Financial Reporting Council

25 UK CORPORATE GOVERNANCE CODE 1992-2017

DEVELOPMENTS IN CORPORATE GOVERNANCE AND STEWARDSHIP 2016

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The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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FOREWORD

UK corporate governance is strong but needs to evolve. The landscape of corporate governance is changing and there is more we can do to improve trust in business and promote a strong economy

This year marks the 25th anniversary of the report by the Committee on the Financial Aspects of Corporate Governance, chaired by Sir Adrian Cadbury. 'Comply or explain' – introduced by that report – has served the UK well, helping us to remain at the forefront of developing and implementing good governance practice, and made the UK an attractive place to invest. We will be marking this anniversary during the year.

On 24 June I met four other chairmen of European bodies responsible for corporate governance codes. It being the day after the EU referendum, the potential implications of that decision took up much of our discussions. Nevertheless we agreed that corporate governance codes and the principle of 'comply or explain' remain important as part of a strong corporate governance framework.

Our report on corporate culture and our assessment of the quality of UK Stewardship Code statements were timely given the government's current focus on corporate governance. They demonstrate that the FRC recognises that the corporate governance framework needs to evolve to meet the expectations of wider society.

The last quarter of 2016 saw two major consultations about corporate governance in the UK. The FRC gave written and oral evidence to the Business, Energy and Industrial Strategy (BEIS) Select Committee's inquiry.[1] In October, the prime minister drew attention to the need to strengthen and extend companies' accountability and transparency in relation to wider society. We will be replying to the government's *Corporate Governance Reform Green Paper,* which closes in February.

Our response to the issues raised is based on our experience and assessment of the state of corporate governance in the UK, on which this report and its predecessors have built a strong body of evidence. We have suggested that additional powers may be necessary in order to demonstrate the alignment of business, investor and public interests. These include:

- monitoring governance information in annual reports;
- requiring governance reporting by large private companies;
- improving reporting by companies about the elements of section 172 of the Companies Act 2006; and
- taking action against directors who are not members of the professional bodies that we oversee.

We also recommend a wider remit for the remuneration committee and shareholder consultation where there is a significant vote against an AGM resolution.

1 The FRC response was published on our website on 1 November 2016.

> It is essential that the UK maintains its position as an attractive capital market with a strengthened corporate governance framework underpinned by effective regulation

The landscape of corporate governance is changing and we have to do more to improve trust in business and promote a strong economy. It is essential that the UK maintains its position as an attractive capital market with a strengthened corporate governance framework underpinned by effective regulation. Our corporate governance framework should continue to offer a practical approach that supports long-term business success and responds to the aspirations of a wider range of stakeholders. To help us do this, the FRC has established a Stakeholder Panel to bring a broader range of perspectives into the policy-making and work of the FRC.

The FRC stands ready to revise the UK Corporate Governance Code and its associated guidance. I should like to thank everyone who has collaborated and shared their views with us during 2016. Your involvement will be even more important in the year ahead.

SIR WINFRIED BISCHOFF
Chairman, Financial Reporting Council
January 2017

EXECUTIVE SUMMARY

This report has four purposes: to give an assessment of corporate governance and stewardship in the UK; to report on the quality of compliance with, and reporting against, the two Codes; to give our findings on the quality of engagement between companies and shareholders; and to indicate to the market where we would like to see changes in corporate governance behaviour or reporting

The report summarises and comments on other relevant changes over the last 12 months, including the implications of the focus on corporate governance by the government and BEIS Select Committee.

The detailed assessment that follows in the remainder of this report draws on new and publicly available research and surveys (see Appendix for key research used), supplemented by our own reviews of annual reports and UK Stewardship Code statements. We have also held meetings with many investors, companies and other interested parties.

Corporate governance

Compliance with the UK Corporate Governance Code remains high, with 90 per cent of FTSE 350 companies reporting compliance with all, or all but one or two, of its 54 provisions. Full compliance has risen from 57 to 62 per cent this year. The provision for at least half the board, excluding the chairman, to be independent non-executive directors is the provision most frequently not complied with (although non-compliance is down from 42 FTSE 350 companies in 2015 to 26) which has a subsequent impact on compliance with provisions relating to committee memberships.

Analysis of the 2016 AGM season showed generally reduced investor support for remuneration resolutions, with concern noted about a lack of transparency about the link between executive pay and performance. The vast majority of the FTSE 350 have taken forward the 2014 Code recommendation for companies to put in place arrangements to enable them to recover or withhold variable pay, with 91 per cent now having some form of malus and/or clawback provisions on the annual bonus and 78 per cent on long-term plans, with others expected to introduce such arrangements when their remuneration policies next go to shareholders for approval. There has been a 24 per cent increase in the number of resolutions with a significant minority vote against the recommendation of the board. Reporting by companies in these cases is insufficient and requires improvement.

Distinctive reporting of high quality has an important role to play in differentiating the approaches companies take and in giving confidence to investors. Our report highlights some of the companies that provide

The quality of signatory statements has improved substantially as a result of the tiering exercise and we are pleased with the constructive approach taken by signatories

good-quality reporting. We also note that reporting where companies have received significant votes against AGM resolutions is disappointing. Overall, too many explanations of non-compliance are of poor quality.

2016 was the first full year of reporting on viability. We are aware of the challenge this has presented, but it is also a significant opportunity. Our analysis found a small number of comprehensive reports. Our initial assessment of statements suggests that there is little variation in disclosures between business sectors, and in our sample a third of companies provided only basic information. We encourage companies to provide more constructive reporting in line with the spirit of the Code, including a clear rationale for their choice of timeframe, what qualifications and assumptions were made, and how the underlying analysis was performed. We also encourage investors to engage with companies to discuss what improvements they wish to see in order to stem any criticism of 'boilerplate' reporting.

Succession planning was another area of focus for the FRC. In May 2016 we published a Feedback Statement on our UK board succession planning discussion paper, which shared practical approaches of how companies can deliver effective succession. Our overall assessment is that most companies are providing basic descriptions of their policy and practice with little further elaboration. This may indicate that companies are not spending enough time considering board and senior management succession. There is a need for nomination committees to have a more active role in the alignment of board composition with company strategy, and to ensure that the board has the necessary skills to ensure its long-term success.

Succession is also closely related to promoting diversity. It is clear from our work that the board should be better informed about the link between diversity, strategy and business values. Diversity should be considered as a broad concept to encourage diverse thinking and avoid the dangers of 'group-think'. The FRC has responded positively to both the Hampton-Alexander and Parker Reviews and we look forward to working with them further during the year.

Stewardship

In 2016 we undertook an exercise to encourage signatories to improve their reporting against the seven principles of the UK Stewardship Code. The outcome of this exercise was announced in November, with signatories being tiered according to our assessment of their reporting. The quality of signatory statements has improved substantially as a result and we are pleased with the constructive approach taken by signatories.

Signatories that remain in Tier 3 will be removed from the signatory list in mid-2017. Tier 3 signatories will be contacted again and given a further opportunity to improve their reporting before this time. We welcome new or revised statements on an ad hoc basis and, where these meet our reporting expectations, the signatories will be tiered accordingly.

This exercise has proved instructive in improving our understanding of the nature and substance of signatory activity. We are expecting continuous reporting improvements from signatories and encourage them to consider whether their statements are clear and make revisions as necessary. As part of the FRC's wider corporate governance work we will consider how to encourage further improvements in reporting and possible revisions to the UK Stewardship Code in 2018.

Culture

In July, the FRC published *Corporate Culture and the Role of Boards: A report of observations*. The report responded to continuing low levels of public trust in business by urging companies to focus on culture as a driver of long-term value and not to wait for a crisis before reflecting on their culture. It confirmed the board has a role to shape, embed and assess a desired culture and in doing so have regard to a wide set of stakeholders. The report raised awareness and debate on the issues of behaviour and culture in companies and was closely followed by the prime minister's comments on building trust in business and subsequently the BEIS consultation. The collaborative project was the first of its kind for the FRC and recognised the important role behaviour and culture plays in the long-term success of companies. We involved a wide range of individuals and organisations with expertise and experience in corporate culture. Having the partners involved in the project provided diversity, credibility and access to additional stakeholders the FRC may not have otherwise reached.

This year we will review our Guidance on Board Effectiveness as part of our consultation on the UK Corporate Governance Code and associated guidance with the intention of incorporating feedback from our report on corporate culture.

We have also established a Stakeholder Panel comprising a wide range of interested parties in order to bring a broader range of perspectives into the decision-making and work of the FRC.

Corporate governance consultations

Following its investigations into BHS and Sports Direct, the BEIS Select Committee announced in September 2016 an inquiry into corporate governance, focusing on executive pay, directors' duties, and board composition – including worker representation and gender balance in executive positions. The FRC has given written and oral evidence to the Committee, which includes recommendations for improving corporate reporting and widening board composition. We believe this should be achieved through changes to the supporting regulations and revisions to the UK Corporate Governance Code and associated guidance, and the Guidance on the Strategic Report. Our evidence also suggests where enhanced powers are needed in order to implement our recommendations.[2]

In November 2016, BEIS issued a public consultation on corporate governance covering directors' remuneration, the governance of large private companies and strengthening the wider stakeholder voice. The FRC will be replying to this consultation and looks forward to working with the government over the coming months to develop and implement practical solutions to address the areas of concern.

2 Building on our evidence to the BEIS Select Committee inquiry into corporate governance, FRC Chief Executive Stephen Haddrill wrote on 30 November 2016 to the Committee further outlining the FRC's position on the need for additional powers.

CORPORATE GOVERNANCE

The application of the UK Corporate Governance Code and other recent developments in corporate governance

Full compliance (without explanation) with the Code returned to the longer-term trend of increasing compliance, reaching a new high of 62 per cent, up from 57 last year.

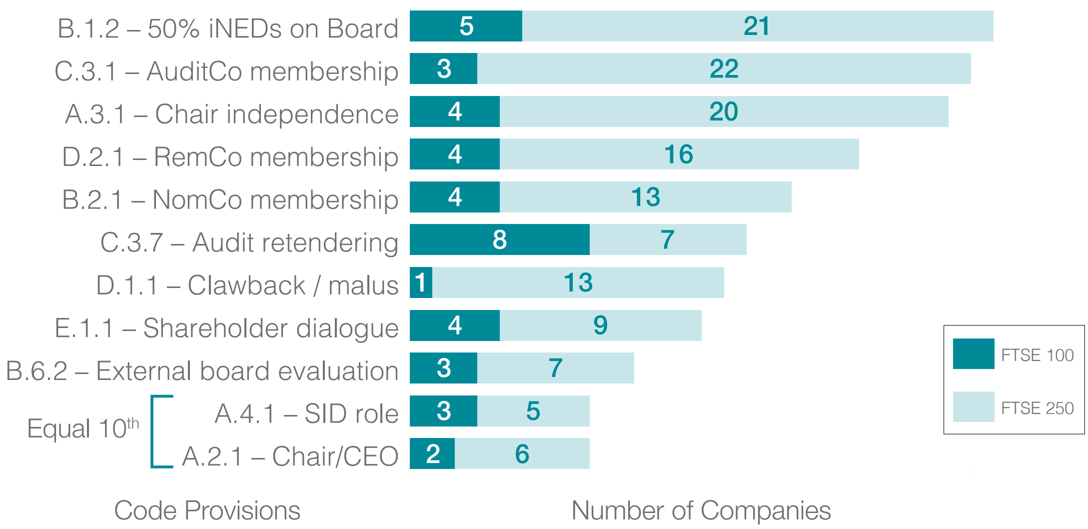
Overall compliance rates

This section of the report covers the application of the UK Corporate Governance Code during 2016, as well as provides an assessment of the quality of reporting on corporate governance. Details are also given of compliance with the key principles and provisions introduced in 2014.

Grant Thornton's annual survey found that compliance with the Code remains high, with 90 per cent of FTSE 350 companies reporting that they were either complying with all, or all but one or two, of its 54 provisions.[3] In 2015, there were lower levels of compliance among new market entrants, whereas most of the 2016 cohort appear to have ensured their governance arrangements were in place ahead of listing.

The table below lists the top ten areas of Code non-compliance where an explanation should therefore be provided. Code Provision B.1.2, which states that at least half the board (excluding the chairman) should be independent, remains the lowest rated in terms of compliance among FTSE 350 companies. The FRC's assessment of the quality of the explanations given for non-compliance is discussed in the next section.

Top 10 areas of non-compliance with the Code



Source: Extract of table from Practical Law's *Annual Reporting and AGMs 2015: What's Market Practice?* report published November 2016. Data as at 31 October 2016.

3 The future of governance: one small step…; Grant Thornton; November 2016

Data compiled by Manifest on behalf of the FRC shows that, in respect of board and committee composition, compliance levels among companies on the FTSE Small Cap and Fledgling indices remain on a par with those of larger companies.[4] The only exception to this, as seen in the table below, is a four per cent drop in compliance for remuneration committee composition, which is a result of actual changes in membership, and the sample size for the Fledgling index increasing to 61 companies this year in comparison to 23 last year.

Compliance with selected provisions of the UK Corporate Governance Code

Code provision	FTSE 350 companies		FTSE Small Cap and Fledgling	
	2016	2015	2016	2015
A.2.1 – Separate chairman and CEO	99%	99%	98%	99%
B.1.2 – Met minimum provisions for number of independent NEDs	93%	92%	89%	88%
C.3.1 – Met minimum provisions for audit committee composition	97%	97%	93%	94%
D.2.1 – Met minimum provisions for remuneration committee composition	95%	95%	86%	90%
B.2.1 – Met minimum provisions for nomination committee composition	99%	98%	95%	97%

Source: Manifest (date range 1 September 2015 – 31 August 2016)

Note: There are different requirements for FTSE 350 and smaller companies regarding the minimum number of independent directors and the minimum requirements for board and committee composition (for example, for FTSE 350 companies independent directors should make up at least half the board, while smaller companies are only expected to have at least two independent directors).

4 Manifest looked at a sample of 349 from the FTSE 350 Index, 277 from the Small Cap Index and 61 from the Fledgling Index.

Explanations

Companies are expected to explain areas of non-compliance with the Code. Guidance on 'comply or explain' is contained in the Code and describes the features of a meaningful explanation. This is to provide a benchmark for companies when writing explanations and for shareholders when assessing them. The explanation should set out the background, provide a clear rationale for the action being taken, and describe any mitigating activities. In addition, where deviation from a particular provision is intended to be limited in time, the explanation should indicate when the company expects to meet the provision.

Investors have told us that they regard a company to be in conformity with the Code if it chooses to deviate from one or more provisions, where a full and ample explanation is provided.

The table in the previous section highlights the top ten areas of non-compliance. Once again Code Provision B.1.2 is the provision companies most frequently do not comply with, albeit there has been a drop from the 2015 figure of 42 companies to 26. As a result, it is not surprising that the Code provisions relating to membership requirements of the committees of the board are also in the top five least complied with provisions.

This year we have reviewed in detail Code Provision A.3.1 – where the chairman is not independent on appointment or they were previously the company's chief executive – and Code Provision D.1.1 – where provisions allowing for clawback and/or malus should be included in company remuneration arrangements.

The following sections provide more detail on how non-compliance with these provisions has been disclosed. Overall, too many explanations are of poor quality. Better practice explanations include company-specific context and historical background, and information on what mitigating actions have been taken to address any additional risk. It is important the company explains how its alternative approach is consistent with the spirit of the Code provision it is deviating from and whether it is time limited. Ideally explanations should be sufficiently clear to be convincing and understandable to all shareholders, without the need to contact the company.

Explanations where the chairman did not, on appointment, meet the independence criteria set out in the Code or where the chief executive goes on to be chairman (A.3.1)

There were 24 FTSE 350 companies that reported non-compliance with this provision. In the majority, the chairman was not considered independent on appointment, but some reported that the chief executive had gone on to become chairman; both of which the Code does not consider best practice. Around a fifth of explanations were essentially repetitions of the Code provision and gave no information as to why this arrangement was considered acceptable. A more informative approach was taken by the chairman of DFS plc who used his introduction to the corporate governance statement to set out the background and rationale for his lack of independence. As seen overleaf, this non-compliance will continue for the tenure of his chairmanship.

Given that the principle of 'comply or explain' provides flexibility for companies to depart from a Code provision, it is important that a clear explanation is provided so that shareholders can assess whether they are content with the governance arrangements that the company has put in place.

> In last year's Annual Report, we noted an area of ongoing non-compliance with the Governance Code due to the fact that I, the Company's Non-Executive Chairman, am, for the purposes of the Governance Code, not considered to have been independent on my appointment as Chairman back in 2010 due to my role as an Operating Partner at Advent. As a consequence, this non-compliance continues, as indeed will the independence safeguards put in place at the time of the IPO to counter any potential issues. These safeguards prohibit me from acting on behalf of Advent in respect of its investment in the business and also prevent me from receiving any remuneration from Advent in respect of my role at DFS. Furthermore, the other members of the board are unanimously of the opinion that I can continue to be a valuable asset to the Group, bringing a wealth of experience in public companies and a keen understanding of retail businesses, as well as being independent in character and judgement.
>
> *DFS plc Annual Report and Accounts 2016*

The FRC would like to see details such as these in the explanations by companies where they have either a chairman not independent on appointment or a chief executive who has gone on to be chairman. It is disappointing that so many of these disclosures provide little understanding as to why these alternative approaches were considered in the best interests of the company.

Explanations where the company does not have provisions in its remuneration scheme to enable it to recover sums paid or withhold the payment of any sum (D.1.1)

The section on remuneration later in this chapter covers the take up of this Code provision more generally, but of the 14 companies that declared themselves non-compliant with this Code provision, various reasons were given. Two companies stated they could not comply as they are based overseas and local labour laws do not allow it. In one company these provisions were not included in a specific director's contract. For the majority though, the intention is clearly to add clawback and/or malus provisions (some had one but not the other) at the next update to their remuneration policy – see example below.

> Following the completion of the strategy review, our remuneration committee conducted a review of our remuneration policy… Our revised policy, including amendment to our long-term incentive and bonus plans to introduce both malus and clawback provisions, is being proposed for shareholder approval at our 2016 AGM. Subject to such approval, we will be in full compliance with provision D.1.1, and therefore expect to be in full compliance with the Code, from 28 April 2016.
>
> *Berendsen plc Annual Report and Accounts 2015*

There are likely to be fewer companies that do not comply with this provision when their remuneration policies are voted on again in 2017. Where malus and/or clawback provisions are not incorporated, we expect more information on what methods exist to mitigate the risk of remuneration being paid without any mechanism to gain restitution should issues be uncovered in the future.

Code changes

Audit Regulation and Directive

In April 2014, the European Parliament and the Council of the European Union issued Regulation EU/537/2014 covering specific requirements regarding statutory audit of public interest entities (the Regulation), and Directive 2014/56/EU covering the statutory audit of annual accounts and consolidated accounts (the Directive). Both took effect on 17 June 2016 and apply to financial years starting on or after that date.

Taken together the Regulation and Directive required revisions to both the Ethical and Auditing Standards as well as changes to the UK Corporate Governance Code and the Guidance on Audit Committees. A consultation on changes to these documents took place in late 2015 and final versions were published in May 2016.

The Code was already consistent with the majority of the Regulation and Directive so only minimal changes were made as follows:

- new wording was added to Provision C.3.1 to require the audit committee, as a whole, to have competence relevant to the sector in which the company operates;
- the reference in Provision C.3.7 to FTSE 350 companies putting the external audit contract out to tender at least every ten years has been deleted as this requirement is now included in the Companies Act 2006 following amending legislation to implement the Directive and Regulation;
- wording has been added to Provision C.3.8, which sets out what the audit committee's report in the annual report should include, to specify that the audit committee should give advance notice of any audit retendering plans.

The Guidance on Audit Committees was revised to take account of the changes to the Code and regulatory framework in light of the implementation of the Regulation and Directive. It also reflected other market developments, such as the Recommendations and Orders of the Competition and Markets Authority in relation to audit engagements.

Risk management and internal control

Amendments to the Code in 2014 introduced reporting of a longer-term view of a company's prospects in the form of a viability statement. Companies are now expected to consider how solvency, liquidity or other risks may impact the long-term viability of the business. In identifying the material risks and uncertainties a company faces, directors should consider a range of factors. These should include operational and financial considerations, and risks in the broader environment in which it operates, such as cyber security and climate change.

2016 was the first full year of reporting against this new Code provision. The FRC developed criteria to assess the quality of reporting in a sample of viability statements from ten FTSE 350 sectors covering nearly 100 companies – see the table overleaf for our overall opinion. The results of our analysis suggest that there is little variation in time horizon between the different business sectors, with two thirds of the sample choosing three years and the remainder mainly electing five years. We are aware of two FTSE 350 companies from outside our sample that chose ten years, but these were clearly not the norm. The lack of variation between sectors was surprising. For example, there was little difference between mining and retail despite their different business cycles. While there were some good explanations of why a three-year period was selected, there was a tendency to choose it as it matched the business planning/strategy period and this gave a greater level of assurance. The FRC encourages companies to provide clearer disclosure of why the period of assessment selected is appropriate for the particular circumstances of the company.

FRC analysis of C.2.2 disclosures from FTSE 350 sample[5]

	Comprehensive	Satisfactory	Minimal	Poor	Total
Aerospace & Defense	2	5	0	0	**7**
Banks	1	6	2	0	**9**
Beverages	0	3	1	0	**4**
Construction & Materials	1	2	3	0	**6**
Gas, Water & Multiutilities	1	3	1	0	**5**
General Retailers	3	8	7	2	**20**
Mining	2	7	3	0	**12**
Nonlife Insurance	0	3	5	1	**9**
Pharmaceuticals & Biotechnology	3	3	4	0	**10**
Software & Computer Services	0	3	3	1	**7**
Total	**13**	**43**	**29**	**4**	**89**

There is also room for improvement in explaining what qualifications and assumptions have been made and the quality of reporting of the principal risk linkages. Indeed, the sections covering business model, strategy, principal risks and the viability statement should align. More meaningful disclosures are also needed to understand how the underlying analysis was performed and what judgements the company made in arriving at its viability statement. While there may have been some reluctance in this first year to provide extensive information, it would now be helpful for shareholders to engage with companies to discuss what improvements they wish to see so to stem any criticism of 'boilerplate' reporting. To this end, the Investment Association (IA) published in November its Guidelines on Viability Statements, which is aimed at helping companies with these disclosures by setting out the expectations of institutional investors. The guidelines have been developed with the benefit of one year's experience and will be reviewed in the light of best practice as reporting evolves. We have also heard from some investors that they view companies who are willing to consider reporting against a longer time period as better governed.

It is a promising start that around 15 per cent of our sample (13 companies) provided a comprehensive statement and that among these there was no difference in quality between the FTSE 100 or 250. These statements were clear about why the period selected is right for the company. They have also detailed the process undertaken, who was involved, how specific principal risks had been stress tested, and information on the range of assumptions that had been considered. Furthermore, it was encouraging to hear from many chairmen that the

5 FTSE 350 sample correct as at 31 July 2016 and covers those annual reports published by 31 October 2016.

preparation of the statement has provided a positive focus for a better discussion of risk in the boardroom. Indeed, some suggested they might look at a longer period in future when they have more confidence in the new risk assessment process. However, all are aware of the risks of reporting to shareholders that the time period has been reduced.

Grant Thornton's review drew similar conclusions to our own, with almost half of companies providing a viability statement giving 'good or detailed insight into how their boards assess viability and what key risks were evaluated, mentioning modelling scenarios and/or stress testing'.[6] They too found a group of 13 companies that gave greater detail, with these companies 'adding sufficient qualitative and quantitative analysis to their risks assessment so as to enable the reader to appreciate the effect of such an occurrence'. In addition, their review showed that nearly two thirds of the companies included the viability statement within their strategic report.

On behalf of the FRC, McKinsey & Company interviewed 17 companies across a range of sectors about their approach to the preparation of the viability statement.[7] McKinsey found that companies thought the reporting served a useful purpose, especially in bringing together work that was already underway but had not necessarily been joined up. The quality of companies' internal dialogue on risk had also improved with the addition of financial modelling into what, for some, had been a more conceptual treatment of risk. However, modelling approaches varied: some companies were unwilling to model scenarios (as opposed to individual sensitivities), one-off catastrophic events, and mitigations. The level of engagement by management, the board, and its committees also varied, from treating it as a 'box-ticking' exercise to an integral part of the strategy development process. We would, therefore, encourage companies to share more detail on their modelling approach, including: if they modelled individual sensitivities, scenarios and/or clusters of sensitivities/scenarios; how they quantified one-off catastrophic events (if at all); and how mitigations were modelled. Ultimately, the disclosure should reflect the quality of the underlying risk identification, modelling, and management and board discussion of longer-term viability.

To some extent it is still early days for viability statement reporting, so we encourage companies to consider the recommendations above and the guidance available from bodies such as the IA, McKinsey & Company and the Institute of Risk Management to improve future reporting. The FRC's Financial Reporting Lab will be launching a project in 2017 to look at best practice reporting in viability statements and disclosures of risk.

Examples of companies assessed as comprehensive from FRC sample

Cobham plc

– Gives details of sensitivity analysis run against specific principal risks
– Details assumptions made on current bank facilities
– Layout is clear and 'tells a story'

Fresnillo plc

– Identifies the roles involved in compiling the statement and who was consulted on specific principal risks
– Lists the principal risks considered most important for assessing viability
– Details the stress-testing scenarios used and what mitigations are in place

National Grid plc

– Indicates factors other than the business plan as to why a five-year time period was chosen
– Provides details of the qualifications and assumptions used
– Refers to consideration of risks occurring both individually and as a cluster

Viability reporting suggestions

- Explain the background processes and analysis.
- Discuss what judgements have been made to arrive at the viability statement, including any qualifications and assumptions.
- Give details on the principal risks used specifically in the viability statement analysis.
- The sections on the business model, principal risks and viability should flow together.
- Provide information on modelling approach.

6 The future of governance: one small step…; Grant Thornton; November 2016
7 McKinsey & Company's findings were published in December 2016 as a short paper – *Risky business: UK plc assesses its viability*

The 2014 Code also brought in changes to risk management and internal control. The first of these was for the directors to confirm that a robust assessment of the principal risks facing the company, and how these are being managed and mitigated, has been completed (Code Provision C.2.1). From the sample of annual reports that Deloitte reviewed, 12 per cent of the 84 companies that made this statement did not provide a disclosure which sufficiently demonstrated corroboration with the board's assertion that a robust assessment had been completed.[8] It has been suggested that a lack of evidence opens a company up to the risk that investors and other users of the annual report and accounts will question the board's confirmation that such a robust assessment has taken place.

Code Provision C.2.3 states that the board should monitor and, at least annually, conduct a review of the effectiveness of the company's risk management and internal control system. The sample of companies EY reviewed also provided little qualitative detail on the process or findings of the effectiveness reviews or the ongoing monitoring.[9] Given the increased focus on risk reporting it is important that companies bear in mind that detailed disclosures demonstrate good governance in addition to complying with the Code.

Remuneration

The Code sets out expectations for the remuneration of the executive directors in Main Principle D.1. This states that '...remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.' Analysis of this year's AGM season by Deloitte found that among the 30 largest listed companies, the proportion that secured at least 95 per cent shareholder backing halved in 2016, to 26 per cent, compared with 2015.[10] The report noted that shareholder concern stemmed from 'a lack of transparency about the link between executive pay and performance.'

PwC's analysis of FTSE 350 reporting trends found that 'just 35 per cent of FTSE 100 companies highlight an explicit link to pay from their strategic report, falling to just 17 per cent across FTSE 250 companies'.[11] This highlights the need to demonstrate the link between strategy and remuneration frequently included in the strategic report given the increasing scrutiny from investors, politicians and the public.

Our analysis found that 12 FTSE 100 companies received less than 75 per cent support for their remuneration policy and report resolutions last year. There does not appear to be a correlation between significant votes against remuneration resolutions and the votes against the chair of the remuneration committee. The highest recorded vote against a FTSE 100 remuneration committee chair was 10.29 per cent, but the average was around two per cent. Executive remuneration receives an immense amount of attention and 2017 is set to bring even more scrutiny with around half the FTSE 350 putting remuneration policies to a shareholder vote. The government's focus on this area is more reason for companies to be conscious of the policy choices made and where remuneration committees might exercise discretion.

Grant Thornton reports that institutional pressure has been a driver of change in remuneration reporting as evidenced in the number of remuneration committee reports that open with a personal statement from the chair – in 2016 this was 96 per cent compared to 48 per cent as recently as 2012. Of these personal introductions, Grant Thornton judged '84 per cent to be good or detailed, providing personal views on their company's remuneration policy, main issues addressed and giving insight into changes made during the year.'[12]

The majority of the FTSE 350 have taken forward the recommendation for companies to put in place arrangements to enable them to recover or withhold variable pay, which was added to the Code in 2014. Deloitte reports that 95 per cent of FTSE 100 and 90

8 A Clear Vision: Annual report insights; Deloitte: November 2016
9 Annual Reporting in 2015; EY; September 2016
10 Your Guide – Directors' remuneration in FTSE 100 and 250 companies; Deloitte; September 2016
11 Analysis of FTSE 350 Reporting Trends 2016; PwC; September 2016
12 The future of governance: one small step…; Grant Thornton; November 2016

per cent of the FTSE 250 now have some form of malus and/or clawback provisions on the annual bonus.[13] The figures are 85 per cent and 75 per cent respectively for having clawback provisions in place for long-term plans. There has been an increase in the number of companies disclosing the circumstances that would trigger the need for clawback and/or malus with the most common being misstatement of results and misconduct on the part of the individual. Reputational damage and risk management issues were mentioned more often in the FTSE 100 than 250 as circumstances under which clawback and/or malus would be triggered.

The FRC welcomes compliance with this Code provision. However, as no company has invoked this provision, more time will be required to see if the arrangements companies have put in place are successful at preventing current and former directors from being able to retain remuneration that is later deemed unwarranted.

Relations with shareholders

Code Provision E.2.2, first introduced in 2014, requires companies to explain, when publishing meeting results, how they intend to engage with shareholders when a significant percentage of them have voted against a resolution. The purpose is to encourage companies to detail the process they will undertake to assess the concerns of shareholders, as well as setting out how they intend to respond to those concerns, although reporting on these may occur at different times.

The table below shows the voting results for the AGMs held in 2016 that had significant shareholder opposition. An indicative threshold of 20 per cent has been used, but it is for the board to judge what counts as a significant percentage of the share ownership for the circumstances of their company, and we would suggest this is noted at the end of their AGM results. In comparison to 2015, there has been a 24 per cent increase in the number of resolutions with a significant minority voting against the recommendation of the board.

Significant minority voting at FTSE 350 AGMs

Resolution type	Number of resolutions with 20%+ votes against		Number defeated	
	2016	2015	2016	2015
Audit & Reporting	2	–	–	–
Corporate Actions	–	1	–	–
Director Elections	13	4	–	–
Issue of Shares & Pre-emption Rights	11	11	1	1
Remuneration – Policy	9	4	2	–
Remuneration – Report	26	24	3	1
Shareholder Rights	5	10	1	1
Political Activity	1	–	–	–
TOTALS	**67**	**54**	**7**	**3**

Source: Manifest (2016); date range 1 January to 31 October 2016

13 Your Guide – Directors' remuneration in FTSE 100 and 250 companies; Deloitte; September 2016

Of the 67 resolutions with more than 20 per cent of votes against, there were seven (covering six companies) that did not pass. Five of these were remuneration resolutions – two of which were in FTSE 100 companies. There were also defeats for two non-remuneration resolutions, both FTSE 250 companies – one to approve new Articles of Association and the other related to the disapplication of pre-emption rights on the issue of shares for cash. All six companies published commentary in their AGM results, but only a few provided more extensive disclosures. These included significant details on the background to the vote and the rationale for the original decision, along with how the company intended to address shareholder concerns.

For the remaining 60 resolutions passed with a significant minority vote against, 20 companies (29 resolutions) did not make any statement about how they intended to engage with shareholders following the vote (see table below). This is a disappointing level of disclosure and improvement is required given that none of these companies indicated what they considered a significant proportion. We reviewed a small sample of 2015/16 annual reports where examples were found of commentary on the previous year's minority votes against remuneration resolutions. However, out of the dozen or so reports viewed, only around half gave sufficiently detailed information on what was behind the vote and what actions had been taken. For the 25 companies (covering 31 resolutions) that provided details on their proposed engagement with shareholders in the AGM results announcement, the quality of the disclosures was mixed.

Significant minority voting at FTSE 350 AGMs – information noted in AGM results

Resolution type	2016 resolutions with 20%+ votes against	Information in AGM results?	
		Yes	No
Audit & Reporting	2	0	2
Director Elections	13	7	6
Issue of Shares & Pre-emption Rights	11	6	5
Remuneration – Policy	9	3	6
Remuneration – Report	26	19	7
Shareholder Rights	5	2	3
Political Activity	1	1	0
TOTALS	**67**	**38**	**29**

Source: Manifest and FRC (2016)

Succession planning

In May 2016, we published a feedback statement summarising responses to the October 2015 discussion paper.[14] This was an area of focus as board evaluations often highlight the quality of succession planning as an issue, and we had been asked by the Parliamentary Committee on Banking Standards to investigate aspects of non-executive director appointments.[15] We wanted to promote good practice in this area to raise quality. The areas explored in the discussion paper and feedback statement were:

- How effective board succession planning is to business strategy and culture.
- The role of the nomination committee in succession planning.
- Board evaluation and its contribution to board succession.
- Identifying the internal and external 'pipeline' for executive and non-executive directors.
- Ensuring diversity on the board.
- The role of institutional investors in succession planning.

As part of the continuation of our review of culture, and in light of the responses to the discussion paper on succession planning, we will consider guidance to nomination committees as part of a consultation on the Code and associated guidance in 2017.

In the meantime, the Feedback Statement prompted companies to focus on the need to have an active nomination committee that considers the alignment of board composition with company strategy, both current and future. There is also a need to ensure the board, and the company as a whole, has the necessary skills, to secure its long-term success.

ICSA: The Governance Institute and EY also issued a report on this subject, *The Nomination Committee – Coming Out of the Shadows*, published in May 2016.[16] The report followed a series of discussions with mostly FTSE 350 board chairs, nomination committee chairs and members as well as company secretaries. The role of the nomination committee, its membership and reporting were examined. Questions for boards and nomination committees to consider were provided, along with the following three key points:

- Look deeper into the company to identify and help to develop future leaders by considering executive succession and the talent pipeline, as well as executive development.
- Cast the net wider to identify potential non-executive directors by determining the specific skill sets required, as well as personal attributes.
- Think further ahead than the immediate replacement of a retiring board member as this will help the company prepare for future challenges.

Nomination committee disclosures

There is a tendency for nomination committee reports to become more 'boilerplate' with a list of who sat on the committee, a standard set of responsibilities and a broad outline of the committee's activities for the year. Good nomination committee reporting provides details of the committee's focus in the previous year and what the next year holds. It should also highlight the links to the company's strategy and include director biographies that focus on the skills they add to the board, not simply list their work history. We have seen examples where an appointment to the board can be made more meaningful by treating it as a case study. Better reporting will also help demonstrate the importance of the nomination committee. It is again of concern that seven FTSE 350 companies appointed a new director and yet had no nominations committee meetings in the year.

Good nomination committee reporting provides details of the committee's focus in the previous year and what the next year holds

14 Feedback Statement: UK Board Succession Planning Discussion Paper; FRC; May 2016 and Discussion Paper: UK Board Succession Planning; FRC; October 2015

15 Changing banking for good – Report of the Parliamentary Commission on Banking Standards Vol.1; June 2013

16 The Nomination Committee — Coming out of the shadows; ICSA & EY; May 2016

It is apparent from disclosures made during the 2016 reporting season that the majority of companies are recognising the importance of succession planning and its relevance in achieving long-term success. It once again features as an area for continued focus in a number of board evaluation disclosures. However, in their review of the FTSE 350, Grant Thornton found that only 15 per cent of FTSE 350 companies provided considered insight into plans for future succession, albeit the board evaluations disclosures of 34 companies had been expanded to cover the outcomes too.[17] While full disclosure may be difficult given this can be a sensitive issue, it is possible to provide information on actions taken following an evaluation, the processes the company has in place for succession planning and how it fills board and senior executive positions.

It is particularly important that investors gain clarity on a company's approach to board evaluation, succession planning and refreshment. For example, the proxy advisory firm Glass Lewis believes that shareholders are in the best position to monitor the board's overall composition, including its diversity of skill sets, and its approach to corporate governance, rather than imposing inflexible rules that do not necessarily correlate with returns or benefits for shareholders. Nevertheless, they have a policy that considers recommending against the nomination committee where it waives previously adopted term or age limits.[18]

Market initiatives

Corporate governance consultations

The BEIS Select Committee announced an Inquiry into Corporate Governance in September 2016 and the government published a *Corporate Governance Reform Green Paper* in November 2016. The Green Paper covers directors' remuneration, the governance of large private companies and how best to include a wider stakeholder view in company decision-making. It requests feedback on a wide range of options for reform, including: the introduction of a binding vote on pay; revising reporting requirements on remuneration ratios and targets; improving the effectiveness of remuneration committees; amending the responsibility of boards or strengthening reporting by directors on their duties so that they better take into account the needs of wider stakeholders; and whether the corporate governance framework for private companies needs to be strengthened.

The Select Committee's Inquiry, to which we have provided written and oral evidence, focused on executive pay, directors' duties and board composition. The Inquiry posed a broad range of questions, with many considering how best to align directors' duties and executive pay with a company's long-term success. The Committee also asks other questions about the benefits of diversity on boards and wider employee representation. The Committee has received over 150 responses and held four oral evidence sessions. We look forward to the Committee's report and recommendations.

In our response to the BEIS Select Committee Inquiry we say that corporate governance in the UK is highly respected, both domestically and internationally. However, there is room for improvement and the continuing success of our economy depends on the revitalisation and reassessment of our capital markets and of the checks and balances that have characterised the benefits of that market model for so long.

The majority of companies are recognising the importance of succession planning and its relevance in achieving long-term success

17 The future of governance: one small step…; Grant Thornton; November 2016

18 An Overview of the Glass Lewis Approach to Proxy Advice: 2017 Guidelines; Glass Lewis; November 2016

We agree that there is a need to encourage greater transparency and accountability by companies not only to their shareholders, but also to wider stakeholders. Transparency to shareholders and other interested parties is key to ensuring the system works effectively. Boards and remuneration committees should ensure they are paying significant attention to the nature and structure of incentives and the behaviour they drive. They should explain what they have done and why. This transparency may best be achieved by providing greater specificity on how companies should engage on remuneration issues and report on this engagement.

We also discuss the role of section 172 and how reporting against this provision may be improved. The responsibility of directors to consider the needs of a wider range of stakeholders was considered in our report on corporate culture, the observations of which are covered later in this paper. Greater transparency over the actions of private companies may also be useful when considering the needs of a wider group of stakeholders. We have also suggested areas where additional powers may be necessary in order to deliver improved reporting backed up by effective enforcement.

The FRC is prepared to assist the government by considering ways in which it can support legislative changes the government makes on these topics. We also plan to consult on revisions to the UK Corporate Governance Code, the Guidance on Board Effectiveness and the Guidance on the Strategic Report. The consultations will take into account our work on culture and succession planning, the EU Non-Financial Reporting Directive and wider corporate governance changes in light of feedback to the government's Green Paper. We look forward to working with the government, and other stakeholders, as we consider how best to support the ongoing success of business in the UK and rebuild trust in companies. We will be responding to the government's consultation and we encourage other interested parties to do so before the deadline of 17 February 2017.

Remuneration

Executive Remuneration Working Group

The Executive Remuneration Working Group was established by the IA in the autumn of 2015 as an independent panel to address the concern that executive remuneration had become too complex and was not fulfilling its purpose. The Working Group published its Interim Report in April 2016, and consulted widely in May and June with a range of stakeholders before publishing its final recommendations in July 2016.[19]

The Working Group brought together company and shareholder representatives to recommend how the current structure of remuneration could be simplified to provide better alignment between companies and shareholders. The Working Group made recommendations in five areas to improve transparency of remuneration:

- Strengthening remuneration committees and their accountability.
- Improving shareholder engagement.
- Increasing transparency around target setting and use of discretion.
- Addressing the levels of executive pay.
- Setting parameters on how alternative structures might operate to gain market trust.

The IA later revised its *Principles of Remuneration* (published in October 2016) to foster greater simplicity and flexibility of pay structures taking into account the recommendations from this report.[20] The Principles were updated to ensure that they do not promote a single remuneration structure above others to enable companies to choose the appropriate structure for their business and strategy rather than automatically opting for the commonly used Long Term Incentive Plan structure.

19 Final Report; Executive Remuneration Working Group; July 2016
20 Principles of Remuneration; The Investment Association; October 2016

The IA sent an open letter to all companies in the FTSE 350 setting out new shareholder expectations on executive pay. The IA is also calling upon companies to disclose pay ratios between the CEO and median employee, and the CEO and the executive team. These would provide investors with the context they need to understand the scale of the awards being given. The revised Principles make it clear that it is essential that boards provide investors with clear justification on the levels of executive pay. This should be both in terms of the maximum potential remuneration as set out in the remuneration policy, but also payments actually made to the executive during the year in the context of the company's performance. The IA's letter also informed companies of the need to improve shareholder consultation on remuneration issues and to ensure that this engagement is based upon how pay is in line with the company's strategy.

GC100 and Investor Group's revised directors' remuneration reporting guidance

In August 2016, the GC100 and Investor Group published a revised version of its directors' remuneration reporting guidance, which replaced the 2013 version and provides guidance on the Directors' Remuneration Reporting Regulations 2013.[21] This second edition reflects changes in response to a review that was carried out over the 2014 to 2016 AGM seasons. The aim of the guidance is to assist companies in seeking to satisfy the reporting requirements prescribed by the Regulations. Key changes to the guidance in 2016 included:

- Clarifying the remuneration committee's use of discretion in determining remuneration outcomes, including the situations in which investors generally expect the committee to consider exercising discretion to moderate formulaic remuneration outcomes.

- Expanding the guidance on companies' use of commercial sensitivity as a reason not to disclose performance measures or targets in the remuneration report, including setting out general investor expectations on the prospective and retrospective disclosure of performance targets and measures related to short-term and long-term incentives.

- If a company chooses a comparator group of employees when reporting on the percentage change in the chief executive's remuneration, clarifying that investors (and other stakeholders) generally expect a meaningful comparator group and not a narrow group consisting of senior managers.

- Reinforcing that in the future policy table the maximum amount that may be paid for each component of remuneration, including salary, must be specified.

Diversity

Hampton-Alexander Review

In February 2016, Sir Philip Hampton, chairman of GlaxoSmithKline, and Dame Helen Alexander, chairman of UBM, were appointed to carry out a new board review to continue the work of Lord Davies. The review continues to champion work to improve the representation of women on FTSE 350 boards and considers options for building the talent pipeline, focusing on improving the representation of women in the executive layer of FTSE 350 companies.

The first Hampton-Alexander report was published in November 2016[22] and set out a number of recommendations, including raising the target of women on FTSE 350 boards to 33 per cent by 2020 and extending the scope to include FTSE 350 Executive Committees and direct reports to the Executive Committee. The latest figures show that women make up around one quarter of senior staff, and there are still 12 FTSE 100 executive committees without women on them. All male boards within the FTSE 350 are at an all-time low, however, going from 152 in 2011 to 11 in 2016. The review also recommends that the FRC amends the UK Corporate Governance Code so that

All male boards within the FTSE 350 are at an all-time low, going from 152 in 2011 to 11 in 2016

21 Directors' Remuneration Reporting Guidance 2016; GC100 and Investor Group; August 2016
22 Hampton-Alexander Review: Improving gender balance in FTSE Leadership; FTSE Women Leaders; November 2016

FTSE 350 companies are obliged to disclose the gender balance of their Executive Committees. This will be considered as part of the expected review of the Code in 2017.

Parker Review

Sir John Parker was asked to carry out a review into ethnic diversity in boards by former business secretary Sir Vince Cable back in 2014. His review found that FTSE 100 boardrooms were not representative enough of their workforces, nor their supply chains or customer bases. While 14 per cent of the UK's population is non-white, just eight per cent of the directors of FTSE 100 boards are non-white. His report has set out a number of recommendations to encourage top UK-listed companies to raise the number of ethnic board members, with a view to having no all-white boards by 2021 in the FTSE 100 and by 2024 for FTSE 250 boards.[23]

EHRC inquiry into FTSE 350 appointments

In March 2016, the Equality and Human Rights Commission (EHRC) published *An inquiry into fairness, transparency and diversity in FTSE 350 board appointments.*[24] This report set out the results of the inquiry launched by the EHRC in 2014 into how FTSE 350 companies and executive search firms recruit and select board directors. The aim was to determine whether recruitment and selection practices are transparent, fair and result in selection on merit, and to identify areas where companies and search firms can make improvements to support more diverse appointments to company boards.

The report made a number of recommendations concerning board evaluations, diversity policies and targets, role descriptions, the search process, the selection of candidates, the role of the nomination committee and means of improving diversity in the talent pipeline and candidate pool. The EHRC also produced a six-step practical guide for companies to help them improve board diversity, both when making an appointment and in respect of ongoing action that can be taken to increase diversity across the entire workforce, particularly to ensure a pipeline of diverse talent for future board appointments.

23 A Report into the Ethnic Diversity of UK Boards; The Parker Review Committee; November 2016

24 An inquiry into fairness, transparency and diversity in FTSE 350 board appointments; EHRC; March 2016

STEWARDSHIP AND ENGAGEMENT

Transparent reporting by signatories enables clients better to assess and compare different approaches to stewardship

Our assessment of the UK Stewardship Code and engagement in 2016, including the outcomes of the tiering exercise, and relevant market and regulatory initiatives

Introduction

The UK Stewardship Code was developed to help build a critical mass of investors willing and able to engage with the companies in which they invest, to increase the quantity and quality of engagement, and to increase accountability down the investment chain to clients and beneficiaries.

Every year we sample signatory statements against the Code's Principles. These assessments, evidence from other surveys and our discussions with market participants have suggested that the quality and quantity of stewardship has improved since the Code was introduced in 2010.

The quality of statements against the Code was variable and while there had been some improvement in the quality of Code statements, these were not sufficient to demonstrate that all signatories were following through on their commitment to the Code. In 2016 we asked signatories to demonstrate their commitment by reporting more effectively on their approach to stewardship. The FRC undertook a tiering exercise to distinguish between signatories that report well and demonstrate a commitment to stewardship, and those where improvements are necessary.

We are not in a position to assess individual engagements between investors and companies, but statements against the Code provide a framework for describing an investor's approach to stewardship.

The tiering exercise was designed to encourage signatories to improve their statements and thereby reaffirm their commitment to stewardship. Our objective was to improve the quality of reporting against the Code, encourage greater transparency in the market and maintain the credibility of the Code. Transparent reporting by signatories enables clients better to assess and compare different approaches to stewardship.

The tiering exercise

The tiering exercise involved consideration of all signatory statements to identify best practice reporting against the Code. Initial assessments of statements, sent to signatories in early 2016, indicated whether we considered the signatory to be in Tier 1 or Tier 2 on the basis of their reporting. We outlined, including for those signatories initially assessed as Tier 1, elements of reporting that they could consider improving. Many signatories improved their statements in response to this exercise. For example, there are now 88 asset manager signatories in Tier 1, up from fewer than 20 in our initial assessment.

Our assessment focused on signatories providing a strong overview of their approach to stewardship, covering the relevant Principles of the Code and using 'comply or explain' to describe an alternative approach where appropriate. We encourage signatories to make statements that were unique to them.

We had more than 200 meetings to discuss the aims of the exercise and revisions to Code statements. We were pleased by the constructive nature of the vast majority of meetings and thank signatories for the way in which they approached this exercise.

In response to feedback from market participants, we decided to introduce a third tier for asset managers, rather than the two tiers we initially proposed. The third tier reflects the greater relevance of the Code's provisions to asset managers, their role as agents and the wide range of quality in the statements in the initial Tier 2. Asset manager signatories were informed that we were considering the introduction of a third tier and had another opportunity to improve their statements.

Assessment of signatory statements

Many signatories reported well on their approach to stewardship and indicated why their organisation undertakes stewardship activities. These signatories often provided more distinctive statements overall.

Many signatories chose to include more information on their environmental and social activities in their Code statements as a result of this exercise. We believe stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. The focus on environmental and social topics in revised disclosures is likely to reflect the increasing interest from clients in these topics.

Better signatory statements use clear language and those that revised their statements covered the Principles of the Code and useful additional information without greatly extending the length of their statements. Others wrote longer statements to address each Principle of the Code in depth, which in some cases results in the statements being less easy to follow. We encourage all signatories to consider whether their statements are clear and make improvements as necessary.

Other areas of better reporting included the disclosure of information to clients in relation to voting and engagement activities actually undertaken. A number of signatories display best practice reporting by providing information in a more user-friendly or searchable format or with rationales for votes against and other useful information. The FRC is encouraged to see some signatories reporting so transparently on their activities.

Areas where reporting required greater improvement included conflicts of interest and collective engagement. Principle 2 recommends that signatories publicly disclose a conflicts of interest policy. We expect signatories to describe which conflicts are relevant to them given their client base, holding structure and investment style, amongst other things, and how they would address these conflicts if they were to arise. The Code does not expect disclosure of confidential information, but signatories should give an overview of possible conflicts and the approach to addressing them. While many signatories have provided detailed information on how they view and address conflicts, not all provided information in any depth, with some of the disclosures remaining quite generic.

Some signatories stated that they would consider engaging collectively where appropriate, but this covered a very broad range of practice. We encouraged signatories to explain whether they act collectively and, where they do not, explain their alternative approach. Signatories have, in general, responded by more clearly outlining their approach to collective engagement. Either by noting groups through which they engage, topics on which they may engage or by explaining why they do not look to do so collectively.

The Code operates on a ‘comply or explain’ basis however, where signatories did not comply with a particular Principle or simply omitted the recommended disclosures, the quality of explanations was disappointing. While we have seen an improvement in the clarity of explanations, we encourage signatories to consider the thoughtfulness of these and whether they could be improved. A proper explanation for non-compliance with a Principle of the Code provides information as to why the signatory does not comply, details their alternative approach and explains how it continues to meet the spirit of the Code.

The outcome

As explained above, the number of signatories in Tier 1 has increased significantly as a result of the tiering exercise, with approximately 80 signatories across all categories originally assessed as Tier 2 improving their statements to move into Tier 1. The exercise has resulted in more transparency and improved reporting against the principles of Code. Inevitably there is a range of practice within the tiers and a degree of judgement was needed for each assessment. Signatories assessed as Tier 1 do not necessarily provide a ‘perfect’ statement, but provide a good overview of their approach to stewardship. On pages 30-34, we have included extracts from signatories’ statements against elements of the principles in the UK Stewardship Code. These are examples of better reporting which are distinctive to the organisation and their circumstances.

We were pleased with the many signatories that have looked to improve their Code statements and be more transparent about their approach to stewardship. Clients are best placed to use the more transparent reporting to discuss with managers their different approaches to stewardship and ensure that the approach best meets their needs, but we do not expect the tiers to be used as a blunt selection tool. We also expect continuous reporting improvements from Code signatories.

Approximately 20 signatories decided voluntarily to withdraw their Code statements as a result of this exercise. This is appropriate if stewardship is not relevant for an organisation’s business model, as it should not be using the Code as a reporting framework.

Despite the clear improvements in Code statements, we remain concerned about those signatories to the Code that continue to report poorly and did not engage with us throughout this exercise. We have decided that those Tier 3 signatories that have not engaged with the spirit of reporting against the Code and continue to report poorly will be removed from the signatory list by mid-2017. Signatories in Tier 3 will be contacted again about their reporting and will be given the opportunity to improve their reporting before the deadline. The Code is voluntary, however under the Financial Conduct Authority’s (FCA) Conduct of Business Sourcebook (COBS), COBS 2.2.3R requires investment managers to disclose the nature of their commitment to the Code or, if such a statement is not appropriate, an alternative investment strategy. The FCA has confirmed that COBS 2.2.3R provides scope for an investment manager to make an alternative statement, and firms should ensure any client communications are clear, fair and not misleading.

As a result of the tiering exercise a number of signatories made suggestions for future Code amendments. There are a range of views about the Code’s focus and relevance to different signatories. As part of the FRC’s wider corporate governance work we will consider how to achieve further improvements in reporting and possible revisions to the UK Stewardship Code in the future.

A number of stewardship codes have been introduced in international markets in recent years. In 2016, these included the introduction of the International Corporate Governance Network's (ICGN) Global Stewardship Principles and the Hong Kong Principles of Responsible Ownership, amongst others. Many investors want to encourage responsible behaviour in all markets in which they invest, and so report against each code. If signatories meet the reporting requirements of the UK Stewardship Code, the FRC is comfortable for their statements also to address the requirements of other codes. We will publish a matrix of the differences between the UK and international codes. A signatory to a particular code will need to discuss their statements with the body that has issued the code to confirm whether or not their statements meet any reporting requirements in that market. Hopefully the matrix will make consideration of different Codes easier. The ICGN, after introducing its own code, has now convened a group of code owners in order to discuss regulatory challenges and share best practice. We look forward to playing an active part in this group.

Engagement in the 2016 annual general meeting season

The 2016 season was characterised by some very high-profile general meetings, often as a result of remuneration matters. Given the government's work in this area and the number of companies approaching the first of their three-year remuneration policy approvals, next year's voting season may also be high-profile. However, we continue to hear from both companies and investors that there is too much focus on remuneration. Grant Thornton's report found that 58 per cent of FTSE 350 chairs discuss strategy and governance with major shareholders, and while remuneration is inextricably linked to issues such as performance and strategy, both company and investor representatives feel that it can overshadow these important topics.[25] However, we have also heard from a number of investors that they are being approached very early by companies with a genuinely open mind about how their remuneration structures may best link to long-term performance and investor expectations.

Interestingly the IR Society's annual membership survey found that in the last year almost 63 per cent of respondents reported investors seeking more engagement with senior management, and more than 68 per cent reported investors seeking more engagement with the investor relations officer. However, only 37 per cent reported such a change in relation to engagement with the chairmen and non-executive directors. Disappointingly, only 36 per cent of FTSE 350 companies provided good or detailed explanations of the steps they took to understand the views of shareholders, down from 55 per cent last year.[26]

In discussions with the FRC, some investors have displayed a growing appetite for more disclosure on a broader range of risks, including climate-related matters where these are relevant to the company. The 2014 UK Corporate Governance Code changes on the reporting of risk management and viability have been in operation for more than a full year, and a sample of these are analysed in the previous section of this report. In identifying the risks and uncertainties a company faces, directors should consider a range of factors. These should include those that are financial and non-financial that could have an impact on a company's performance over the longer term, such as cyber security and climate change. In this context, we are interested to note the Recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. We will respond to the consultation and look forward to supporting this initiative to the extent it assists companies better to report on their risks, and investors to consider the risks that may impact their investee companies over the longer term.

25 The future of governance: one small step…; Grant Thornton; November 2016

26 The future of governance: one small step…; Grant Thornton; November 2016

In the case of cyber security risk, a number of cases have now been widely reported where data and business-critical systems have been compromised, resulting in financial loss or a significant loss of stakeholder and customer confidence. Where cyber security poses a material risk to the business of an entity, its directors should report this in its statement of principal risks, along with details of mitigating actions that have been taken. The Department for Culture, Media and Sport has been leading a government project that is considering how to raise awareness of this risk more widely.

Market initiatives

The UK Stewardship Code is a key part of the corporate governance framework, and many other regulators, government departments and market participants play important roles in helping us to build an environment conducive to better stewardship.

Regulatory initiatives

The regulatory environment for Local Government Pension Schemes is changing quite significantly at the moment, as these schemes move to pooling arrangements. The underlying funds and their respective pools take a range of approaches to stewardship and we will be interested to see how they meet the requirements of the Department for Communities and Local Government's *Guidance on Preparing and Maintaining an Investment Strategy Statement* regarding reporting against the Code. We encourage any such pension schemes wanting advice about their stewardship reporting to contact us.

The Pensions Regulator's new Code of Practice for Defined Contribution (DC) schemes came into force in July 2016. As a result of the Law Commission's review into fiduciary duties, the Pensions Regulator incorporated into its new guidance for managing DC benefits reference to the UK Stewardship Code and more engaged ownership practices. The wording mirrors closely the Law Commission's focus on taking into account environmental, social and governance factors where these are considered financially material. As noted in the Law Commission's helpful guidance to trustees, it is up to trustees to make an assessment of materiality and agree their approach to these factors.

In late 2015, the FCA launched a market study of asset management, which stemmed from the wholesale competition review. The market study covers a range of topics, including how managers compete to deliver value, how costs and quality are controlled along the investment chain and how investment consultants affect competition. The interim report's proposed remedies are of interest and we will be responding to the consultation and engaging with the FCA as it develops its final recommendations.

Stewardship initiatives

Much of the FRC's focus in 2016 has been on corporate culture, as outlined below. Our report reinforced the key role of boards and executive management in steering corporate behaviour to create a culture that will deliver sustainable good performance. One of the seven recommendations was aimed at investors and their role in reinforcing long-term culture and behaviours in companies in which they invest. The report recommended that: 'Effective stewardship should include engagement about culture and encourage better reporting. Investors should challenge themselves about the behaviours they are encouraging in companies and to reflect on their own culture.' Stewardship relies on constructive engagement between companies and investors to build respect and trust, and help companies to deliver long-term value.

In late 2016 the IA, ICSA: The Governance Institute and the Pensions and Lifetime Savings Association issued questionnaires on the stewardship activities of asset managers, asset owners, service providers and companies. For the first time, these

Stewardship relies on constructive engagement between companies and investors to build respect and trust, and help companies to deliver long-term value

organisations have co-ordinated their approach, enabling a more complete view of stewardship. We very much look forward to the report on the results, as it will help inform our future work on stewardship.

In March 2016 the IA released *Supporting UK Productivity with Long-Term Investment: The Investment Association's Productivity Action Plan*.[27] This plan included a number of recommendations regarding long-termism and enhancing investor stewardship and engagement. The Productivity Plan also mentions the IA's reporting framework on stewardship, which provides IA members with assistance in publicly reporting their stewardship activities, including providing case studies. The broad range of recommendations covers the activities of a number of market participants and areas in which the FRC works. The FRC has been encouraged to see the progress of elements of the plan and looks forward to continuing to support the IA in its efforts.

In 2016 the Investor Forum took some significant steps to establish itself as the primary mechanism for collective engagements and to facilitate discussions about long-term performance at UK-listed companies. The Forum released its first public statement about its engagement work and published its Collective Engagement Framework. The Framework provides market participants with a clear structure for how collective interaction can work effectively and an overview of the regulatory considerations that may be relevant, especially where investors are operating in international environments. We encourage those with concerns about companies to approach the Forum where they consider collective engagement may be useful. As a result of the tiering exercise, many of those Code signatories that are Forum members disclosed this in their revised UK Stewardship Code statements as evidence of their practical involvement in Collective Engagement.

The Association of Member Nominated Trustees' Red Lines campaign was finalised in 2015. The Red Lines cover a range of environmental, social and governance topics and we understand that during 2016 a number of trustees considered whether to incorporate Red Lines into their expectations of managers. We have been informed that some asset managers have begun to build Red Lines into their reporting to clients, and we look forward to seeing how this initiative progresses.

The European Union

Much has also changed in the international environment, most notably the UK's vote to leave the European Union. The EU is still following the 2012 action plan, which envisages more work on a range of issues, including shareholder rights and remuneration. In the light of Brexit, it is unclear how the UK may be affected by ongoing regulatory changes, but we look forward to following the deliberations on long-term sustainable investing and diversity on boards. The Shareholder Rights Directive was also recently agreed and we were pleased to see that 'comply or explain' has largely been retained for asset manager and owner reporting requirements. The government and FRC will consider how we may incorporate elements of the Directive as necessary when it has been approved in plenary early in 2017.

27 Supporting UK Productivity with Long-Term Investment: The Investment Association's Productivity Action Plan; The Investment Association; March 2016

Extracts from signatories' statements highlighting better reporting against elements of the UK Stewardship Code*

Principle 1: how stewardship is enhancing and protecting the value for the ultimate beneficiary or client

WHEB Asset Management believes that companies that create economic value by providing solutions to critical sustainability challenges will be market winners over the long-term. All potential investee companies are reviewed to consider the extent to which they provide products and/or services that help address key social and environmental challenges. Management practices and corporate governance are also reviewed as a key aspect of company analysis.

WHEB Asset Management

As an active manager of long-term concentrated portfolios Martin Currie takes stewardship very seriously. We are motivated by a belief that this both helps protect and enhance the risk-adjusted return on our clients' capital. Ultimately we want to make sure that the interests of company managements are aligned with their shareholders (our clients), and that the former take this into account when making decisions. We place a particular emphasis on governance, strategy and capital allocation, but also pay significant attention to 'sustainability' issues, including those of an environmental and social nature.

Martin Currie Investment Management Ltd

Principles 1 and 3: issues considered important to monitor

Impax Asset Management is a leading investment manager dedicated to investing in the opportunities created by the scarcity of natural resources and the growing demand for cleaner, more efficient products and services, through both listed and private equity strategies. Impax's listed equity funds seek out mis-priced companies that are set to benefit from the long-term trends of climate change, inadequate infrastructure, environmental constraints, changing demographics, urbanisation and the resultant increases in resource scarcity. Investment is focused on a small number of deeply researched global equity strategies across alternative energy, energy efficiency, water, waste, sustainable food and agriculture and related markets. A thorough ESG-analysis is an integral part of our investment analysis and process, as it provides us with a more complete picture of the companies we invest in and results in a better assessment and understanding of the broader risks and opportunities. By rigorously analysing companies beyond the financials, we aim to identify and understand companies' character and quality.

Impax Asset Management Limited

* Note: these are not complete responses to the Principles

Principle 1: asset owner's role in the investment chain

DHL's Investment Implementation Committee (The IIC)… recognises its position as an asset owner with ultimate responsibility to its members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of its beneficiaries. The adopted approach to stewardship is framed in that context. In practice, the IIC delegates responsibility for the selection, retention and realisation of investments to numerous external investment managers and in so doing, it also delegates day-to-day implementation of its stewardship activity. The IIC believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the Fund's investment arrangements.

DHL Trustees Ltd

Principle 2: why conflicts of interest policy is not publicly disclosed

After due consideration, we do not currently make our conflicts of interest policy available to the public as it contains a number of hypothetical examples of conflicts which in practice are rather unlikely to arise and which we wish to be in a positon to contextualise in a discussion with our clients or other interested parties if required. The media tends to extract information out of context and we wish to avoid that situation. An example would arise around the topic of aggregation of orders on behalf of clients. As is well known, this is a practice that is universal in the asset management industry and, typically, such aggregation works in a client's interest. However, that may not always be the case and we would not wish potential clients to become concerned by, or the media or other party to misconstrue, the hypothetical over the actual and for these reasons we would only disclose the policy in the context of an open dialogue to interested parties.

Generation Investment Management

Principle 2: identifying possible conflicts of interest

EIM has identified its potential material conflicts as:

- Conflicts relating to the interests of the Group and the investors in the funds managed by EIM;
- Failing to allocate securities between fund clients on an equitable basis;
- Inappropriate use of the services of the EIO Group;
- Substantial gifts or entertainment;
- Entering into mandates where clients have conflicting interests;
- Entering into mandates where client interests may conflict with those of the Group;
- Misuse of information for personal gain/inside dealing;
- Inappropriate use of dealing commissions;
- Personal Account Dealing by employees, and
- Remuneration.

EdenTree Investment Management Limited

Principle 3: departures from the UK Corporate Governance Code

The UK Corporate Governance Code is designed on a "Comply or Explain" basis. We address departures from the UK Corporate Governance Code on a case by case basis. For example, these are some of the matters we would bear in mind when considering a company's explanation of non-compliance. We would:

- have regard to the importance of promoting good practice;
- assess the departure from the Code in relation to the context of any special circumstances affecting the company;
- refer back to previous engagements to see if there were specific reasons for not adhering to certain aspects of the code;
- take into account the views of our fund managers and analysts on the strategy of the company, how well the board has delivered on this and for their assessment of individual board members in terms of competence, skills, experience and trust if appropriate;
- look at the overall compliance to the Code, the composition and independence of the board and its committees to assess how serious the departure from the Code is or whether it is minor issue in view of the overall behaviours and practices of the board;
- consider the appropriateness of remuneration and whether arrangements are aligned to shareholder interests;
- consider how receptive the company has been to shareholder concerns in the past, and relate that experience to any future concerns;
- take into account our overall opinion of the board, and take into consideration all of the above to decide whether or not we concur with a company's rationale for its non-compliance.

Aviva Investors

Principle 4: circumstances in which engagements may be escalated

LGIM actively engages with investee companies regardless of whether shares are held actively or in an index fund. The way in which engagement is undertaken is dependent on the circumstances and the issues to be discussed. Therefore, topics and issues where we would likely intervene include:

- Consistent failures or departure from the Corporate Governance Code and an assessment that shareholder interest continues to be at risk;
- Concerns relating to the execution of strategy or lack of long-term strategic direction which could damage long term shareholder value in the future;
- Poor risk management which threatens the business (including the consideration of Environmental and Social issues);
- Significant or compounding financial underperformance by the company;
- Other shareholders raising concerns with the company and collaborating with them to raise similar issues.

Legal and General Investment Management

Principle 5: groups through which collective engagement may be carried out

As a specialist boutique asset manager with focused resources, we endeavour to leverage relationships to engage in collective engagement when appropriate. To that end, we are members of or signatories to the initiatives below, and take an active role in those most relevant to us. We have decided to particularly focus on initiatives related to Climate Change and Carbon Risk and have been involved in a number of initiatives in this area. We are members of the Collaboration Platform (formerly the UNPRI Clearinghouse) which is a forum that allows PRI signatories to pool resources, share information and enhance influence on ESG issues.

- The United Nations Principles for Responsible Investment (UNPRI)
- The Institutional Investors Group on Climate Change (IIGCC)
- The Carbon Disclosure Project (now known as CDP)
- CDP Water Initiative

KBI Global Investors

Principle 6: stock lending and recalling lent stock

… BMO Global Asset Management EMEA believes that stock lending is an important factor in preserving the liquidity of markets and in facilitating hedging strategies; it also provides investors with a significant additional return on their investments because the sale-repurchase transaction includes a profit margin… BMO Global Asset Management EMEA considers that the balance to be struck between stock lending and voting is a matter for individual decision by clients. For those clients wishing to be involved in stock lending, BMO Global Asset Management EMEA's policy is to accommodate this while retaining a minimum shareholding at all times, thereby ensuring that a vote is cast and any concerns are expressed directly through a letter to the company. Where significant voting issues arise, BMO Global Asset Management EMEA will stop any further lending of stock, and, if necessary, will seek, on a reasonable-efforts basis, to recall all lent stock over the voting period. BMO Global Asset Management EMEA also accommodates clients who do not wish to engage in stock lending at all, should they prefer to vote all stocks at all times.

BMO Asset Management EMEA

Principle 6: asset owner's approach to voting when outsourced

We expect our fund managers to vote thoughtfully rather than automatically with management. We appreciate that a fund manager may be involved in correspondence with a company. This might mean that they wish to vote in a different way to how we would vote if we had the right to. We expect them to have their own publicly documented voting policy and not solely rely on third party recommendations. We can also override a select number of votes cast by our global equity fund manager. As a pooled fund investor, being able to directly exert our influence on investee companies on matters we feel strongly about is an exciting development. Our fund managers need to understand our values and our obligation to members. They also need to provide us with the tools and support to be able to monitor their responsible investment activities effectively and meet our own stewardship responsibilities. We publish our fund managers' voting records on our website and we expect our fund managers and responsible investment partner to do the same.

NEST

Principle 6 and 7: voting activity and reporting to clients

With regards to reporting, all clients receive a proxy voting and engagement report on a quarterly basis. This provides rationale for all votes where we have not supported a management resolution, and a summary report on engagement meetings we have had with companies in the previous quarter. We publicly disclose a summary of all our voting and engagement activities on our website under Company Engagement & Disclosure Reports. This report is published quarterly.

Baillie Gifford

Principle 7: obtaining an independent opinion on engagement and voting processes

We are aware of the importance our clients and their advisers attach to our stewardship activities, including the effective operation of our engagement and voting processes. Therefore, we obtain appropriate independent assurance over the policies and procedures which underpin our stewardship policy statements. The assurance report is available.

Standard Life Investments

CORPORATE CULTURE

In July 2016 the FRC published *Corporate Culture and the Role of Boards: A report of observations,* which pulled together the findings of an 18-month engagement and research project looking at the role of boards in shaping, embedding and assessing organisational culture

Background

Public trust in business remains low as we continue to see examples of poor corporate conduct. The FRC was keen to explore the link between healthy company culture and the creation of long-term sustainable value, in line with our mission 'to promote high-quality corporate governance and reporting to foster investment'.

The project aimed to gather practical insight into corporate culture and the role of boards; understand how boards can shape, embed and assess culture; and identify and promote good practice applicable to a wide range of sectors.

In early 2015, the FRC held initial discussions with non-executive directors and other stakeholders to identify the key issues and to establish areas for investigation. The project was divided into workstreams to research these areas.

Delivering sustainable success – the board's role

Led by FRC, with Chartered Institute of Management Accountants (CIMA) and City Values Forum

Included company purpose, business model, setting and aligning values and culture with key decisions, practices and processes, long-term view, competitive edge, leadership, governance, maintaining culture in times of stress, integrating and embedding.

People

Led by Chartered Institute of Personnel and Development (CIPD)

Alignment between values and policies, practices and processes, including recruitment, training, financial and other rewards and incentives, performance measures, the employee voice, whistleblowing, management chain, role of the remuneration and nomination committees in supporting the board.

Stakeholders

Led by Institute of Business Ethics (IBE)

The relationship between culture and business model, relationships with customers and suppliers, impact on the community and environment, ethics and standards of business conduct, relationships with shareholders, stewardship.

Embedding and assurance

Led by Chartered Institute of Internal Auditors (IIA)

Internal and external audit, measurement and indicators, management information, tools, role of the audit committee, (narrative) reporting and transparency.

Together with our partners, the FRC held hundreds of meetings and discussions with individuals working in, directing and advising companies, as well as academics, professional bodies, regulators and not-for-profit organisations with expertise and experience in organisational culture. This included executive and non-executive directors, company secretaries, risk, human resources and internal audit professionals, the accountancy profession and accountancy firms, law firms, executive search firms and board advisors.

The FRC issued a public invitation to participate, which created wide interest in the project and established a broader network of regular contacts for the future.

Main observations

As set out below, the FRC developed seven observations as a result of the evidence gathered during the project. The report also shares practical tips and case studies to help boards reflect on the values, behaviours and culture in their own companies.

Recognise the value of culture

A healthy corporate culture is a valuable asset, a source of competitive advantage and vital to the creation and protection of long-term value. It is the board's role to determine the purpose of the company and ensure that the company's values, strategy and business model are aligned to it. Directors should not wait for a crisis before they focus on company culture.

Demonstrate leadership

Leaders, in particular the chief executive, must embody the desired culture, embedding this at all levels and in every aspect of the business. Boards have a responsibility to act where leaders do not deliver.

Be open and accountable

Openness and accountability matter at every level. Good governance means a focus on how this takes place throughout the company and those who act on its behalf. It should be demonstrated in the way the company conducts business and engages with and reports to stakeholders. This involves respecting a wide range of stakeholder interests.

Embed and integrate

The values of the company need to inform the behaviours expected of all employees and suppliers. Human resources, internal audit, ethics, compliance and risk functions should be empowered and resourced to embed values and assess culture effectively. Their voice in the boardroom should be strengthened.

Assess, measure and engage

Indicators and measures used should be aligned to desired outcomes and material to the business. The board has a responsibility to understand behaviour throughout the company and to challenge where they find misalignment with values or need better information. Boards should devote sufficient resource to evaluating culture and consider how they report on it.

Align values and incentives

The performance management and reward system should support and encourage behaviours consistent with the company's purpose, values, strategy and business model. The board is responsible for explaining this alignment clearly to shareholders, employees and other stakeholders.

Exercise stewardship

Effective stewardship should include engagement about culture and encourage better reporting. Investors should challenge themselves about the behaviours they are encouraging in companies and to reflect on their own culture.

RESEARCH

Meetings

300

Interviews

23

FTSE chief executives

58

FTSE chairmen

Surveys

44

FTSE chairmen

Outcomes

The project and report has raised the level of discussion and debate on:

- The role of boards in shaping, embedding and assessing company culture.
- The value of culture in creating sustainable companies.
- The way companies conduct themselves and interact with a broader range of stakeholders, other than shareholders.

It is a valuable contribution to a broadening debate about the governance of companies and the scope of governance. We identified measures of success for the project that we will be monitoring over the next 12 months. These include seeing an increase in the quality of reporting on values, behaviour and culture by companies. Black Sun reviewed reporting on culture in annual reports of FTSE 100 companies. While 48 per cent define their values, just 37 per cent align these to strategy. Only 14 per cent of companies discuss their company culture.[28]

We will also be monitoring how boards are discussing culture in the boardroom. ICSA: The Governance Institute and The Financial Times report in their *Boardroom Bellwether* survey that boards are spending more time discussing values, behaviours and culture than they were five years ago, yet Independent Audit Limited's *Cultivating Culture* finds that '41 per cent of company secretaries say boards could do more on culture'.[29]

As our report on corporate culture highlighted, having effective whistleblowing procedures is important to good governance. Analysis of recent matters considered by the FRC's Enforcement Division also found this, along with the need to have effective controls over remote subsidiaries and related party activities.

Having the partners involved in the project provided diversity, credibility and access to additional stakeholders the FRC may not have otherwise reached. The Steering Group that oversaw the project provided valuable direction and challenge throughout, and we thank it for its continued contribution. The Culture Coalition is now considering areas of future focus, including reporting on values, behaviours and culture, the benefits of a having a company purpose wider than profit, and the changing nature of leadership.

28 Corporate Culture: a thought pieces on reporting; Black Sun; November 2016

29 Boardroom Bellwether survey of FTSE 350 company secretaries; The Financial Times and ICSA: The Governance Institute; Dec. 2016 Cultivating culture: what boards can and can't do about behaviour; Independent Audit Limited; July 2016

APPENDIX
EXTERNAL ANALYSIS AND METHODOLOGIES

As well as our own research, the FRC reviews the analysis of annual reports and accounts (ARAs) conducted by other organisations

Report	Sample size/methodology
Deloitte, 2016. *A clear vision: Annual report insights* Current best practice in annual reporting.	100 ARAs of UK incorporated companies with a premium listing, across multiple sectors. Excludes investment trusts and mutual funds. • 19 FTSE 100 companies • 39 FTSE 250 companies • 42 companies outside FTSE 350 The annual reports used are those for years ending on or after 30 September 2015 and published before 28 June 2016.
EY, 2016. *Annual Reporting in 2015* Focus on five key themes: • Clear and concise • Business models, risk and viability • Culture and people • Broader societal impacts • Looking ahead	100 ARAs of FTSE 350 companies with September 2015 to March 2016 year-ends. 43% FTSE 100 companies 57% FTSE 250 companies The sample covers a range of industries that broadly reflects the composition of the FTSE 350. Excludes investment trusts and mutual funds.
Grant Thornton, 2016. *The future of governance: one small step...* In addition to assessing compliance with the UK Corporate Governance Code and narrative reporting requirements, the review assesses the quality and detail of annual reporting, and draws attention to best practice.	308 ARAs of the FTSE 350 companies (as of May 2016) with years ending between June 2015 and June 2016. Excludes investment trusts. All FTSE 100 companies 208 FTSE 250 companies
PwC, 2016. *Analysis FTSE 350 Reporting Trends 2016* Being distinctive, strategic and relevant. The ongoing challenges in corporate reporting.	Desktop review of the majority of FTSE 350 company annual reports with year ends dated from 1 April 2015 to 31 March 2016.
Practical Law, 2016. *Annual reporting and AGMs 2016: What's Market Practice?* An analysis of key trends in relation to board composition, size and evaluation, remuneration, audit tender, viability statements, resolutions proposed and voting trends of FTSE 350 companies from the 2016 reporting and AGM season.	The section on board composition covers all FTSE 100 companies as at 14 October 2016. Information on narrative reporting, notice and poll voting sections cover 299 FTSE 350 premium equity companies that published their notice of AGM between 30 October 2015 and 28 October 2016, and held their AGM in 2016 (99 FTSE 100 companies and 200 FTSE 250 companies).

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