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David Styles
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By email: codereview@frc.org.uk

5 September 2023

Dear David

UK Corporate Governance Code

I write on behalf of Bunzl plc (the "Company") in response to the consultation on the proposed revision to the UK Corporate Governance Code (the "Code").

We are broadly supportive of investing time and resources on initiatives and activities which promote good corporate governance and the objectives set out in the Government's response to audit and corporate governance reform. There are many elements included in the proposed changes which we believe represent positive developments, for example in relation to the role and responsibilities of the Audit Committee in respect of both the Audit and Assurance Policy and narrative reporting.

However, there are several aspects of the proposed revision of the Code that we wish to highlight for further consideration, as set out below:

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

Rather than encouraging outcomes-based reporting, we believe that the proposed changes could engender further compliance-driven 'box-ticking' and increase the number of disclosures at the expense of the quality of disclosures. Not every governance action or practice has an outcome which can be easily demonstrated or explained. Also, the impact of governance practices etc. is often borne over time. Companies may feel pressured into producing unnecessary and potentially banal disclosures to avoid criticism, particularly from proxy voting agencies, about the absence of specific outcomes-based examples. This will be particularly true if a company's governance and internal controls systems are operating effectively and/or during periods of stability and 'business as usual'.

Q2: Do you think that 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?

Companies are already required to report on their climate change ambitions under the Listing Rules/TCFD and there are proposals for further regulation being introduced as part of the ISSB. We believe there is a need to simplify and streamline regulatory requirements to ensure consistency and avoid overlap and duplication. We do not believe further regulation under the Code is necessary or desirable.

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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?

We believe that directors' significant external commitments should be considered as part of board performance reviews; however, it should be best practice rather than prescriptive in the proposed revised Principle K. This view is formed on the grounds that it should intrinsically form part of the review (when considering a director's capacity and ability to devote sufficient time to their role). Further, the board Chairperson should have the discretion to conduct the performance review in a manner that best serves the interests of the relevant company and its key stakeholders, utilising the expertise, guidance and experience of the company secretary and other board members. This includes selecting which matters are to be considered/covered as part of the performance reviews.

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?

While we value greatly the benefits of transparency, it is our view that describing how each director has sufficient time to undertake their role effectively in light of their external commitments would be excessive and would not necessarily provide any meaningful additional disclosure. There is a need to find the right balance between giving important and relevant information when reporting and avoiding unnecessary disclosure and boilerplate reporting. We are also concerned that, without further guidance from the FRC on the meaning of 'significant director appointments', the publishing of this information may result in more 'overboarding' concerns from proxy voting agencies which do not adequately consider the explanations provided by companies in respect of directors whose appointments may exceed the technical guidance.

Q13: Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal control systems in a proportionate way?

Overall, we do not believe that the proposed amendments to the Code strike the desired balance. Whilst we support the need to address the root causes of recent sudden and major corporate collapses in the UK and improve investor confidence, we believe that the benefits of the proposals as currently presented are outweighed by the time commitment and costs both in terms of implementation and ongoing reporting. As commented further below, the proposal around the board declaration is, we believe, unnecessarily broad both in its nature and scope and its expectations around continuous monitoring. As a result, we believe it has the potential to be perceived as a more onerous set of internal control requirements than is applicable in other jurisdictions.

Whilst we understand and support the desire for the Code to remain 'principles based' there is the need for clear definitions and detailed implementation guidance. We believe the quality of company responses and actions will be compromised in the absence of further guidance resulting in inconsistent practice.

We view the proposed Code amendments as too extensive and significant a set of changes given the volume of other new external regulatory requirements which fall into a similar time period.

Q14: Should the board's declaration be based on continuous monitoring throughout the reporting period up to the date of the annual report, or should it be based on the date of the balance sheet?

We believe that it would be neither necessary nor practical to expect boards to provide a declaration based on a rolling assessment of the efficacy of a company's controls. The process that would need to be undertaken to ensure that the directors, (especially non-executive directors), were comfortable with providing such a statement could be particularly onerous, and not just for boards and executive management, but also for assurance providers.

A system of controls does not provide absolute assurance that the control objectives of an organisation will be met. We believe that the focus should be on ensuring that effective risk management and internal control systems are in place and are sufficiently robust, and that the correct processes, procedures, and culture exist within an organisation to allow any control deficiencies to be identified and rectified quickly. It would therefore be more meaningful if the declaration was based on the position as at the balance sheet date,

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where these processes and systems are subject to detailed review, considering any issues that may have arisen during the year and management's response thereto.

We are therefore of the view that a strengthened annual board declaration, of the type envisaged in the proposals, limited to internal controls over financial reporting, would substantially achieve the overall aims of recent corporate governance reviews.

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?

While we welcome proposals that seek to drive improvements in reporting, in our opinion, broadening the scope of the board's declaration to cover controls beyond financial reporting would not mitigate in any meaningful way the risk of UK corporate collapses in the future and therefore has limited value-add for stakeholders.

If adopted, the proposed changes could have financial implications for companies, including in respect of the recruitment of additional compliance, reporting and assurance resources. The proposed change could significantly increase disclosures and make annual reports more complex, which directly conflicts with the Government and the regulator's objectives of making reporting more useful and concise. It should also be noted that ESG/narrative reporting, by its nature, often involves the significant exercise of judgement and the use of assumptions and interpretation and opinions may vary greatly. Narrative reporting by companies subject to the Code is already regulated by existing legislative requirements to ensure statements are not false or misleading.

Q16: To what extent should the guidance set out examples of methodologies or frameworks for the review of the effectiveness of risk management and internal control systems?

It is useful to have examples on what would be considered appropriate methodologies or frameworks against which to perform an assessment of control effectiveness. The guidance need not be prescriptive and it should be left to individual companies to choose those that are most appropriate.

Q17: Do you have any proposals regarding the definitional issues, e.g., what constitutes an effective risk management and internal controls system or a material weakness?

For corporate reporting to be useful, it must be meaningful. Accordingly, having clear guidance and definitions of key terms such as 'material weakness', 'material controls', 'control deficiency' and 'control failure' is essential as companies should not be pressured into disclosing what are essentially "business as usual" updates in the annual report. Whilst materiality is a broadly understood and developed concept within financial reporting, its use in other areas of risk management, controls and non-financial reporting is not. We see clear definitions as being important to ensure comparability between company disclosures.

Please contact me at should you wish to discuss our response further.

Yours sincerely,