Revised UK Corporate Governance Code 2018 highlights

Code content

Broadens the definition of governance and emphasises the importance of:

- Positive relationships between companies, shareholders and stakeholders.
- A clear purpose and strategy aligned with healthy corporate culture.
- High quality board composition and a focus on diversity.
- Remuneration which is proportionate and supports long-term success.

Designed to:

- Set higher standards of corporate governance to promote transparency and integrity in business.
- Attract investment in the UK for the long term, benefitting the economy and wider society.

Detailed changes

Stakeholders

- Emphasis on improving the quality of the board and company's relationships with a wider range of stakeholders.
- Taking effective action when receiving significant shareholder votes against resolutions and reporting back more promptly.
- Board responsibility for workforce policies and practices which reinforce a healthy culture.
- Engaging with the workforce through one, or a combination, of a director appointed from the workforce, a formal workforce advisory panel and a designated non-executive director, or other arrangements which meet the circumstances of the company and the workforce.
- The ability for directors and the workforce to be able to raise concerns and for effective enquiry of these concerns.

The boardroom

- Emphasis on importance of independence and constructive challenge of the boardroom.
- Strengthening consideration of 'overboarding'.
- A focus on diversity, the length of service of the board as a whole, and effective board refreshment.
- 'Comply or explain' provision for a maximum nine-year length of service, allowing flexibility to extend "to facilitate effective succession planning and the development of a diverse board… particularly in those cases where the chair was an existing non-executive director on appointment".
- Nomination committee responsibility for more effective succession planning that develops a more diverse pipeline. Reporting on the gender balance of senior management and their direct reports.
- Higher quality external board evaluations, emphasising the importance of the evaluator's direct contact with the board and individual directors.

Remuneration

- More demanding criteria for remuneration policies and practices.
- Clearer reporting on remuneration, how it delivers company strategy, long-term success and its alignment with workforce remuneration.
- Directors exercising independent judgement and discretion on remuneration outcomes, taking account of wider circumstances.
- Remuneration committee chair should have served on a remuneration committee for at least 12 months.

Code structure and reporting

The Code does not set out a rigid set of rules; instead it offers flexibility through the application of Principles and through 'comply or explain' Provisions and supporting guidance. It is the responsibility of boards to use this flexibility wisely and of investors and their advisors to assess differing company approaches thoughtfully. The 2018 Code:

- is shorter and sharper;
- "Supporting Principles" have been removed; and
- has fewer Provisions.

Renewed focus on the Principles

- By reporting on the application of the Principles in a manner that can be evaluated, companies should demonstrate how the governance of the company contributes to its long-term sustainable success and achieves wider objectives
- The statement should cover the application of the Principles in the context of the particular circumstances of the company, how the board has set the company's purpose and strategy, met objectives and achieved outcomes through its decisions
- High-quality reporting will include signposting and cross-referencing to other relevant parts of the annual report.

The effective application of the Principles should be supported by high-quality reporting on the Provisions

- The Provisions establish good practice on a 'comply or explain' basis.
- Companies should avoid a 'tick-box approach'. An alternative to complying with a Provision may be justified in particular circumstances based on a range of factors, including the size, complexity, history and ownership structure of a company.
- Explanations should set out the background, provide a clear rationale for the action the company is taking, and explain the impact that the action has had.
- Where a departure from a Provision is intended to be limited in time, the explanation should indicate when the company expects to conform to the Provision.
- Explanations are a positive opportunity to communicate, not an onerous obligation.

The role of investors and their advisors is very important

- Investors should engage constructively and discuss with the company any departures from recommended practice.
- When considering explanations, investors and proxy advisors should pay due regard to a company's individual circumstances.
- Proxy advisors have every right to challenge explanations if they are unconvincing, but explanations must not be evaluated in a mechanistic way.
- Investors and proxy advisors should also give companies sufficient time to respond to enquiries about corporate governance reporting.