

7 September 2018

Kristy Merrick
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

By email to: corporategovernanceprinciples@frc.org.uk

Dear Ms Merrick

The Wates Corporate Governance Principles for Large Private Companies

Deloitte LLP welcomes the opportunity to comment on the Wates Corporate Governance Principles for Large Private Companies.

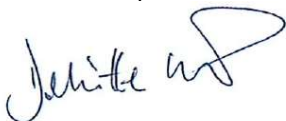
We congratulate James Wates, the FRC and the rest of the Coalition Group on the development of these helpful and straightforward Principles. In particular, we like the focus on a short set of key principles which directors can apply as they see fit. On the whole we are supportive of the Principles and the supporting guidance. We have provided answers to your consultation questions in the appendix to this letter but would draw out the following suggestions we would ideally like to see addressed in the final version of the Principles:

Understanding the needs and expectations of shareholders – whilst we believe this has been covered in the supporting guidance, we believe the Principle could be made more explicit.

Individual director capability – Principle Two makes it clear that individual directors should have sufficient capacity to make a valuable contribution but we would suggest that having sufficient **capability** is equally as important.

We would be happy to discuss our letter with you. If you have any questions, please contact me or Tracy Gordon on 020 7007 3812 or trgordon@deloitte.co.uk.

Yours sincerely



William Touche
Vice Chairman
Deloitte LLP

Appendix Responses to detailed questions

Q1 Do the Principles address the key issues of the corporate governance of large private companies? If not, what is missing?

As it stands, there is no clear Principle which references dialogue with and understanding of shareholder needs and expectations. A starting point for any board of a private company should be to understand the rights of shareholders (in whatever ownership structure to organisation is operating within) and to be clear on which matters are specifically reserved for the shareholders' decision and which are to be delegated to the board.

Q2 Are there any areas in which the Principles need to be more specific?

In addition to the shareholder point above in relation to Principle 3, we have the following suggestions:

Principle Two – we agree that it is important for individual directors to have sufficient capacity to make a valuable contribution but would suggest that having sufficient **capability** is equally as important. This is of particular relevance in family owned and run companies where they may be a strong desire to appoint family members as directors. Also, in the supporting Guidance there is reference to the need for individual director evaluation which we absolutely support but we would suggest that a regular evaluation of how the board is operating as a whole is also desirable.

Principle Four – we challenge whether this Principle is sufficiently strong in relation to the board's role in the management of risk. As currently drafted Principle Four says that the board should be "establishing oversight for the identification and mitigation of risks". In contrast, the UK Corporate Governance Code includes the following principle: "The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives". The latter sets out clear ownership and responsibility of the board for this area, but the current Wates Principle Four is not as explicit. At a minimum we suggest that the word "effective" could be added to emphasise board ownership of these important processes.

Q3 Do the Principles and guidance take sufficient account of the various ownership structures of private companies, and the role of the board, shareholders and senior management in these structures? If not, how would you revise them?

Please see our response to Q1.

Q4 Do the Principles give key shareholders sufficient visibility of remuneration structures in order to assess how workforce pay and conditions have been taken account in setting directors' remuneration?

Yes, we think the proposed Principle Five will encourage an appropriate level of transparency of the remuneration structures of large private companies, focusing on the structures and policies without the need for a plc-style remuneration report.

Q5 Should the draft Principles be more explicit in asking companies to detail how their stakeholder engagement has influenced decision-making at board level?

No, we think these Principles in combination with the new reporting requirements on how the board has met its duty under section 172 are sufficient to deliver greater transparency of how stakeholder engagement has influenced decision-making at board level.

Q6 Do the Principles enable sufficient visibility of a board's approach to stakeholder engagement?

Yes, we believe they do, particularly when combined with the new statutory reporting requirements on how the board has met its duty under section 172.

Q7 Do you agree with an 'apply and explain' approach to reporting against the Principles? If not, what is a more suitable method of reporting?

Yes, we support the 'apply and explain' approach to reporting against the Principles.

Q8 The Principles and the guidance are designed to improve corporate governance practice in large private companies. What approach to the monitoring of the application of the Principles and guidance would encourage good practice?

This matter is a question for government. As this is a voluntary code, we would support an "encouragement" over a monitoring approach which might focus on the highlighting and sharing of good practices and disclosures amongst the large private company community. This will also be beneficial for growth companies who will be able to aspire to these good practices.

Q9 Do you think that the correct balance has been struck by the Principles between reporting on corporate governance arrangements for unlisted versus publicly listed companies?

With the exception of our comments in response to Q2, yes, we do believe the correct balance has been struck.

Q10 We welcome any commentary on relevant issues not raised in the questions above.

We have no further to comment to make. As noted in the covering letter, we support the focus on key principles which directors can apply as they see fit within the context of the company they govern.