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Inspiring science, enhancing life

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13 September 2023

Dear Sir/Madam,

Response from Johnson Matthey Plc (JM) to the Corporate Governance Code (the "Code") consultation published on 24 May 2023.

JM is a global science and chemicals company, and a leader in sustainable technologies, established over 200 years ago. JM is listed on the London Stock Exchange. We report our group financial statements under IFRS, which are audited by PwC.

General comments

We welcome any measures that demonstrably improve investor confidence, audit quality and corporate governance and fully support a principles-based governance regime in the UK marketplace to ensure it remains a competitive and attractive market.

We emphasise our desire to continue to base any UK governance reforms on principles not rules and are broadly supportive of the proposed changes. We would welcome further granularity in the FRC's guidance around definition of reporting controls, materiality, relevant risk and control frameworks and examples of financial and non-financial reporting, to ensure future board declarations are made on a consistent and comparable basis by in-scope companies.

Responses

We provide our comments and responses on the questions included in the consultation document herein and have referenced the relevant question and page. We appreciate the opportunity to comment on the consultation and are open to follow up discussions on the matters raised in our response.

Yours sincerely,

[redacted]

For and on behalf of Johnson Matthey Plc

Section 1 – Board leadership and company purpose

Question 1: 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 change in principle in order to demonstrate the impact of governance practices. However, we recognise that the outcomes of some discussions or decisions may be confidential or sensitive and therefore not able to be disclosed or disclosed in detail. The FRC has been encouraging more outcome-based reporting across a number of areas recently, including corporate reporting. Further guidance, to clarify what the FRC expects to see in this area, would be beneficial.

To align reporting requirements on this area, we would encourage the FRC to align the wording of the Code to that in LR9.8.6R(5) to "demonstrate how the *Principles* of the Code have been applied."

Question 2: 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 agree. Climate ambitions and transition planning are strategic matters for companies. That is why we think that the Board should indeed report on those matters as well as the surrounding governance, in line with TCFD requirements.

Question 3: Do you have any comments on the other changes proposed to Section 1?

Provision 3: We are supportive of the requirement for committee chairs to engage with shareholders on significant matters related to their areas of responsibility and reporting on the outcomes of engagement. However, we also recognise that this places an expectation that shareholders will respond to companies' invitations to engage on specific matters which is outside a company's control. In our experience engagement with individual committee chairs is limited and likely to vary year on year, depending on events. We therefore consider that the current wording to "seek engagement" should be retained.

Section 2 – Division of responsibilities

Question 4: 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?

Yes. We feel that directors' ability to commit sufficient time to the role is a matter best dealt with by the Board, led by the Chair. It is therefore appropriate that the annual performance review considers director's commitments and their ability to discharge their responsibilities effectively.

Question 5: 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 do not support this change. We feel that the reporting obligation as set out provision 15 will not achieve its purpose, as drafted (see below). The internal process to confirm that each director has sufficient time to undertake their role is unlikely to change year on year and therefore, there is a risk of reporting on this matter becoming both excessive and 'boiler plate.'

JM, like other companies, includes details of significant director appointments within the annual report and the 2018 Code requires that additional external appointments should not be undertaken without prior approval of the board, having considered the time involved. This provision works well as it provides the control to ensure the board is part of the external appointment process but provides discretion to take into account the specific circumstances.

We also recognise that some directors may have multiple directorships but manage their time well. In addition, directors, particularly committee chairs, may go through busy periods and committee work

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can vary between companies. The Code already includes a requirement to report on director attendance at meetings which demonstrates directors' ability to manage time commitments.

Section 3 – Composition, succession, and evaluation

Question 6: Do you consider that the proposals outlined effectively strengthen and support existing regulations in this area, without introducing duplication?

We consider this approach to be in line with the reporting requirements prescribed by the Financial Conduct Authority's Listing Rules and the Companies Act. In our view, it is not necessary to duplicate the requirements in the Code.

Question 7: 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 agree with these proposed changes which also reflects our Board's approach towards diversity.

Question 8: Do you support the changes to Provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments?

We partly support the changes proposed in Provision 24:

- *Succession planning:* This is a sensitive topic and there is a need to balance this sensitivity and confidentiality with the need to disclose. We recommend that the disclosures are focused on the approach to succession planning and how this supports the board's diversity policy.

- *Board and senior management appointments:* the work of the nomination committee relating to the search and nomination procedures for board and senior management is similar for all appointments and does not differ vastly from company to company. We therefore suggest that the FRC considers removing this requirement to prevent boiler plate reporting and that the second bullet point of provision 24 focuses on the appointment and the promotion of diversity only.

- *The effectiveness of the diversity and inclusion policy:* we support this requirement.

- *The gender balance of those in senior management and their director reports:* this duplicates existing reporting requirements and could therefore be removed from the Code.

- *How the board performance review has been conducted:* we support disclosure on how the board performance review has been conducted, the outcomes and actions taken. It is possible that the outcomes or actions will not always influence future board composition, which in itself, can also be a sensitive topic. We suggest the latter part of this bullet point is deleted.

Given the sensitive nature of succession planning, we would welcome further guidance to understand what the FRC expects to see reported on this topic to prevent boilerplate disclosures.

Question 9: 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?

Yes, we support the proposed adoption of the CGI recommendations as set out in the consultation document.

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Section 4 – Audit, risk and internal control

Audit and Assurance Policy

Question 10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?

We agree. However, there is a degree of ambiguity as companies await guidance from ARGA surrounding the adoption of the AAP, its content/structure and method of publication (e.g. to include on company website rather than in full in the Annual Report).

Audit Committees and the External Audit: Minimum Standard

Question 11: 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 agree that the proposed amendments would remove duplication as both would cover the role and responsibilities of the Audit Committee.

Sustainability reporting

Question 12: 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?

The remit of the Audit Committee could be expanded to include sustainability reporting, ESG metrics and any other narrative reporting deemed critical. However, this would only be appropriate in companies where sustainability / ESG committees, composed of non-executive members, have not been formed. Sustainability / ESG committees, with subject matter expertise, would be best placed at assessing ESG reporting compared to the Audit Committee.

At JM, we have a Societal Value Committee ('SVC') that has responsibility for ESG matters and sustainability reporting. Our Audit Committee reviews the effectiveness of controls over such sustainability reporting on behalf of the SVC which we consider is a model that works well.

Risk Management and Internal controls

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 do not support the proposed amendments. The proposals are clear intentions of strengthening risk management and internal controls system. However, it is not possible to conclude whether the amendments to the Code strike the right balance as guidance is yet to be developed and published. Further, we would expect the FRC to consider the costs and benefits, and the implications, of the proposed amendments.

Absent further guidance, the proposed amendments to cover financial and non-financial reporting seems excessive and may require extensive efforts from companies for limited benefit to stakeholders. The FRC should provide clarity on how companies are to approach this to ensure compliance. We would recommend a staggered or phased approach toward non-financial reporting requirements and any Board declarations related to this.

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Companies would benefit from the FRC providing clarity and examples surrounding the types of financial and non-financial reporting. This should include guidance on the definitions of materiality for financial and non-financial reporting, including how controls are assessed against a company's long-term resilience. Financial materiality is generally a well understood concept that doesn't equally apply to non-financial matters as the levels of risk, timelines and outcomes may differ. We consider that non-financial reporting materiality should be determined by reference to the group's total market capitalisation and the long-term resilience of the business as material weakness could be pervasive in nature and could therefore impact a company's ability to continue operations.

Guidance also needs to be clear on the level at which risk management and internal controls systems are expected to operate i.e., not at a US-SOx level) with the UK Government having already been clear that it would not bring forward an approach to UK SOx on cost-benefit grounds.

Question 14: 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?

Whilst we support the intention of the board's declaration not being seen as a one-off exercise, hence the introduction of "continuous monitoring", the FRC must provide guidance on the definition and expectations of "continuous monitoring" as to avoid the requirement being misunderstood or misinterpreted. Further, in the FRC's 2022 Review of Corporate Governance Reporting, the FRC mentioned that "Good reporting should include details on how the board monitors these systems on a regular basis, in addition to a formal annual review". We are of the view that the Board's declaration should continue to be based on "regular" monitoring, with the definitions and expectations explained in the Code.

Question 15: 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?

We tentatively agree. "Financial" should be changed to "reporting". However, the FRC must acknowledge the potential immaturity of the controls surrounding non-financial reporting which will require time for companies to review, amend and embed as appropriate should this proposal be accepted.

Further, the FRC must provide specific guidance on what is considered non-financial information (i.e., information contained in the ARA or other statutory reporting).

We would also request that the FRC must make clear whether the scope of controls on narrative reporting is only for matters considered most critical to the company, hence our comment above on materiality. To support this, the FRC should provide guidance on how companies are to define the materiality of non-financial reporting.

Risk Management and Internal controls – Risk and Internal Controls Guidance

Question 16: 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 encourage the FRC to issue guidance on what "effectiveness" means, in particular, with reference to methodologies or frameworks that the FRC would consider sufficient benchmarks for both financial and non-financial risk management and internal control systems (e.g., Committee of Sponsoring Organisations (COSO) framework). If the intention is to ensure consistency and comparability, we would expect the FRC to propose a single "preferred" framework for Risk Management and Internal Controls Systems whilst maintaining the comply or explain principle. Absence of a suitable baseline could lead to a variation and flexibility in application, which may not be in the intention of the FRC.

Question 17: 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?

We consider the working definition to be reasonable. However, it should be made clear that a material weakness could be pervasive in nature which could impact a company's ability to continue operations. To encourage comparability, we would propose that the definition be aligned to existing standards.

Question 18: Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?

Not in addition to the responses already provided to Q10-Q18. However, stakeholders should be given the opportunity to review, consult and respond.to the FRC's guidance surrounding risk management and internal controls intended before it is finalised.

Going concern

Question 19: 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. Even if an entity doesn't meet the definition of a PIE, there will still be interested stakeholders on longer-term future prospects, so consistency and depth of disclosures improves transparency. This shouldn't create any additional effort for the entity as existing modelling should contain a sufficient level of depth to satisfy auditor and internal management requirements, the proposal is an improvement on transparency.

Resilience Statement

Question 20: Do you agree that all Code companies should continue to report on their future prospects?

Yes. Medium- and longer-term future prospects of a business will be of interest to a variety of existing and prospective stakeholders and investors.

Question 21: Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects?

We agree that the comply or explain approach ensures reasonable proportionality.

Section 5 – Remuneration

Changes to strengthen links to overall corporate performance

Question 22: Do the proposed revisions strengthen the links between remuneration policy and corporate performance?

We agree with the proposed revisions and that these will strengthen the links between remuneration policy and corporate performance. These proposals are already included in other remuneration governance principles issued by institutional investors and proxy advisory bodies.

Malus and clawback

Question 23: Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?

Yes, we agree that the proposed changes around malus and clawback will result in an improvement in transparency. This does not materially affect Johnson Matthey as we already disclose the information in relation to malus and clawback.

Changes to improve the quality of reporting

Question 24: Do you agree with the proposed changes to Provisions 40 and 41?

We agree with the proposed changes. Similar recommendations are already included in other remuneration governance principles issued by institutional investors and proxy advisory bodies.

Question 25: Should the reference to pay gaps and pay ratios be removed, or strengthened?

We support keeping this disclosure on the company website and removing it from the annual report.

Other matters for consideration

Artificial intelligence

Question 26: 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?

As the Artificial Intelligence (AI) landscape is broad and continues to evolve, we would not support any reference to AI in the Code or any amendments to the Code with respect to AI at the current time.

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