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13 September 2023

David Styles
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Dear Mr Styles

Consultation on the UK Corporate Governance Code

Summary

Overall objectives

- As stated in our response to the 'Restoring trust in corporate governance and audit' White Paper, we are supportive of reforms that are in the public interest, that improve trust in business, that build confidence in the UK as a leading capital market and that strengthen its position in the global economy.
- We recommend a number of changes to the proposed drafting to better achieve these aims. Companies should be able to use the framework of the Code to direct resources and assurance activities at the areas of most significance to the long-term success of the business, focusing attention on the matters that are key to their business model and strategy. In particular, we believe this focus on significance is missing from the proposed new board declaration.
- Whilst the FRC has been clear in messaging on this being a principles-based code with the ability to "comply or explain" on the provisions, we believe that the largest companies will seek to comply and this makes having practical and proportionate Code provisions for them to follow important.

The new board declaration

- We have significant concerns that the current wording of the declaration is neither practical nor proportionate. It fails to acknowledge that the population of controls intended to be covered (reporting, operational and compliance) have varied characteristics. A 'one size fits all' declaration

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across both risk management and internal control systems does not focus on the matters of most significance to the business and deliver a meaningful benefit for stakeholders.

- Our view is that Code Provision 29 (as renumbered) already requires a clear statement confirming the board has undertaken a robust assessment of the company's emerging and principal risks. We would therefore suggest that the new declaration builds on this requirement.
- We recommend a more segmented approach to the declaration which recognises the different characteristics of reporting, operational and compliance controls. Our proposal is a focus on two distinct elements:
  1. ***Operational and compliance controls*** – focusing on the mitigating actions the entity takes including, where relevant, the control and monitoring activities, to manage the principal risks (identified under Provision 29) (recognising that, for some risks, their nature will mean that the ability to control the incidence and impact of the risk is restricted, so the focus should be on effective monitoring); and
  2. ***Reporting controls*** – focusing on the controls over the financial and non-financial disclosures in the annual report (to tie in with the Audit & Assurance Policy proposals).
- We urge caution against use of the term "continuous monitoring" as this terminology implies a very different level of testing and assurance than we believe is intended. In our view, reference to "regular monitoring" would be more appropriate.
- We have heard calls for a further delay to the implementation date for the new declaration but, on the basis that a proportionate approach is adopted, would encourage the FRC to press ahead with its proposals. We would welcome the opportunity to be consulted as you develop the supporting guidance as this will also be key to achieving proportionate application of these new elements of the Code.

Sustainability matters

- We welcome the proposed changes to the Code which acknowledge the integral role sustainability matters play in relation to the long-term success of a company. Embedding sustainability considerations in the governance of a company is essential to enhance resilience and promote an authentic response to key issues.

Connectivity with other ongoing initiatives

- In our response to the White Paper, we also commented that it was important that there is an overarching vision and framework for the corporate reporting system in the UK. We continue to believe this is important and recommend further guidance to integrate the Code proposals with other regulations/policy e.g. fraud statement/failure to prevent offence and also initiatives to simplify the UK listing regime and the non-financial reporting landscape.
- There should be clearer messaging from the FRC which articulates why you believe these changes will strengthen UK corporate governance and corporate reporting without leading to more box-ticking or boilerplate compliance to be included within annual reports which are already extremely dense.
- In our opinion the proposal to focus on outcomes of governance arrangements could be further reinforced by active encouragement by the FRC for inclusion of standing policies and processes on a dedicated section of a company website as opposed to within annual reports, leaving annual report

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disclosures more concise and focused on performance in the year, together with any changes to policies and processes.

Considerations for auditors

- Finally, we note that there are no specific questions in relation to the implications of these changes for auditors. Appropriate consideration and update of Listing Rule 9.8.10, along with relevant auditing standards and bulletins is required. This should include the very dated Bulletins 2006/5 and 2009/4 and ISAs (UK) 570 *Going concern* and 720 *The Auditor's Responsibilities Relating to Other Information*.

Our detailed responses to your questions are included on the following pages. If you would like to discuss any of our comments in more detail, please do not hesitate to contact either myself

Yours faithfully

RESPONSES TO CONSULTATION QUESTIONS

Board leadership and company purpose

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

We agree that encouraging boards to report on the outcomes of their governance activities should help make disclosures more company and year specific. There can often be very little change in some aspects of governance disclosures from year to year and this does not help stakeholders to identify new or increasing issues. We recommend that the current drafting of Principle D should be amended to say "outcomes in the year" to drive clear focus on the activities and impacts in the reporting year.

We would like to see the Code and/or the supporting Guidance take this a step further and actively encourage companies to include their standing data on policies and processes in a dedicated Code section of their website rather than in their annual reports. This would then allow the annual report to be more concise and focused on the outcomes of those policies and processes and, where relevant, any changes to those policies and processes.

In relation to the second part of the Principle, given the FRC's previous guidance on effective explanations, it would seem appropriate to provide a footnote to that guidance to make the expectations for disclosure very clear.

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?

Whilst we support the intention to make the Code reflect the breadth of a board's considerations when assessing its ability to generate and preserve value over the long-term, we do not believe it is appropriate to specifically highlight only climate ambitions and transition planning in this way. The emphasis should be on **any** material sustainability matters, which will differ company to company. This will offer much better insight on how the business and associated governance arrangements approach these matters rather than including a matter irrespective of the board's assessment of materiality.

Considerations of materiality and terminology should be developed in line with the forthcoming introduction of UK Sustainability Disclosure Standards.

We recommend amending the wording as follows:

"It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how material sustainability matters have been taken into account in the delivery of its strategy~~, including its climate commitments and transition planning~~."

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

We have no comments on the other changes to the Section 1 Principles.

In relation to the proposed change to Provision 2 to add "and report on how effectively the desired culture has been embedded", we question whether this addition is required given new Principle D which already calls for reporting of outcomes of governance activities. Reporting on the outcomes of the

assessment and monitoring of culture (required under Provision 2) should be achievable, e.g. through discussion of the feedback received from employee surveys. Accordingly, we believe that this specific addition is not required.

In relation to Provision 3 and the change to say that Committee chairs should "engage" instead of "seek engagement" with shareholders on significant matters related to their areas of responsibility, we believe this fails to recognise the significant challenges that many companies experience in engaging with their shareholders. The current wording in our view is more appropriate because it focuses on actions that are within the control of boards.

We have no other comments on Section 1.

Division of responsibilities

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?

Yes, we agree with that change to Code Principle K. We believe that this is already a consideration of effective board 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?

We support the FRC's conclusion that it is not appropriate for the Code to impose a specific limit on the number of different roles a director can undertake and agree that transparency can help stakeholders to make their own assessment of a director's commitments. Guidance will need to be provided to determine what is deemed to constitute a "significant director appointment". Also, we question the value that disclosure "describing how each director has sufficient time to undertake their role effectively in light of commitments to other organisations" will bring and believe it is likely to result in more boilerplate language.

We think that it would be helpful to understand not just board appointments but also the detail of any other specific roles on those boards, e.g. Senior Independent Director, Committee chair roles etc. That information should provide more insight on likely time commitments.

Diversity and inclusion

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

We agree with the FRC's focus on this area. We consider that boards should regularly challenge themselves regarding whether diversity and inclusion are sufficiently embedded into their organisation to add real value in decision-making at both board and workforce level. We also agree with the FRC referencing non-protected characteristics as well as protected characteristics, since there can be significant decision-making benefit from some elements of diversity that are not otherwise captured through regulation or legislation, such as a diversity of background, experience, nationality and indeed diversity of thought.

We also agree with the addition of the word "inclusion" to the Code Principle, which we consider brings the Principle up to date with the developing understanding that inclusion is a prerequisite for diversity to be productive for people and organisations in practice. We agree with the FRC that the addition to Provision 18 of diversity and inclusion initiatives and targets contributing to the succession plan supports the FCA's Listing Rule without introducing duplication and note that many leading companies in the area of diversity and inclusion already meet this proposed requirement.

In Provision 24, we agree that the wording regarding the disclosure on appointments is helpful clarification compared to the previous version of the Code. It now appears clearly to refer to appointments in the period, including both board and senior management.

However, we consider that the proposals are ambiguous regarding how far the responsibility and oversight of the nomination committee regarding diversity and inclusion should extend, whether that should be to the board, the board and senior management (as defined in the Code) or including the workforce.

In addition, the wording of Provision 18 does not require the nomination committee itself to have oversight of either succession plans or the diverse pipelines. Although the wording of Provision 24 suggests otherwise, that is a disclosure provision and we would encourage the FRC to bring the two into line so that it is clear to nomination committees how far their responsibilities and oversight are expected to extend. This is also an area that would benefit from additional discussion and examples in future supporting guidance.

We also consider that the proposals continue to have elements of duplication with DTR 7.2.8AR which requires the corporate governance statement to contain a description of the diversity policy applied to the board and its committees, its objectives, implementation and results in the reporting period. Code Provision 24 proposes a similar disclosure regarding the effectiveness of the diversity and inclusion policy, including progress towards company objectives and adherence to established initiatives. If this is not intended to refer to the board and its committees, but instead to the workforce as a whole, there is some duplication with the reporting requirements under the non-financial information statement. It would be helpful to have more clarity on what this disclosure element relates to and what it is expected to add to existing reporting requirements. We suggest that the FRC and FCA work together to align requirements; if both standard and premium listed companies need to report against the Code in the future, then arguably DTR 7.2.8AR could be removed.

We note that the requirement for disclosure of the gender balance of those in the senior management and their direct reports now also has elements of overlap with the FCA's Listing Rule and question whether it is still needed. This was introduced initially to support the objectives of the (then) Hampton-Alexander Review. There is a question of whether it goes far enough: the Parker Review is calling for similar disclosure in respect of ethnic diversity. It also does not seem wholly in line with the broader approach to diversity set out in the Code Principle.

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?

Yes, as set out in our answer to Q6, we consider there can be significant decision-making benefit from some elements of diversity that are not otherwise captured through regulation or legislation.

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

As noted above, we agree that the wording regarding the disclosure on appointments is helpful clarification compared to the previous version of the Code. It now appears clearly to refer to appointments in the period, including both board and senior management. However, please note some reservations on the changes to Provision 24 in our response to Q6.

Board performance reviews

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?

Yes, we support the proposed adoption of the CGI recommendations as set out in the proposed revisions to the Code and there are no particular areas we would like to see covered in guidance in addition to those set out by CGI.

Audit and Assurance Policy

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

Yes, we do believe that it seems appropriate to encourage all companies reporting against the UK Corporate Governance Code to provide an AAP rather than just those over the 750:750 threshold. We are aware that this is a reform proposal that has widespread support from audit committees who can see the value that it can bring in providing increased transparency on sources and methods of assurance.

It will be necessary to make clear in guidance whether the 'comply or explain' basis applies to just having an AAP or specifically to producing an AAP in line with the future Statutory Instrument, i.e. will companies need to be explicit on the extent to which they have covered all the elements set out in the regulation. We would encourage the former as this will allow those companies below the 750:750 threshold to develop an AAP in a proportionate manner using the reporting regulations as a guide rather than a rule.

Audit Committees and the External Audit: Minimum Standard

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?

Yes, although the seventh bullet of (new) Provision 26 around promoting effective competition during the tendering for an external auditor, does appear to duplicate what is in the Minimum Standard and so could be removed. We also note that a Standard that was initially developed for the FTSE350 is now effectively being imposed on all Code companies, albeit on a 'comply or explain' basis. It will be necessary to make clear that any future enforcement of the Minimum Standard is still intended to be focused on FTSE350 companies only.

Sustainability 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?

We can see that this extension of the audit committee remit appears logical given the skill sets of audit committees around reviewing and challenging the robustness and integrity of financial reporting and the importance that narrative reporting is of the same quality as financial reporting, but we also acknowledge that narrative reporting covers many different disciplines. We recommend that the new Code provision is clarified to make clear that the audit committee's role is oversight of the effectiveness of the controls and processes over narrative reporting (including review of related judgements), whereas either the board or another dedicated sub-committee of the board could be responsible for oversight of the actual content.

We have seen an increasing prevalence of board committees dedicated to consideration of sustainability matters and for some companies it will be more appropriate for those committees to undertake these responsibilities. The guidance supporting this element of the Code will need to reinforce the ability of companies to use the 'comply or explain' approach to implement this provision in the way that best suits their existing governance framework as long as the appropriate skills, experience and rigour of challenge are being applied.

We would also note that the question mentions "where such matters are not reserved for the board" but that is not made clear in the actual Code provision. We have heard comments from corporates that they believe this should really be a "whole board" matter, including the co-ordination and oversight of inputs from the board sub-committees, and so we recommend that this wording is added to the Code provision also.

We acknowledge that the approach suggested in the updated Code Provision is consistent with recent changes introduced for audit committees in the EU.

We would like to raise a broader point in relation to this expansion of the Code to cover sustainability matters to call for careful consideration of terminology used. As UK adoption of the ISSB standards moves forward it will be important for the terminology used in the Code to be well aligned with that framework so that they can operate together without undue complexity and confusion for preparers and stakeholders.

Risk management and internal control questions

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 support amending Principle N to place a responsibility on boards to establish and maintain effective risk management and internal control systems as this reinforces the need for robust monitoring and review.

We have significant concerns that the current wording of the declaration is neither practical nor proportionate. It fails to acknowledge that the population of controls intended to be covered (reporting, operational and compliance) have varied characteristics. A 'one size fits all' declaration across both risk

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management and internal control systems does not focus on the matters of most significance to the business and deliver a meaningful benefit for stakeholders.

Our view is that Code Provision 29 (as renumbered) already requires a clear statement confirming the board has undertaken a robust assessment of the company's emerging and principal risks. We would therefore suggest that the new declaration builds on this requirement.

We recommend a more segmented approach to the declaration which recognises the different characteristics of reporting, operational and compliance controls. Our proposal is a focus on two distinct elements:

1. ***Operational and compliance controls*** – focusing on the mitigating actions the entity takes including, where relevant, the control and monitoring activities, to manage the principal risks (identified under Provision 29) (recognising that, for some risks, their nature will mean that the ability to control the incidence and impact of the risk is restricted, so the focus should be on effective monitoring); and
2. ***Reporting controls*** – focusing on the controls over the financial and non-financial disclosures in the annual report (to tie in with the Audit & Assurance Policy proposals).

Another critical factor for proportionate implementation will be the guidance and it is difficult to comment fully without sight of that. Much is being talked about, and expected of, the revised guidance. Corporates are seeking greater clarity on where to focus effort and resources to meet the new requirement for a declaration.

The investment community should be part of the development of the guidance so that they are able to make clear what they will expect boards to do and disclose in providing the new declaration.

In the absence of clear guidance on what should be considered as part of an assessment of effectiveness, stakeholders will be left uncertain as to the validity of the statements being made by boards and further expectation gaps could arise. Also, where assurance is being sought to support the declaration, this will be extremely challenging without a clear framework to assure to (particularly for ISAE 3000 level assurance).

Accordingly, the guidance will be key, and we welcome the opportunity to engage with you as guidance is developed. In our view the guidance in this area needs to achieve a number of objectives:

- Absolute clarity that, in relation to operational and compliance controls, this exercise should focus on the principal risks identified by the board and then the management of those risks– recognising that, for some principal risks, their nature will mean that the ability to control the incidence and impact of the risk is restricted, so the focus should be on effective monitoring.
- Setting clear expectations for assessing the effectiveness of reporting controls recognising that controls over non-financial reporting are likely to be less mature than those over financial reporting. In particular, clarity for SEC registrants on how what they are doing for the Sarbanes-Oxley attestation can be incorporated into the activity to support the Code declaration.
- Provision of indicators of the characteristics of an effective risk management and internal control system.
- Setting the tone for the explanation of the basis of the declaration – what elements it should cover and how detailed it will be expected to be.
- A clear framework for determining what constitutes a material weakness (see below).

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?

Subject to our comments above in response to Q13, we support a declaration which references a conclusion on effectiveness "throughout the reporting period and up to the date of the annual report". This is very much consistent with the existing board responsibilities under the Code and consistent with an efficient way to operate a control environment.

Importantly though, the declaration does not refer to "continuous monitoring", as you have in this question, and we urge caution against use of this type of terminology as this implies a very different level of testing and assurance than we believe is intended. The concept of "continuous controls monitoring" references a recognised, and often technology-led, control activity embedded within the control systems of many corporates and, therefore, is triggering concern from companies regarding the depth and granularity intended by the declaration.

We recommend that any supporting guidance references the need for "regular monitoring" throughout the year rather than "continuous monitoring".

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?

We believe that any information which a board is deciding to communicate to its stakeholders should be subject to a robust system of internal controls whether it is financial reporting or narrative reporting and recognise the growing expectations of and reliance on the latter by stakeholders. Therefore, we agree that it is appropriate to make it explicit that material controls should cover those over narrative reporting as well as financial reporting.

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?

Please our response to Q13 in relation to our views on the key objectives to be met by the guidance.

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?

Please refer to our response to Q13 in relation to our views on the key objectives to be met by the guidance. In relation to the proposed requirement to report on "material weaknesses", we do believe that a definition would be helpful to drive a consistent approach to reporting, but we have concerns about the working definition of "material weakness" included within the consultation paper as it is extremely complex. To drive more international alignment, and to avoid complexity and confusion for preparers and stakeholders, it would seem appropriate to stick as closely as possible to the PCAOB definition for internal controls over financial reporting, however the supporting guidance will need to adopt a more appropriate definition for other control weaknesses or failures.

Guidance will also need to make clear what is the difference between a "material weakness" and a "material failure" as referenced in the new Provision 30.

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

In addition to the considerations noted in our responses to questions 13 - 17, we believe that a key part of the guidance will need to be a very clear introductory piece to link together all the different aspects of board activity, reporting and areas of change, e.g. risks, controls, fraud, AAP, resilience. These are not well connected at present which is challenging for boards.

Going concern

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 support this retention. Boards and audit committees are familiar with this requirement, which ensures that information about going concern is considered at board level both for the annual report and for the half-yearly report, and which helps to achieve consistency between the financial statements and the other information in those reports.

Resilience Statement

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

Yes, we agree with the FRC's rationale regarding the value of statements on the assessment of prospects to investors. "Prospects" is a specific example of where consideration could be given to alignment of meaning with the ISSB framework as there is a risk of confusion if there are different interpretations within each framework.

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?

We believe that the most flexible approach would be to leave the wording as currently drafted in the Code, with no requirement to explain when not providing a Resilience Statement. This would facilitate an actual choice without the pressure of avoiding having to report a non-compliance.

We believe that the current drafting makes clear that any company providing a Resilience Statement in line with the Statutory Instrument would be compliant with the revised Code. As currently drafted, we see a differentiation between the way the Audit & Assurance Policy is being introduced to the Code and the Resilience Statement. We do not interpret the current drafting to require a company to explain if they did not provide a Resilience Statement, only if they did not provide the disclosures required by new Provisions 31 and 32. If it was the intention to also introduce the Resilience Statement on a 'comply or explain' basis then the wording should be revised but, as noted above, our view is that the current wording will provide the best flexibility for companies below the 750:750 threshold.

For those seeking to meet Provision 32, we think it would be helpful to include guidance on what is expected from the assessment of prospects and what good disclosure regarding the basis for their assessment should include.

Remuneration

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

We support the proposed revision to Principle P to strengthen the link more explicitly between remuneration outcomes and company performance, including environmental, social and governance (ESG) objectives. This better aligns with the existing focus on executive pay outcomes in the context of the wider stakeholder experience, providing helpful clarification beyond the existing reference to alignment with 'purpose and values'.

In terms of the new reference to ESG objectives (both in Principle P and the new provision 43), our interpretation is that this does not imply that a company must include specific ESG metrics in remuneration, but that committees should consider ESG performance when exercising judgement and discretion in authorising remuneration outcomes. This could be clarified in the Guidance.

Q23 Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?

Over 95% of FTSE All-Share companies disclose details of the minimum malus and clawback triggers that apply, in accordance with the Investment Association Principles of Remuneration which stipulate a number of disclosure requirements in this area. We do not expect the proposed changes to significantly impact existing market practice.

The majority of companies also disclose the time period for which malus and clawback provisions apply. We believe the proposed requirement to include 'why the selected period is best suited to the organisation' will create additional boilerplate disclosure as there is a reasonably well-established market standard approach in this area (e.g. typically five years from the date of grant, or two years from vesting of long-term incentive plans, or longer in some financial services sectors).

In our view, the proposed disclosure of the use of malus and clawback in the last five years - in addition to use in the current reporting period - creates additional complexity of reporting and for most companies this will be a 'nil return'. Reporting of the use of malus and clawback in the year would give sufficient transparency in this area.

It is assumed that the proposed reporting applies in respect of executive directors, and this could be clarified in the Guidance.

Q24 Do you agree with the proposed changes to Provisions 40 and 41?

We welcome the removal of the existing provision 40, which had largely led to boilerplate reporting, and the proposed revisions to Provision 41.

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

In relation to wider workforce considerations, we note the new reference to reporting on Committee activities under new Provision 35 ("The committee should include in the annual report an explanation of

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the company's approach to investing in and rewarding its workforce"), which has been moved from Provision 2 (relating to board responsibilities).

Our interpretation is that this seeks to encourage more transparent reporting on wider workforce reward in the directors' remuneration report but does not indicate a change/expansion in the remit of the remuneration committee (e.g. a shift away from this being a wider board responsibility).

The Guidance could clarify this point and also what is envisaged in terms of 'best practice' disclosure here.

We support the removal of the reference to committees stating why remuneration is appropriate using pay ratios and pay gaps. This has not created meaningful disclosures to date, beyond the statutory pay ratio and gender pay gap reporting requirements. However, 'best practice' reporting on wider workforce reward typically includes reference to pay gaps (e.g. gender and ethnicity), and we expect to see further transparency in this area with the new provision 35.

Remuneration – other suggestions

In relation to the wider debate around the competitiveness of the UK listed market, we would also make the following observations:

- Given the extensive UK remuneration reporting requirements set out under Schedule 8 of The Large and Medium-sized Companies and Groups Regulations 2008, we believe the Code should focus on **principles-based remuneration requirements - to be applied on a 'comply or explain' basis - as opposed to reporting areas.** This would avoid additional 'layering' and complexity of reporting for UK listed companies.

  The Code includes some important and effective principles of remuneration governance, such as the use of remuneration committee discretion and the promotion of executive share ownership. We would argue for more principle-based requirements in relation to incentive structures, enabling remuneration committees to have greater flexibility to develop policies that reflect a range of global profiles and talent markets. For example, we recommend that the requirement for share awards to "be subject to a total vesting and holding period of five years or more" is amended to "be subject to holding periods". This aligns with the flexibility in Code requirement for a "formal policy for post-employment shareholding requirements" (e.g. it is not prescriptive on the length required).

- The existing Code requirement requires companies to further engage with investors where 20% or more of votes have been cast against a board recommended resolution c.40% of FTSE 100 companies have been subject to a 'low vote' on the remuneration report and/or policy in the last five years. This can capture companies that have gained the support of their largest shareholders during extensive consultation, but who receive an 'against' from a proxy agency with a strong swing of investors automatically voting in line with recommendations. Too many of these can reflect examples where there are differences of opinion rather than widespread unease with pay practices. In our view, the 'low vote' threshold of 80% should be reduced to 70% in relation to remuneration resolutions, allowing more meaningful focus where there is greater investor consensus on areas of concern.

<u>Artificial intelligence</u>

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?

No, not at this time. Artificial intelligence is a fast-moving area of regulation, and it is right that the Government is considering various disclosure options in its White Paper. However, we consider that the disclosure requirements of the Strategic Report and the framework that is already proposed for evaluating and disclosing risk appetite, risk management and internal controls, strategy and opportunity, already allow for new risks and opportunities like AI to be addressed through governance arrangements appropriately.