

July 2018

Dear Company Chair

The FRC has published the new 2018 UK Corporate Governance Code. This is a result of a substantial outreach and consultation and we thank respondents for their contributions.

Over 26 years the Code has improved standards of practice and reporting on governance. The UK has a strong reputation in this field of which we should be proud. But this reputation is tarnished when we see corporate collapses accompanied by poor governance and conduct. Such events harm public trust in business and deter investment.

The 2018 Code has substantially evolved and builds on the progress we have made to improve the quality of governance in the UK. There are significant changes to its structure and content. It is shorter and sharper, there is a renewed emphasis on the Principles and there are fewer Provisions. The new Code takes a broader view of governance and emphasises the importance of a healthy corporate culture and constructive relations with a wider range of stakeholders in delivering long-term sustainable success.

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

The effective application of the Principles should be supported by high-quality reporting on the more detailed Provisions. Companies should avoid a tick-box approach. An alternative to complying with a Provision may be justified in particular circumstances. Explanations are a positive opportunity to communicate, not an

onerous obligation. These should set out the background and provide a clear rationale for the action the company is taking.

We are writing to other parties involved in making the Code a success. Before it comes into force, we will be working with stakeholders to embed the Code and enable the improvements in governance we all wish to see. After the introduction of the 2018 Code we intend to escalate our monitoring of practice and reporting.

The FRC's mission is to promote transparency and integrity in business. We look forward to continuing to work with you so that we can ensure a strong flow of investment into successful UK companies, delivering long-term growth which supports a prosperous economy and society.

A handwritten signature in black ink, appearing to read "Luis Pizarro". The signature is written in a cursive, flowing style.