



The Sage Group plc
C23 - 5 & 6
Cobalt Park Way, Cobalt Park
Newcastle Upon Tyne
United Kingdom
NE28 9EJ

T +44 191 294 3000
F +44 191 294 0002

www.sage.com

David Styles
Director, Corporate Governance and Stewardship
Financial Reporting Council (“**FRC**”)

(By email to: codereview@frc.org.uk)

12 September 2023

Dear Sir

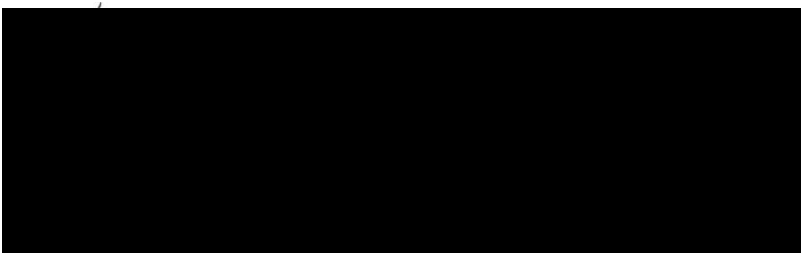
The Sage Group plc response to the FRC’s consultation regarding proposed revisions to the UK Corporate Governance Code (“the Consultation”).

I am writing on behalf of the Board of Directors of The Sage Group plc (“**Sage**”) in response to the Consultation. We have chosen to respond specifically to those questions where we consider Sage can add helpful input or where we consider further clarification or supplementary guidance is required. Our responses to the questions are included in the Appendix to this letter.

As an overarching comment, we strongly believe that more reporting is not necessarily better reporting; “tick-box” governance is antithetical to good stewardship. We note that the length of the narrative in the Annual Report and Accounts has expanded significantly over the last decade, and that this does not necessarily encourage focus on the most important issues for investors. The FRC should consider whether a process of continuously expanding reporting requirements is helpful to good quality communication or whether greater transparency and clarity could actually be achieved through reduced narrative. It is helpful that the Consultation proposes the reduction of reporting requirements in a couple of areas but we strongly encourage the FRC to continually challenge itself as to whether it is going far enough in this regard.

If you have any queries or would like to discuss any comments in more detail, please do not hesitate to contact us.

Yours sincerely



Appendix
The Sage Group plc
Response to the FRC’s consultation paper on changes to the UK Corporate Governance Code (the “Code”)

Note: references to Principles and Provisions used in this table should be read alongside the tracked changes version of the draft revised Code at Appendix A of the FRC’s UK Corporate Governance Code consultation document.

No.	Question	Response
1	Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?	Whilst we are supportive of outcomes-based reporting and recognise the merits in such an approach, for the revisions to Principle D to be effective it would be helpful for further clarity and context to be provided detailing the areas where the FRC considers there to currently be insufficient focus on the impact of governance activities. We are of the view that without this guidance, there is a risk that the proposed revisions to Principle D could lead to more generic boilerplate reporting.
3	Do you have any comments on the other changes proposed to Section 1?	<p>Whilst we do not oppose the inclusion of a requirement for boards to report on how effectively their desired culture has been embedded, we would note that it can be difficult for non-executive directors who are not involved in the day-to-day running of the business to have complete visibility of how well a desired culture has been fully embedded into an organisation.</p> <p>Separately, we do not agree with the proposed obligation on committee chairs to “engage” rather than “seek engagement” with investors on matters which pertain to their area of responsibility. Engagement requires reciprocity, and as highlighted by the FRC’s recent review into the influence of proxy advisors, getting investors to engage (even when actively sought) is not always straightforward. As such, we consider the amendment to be unnecessary and query what the change of emphasis is designed to achieve.</p>
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?	<p>For the following reasons, we believe that an express requirement for the annual board performance review to cover directors’ external commitments is unnecessary:</p> <ul style="list-style-type: none"> • We believe that the requirement for board performance reviews to consider each director’s commitments to other organisations is already sufficiently covered by Principle K, in particular the requirement for individual evaluation to “<i>demonstrate whether each director continues to contribute effectively</i>”. • A director’s external commitments are also currently assessed as part of their appointment and at the time any material new external commitments are sought during the year (rather than just once a year as part of a board performance review).
5	Do you agree with the proposed change to Code Provision 15, which is designed to	We consider that a requirement to report on how individual directors manage their time would be overly prescriptive and could lead to generic boilerplate reporting. For the following reasons, we do not agree

No.	Question	Response
	encourage greater transparency on directors' commitments to other organisations?	<p>with the proposed change to Provision 15:</p> <ul style="list-style-type: none"> • It should be the responsibility of a director to manage their time, and up to individual boards to assess that their directors are contributing in a meaningful way. It is not immediately clear what benefit is to be derived for shareholders in specifically setting out in the annual report how these conclusions have been reached. • We do not believe listing significant director appointments will make it clear how much time each appointment requires. This could lead to shareholders or proxies (in particular) overly focusing on number of commitments listed alone. <p>That said, further guidance as to what constitutes a “<i>significant appointment</i>” would be welcomed, to provide boards with a means to assess, by reference to individual director portfolios, the demands on each of its directors.</p>
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?	<p>We are supportive of an expansion of the diversity characteristics to be promoted by board appointments and succession plans, and we agree with the FRC’s view that this should have the effect of encouraging companies to consider wider diversity aspects in relation to the same. That said, to avoid ambiguity, we believe that guidance is necessary on what “<i>non-protected characteristics</i>” is intended to cover, and clarity is required on why cognitive and personal strengths have been expressly identified. Similarly, whilst we assume that the use of “<i>protected characteristics</i>” is intended to align with the corresponding definition in the Equality Act 2010, it would be helpful to have clarity. As is likely to be the case for a number of Code companies, whilst Sage is headquartered in the UK, several of its board members are based in other jurisdictions, which will apply different definitions of this concept and, without clarification, this could give rise to confused and differing interpretation.</p>
10	Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a ‘comply or explain’ basis?	<p>We believe that there is merit in having a single requirement to prepare an Audit and Assurance Policy (“AAP”) covering all Code companies so as to make compliance and monitoring processes more straightforward, and to allow for a standardised approach across Code companies, which should have the effect of making it easier to assess adherence to the Code.</p> <p>However, we would note the following:</p> <ul style="list-style-type: none"> • An appropriate balance of internal and external assurance advice should be factored into the AAP. We are of the view that utilisation of the internal assurance function should continue to be supported and balanced with the correct amount of external assistance to create optimal coverage from a governance perspective. • Further, leveraging of both the internal and external audit procedures in performing risk assessments is critical so as to ensure that the risk of duplication of activity for minimal benefit

No.	Question	Response
		<p>is not introduced. Management of costs through the process is an important consideration in this respect.</p>
11	<p>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?</p>	<p>We 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 with the Code. We would therefore expect that the Minimum Standard for Audit Committees remains applicable for Code companies.</p>
12	<p>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?</p>	<p>We agree that the remit of audit committees should be expanded to include narrative reporting to the extent that key stakeholders or investors place reliance on such information and consider it to be of material importance. By default, we would expect that this includes areas relating to sustainability and ESG metrics, as well as other types of non-financial reporting.</p> <p>In doing so, we believe this will bring certain benefits, such as enhanced accountability for the integrity of these areas of non-financial reporting, improved transparency and greater assurance over non-financial reporting for key stakeholders and investors.</p> <p>However, we welcome further guidance with respect to how these responsibilities would be most effectively discharged by the audit committee, or other relevant committees, to ensure consistency in approach across Code companies. It is also important that these changes are aligned to, and are complementary with, other related Code changes and associated future guidance, for example relating to coverage of narrative reporting (including sustainability matters) in the new Audit and Assurance Policy.</p> <p>We would also note that, as is likely to be the case for a number of Code companies, whilst we do not currently have an ESG committee, we may look to establish one in the future. Consequently, we believe the FRC should consider incorporating some flexibility in the Code in relation to where responsibility for reporting on ESG assurance and narrative assessments lies.</p>
13	<p>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?</p>	<p>We are supportive of the proposed amendments to the Code as they build on and clarify the existing reporting requirements regarding the effectiveness of companies' risk management and internal control systems, whilst also emphasising the importance of flexibility and materiality considerations, allowing companies to tailor reporting to their unique circumstances.</p> <p>However, the proposed amendments must be supported by guidance which should, at a minimum, provide clarity to companies regarding the identification and reporting of material weaknesses or failures, to ensure that key stakeholders and investors benefit from consistent and comparable</p>

No.	Question	Response
		reporting.
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?	<p>We are supportive of the proposal with respect to the board's declaration being based on continuous monitoring throughout the reporting period.</p> <p>However, we do not consider it practical for the declaration to be provided at a date after the end of the reporting period (i.e., between the end of the reporting period and the date the annual report is published). A key reason for this includes the impracticalities of obtaining an appropriate level of external assurance up to that point in time. There is also merit in the period of the board's declaration being aligned with the period of the external auditor's report.</p>
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?	<p>We agree that this change would emphasise the significance of narrative reporting (which is consistent with the proposed new Provisions 26 and 27), alongside financial reporting, and we believe it would recognise the broader range of controls necessary to ensure comprehensive and reliable reporting.</p> <p>However, if introduced it is important that further guidance is published to support companies and assurance providers in ensuring that the approach to internal controls and monitoring over non-financial information is conducted in an appropriate way. As an example, there is much more ambiguity with respect to the materiality of non-financial information as compared to financial information.</p> <p>In the absence of such guidance, there is a risk that reporting on such matters is not aligned across companies, limiting the usefulness of such information.</p>
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?	<p>We are supportive of the introduction of published guidance which sets out examples of methodologies or frameworks for the review of the effectiveness of risk management and internal control systems. In doing so, we believe this will support clearer, more comparable and consistent reporting across companies.</p> <p>Such guidance will also support companies in the initial implementation of such methodologies and frameworks and ensure comparability across organisations.</p>
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?	<p>We believe it is important that key definitions are provided within any published guidance with respect to methodologies and frameworks. By providing key definitions this will support companies in reporting information on a consistent and comparable basis, supporting the usefulness of disclosures for key stakeholders and investors.</p> <p>However, the board should ultimately be able to determine which matters they consider to be material</p>

No.	Question	Response
		with respect to their specific situation and circumstances. Importantly, this approach allows for tailored and pragmatic reporting, whilst also ensuring it is also consistent and comparable.
18	Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?	It would be beneficial for guidance that sets common benchmarks and standards to be provided, ensuring that companies have access to best practices and methodologies to address risks effectively, regardless of their size or sector. We consider that this will help to ensure a reasonable degree of consistency in how companies are identifying, evaluating, and prioritising risks, enhancing comparability and transparency in risk reporting. For example, we believe that there is merit in aligning with internationally recognised frameworks to promote uniformity and provide a common language for risk management.
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)?	We agree that current Provision 30 should be retained. In our view, this will ensure consistent reporting on the going concern basis of accounting across all Code companies.
20	Do you agree that all Code companies should continue to report on their future prospects?	<p>We agree that reporting on future prospects is important for all Code companies as it provides valuable information to key stakeholders and investors about a company's outlook, growth potential, and potential risks.</p> <p>However, whilst we recognise the 'comply or explain' nature of the Code, we would note the following practical limitations to reporting on future prospects:</p> <ul style="list-style-type: none"> • Companies may struggle to precisely quantify the impact of specific risks due to uncertainties surrounding issues like climate change in the short to long term, as well as the reliability of longer-term forecasting, especially for sectors with evolving strategic objectives, such as technology. • Companies may face challenges relating to ensuring the auditability of the disclosures and quantifications used in the assessment. • Companies will need to be mindful of the risks involved with disclosing competitively sensitive information, in particular for UK companies competing with overseas entities that may not have similar disclosure requirements.
22	Do the proposed revisions strengthen the links between remuneration policy and corporate performance?	We are supportive of the proposed revisions to new Principles O, P and Q, in respect of which we note the following:

No.	Question	Response
		<ul style="list-style-type: none"> • We welcome the revised ordering of Principles O, P and Q, which we believe allows for a more logical flow. • We are of the view that the replacement of the reference to “executive remuneration” with “remuneration outcomes” highlights the increased need for due consideration to be given to the outcomes of a plan design, and consequently to the accuracy of target setting to ensure that outcomes are delivered in line with strategy and that value is created for shareholders and all stakeholder groups. • We welcome the addition in Provision P for remuneration outcomes to be clearly aligned to company performance, as well as ESG objectives. • The revision to Principle Q to provide explicit reference to “<i>workforce pay and conditions</i>” as one of the elements for remuneration committees to take into account when exercising judgement and discretion is positive and, importantly, should ensure that the experience of the workforce is mirrored for executives to achieve alignment across the wider workforce.
23	Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?	<p>The proposed amendment to provision 39 to include a requirement for director contracts and/or other agreements which cover director remuneration to include malus and clawback provides an interesting point of debate. We are mindful that the level of governance in relation to malus and clawback will vary significantly between companies; for example, Sage has a “Malus and Clawback Policy” which requires directors to sign terms and conditions for each award that they are granted, which includes a confirmation that they agree to the terms of the Malus and Clawback Policy. From Sage’s perspective, it would therefore be duplicative for malus and clawback to be included in our director contracts.</p> <p>As such, greater clarity on if a malus and clawback policy and terms and conditions of an award constitute ‘other agreements’, or if revised director contracts are required, would be welcomed. We are of the view that separate duplicative provisions in directors’ service agreements are unnecessary and potentially divisive.</p> <p>We are supportive of the addition of provision 40 which sets out a requirement for additional information pertaining to malus and clawback arrangements to be included in companies’ remuneration reports so as to provide greater visibility to investors of the mechanisms available to address scenarios involving serious failings within a business, and whether and how companies are making use of these.</p> <p>However, we consider the requirement to detail the use of such provisions in the last five years to be too long a look-back period, and unnecessary in the context of the requirement for annual reports to be kept publicly available for at least ten years. We believe such a requirement will lengthen what is already a long report, which could act as a deterrent to shareholders from reading the whole report.</p>

No.	Question	Response
24	Do you agree with the proposed changes to Provisions 40 and 41?	<p>We consider former provision 40 to be overly prescriptive and at times has encouraged a 'tick-box' approach to compliance. As such, the revised list of factors for consideration at Provision 34 is a welcome change which remuneration committees can use when setting remuneration policies.</p> <p>We are supportive of the direct approach proposed in new Provision 43 in highlighting the links between a company's executive remuneration policies, structures, and performance metrics and company strategy, including ESG objectives. We believe this amendment will ensure that the impact to the business and value and benefit for all stakeholders and the society is clearly articulated, which in turn should improve shareholder understanding of the remuneration executives receive.</p>
25	Should the reference to pay gaps and pay ratios be removed, or strengthened?	<p>We are supportive of the removal of the reporting requirement in relation to pay gaps and pay ratios in former Provision 41 so as to simplify the disclosure requirements in this area and to avoid duplication.</p> <p>However, we believe that companies should approach this amendment with caution to ensure that it is not used as a rationale for reduced reporting or to erode transparency of gender pay gaps.</p>
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?	<p>Whilst we recognise that the requirement in Provision 29 for boards to include descriptions of their principal risks in the annual report and the stronger focus on narrative reporting are both likely to capture artificial intelligence ("AI") for a number of Code companies (especially those, like Sage, which focus on technology), this will not be the case all Code companies.</p> <p>We note that the UK Government intends to adopt a high-level abstracted framework underpinned by principles to regulate AI, and wants existing regulators, rather than a new dedicated body, to govern AI and to publish guidance in relation to the same. On the basis that this area is rapidly evolving we do not believe there to be merit in expressly referencing AI in the Code at this stage, however we do consider it to be an area that the FRC should be monitoring closely for developments.</p>