



Sir Winfried Bischoff

Chairman, Financial Reporting Council

UK Corporate Governance Code 25th Anniversary celebration

11 January 2018 – 17:30

Atrium, FRC Offices

Good afternoon.

I am pleased to welcome you all here today to celebrate 25 years of the UK Corporate Governance Code, of which the Financial Reporting Council has been custodian since 2003.

In looking at the history of the development of the Code, I am particularly pleased to welcome a friend of long – standing from his days at ICI – but here in the role of one of the ‘founding fathers’ of the Code, Sir Ronald Hampel. Ronnie led the Hampel Committee on Corporate Governance, which was established to review the extent to which the objectives of Sir Adrian Cadbury’s and Sir Richard Greenbury’s Reports were being achieved. The resulting hugely influential Hampel Report led to the publication, in June 1998, of the iconic Combined Code on Corporate Governance.

25 years on from the original Cadbury principles, the UK’s Corporate Governance Code has greatly enhanced the quality of corporate governance and is now rightly globally renowned. Indeed, it is fair to say that a key reason why global investors commit their capital to UK listed companies is the trust and confidence the Code engenders. This benefits UK society in the long-term through jobs, growth and prosperity.

In particular the 'comply or explain' approach has allowed the FRC to respond confidently and effectively to evolving market circumstances, which hard rules find more difficult to achieve.

As we look to the next 25 years, our framework of corporate governance must continue to evolve. It will do so by following the FRC's focus on achieving better outcomes rather than simply better processes. We want to see in business high levels of transparency and integrity.

- Both transparency and integrity create investor confidence
- Both support sound business decisions
- Both serve the public interest
- And, both ultimately contribute to prosperity and stability.

Our mission aligns with the needs of a broad stakeholder audience. "Transparency" in particular makes the connection with practical, relevant and user-friendly information from business. "Integrity" aligns our work on culture, the role of leadership and the pursuit of improved governance, in the corporate sector as well as in the audit firms. And of course integrity is also core to the accounting, actuarial and audit professions which we regulate and oversee.

History

The UK system of corporate governance, with its 'comply or explain' approach, unitary board and strong shareholder rights, allows initiative and entrepreneurialism to flourish. These attributes, as has been apparent for the last 150 years, have been a historic plus for the UK. But governance also evolves.

Even over its short 25 years of existence the Code, not surprisingly, has had to respond and adapt to different events.

From the corporate scandals of the late 1980s and early 1990s, the fallout of the Barings crisis, the Enron/Andersons collapse, to the global financial crisis from 2007 onwards. Each time there has had to be a considered response and review to keep the Code 'fit for purpose'.

Happily, compliance with the Code is higher than it has ever been. Grant Thornton's corporate governance review for 2017 noted that 66% of FTSE 350 companies declared full compliance with the UK Corporate Governance Code and 95% of FTSE 350 companies complied with all but one or two of the provisions.

But the quality of the explanation is variable. We call on shareholders to challenge boards and seek persuasive explanations for non-compliance.

Political Landscape

The political twists and turns over the last 18 months since the Brexit referendum have ushered in a new societal and economic narrative and a degree of uncertainty about the future. This and some high profile cases of misconduct, have led to public confidence in business being damaged and a perception that business is not delivering for all.

Public trust in UK companies has diminished and there are concerns about governance not just about the remuneration of senior executives.

At the FRC we have considered the changing political landscape, the need to build trust, and that companies should look at the long-term and build a culture that includes its workforce and stakeholders.

Following our comprehensive review of the UK Corporate Governance Code, one aim of which was to shorten and sharpen the Code, we are now consulting on the proposed changes. These quite logically also include some high-level questions on the future direction of the UK Stewardship Code.

The proposed changes in the main are aimed at encouraging companies:

- First to, provide for greater engagement with wider stakeholders;
- Second to, establish a practical way for gathering views of the workforce;
- Third to, be more specific about what to do when encountering significant shareholder opposition on any resolution, including those on executive pay policies and awards; and
- Fourth, to give remuneration committees broader responsibility for overseeing how remuneration and workforce policies align with strategic objectives and support long-term success, and for the board to consider discretion in their award decisions.

If corporate governance is going to serve the needs of wider society it must be supported by a broad church of stakeholders. This is why we established our Stakeholder Panel to guide and inform all areas of the FRC's work. I would like to take this opportunity to thank them for their participation, advice and commitment.

We are using the FRC's unique position and powers to drive progress to increase diversity and inclusion in UK companies. Working with leading academics, we are developing a new research programme which will more closely monitor top companies' performance and compliance with the current code's requirements on diversity both in relation to gender and ethnicity.

I want also to thank the many who have contributed their views on corporate governance through our blog series. Their contributions and observations have been instructive and interesting reading for all our stakeholders.

25 years after Sir Adrian Cadbury's report standards of corporate governance in the UK remain high. It is clear that the Government expects businesses to help deliver outcomes which benefit society as a whole. Our proposals aim firmly to ensure that the UK remains attractive to global investors but secondly also for businesses to demonstrate how they contribute to society. At a time when geopolitics and world economics look less certain, that will be ever more important.

Let me now hand over to Sir Ronald Hampel for his reflections.