Submission to the UK Corporate Governance Code 2023 consultation

Thank you for the opportunity to respond to this consultation. City Hive supports in principle the ambitions and direction of the code changes, which reflect the changes in the wider corporate environment. There is a role for policy makers and regulators to provide the context for firms to understand why these changes are important from a macro view from an equity perspective, from the need to address systemic and ongoing risks, but also to deliver better shareholder and societal outcomes.

About City Hive

City Hive is a think tank and advocacy group that works with the investment industry to democratise access to investing and the investment industry. It was formed in 2016 with a view to improving industry culture, through professional development, research and advisory. We base our commentary on our relationship with firms across the industry, our propriety research, the City Hive Cross Company Mentoring Scheme and the **ACT Corporate Culture Standard and Framework.** ACT is a disclosure mechanism for investment firms to be able to talk to stakeholders about their approach to culture and values across their business, and why this helps to deliver the best client outcomes. It was launched in May 2022 and over 100 firms have reported in the first year, disclosing in a structured way via the Door due diligence platform.

The framework is free to access and free to report on, and can support a firm to create the internal processes and relationships to be able to effectively consider and respond to the revised Corporate Governance Code.

Responses to selected consultation questions

Q1:Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?

We support the proposed changes, which acknowledge that it is necessary for firms to focus resources on creating and reporting on outcomes.

Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?

We welcome the explicit reference to environmental and social matters, noting that it leaves room for firms to explain why they are not taking such matters into account in the delivery of their strategy. We believe it is important for firms to be transparent about the commitments they make and explicit about how they intend to meet such commitments. This will help to address greenwashing.

Q3: Do you have any comments on the other changes proposed to Section 1?

The proposed amendments to the Principles of the code acknowledge that integrity and commitment are insufficient alone to deliver a strong governance structure. A firm's internal culture is instrumental in a firm achieving successful and intended outcomes, but requires supporting with policies and practices that enhance, embed and uphold firm values.

We welcome that firms will be asked to be more transparent and accountable with regard to how culture is assessed, monitored and embedded. This helps to situate culture as tangible and needing resources and support. It may be necessary to provide guidance to firms on what this looks like in practice.

- **Principle A)** We support the emphasis on the company having necessary, resources, policies and practices in place.
- **Principle B)** We support the emphasis and connection between culture and values, as well as the necessity of policies and practices to support and promote the desired culture.
- **Provision 6)** We welcome the explicit direction to boards to implement more effective monitoring and review processes.

Data from investment firms that have responded to the ACT framework shows that the most commonly expressed values of investment firms are:

- client focus;
- integrity/ transparency;
- respect/ behaviour and culture;
- team composition - cognitive, representative diversity;
- excellence of product and execution

We would expect then to see these areas linked to practical areas of their operations and activities, for example:

- Detail on the process and execution - including committees, employee engagement, remuneration/ performance review, training
- The leadership focus and goals, including the ownership structure
- Initiatives that are being supported to build the talent pipeline, to broaden outreach to different groups and communities

Q4: Do you agree with the proposed change to Code Principle K (in Section 3 of the Code), which makes the issue of significant external commitments an explicit part of board performance reviews? AND Q5: Do you agree with the proposed change to Code Provision 15, which is designed to encourage greater transparency on directors' commitments to other organisations?

We consider it to be reasonable for boards and board members to be able to demonstrate that they have sufficient capacity and coverage to be able to discharge their responsibilities. There is a risk that this exercise will become a filing exercise, however, without further guidance – noting as does the consultation document that responsibilities and requirements vary according to company and that comparative knowledge is useful. For some firms the exercise might be useful in discovering that some board members are over-committed. Firms could also use this exercise to understand whether board members have the expertise to navigate changes relating to the post-pandemic environment and climate and sustainability considerations.

Q6: Do you consider that the proposals outlined effectively strengthen and support existing regulations in this area, without introducing duplication?

This is an area of ongoing change and a learning curve for many firms. From our experience, most firms that have reported against our framework now say they are striving for and open to employees from different backgrounds. Most acknowledge that they believe this will lead to the best client outcomes, but struggle to demonstrate this with data.

Firms are also thinking about the role of strategy and governance to help the success of initiatives, such as creating:

- Clear statements on diversity aspirations and goals (and reporting on progress)
- Specific action plans with defined objectives
- Structured reviews and business units being accountable to regional and global heads, the CEO, or the Board for delivering against approved diversity plans.
- Diversity councils or committees governing and coordinating diversity efforts.

Q7: Do you support the changes to Principle I moving away from a list of diversity characteristics to the proposed approach which aims to capture wider characteristics of diversity?

We welcome the reference to ensuring that boards are sufficiently cognitively and representatively diverse, noting that this diversity should be the outcome of effective board recruitment, management and assessment, not simply an objective in the hiring process.

Boards should consider how to demonstrate they have effective processes in this area, from how they recruit (and how to bring in different but relevant types of expertise), how board work is conducted, committee assignment and performance considerations.
One of the measures of success will be ensuring that all board members are able to participate equally and authentically.

Q8: Do you support the changes to Provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments?

Yes. It could also include whether any third-party assessment or support has been sought or used.

The majority of investment firms that have reported to City Hive say that they have a DEI policy, and we can also see that there are commonly DEI components within core HR policies (hiring, leave, workplace safety, retention, training and development). Firms also report that review of the policy takes place at a minimum annually, with some firms citing a regular quarterly HR agenda. However, there are gaps in how policies are implemented and how truly accessible there are that firms need to take into account.

Q10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?
Yes.

Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?

We welcome that section / provision 26 addresses the integrity of narrative reporting, including sustainability reporting, noting that this will help to create and embed improving reporting and monitoring practice in this area and driving higher quality of reporting. By putting these topics into the ambit of audit, risk and internal controls, it creates equality of information and a scaffold by which to address the topics.

We note that one of the barriers to improving data collection and reporting in this area is the initial creation of internal relationships, demand for information and understanding what information is available for reporting. Therefore, we would expect a lag in initial implementation that should improve over time.

We would also note that expertise in this area (including assurance) is not always in place, and firms may need to undertake a training or education exercise to create common internal understanding of terminology and usage. The board should play a role in ensuring that there is adequate expertise to conduct the risk element as well as at the board level to understand the information and the way the company is portrayed in the reporting to be accurate and appropriate for stakeholders.

Q15: Where controls are referenced in the Code, should 'financial' be changed to 'reporting' to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?
Refer to Q 12 response.

Q22: Do the proposed revisions strengthen the links between remuneration policy and corporate performance?

We welcome greater transparency on remuneration policy and practice, and alignment with company performance, purpose and values. We believe this will help create more sustainable business practices, ultimately delivering better value for shareholders. Firms should be able to demonstrate how they ensure that outcomes are proportional and do not reward poor performance.

Q23: Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?
Yes.

Q24: Do you agree with the proposed changes to Provisions 40 and 41?

Yes. We particularly welcome provisions for the annual report to explain how the strategic rationale for executive directors' remuneration policies, structures and any performance metrics support company strategy and ESG objectives as a direct measure to increase effectiveness of ESG factors being considered as part of company strategy and to counteract greenwashing.

We welcome the provision for further engagement with shareholders and staff on remuneration. We note that firms are increasingly surveying employees on a wide range of topics and providing individual and town-hall style forums for feedback. However, we notice that firms do not always have a strategy for what to do with the data they are collecting. This provision could help to provide more guidance for firms.

Q25: Should the reference to pay gaps and pay ratios be removed, or strengthened?

We agree that duplication of reporting on pay gaps in annual reports is not useful, and indeed pay gap data by itself does not provide sufficient narrative context for the direction of travel that a firm is making on pay equity and transparency. We do not believe that attention to pay gaps or ratios should be completely removed because while a single data point is not always helpful, especially in smaller firms, pay gap reporting has helped to move a difficult conversation forward.

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