

FAO Financial Reporting Council

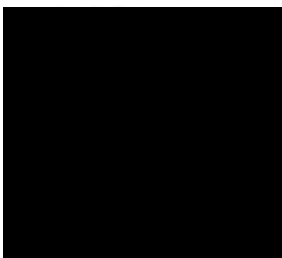
Dear Sirs

We appreciate the opportunity to respond on the proposed changes to the Code (May 2023) and remain supportive of the aim of UK Government to maintain strong corporate governance and reporting standards.

Our response focuses the proposals to the changes in the Code, and related consultation questions, which most directly impact Rightmove plc. Our particular concern remains the ensuring that there is proportionality and flexibility in the proposals in relation to different categories and characteristics of the companies impacted. We note that Rightmove is not a typical FTSE100: it is solely UK based; relatively small - at c£350m turnover and less than 750 employees; has one main trading entity, with no trading subsidiaries which comprise more than 2% of its total; and is relatively uncomplex in its operations. Rightmove, and other groups fitting a similar profile, could be disproportionately impacted by some of the proposals which might generate significant additional reporting, even if just to explain it is not relevant or material, without the benefits to the company or investors.

We have made some general comments and responded to some of the specific questions asked in the consultation, which are attached on the following page. Our overarching observations are around reconsidering the proposed 12 month implementation timeline for the directors' declaration; ensuring there is enough flexibility within the Code proposals, to avoid a 'one size fits all' regime, and ensure proportionality to the size and complexity of the businesses' operations (rather than just market cap); balancing the cost and benefit of the proposals, including the impact on the attractiveness of the UK market to investors; and ensuring that there is clarity and consistency within the proposals, and the definitions within them, before any roll out.

Yours faithfully



General comments and question responses from Rightmove plc

General comments

Our general comments can be grouped as follows:

- *Practical timelines for implementation of directors' declaration:* current proposals suggest that there will be 12 months, from the finalisation of the Code and the FRC's issuance of further guidance at the end of 2023, for companies to prepare to make the declaration of effective controls. Given the scope of the declaration is to include operational and compliance controls, as well as financial and reporting controls, and the need to properly prepare, document, test and, where required remediate, this will involve significant amounts of increased resources which will need to be put in place. In our view this preparation is likely to take longer than 12 months for many companies, including Rightmove plc, to fully implement.

The implementation timeframes need to be thought through carefully to ensure that they are practically achievable – reflections and learnings from experiences of US SOX implementation should be assessed, as well as considering the option of a phased implementation, split between financial controls and operational and compliance controls, and or a pilot test to assess the practicalities of implementation within the proposed scope and timelines.

- *Proportionality and flexibility of reporting:* whilst the 'comply or explain' ethos of the Code does go some way towards recognising that one size does not fit all, the current proposals will result in additional reporting to explain departures, even where the company believes there is limited relevance of reporting the new Code recommendations. This would increase the burden on companies which is not proportionate to matters seeking to be addressed. There could also be inconsistencies between companies regarding choices and explanations over non-compliance. Consideration should be given to including thresholds, to supplement the existing 'comply or explain' approach, to determine which and when certain proposals need reporting if not material and or relevant.
- *Balance of cost and benefit of proposals:* the impact of the current proposals should be carefully assessed to avoid unnecessary complexity, cost, duplication or other unintended consequences, particularly for smaller and or less complex groups and subsidiaries; solutions need to be designed to ensure that the impact on all companies is proportionate to the burdens of cost (which will ultimately be borne by investors), administration, risk and materiality. This would also go some way to ensuring that there is no adverse impact on the attractiveness of the UK market to investors.
- *Clarity and consistency:* not all the proposals are clear and further clarity is required to fully define some of the proposals. This will avoid wasted time and possible inconsistencies in the approach

adopted by companies. Examples include: what specifically falls within the remit of ‘compliance’ controls; is ‘narrative reporting’ limited to the annual report and accounts or does it include all external reporting such as sustainability reports, payment practices, Hampton Alexander etc; what is a material weakness; and should the Code not be aligned to the legislation on the AAP rather than creating an inconsistency.

Question responses

The specific consultation questions which we would like to respond on are:

Risk Management and Internal Control

Question 13 – Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal controls systems in a proportionate way?

We are supportive of the intention to strengthen the internal controls framework for UK companies: the benefits of which we see as enhancing the (already high) quality of UK reporting, with consistency and comparability between companies and the creation of a comparable ‘minimum standard’, which could enhance investor confidence in both individual companies and their directors, as well as in the UK as a place to invest.

There will inevitably be a cost of implementation and on-going maintenance for companies involved. As well as being a burden on the companies themselves, it could - unless carefully implemented - have unintended consequences with respect to the attractiveness of the UK for businesses to hold their main operations.

To fully understand and assess whether the proposals are proportionate, there needs to be further clarity over what is meant, and what would fall in scope of both ‘operational’ and ‘compliance’ controls: the proposals for the Code appear to be going beyond the requirements of both the expected

AAP legislation and of US SOX (which covers only financial controls and operations which impact financial reporting).

As noted in our general comments above, there needs to be further consideration around implementation timelines for the directors’ declaration – to ensure that companies can fully transition. Furthermore, without more clarity over the scope, expectations of the bar being set and some of the definitions and expected frameworks, companies could waste time in planning and implementing and then having to revise and rework. Inconsistencies could also emerge between approaches and the overall consistent transition across the UK could be slowed.

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 controls systems?

It would be helpful for the guidance to give a range of examples of possible methodologies and frameworks for the management and review of the effectiveness of risk management and internal controls - along with the principles underpinning them and expected standards - whilst also ensuring that flexibility to choose and tailor remains. Examples of testing requirements and test planning should be included.

Q18: Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?

Areas where we would particularly like to see covered in the forthcoming guidance are below:

- Specifics on what is covered by ‘operational’ and ‘compliance’ internal risks and controls (e.g. is that including risks/controls around FRC? money laundering?);
- Guidance on materiality to stakeholders in relation to non-financial metrics – how to assess this outside of non-financial measures;
- Further guidance on assessing what is a ‘material’ weakness;
- Do references to ‘narrative reporting’ (for example for the proposed audit committees’ remit) just cover the annual report and accounts, or all external reporting?

Audit and Assurance Policy

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

The proposed government legislation for the AAP will make the AAP a requirement for companies with £750m turnover and over 750 employees. Building these thresholds into the Code, rather than mandating the AAP for all Code companies, would bring consistency and a more proportionate approach which would allow smaller companies covered by the Code to have a choice as to whether to publish an AAP, without having to significantly increase reporting.

Narrative reporting

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?

Whilst we agree that the experience and skill set of audit committees in overseeing narrative reporting will enhance reporting quality, there needs to be consideration of how this would practically work and be implemented given the already full agendas of audit committees, and of any cost implications.

To fully assess the impact of this proposal on audit committees, there needs to be clarity and definitions over what ‘narrative reporting’ includes – is it just reporting in the ARA or all external reporting? Does it include just financial/reporting controls or also compliance and operational? Is it just over numerical data/reporting?