

Financial Reporting Council (FRC)
Code Review Team
By email: codereview@frc.org.uk

13 September 2023

Dear Code Review Team

Response to Financial Reporting Council 'Corporate Governance Code Consultation'

We write with respect to the Financial Reporting Council's (FRC) 'Corporate Governance Code Consultation'. Haleon plc welcomes the opportunity to engage and comment on the proposed revisions to the UK Corporate Governance Code (the Code) and supports the FRC's objective to enhance the Code's effectiveness and build trust and accountability through strong governance and transparent disclosure.

Haleon is a global leader in consumer health, with a purpose to deliver better everyday health with humanity. We are a constituent member of the FTSE100, with a premium listing on the London Stock Exchange and a secondary listing on the New York Stock Exchange.

As members of the GC100¹, we endorse their submitted response to the Consultation ([GC100 response](#)), their principal points, suggestions and recommendations.

We would ask the FRC to reconsider a number of proposals where these appear to be either more prescriptive than intended, go beyond the scope of legislative reform, duplicative of other reporting requirements (e.g. the Listing Rules), increase the burden on directors through new duties and liabilities which could reduce the attractiveness of the role of the director and the competitiveness of the business environment in the UK. We are concerned that while the FRC refers to these being 'limited revisions' of the Code, these proposals would have a significant impact on companies and directors in terms of disproportionate regulation and cost, and not necessarily result in the enhanced governance outcomes the FRC is seeking to achieve.

In line with the GC100, we would recommend that the FRC considers the following key principles in any evolution of the Code to ensure an effective, proportionate and practical regulatory framework:

- *Proportionality*: It is essential that the principle of proportionality is applied to all matters concerning company regulation. We are concerned about the proportionality of a number of the proposed reforms to the Code, particularly given the expected significant increase in costs for businesses.
- *Over-regulation*: Imposing additional obligations over subject matter already covered by other regulation leads to over-regulation, uncertainty and confusion among those companies and individual directors being regulated. Regulation should not be duplicative. While the FRC have acknowledged this, and have committed to avoiding duplication with other requirements, we note that there are several instances of duplication in the Revised Code and most notably with the FCA's Listing Rules.

¹GC100 is the association for the general counsel and company secretaries of companies in the UK FTSE 100

- *UK as an investment destination of choice:* Increasing the compliance burden and associated cost for companies may affect the UK's competitiveness as a preferred destination for corporate and capital market activity. Imposing significant and disproportionate new rules on companies and directors through the Revised Code would be at odds with the Government's ambition, and the work which the FCA is currently undertaking, to make London a more attractive listing venue.
- *Impact on boards of directors:* We support the GC100's comments in relation to:
 - the increasing challenge of attracting the talent, quality, diversity of background and experience required;
 - concerns for directors of over-regulation and potentially unlimited personal liability;
 - the cumulative impact of any new obligations on companies and their directors;
 - the additional costs for companies to provide more internal support (and external assurance) to enable directors to meet these obligations;
 - the impact on board committees, director workloads and time commitments;
 - risk of regulatory sanctions for directors; and
 - adverse impact on the effectiveness of boards.

We would also encourage the FRC to consider the role of the Annual Report. We appreciate that this report remains the primary source of information about the company for shareholders and investors, regulators and other stakeholders, and that the statements about how the company has applied the Principles set out in the Code, and related disclosures are of paramount importance. However, we feel that today there should be far greater scope for companies to use other reporting vehicles beyond the Annual Report (such as the company website) as a repository for standing or unchanged information to discharge reporting and disclosure obligations. We see scope also for this information to be provided in a more structured and consistent manner by all companies. This would enable the Annual Report to be more concise, fair, balanced and understandable and make it easier for stakeholders to navigate and assess the key changes in a company's performance and outlook year on year.

In the following pages we have set out our responses to each of the questions posed by the FRC and have indicated where our responses are aligned with the GC100. In considering the consultation questions, we have involved teams across the business, including External Financial Reporting, Financial Risk Management and Controls, Audit, Risk and Assurance, Executive Remuneration and Company Secretariat. Team members also participated in several roundtables and webinars, including those also attended by members of the FRC Code Review Team.

We hope that the FRC takes this feedback into consideration.

Yours faithfully



Section 1 – 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?

No. We are aligned with the GC100's position and their suggested amendment in relation to Principle D.

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?

We are aligned with the GC100's position and we do not consider that the changes to Provision 1 should be included in the Revised Code.

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

We are aligned with the GC100's position in relation to Provision 2 and 3.

We do not support the Provision 3 revision. The revised wording presupposes that engagement with shareholders is a unilateral decision for Companies and that shareholders would be willing and able to engage with the Company in such instances.

Section 2 – 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?

No. We are aligned with the GC100's position and do not support the proposed change to Principle K.

We agree that assessing the ability of a director to commit sufficient time to the role should form part of the annual board review, the director appointment process and where directors request approval to take on additional appointments. Existing Principle K and Provision 15 therefore already address this requirement.

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?

No. We are aligned with the GC100's response and do not support the proposed change to Provision 15.

Section 3 – Composition, succession and evaluation

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

We are aligned with the GC100's response and feel that the proposals would be either duplicative of or inconsistent with the FCA Listing Rule and other requirements.

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?

No. We support the GC100's response and recommended approach.



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

No. We are fully aligned with the GC100's response.

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?

We support the GC100's response and recommendation in relation to guidance.

Section 4 – Audit, risk and internal control

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

We agree that the level of assurance over the system of risk management and internal controls should be decided as part of the Audit and Assurance Policy and that a 'comply or explain' basis would provide flexibility for companies to adapt their approach based on their needs and stakeholders' expectations.

We support the GC100's comments in relation to guidance.

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?

We are supportive that duplication should be reduced as far as possible. We support the GC100's comments on the significant expansion of audit committee responsibilities and would ask the FRC to consider the proposed GC100 recommendation.

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?

No. We do not consider this change necessary within the Code.

We support the GC100's comments around maintaining flexibility within the Code for companies to manage their narrative (including sustainability) reporting in different ways. Haleon has established an Environmental and Social Sustainability Committee with appropriate terms of reference, this Committee will consider the integrity of such reporting alongside and complementary with the Company's Audit and Risk Committee which monitors and assesses the Annual Report as a whole.

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 the GC100's response and in particular that the current regime of internal controls is generally fit for purpose. In addition, whilst we support the general aim to strengthen the risk management and internal controls systems for UK companies and believe that this should improve consistency of approach and increase investor confidence, the scope of the Board attestation

remains too broad. We have concerns over the complexity and cost of compliance that will impact companies individually and potentially impact the attractiveness and competitiveness of the UK as a listing destination for companies.

In particular, the reference to ESG information needing “to be as reliable as financial information” creates concern. ESG information and related data is mostly fragmented and not supported by sophisticated ERP (enterprise resource planning) type systems to collect and report effectively and efficiently. There are also a number of dependencies on third party data and complexity in measurement. To be as reliable as financial information, there would need to be structured standards and principles to establish a recognisable reporting framework to drive consistency across all industries and jurisdictions. For such expectation to be met, the current implementation timeframe is not realistic, and we would urge that this be reconsidered to enable companies to develop adequate systems and processes and for regulators to align on consistent reporting standards.

Furthermore, ESG reporting of this magnitude requires specialist skills and competencies that currently either do not exist or are not available without a premium in the labour market. We would therefore anticipate that the proposed requirements would drive resource and capacity issues across the finance industry, which may limit the ability of companies to implement the changes efficiently and robustly.

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?

We are aligned with the GC100’s position and their comments in relation to Provision 30.

Based on our experience as a dual-listed company in the UK and the US we believe that the Board’s declaration should be based on the date of the balance sheet, which would align with that required under existing US (SOX) obligations. To move to an alternative timeframe would create both increased reporting for dual-listed issuers and potential confusion for investors.

The monitoring of the system of risks and controls is a continuous process with discussion on progress and issues on risk and control matters being regular agenda items for Haleon’s Audit and Risk Committee and Board meetings. Reporting on material issues that have been resolved by the balance sheet date would increase the compliance requirements for companies and create confusion to the readers of the Annual Report. We consider that it is in a company’s interest to establish adequate continuous monitoring to minimise “surprises” at the balance sheet date and therefore the proposed requirement to report throughout the reporting period would be redundant. It is necessary for management, Boards, and external auditors to have the ability to address material control issues during the period and conclude on the risk and severity of weaknesses at the balance sheet date.



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?

No. We support the GC100's response and consider that Provision 30 should continue to reference financial, operational and compliance controls.

As outlined above at Q13, we consider that the reference change to "reporting" would be too broad and result in increased cost of compliance and reduced consistency from one company to another. We would recommend that the scope of the regime be limited to controls over financial reporting. This would provide consistency with the scope of existing control frameworks in other jurisdictions and align with the financial statement reporting process.

While we acknowledge that ESG has become a key area of interest and decision-making for the investor community and understand this being an area of focus in the new regime, the implementation timeframe needs further consideration (see Q13 response).

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?

We support the GC100 response.

Guidance for the review of the effectiveness of risk management and internal controls systems will need to be sufficiently well defined to ensure both market consistency and a clear approach for both companies and auditors to implement while providing flexibility for companies to implement the requirements in the most appropriate way for their business and industry.

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?

We would recommend that any definitions introduced be consistent with existing regulation and guidance. For example, the proposed definition of material weakness is too broad. This could be subject to a high degree of interpretation and result in inconsistencies in reporting and potentially external auditors' approach and expectations. The definition could be narrowed to focus on material weakness in reporting and compliance and should also be closely aligned to that of the US PCAOB to ensure appropriate interpretation by investors and other users of the accounts, whereby "a material weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility of a material misstatement of the entity's annual or interim report".

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

We are aligned with the GC100's position in relation to guidance.



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)?

We are aligned with the GC100 position and offer no further comment on this.

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

In line with the GC100 response, we offer no opinion on this.

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?

In line with the GC100 response, we offer no opinion on this.

Section 5 – Remuneration

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

We support the GC100's response and comments in relation to Principle P.

We are concerned that the wording in Provision 34 may be imprecise and open to interpretation. In particular, it is not clear what is meant by "risks associated with remuneration".

In relation to the changes set out in Provision 35, we have concerns about the volume of disclosures required in the Directors Remuneration Report (DRR). We appreciate the intent and relevance in relation to remuneration reporting, however, this may be addressed more naturally in other sections of the Annual Report when discussing the workforce in the Strategic Report.

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

We support the GC100's response including their request for clarity in relation to who the revised Provision 40 relates.

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

We support the GC100's response in relation to Provisions 40 and 41.

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

We support the GC100's response and agree that any duplication of existing statutory reporting requirements should be removed.

Other matters for consideration – Artificial intelligence

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?

We support the GC100’s response and agree that it would be premature to make any amendment to the Code or related guidance while the legislative position on artificial intelligence in the UK and other jurisdictions is still evolving.

