Dear Proxy Advisor

The FRC has published the new 2018 UK Corporate Governance Code. This is a result of a substantial outreach and consultation and we thank respondents for their contributions.

Over 26 years the Code has improved standards of practice and reporting on governance. The UK has a strong reputation in this field of which we should be proud. But this reputation is tarnished when we see corporate collapses accompanied by poor governance and conduct. Such events harm public trust in business and deter investment.

The 2018 Code has substantially evolved and builds on the progress we have made to improve the quality of governance in the UK. There are significant changes to its structure and content. It is shorter and sharper, there is a renewed emphasis on the Principles and there are fewer Provisions. The new Code takes a broader view of governance and emphasises the importance of a healthy corporate culture and constructive relations with a wider range of stakeholders in delivering long-term sustainable success.

Proxy advisors play an important role in the analysis of company activity and reporting on the Code. In providing advice to your clients – asset managers and owners – you make judgements about the quality of governance in a company and how this is reported to them. The Code sets out good practice and specifically allows for flexibility to take account of different company circumstances. It is important that you take these circumstances into account. A ‘box-ticking’ approach does not serve the needs of your clients or promote high-standards of corporate governance in the UK. I encourage you to have this in mind when assessing in particular the quality of explanations of practice under the 2018 Code, and in making voting recommendations to your clients.
We are writing to other parties involved in making the Code a success. Before it comes into force, we will be working with stakeholders to embed the Code and enable the improvements in governance we all wish to see. After the introduction of the 2018 Code we intend to escalate our monitoring of practice and reporting.

The FRC’s mission is to promote transparency and integrity in business. We look forward to continuing to work with you so that we can ensure a strong flow of investment into successful UK companies, delivering long-term growth which supports a prosperous economy and society.

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