

Sir James Wates CBE
Early indications of Wates Principles reporting
February 2021

I welcome the critical attention that has been paid recently to corporate governance reporting, which has helpfully emphasised the need for reporting to move beyond a tick-box approach and to use the annual Directors Report to showcase the positive steps companies have taken to improve their own governance.

While most of this attention has been focused on the UK Corporate Governance Code, there are useful lessons that we can draw that can be applied to corporate governance reporting by large private companies, in particular those who have committed to applying the Wates Principles.

Spectrum of approaches

I've been pleased to see that [the Wates Principles](#) have been well received. We launched the principles slightly more than two years ago, along with legislation [Companies (Miscellaneous Reporting) Regulations 2018] requiring large private companies to report on their corporate governance for financial years starting on or after 1 January 2019. We have therefore been seeing a number of reports published that illustrate a spectrum of approaches.

Of course, extensions to filing deadlines that the government introduced as a result of the pandemic have delayed the publication of many reports, so we have not seen the volume of reports that we would have expected by now. There is, nonetheless, a sizeable body of reports in the public domain, and we can already see some trends developing. The company I chair, the Wates Group, was an early adopter and so now is working on our third corporate governance report in which we apply the Wates Principles, yielding a different sort of lessons.

The FRC is overseeing a body of research that will provide us with a much deeper and more detailed evidence base, but I would like to take this opportunity to highlight some trends that I've been seeing so far.

Grasping the spirit

Many companies have clearly sought to grasp the spirit of the Principles and have provided good explanations of how their governance arrangements work. We've seen, for example in the reports of [Allianz Holdings \(UK\)](#), [Heathrow](#), [Jaguar Land Rover](#), and Tata Steel, some rigorous analyses of how the Wates Principles are applied.

Notably, Heathrow provides a useful one-page overview, which shows how elements of their corporate governance specifically correspond to the Wates Principles. This provides a helpful snapshot, with cross-referencing to other information provided in their 20+ page Corporate Governance section. Several other companies also use cross-referencing to other parts of their Directors Report for further detail, thus helping to keep their Wates Principles reporting concise and pitched at the right level of detail.

The Wates Principles should be a guide for self-improvement, so I was pleased to see that Tata Steel explicitly described how applying the Wates Principles led it to reconsidering its Remuneration Committee terms of reference, reflecting that it is applying the principles for self-improvement. [Thame and London](#) (Travelodge) also said they would be reviewing their governance arrangements using the Wates Principles as a guide.

It's great to see some wholly-owned subsidiaries (who are covered by the legislation and must report) – such as [Northern Bank](#) and [Mercer UK](#), to name just two – are not just referring to their holding company governance standards, but are applying the Wates Principles and commenting specifically on how they apply to the subsidiary.

There are also some good examples of companies that provide illustrative examples of issues that their boards are grappling with. [Chanel](#), [Edrington Group](#), and Jaguar Land Rover all do well in this regard, with the latter being noteworthy for its effective use of graphs and charts which add helpful detail to the narrative.

Balancing tensions

As with those who report against the UK Corporate Governance Code, companies reporting against the Wates Principles face a significant challenge in deciding the right quantity of material to report. There is a tension between the need to provide enough evidence to assure readers that you take your governance seriously, and keeping the report short and easy to read, in line with the spirit of the Wates Principles.

In tackling this challenge now for the third time, the [Wates Group](#) has found that a good deal of the ‘evergreen’ material can be presented elsewhere in the Directors Report, and the section dedicated to Corporate Governance can just focus on what changes year to year.

Indeed, we’ve been seeing that reporting against the Wates Principles is not so different from reporting against the new UK Corporate Governance Code. There are some unfortunate examples of a clearly minimalist approach – e.g., a one sentence response to Risk and Opportunity -- which evokes a sense of box-ticking and does not inspire confidence. But broadly speaking, we are seeing clear efforts to apply and explain.

Some disappointments

As the FRC and others have identified, there is often a sense from reports that the companies do not fully embed *Purpose* in their organisation. Generally, companies do state what their purpose is, but their reporting lacks a sense of authenticity, sounding more like marketing material than an account of company governance. The reports also often fail to provide specific examples of how the purpose has actually guided Board-level discussions and decisions. I hope we will see more rigorous reporting on purpose in the future.

Few make the Corporate Governance report easily accessible on their website. The law says the statement must be on the website, but if one has to hunt around in the Annual Report PDF, it rather contradicts the spirit that the statement should be aimed at a broad range of stakeholders, not all of whom are experts.

Going forward

I am optimistic that as companies become comfortable with the process of applying the Wates Principles – not just at year end, but throughout all board meetings – there will be an improvement in the quality of reporting. The FRC and Coalition Group will be working together on a research project to monitor the reporting to date, and our work going forward will focus on highlighting and promoting good practice.

It’s clear so far that some companies have really grasped the spirit of the Wates Principles – reflected in good quality reporting that is accessible and understandable.

Good practice will also be guided by other work that the FRC is doing. For example, I found their blue-sky thinking in [A Matter of Principles: the future of corporate reporting](#) to be refreshing and helpful. Amongst other thought-provoking points, they have highlighted some common sense principles of good communication that should apply to all corporate governance reporting:

- Brevity, Comprehensibility and Usefulness
- Relevance
- Company-specific
- Comparability

The latter of these principles may take time for which to develop good practice, but the first three of these should be clear to all, and I hope to be seeing more of them in Wates Principles reports to come.