



Catherine Horton
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

28th February 2017

Re: UK Corporate Governance Code and Guidance on Board Effectiveness Questions

Dear Ms Horton,

Thank you for giving us the opportunity to comment on your discussion paper on the Proposed Revisions to the UK Corporate Governance Code.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community. The Investor Relations Society represents members working for public companies and consultancies to assist them in the development of effective two-way communication with the markets and to create a level playing field for all investors. It has over 800 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

We have addressed your questions within the consultation paper and the key points from our response can be summarised as follows:

- Overall, we support the majority of proposed changes in the UK Corporate Governance Code and the FRC's mission to promote transparency and integrity in business;
- The IR Society encourages all companies to continue best practice at board and governance level. However, additional cost burdens may be placed on smaller companies as a result of some proposed Code changes;
- An expanded remuneration committee remit could potentially cause unintended consequences on cost and workload burden;
- The Society acknowledges the good work conducted to address diversity at all levels of business and supports all areas of the UK Corporate Governance Code that are trying to build diversity. Reporting on ethnicity at the executive level however, could pose undue cost burdens and may not be directly comparable between UK and global companies;
- The Society supports the review of the Stewardship Code but it is too early to comment more specifically.

Q1. Do you have any concerns in relation to the proposed Code application date?

Q2. Do you have any comments on the revised Guidance?

Overall the Society supports the proposals within the revised code consultation. We would encourage the FRC to integrate all proposed changes within the revised Strategic Report Guidance and the secondary legislation on section 172 director's duties at the same time as the revised UK Corporate Governance Code changes. This will prove easier for companies to manage and for executive management to implement at the strategic planning stage.

Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

We agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement. When considering the needs and views of a wider range of stakeholders, we encourage companies to adopt their own best practice approach and adhere to Code requirements to report and explain this approach within the annual report. Each company may have different needs and views, so therefore we would support a flexible approach for company boards to consider the needs and views of wider stakeholders, rather than anything more prescriptive. We would also like to note that we support Provision 3 in the Code expanding the emphasis on whistleblowing.

Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?

The IR Society supports the integration of sustainable development goals within best practice investor relations. However, there are a number of sustainable initiatives out there for adoption and while we would encourage the FRC to provide guidance in this area, we do not see it as part of any future Code requirements.

Q5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?

The IR Society agrees that 20 per cent is 'significant' and in general it is good practice for companies, when they do receive 20% or above in votes against at the AGM, to report back on actions 'in the interim'. As best practice, we would encourage companies to be active in their communication to shareholders and address these actions earlier rather than later. Furthermore, where votes against relate to remuneration issues, if not already doing so, we would encourage the remuneration committee chair to write to a company's top shareholders to note the percentage vote against and planned course of action to address this. There are a variety of voting areas outside of remuneration, and six months is a reasonable timeframe to allow follow up from both sides – the company and the investor.

Q6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.

The Society doesn't agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years. We believe this would place further burden on a smaller company's time as well as a cost. We would encourage all those smaller listed companies with aspirations to grow into the FTSE 250 to follow best practice of the larger companies as and when cost allows. We expect companies to continually evaluate their boards and explain when needed to their shareholders in a comply or explain manner in line with the UK Corporate Governance Code.

Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

Q8. Do you agree that it is not necessary to provide for a maximum period of tenure?

The Society agrees that nine years is an appropriate time for non-executive directors and chairs to be considered independent and it is not necessary to provide a maximum period of tenure. Furthermore, with officer re-election and votes against at AGMs this allows for further break clauses. When considering tenure, we would also encourage companies to be planning for succession.

Q9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?

The Society encourages diversity at all levels in the business and supports all areas of the UK Corporate Governance Code that are trying to build diversity in the boardroom, executive pipeline and in companies as a whole. While we acknowledge that there has been considerable progress been made in this area (e.g. Lord Davies report), there is still some way to go, particularly at the executive level.

Q10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.

We agree with extending the Hampton-Alexander recommendation beyond the FTSE 350, as we should be encouraging a change across companies of all sizes and sectors.

Q11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.

While the IR Society would support the principle of reporting ethnicity, and more transparency in this area, there are differences in company size, sector, locations, and stakeholders to consider. We would therefore suggest the practicalities of reporting ethnicity in executive pipelines will be a challenge for companies, particularly those at the smaller end where there presents an additional cost burden.

Q12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?

Q13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.

The IR Society has no further comment on questions 12 and 13.

Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

The IR Society does not agree with the proposals within the revised Code to expand the remit of the remuneration committee. The Society would suggest that the remuneration committee should be aware of the context of executive pay within the company (for example, when assessing the performance of CEO and CFO) but should not take overall responsibility for it. We support the view that this expanded remit will significantly increase the time and workload of the remuneration committee,

leading to unintended consequences. Furthermore, while we agree with the suggestion that it is more appropriate to delegate oversight to other committees it will increase their time and workload also. Given the current set up of Board level committees, with most company boards only having audit, risk and nominations committees in addition to remuneration, this additional oversight is likely to be picked up by various sub committees of the executive. Expanding the remit of the remuneration committee could not only add a practical burden but also reduce the availability of good remuneration committee chairs.

UK Stewardship Code Questions

The IR Society has reviewed the FRC's initial consultation on the future direction of the UK Stewardship Code and feel it would be too early to respond to each specific question. The Society however remains supportive of this review by the FRC of the Stewardship Code and suggestions on its improvement to drive best practice reporting and stewardship activity. The Society acknowledges the Stewardship Code's efforts to promote greater alignment between investors and companies, as well as the importance of the role of the investor in wider society.

We would support enhanced separate guidance for different categories of the investment chain to help drive best practice, including any further review of or guidance for the proxy advisory industry.

We hope you find these comments useful and please do not hesitate to contact me if you require any further clarification.

Kind regards,

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