competition and Markets Authority (CMA) study.

The **Kingman Review**, headed up by Sir John Kingman, involved a root-and-branch review of the FRC with the view of making the regulator a beacon for the best in governance, transparency, and independence. Sir John Kingman published his conclusions and recommendations in December 2018. The review recommended that the FRC be replaced by a new regulator ARGA (Audit, Reporting and Governance Authority) with stronger, statutory monitoring and enforcement powers. The new regulator will be under pressure to deliver, so companies can expect more frequent and in-depth monitoring reviews of governance practices and corporate reporting.

The **CMA Statutory Audit Market study** was commissioned to investigate whether the sector is competitive and resilient enough to maintain high-quality standards amid growing concerns about statutory audits, in particular following several high-profile corporate collapses and scandals. The CMA published its final recommendations in March 2019. These findings will be fed into the Brydon Review.

The **Brydon Review**, headed up by Sir Donald Brydon (the outgoing chairman of the London Stock Exchange), is investigating the quality and effectiveness of the UK audit market. We expect Sir Brydon's conclusions and recommendations to be published this year. This review will run in tandem with the CMA market study and will build on the recommendations of the Kingman Review.

Read our fifth paper **The future of audit, monitoring and enforcement: What does this mean for companies?** (to be published in March 2020) to find out more about the potential changes in the audit market, the future of the FRC's monitoring and enforcement activities, and the possible implications for companies.

What about the revised UK Stewardship Code 2020?



Issued by:
The Financial Reporting Council (available on www.frc.org.uk)

Made in:
October 2019

Scope:
Voluntary code for asset managers, asset owners and for service providers that support them.

Effective date:
No effective date as it is guidance but supports the Miscellaneous Reporting Regulations and the 2018 Code which are both effective for accounting periods beginning on or after 1 January 2019.

The FRC revised the UK Stewardship Code in October 2019 to align its principals with those in the UK Corporate Governance Code 2018.

The Stewardship Code is a voluntary code for asset managers, asset owners (such as pension funds and insurers and reinsurers) and for service providers (such as proxy advisors) that support them, and it provides two sets of principals; one for asset managers and asset owners, one for service providers. It is recognised that asset managers and asset owners have significant influence over companies in which they invest, and therefore should be expected to hold companies to account.

In particular, the Stewardship Code requires signatories to consider the following:

- the effective application of the UK Corporate Governance Code;
- the director's duties to promote the success of their company as set out in section 172 of the Companies Act;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;
- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

Signatories to the Stewardship Code need to apply to become a signatory and are expected to submit an annual stewardship report to the FRC for approval. Once approved, the report must be made publicly available.

What does this mean for companies?

Principal 7 of the Stewardship Code: **Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**

In short, it means that companies with institutional investors can expect much greater scrutiny and engagement on environmental, social and governance (ESG) issues.

Glossary and abbreviations:

Brydon Review

The independent review commissioned by the Government in December 2018 into the quality and effectiveness of audit.

CMA

Competition and Markets Authority.

the Code

The UK Corporate Governance Code 2018 issued in July 2018 by the FRC.

Corporate Governance Reform Package

Corporate Governance Reform – The Government response to the green paper consultation issued in August 2017.

This paper uses this term to include amendments to company law and other regulations and guidance that were referenced in the above document including:

- The Companies (Miscellaneous Reporting) Regulations 2018 made on 17 July 2018
- The revised UK Corporate Governance Code issued by the FRC in July 2018
- The revised Guidance on the Strategic Report issued by the FRC in July 2018.

ESEF

European Single Electronic Format.

ESMA

European Securities and Markets Authority.

FRC

Financial Reporting Council.

Kingman Review

The independent review commissioned by the Government in April 2018 into the effectiveness of the FRC.

NFR Directive

EU Directive on Non-financial Reporting (Directive 2014/95/EU) issued in October 2014.

RTS on ESEF

Regulatory Technical Standard on the European Single Electronic Format published by ESMA.

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Employees, customers, shareholders and society are demanding a more balanced contract, based on purpose, values and relationships.

That puts all of us under constant scrutiny. What organisations say and do must join up from the boardroom to the very end of the supply chain if they are to retain their licenses to operate.

And, with trust in short supply, easy words have to be supported by hard evidence.

If you would like to explore how we can help you with your corporate reporting please contact us here:

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