

## Consultation Questions

### Question 1

The Principles are comprehensive.

### Question 2

There is no explicit mention of governance oversight of environmental matters.

### Question 3

In my view the issues regarding different ownership structures should be given more thought, for example:

- A large group with three divisions will be treated differently to one with three subsidiaries, even though the division or subsidiary will be exposed to the same risks. The only difference, as made clear in paragraph 2, may be what happens in the event of failure.
- In subsidiary companies it is often the case that directors may be remunerated at parent company level and operating management may not be actual directors.
- Where the shareholders are also directors their remuneration may be impacted by what the company pays them as dividends.
- Many corporate governance functions of subsidiaries may well be done at parent company level at present. Is it reasonable to have the work repeated?

### Question 4

The draft avoids direct mention of market rates or even market terms and conditions for setting director pay, yet it should be accepted that this is the case.

As mentioned in (3) the impact of dividends to owners of privately held businesses is key. They may want money out as dividend not remuneration or they may want particularly low levels of both in order to leave the value in the business.

Where there are holding companies with substantial overseas businesses, the link to workforce pay and conditions in those territories is tenuous.

### Question 5 and 6

It is self-evident that good relations with key stakeholders is essential for any well run business. In many private businesses the information that is presented, how it is done, and the outcomes would normally be something be confidential, rather than something that would be communicated to the wider world.

#### Question 7

The apply and explain approach is going to require more work than, for example, a tick box approach. As with any other addition to the red tape of business, there will be many who would want the lighter touch.

Private companies already make choices as to the level of disclosure they make, between the minimum under the Companies Act and that given by Listed entities. The same is most likely to apply here and that should be recognized. Thus, if a company does comply with the six principles it can report as such per paragraph 16 with a supporting statement that could run from half a page to thirteen pages. For many companies there may well be little upside to do more than the bare minimum. Some would argue there is marketing or other benefits from a longer statement, but for many companies being private means simply that. They will comply with whatever regulations are imposed and then state that they do in a way that respects their privacy.

#### Question 8

The statement poses the question of what the approach to monitoring should be. Given the compliance report is included in the financial statements, the auditors could make reference to it in their report. If not the auditors, it is difficult to see which existing body could perform a useful role.

If the intention is to reduce the risk of corporate failures, then it would be as well to recognise there are many monitors in the field already and still corporate failures occur. There seems no compelling reason why another team monitoring corporate governance would reduce that risk as compared to improving the existing ones.

If the intention is that better corporate governance would lead to better business, then it is difficult to see why a monitoring team would make a difference.

#### Question 9

No comment.

## Question 10

It is worth reflecting on the scale of the burden that is being imposed. For those companies which are part of bigger groups they may need to have their own independent director, which comes at a cost. All companies will have to prepare a report which will take time to do and which will need to be included in the Annual Financial Statements and so audited, again at a cost. Even the simplest solution is unlikely to be cheap and will be repeated across many businesses around the country. We have the mantra about how these initiatives will yield benefits in the long run and well they might. On the other hand they will be a discouragement to business just as Brexit begins to bite.

Perhaps the actual objective could be achieved with more focus. Thus :

- For large listed groups with subsidiaries caught by these principles, expand the parent company corporate governance to specifically address the issues of designated subsidiaries
- For private equity and other portfolio holding companies (listed or not) offer the option of having the holding company entity address corporate governance for the entire group
- Include only businesses where the UK content meets the criteria. This would be consistent with some other corporate reporting eg gender pay and supplier payment practices.