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**September 12, 2023**

Dear David,

I write in response to the FRC UK Corporate Governance Code consultation document.

We are pleased to have the opportunity to contribute our thoughts to the consultation and we strongly support the commitment to improving financial reporting to enhance transparency and good governance.

We take our reporting responsibilities very seriously and we anticipate that there will be a significant resource requirement to meet the requirements, we believe that we will benefit from improved processes and controls in the long term. However, we are also cognisant that this needs to be a proportional response and that the cost benefit requirement must be closely analysed to ensure there is a benefit to shareholders as it is a significant investment during the current uncertain economic climate. With this in mind, we think more detailed guidance is necessary to provide clarity and comparability and also that if the broader remit of reporting, operation and compliance controls and continuous monitoring becomes effective, that a phased approach would be more beneficial.

The additional requirements will increase the reporting and complexity for companies within the Annual Report & Accounts and we are keen to see how this will not become a boiler-plating exercise across companies but provide the additional transparency that it is engineered to do.

We are also keen that definitions of material weakness and significant deficiencies are clearly defined to ensure that reporting is appropriate and relevant to shareholders.

Lastly, it is critical to any new requirements to have clear communication of timelines for additional information or guidance and we kindly request that these timelines are publicised and met, or if they aren't, that we are kept informed of progress to ensure adequate planning can take place..

Your sincerely,

[redacted]

# FRC UK Corporate Governance Code Consultation – Pets at Home response

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

Yes - this could be helpful in principle but clarity on what the outcomes/outputs will be is needed.

**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?**

The TCFD requirements require alignment of strategy and climate physical and transitional impacts which align to this question so we are already doing this.

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

Environmental and climate matters are of significant importance. Companies already have significant reporting requirements in this area so it is essential that any further reporting fits appropriately with existing requirements.

**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?**

Whilst transparency on external commitments is welcomed, it would be helpful to further understand how companies should implement/action this to ensure it does not become a boilerplate/tick box exercise.

**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?**

As above, greater transparency on appointments may be useful provided this does not result in boilerplate responses.

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

In principle, provided the Code is kept at a high level.

**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?**

As above, the reference need to be kept at a high level and used in the broader sense. Some of the terminology used, perhaps strays from this.

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

This is something we largely do already. the only concern is adding to the list of requirements companies are already required to cover in the Annual Reports, when we are trying to rationalise and make them more concise.

**Q9: Do you support the proposed adoption of the CGI recommendations as set out above, and are there particular areas you would like to see covered in guidance in addition to those set out by CGI?**

We have no strong views on this. It avoids duplication but does not impact a Group of our size.

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

Yes - this is similar to how it currently works, just without a formal policy. It pulls it together to provide a better framework.

**Q11: Do you agree that amending Provisions 25 and 26 and referring Code companies to the Minimum Standard for Audit Committees is an effective way of removing duplication?**

We have no strong views on this. It avoids duplication but does not impact a Group of our size.

**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?**

No. We do this through the ESG committee which has members of the board so we think this is a more appropriate meeting for review/ approval of sustainability reporting overall particularly the narrative which needs to align with strategy . It is likely that for other areas of narrative reporting, we would potentially use similar committees.

**Q13: 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 welcome the fact that a legislative approach is not being taken which provides flexibility, however, we do not see this as proportionate due to the breadth of proposals compared with US SOX. It certainly does not appear to be "Sox-light" which was expectation that was initially set.

We would need to apply less rigorous standards across a wider remit to meet the broader requirements. This will be a real challenge and will result in focus on the high=risk areas only in the long term, but will mean a large amount of additional work initially which will be difficult to manage. A phased implementation requirement could assist with this with an initial focus purely on Internal Controls over Financial Reporting. The absence of detailed guidance will give a wide interpretation and a lack of comparability between companies and without more details of how it should be implemented it is difficult to conclude if it is proportionate.

**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?**

The declaration should be based on controls at the balance sheet date, otherwise two months of the year would overlap with the next year so issues could end up requiring to be reported twice which does not make sense. Additionally, post-balance sheet controls issues generally do not represent a risk to year end reporting but if they did, would be captured in post balance sheet events reporting.

It would be less work without the continuous monitoring requirement and would align better for those complying with US SOx. Although continuous monitoring would be more effective to avoid people just fixing things at year end, we do not believe that this could be implemented from the start and would need to be phased in if used. Currently for US SOx, the first 3-6mths of the year is documentation update, process review and control update and no testing is done then so it is difficult to understand at what point documentation update would happen so continuous monitoring can be done which makes it difficult to implement in practice. We therefore do not believe this is workable in the current environment. It also means external audit would potentially test controls each quarter which is a big increase in the burden of audit costs along with internal costs.

Regular monitoring would be preferable terminology to continuous monitoring as it allows monitoring at times of the year which may be more critical - such as quarter-end.

If material weaknesses are fixed by year end, they are not relevant for financial reporting. But it depends if the emphasis is on making sure the numbers are correct or on good control generally.

**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?**

Our "non-financial" reporting controls would be covered by operational/compliance controls, so we think leaving it as financial controls makes sense and avoids potential duplication/confusion and ensures the focus on financial controls. However, as previously stated we do not believe the wider operational/compliance remit is workable at least initially. Would broader reporting controls include reports other than the Annual report? E.g. the Corporate Social Responsibility report?

**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?**

We assume this relates to COSO, CoBIT, NIST? As long as the company discloses the framework used within the Annual Report we do not think there is a need to require specific frameworks. It is likely that most would default to COSO anyway but this provides flexibility.

**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?**

The definition of a material weakness for our business will be linked to the risk management framework which has pre-defined thresholds for material risks based on likelihood and impact and the definition of principle risks so we will link the material weakness definition to this.

Defining materiality on a weakness identified through continuous monitoring will be difficult to define compared with a year end weakness.

The proposed definition of a material weakness is very vague and intangible. Although it cannot just be quantitative as some material weaknesses will now relate to non-financial weaknesses.

Consistent definition is required to ensure uniformity of reporting between companies. Definition of deficiencies should also be provided to ensure consistency.

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

Specific guidance on the nature, extent and frequency expected for testing to ensure proportionality, with an emphasis on not boiling the ocean and on the audit firms not going overboard on testing and fees. The scope of this is what will contribute to ongoing costs once the initial risk and controls management framework is set up.

**Q19: Do you agree that current Provision 30, which requires companies to state whether they are adopting a going concern basis of accounting, should be retained to keep this reporting together with reporting on prospects in the next Provision, and to achieve consistency across the Code for all companies (not just PIEs)?**

Yes - We are already doing this and understand the importance for investors.

**Q20: Do you agree that all Code companies should continue to report on their future prospects?**

Yes - We are already doing this and agree that it is important for investors as long as it is proportionate.

**Q21: Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects?**

Not applicable to us.

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

Yes

**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?**

No strong views.

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

No strong views.

**Q26: Are there any areas of the Code which you consider require amendment or additional guidance, in support of the Government's White Paper on artificial intelligence?**

We think it is important to include this and it will be relevant if continuous monitoring is required so we are in favour of this especially around understanding bias in data etc.