Financial Reporting Council
codereview@frc.org.uk

13th September 2023

Dear Sir/Madam,

Corporate Governance Code Consultation – Response

Thank you for the opportunity to comment on the Financial Reporting Council's proposals for amendments to the Corporate Governance Code. OSB Group ('the Group') has participated in and endorses the wider response coordinated by UK Finance. This letter is designed to act as an adjunct to that response to give the perspective of a mid-tier, UK based, financial institution.

Overall, the Group sees the benefit in providing the users of the annual report and accounts (ARA) with a statement of the Board's assessment of the effectiveness of the company's risk management and internal controls framework supported by sufficient detail to allow the user to understand the basis the Board has used to form this view. The Group believes that a proportional amount of work and change to support this statement could be a valuable exercise and will act to improve internal control frameworks across firms in scope.

That said, following review of the consultation paper we would raise the following areas of concern:

- The scope of the proposals being broader than US SOX with the change to "reporting" rather than focusing on internal controls over financial reporting in addition to the expansion of scope to include operational and compliance controls
- The lack of definition of "material weakness" and the assessment having to be made throughout the year rather than at a point in time
- The inevitable default to external assurance that will incur more cost and potentially create capacity issues with providers of this assurance

The refresh of the *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* will be critical in giving sufficient clarity and context to preparers, boards and wider industry as to the expected standard to allow proper preparations for the revised Code. We take comfort from the comments made by the FRC at the recent UK Finance round table that there will be time to review this guidance once it becomes available.

As the Group does not report under a SOX framework and given the expanded scope, the implementation represents a material change. We do not underestimate the amount of time required to design, ratify, resource, embed and test the reporting approach, and to educate colleagues across the Group as to the required standard. We are therefore concerned that an implementation date requiring continuous monitoring from the 1st January 2025 does not provide sufficient time to meet the required standard and is not reasonable against the backdrop of the current economic downturn and given other strategic business priorities.

The Group would strongly recommend that the FRC consider the following matters as the code is finalised:

- That sufficient guidance is given to enable companies to fully understand the requirements of the expanded scope, to plan changes proportionately and not incur excessive cost as a result of the tight timeframes
- Once this clarity is achieved, sufficient time is needed to design and embed robust reporting to meet the requirements, especially for those institutions that do not have SOX frameworks already in place that can be leveraged

- That implementation timeframes enable a full accounting period dry run before publication of the effectiveness statement in the ARA. Again this would be most valuable for those outside of the SOX regime and it would ensure Management and Boards are aligned

With the guidance planned for discussion and release at the end of 2023, it would be the Group's strong preference to scope requirements, design and build in 2024, before undertaking a dry run for the 2025 accounting period. The first effectiveness statement would therefore be proposed to be published in the 2026 ARA.

Within financial services the current planned timeframes are likely more challenging for non-SOX and mid-tier institutions, however we also anticipate that they pose even more of a challenge for other UK corporates outside the financial services sector which are subject to a lighter regulatory regime and thus may have a less mature internal controls framework relative to that of the Group.

Yours faithfully,

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