

## **Summary of the 2018 UK Corporate Governance Code**

The new code is shorter than its predecessor and contains fewer provisions. The Supporting Principles that were contained in the previous version have been removed and the Code now consists of Principles and detailed Provisions.

The Introduction to the Code states that it is not intended to operate as a rigid set of rules. Rather, it is intended to provide flexibility and to be applied in a way that is appropriate to the company in question.

Companies are required to report on how they have applied the Principles in the context of the particular company. Companies must also report on the application of the Provisions on a comply or explain basis. The FRC has stated that a tick box approach should be avoided and that an alternative to complying with a Provision may be justified in particular circumstances. Companies are also urged to avoid boiler-plate reporting.

Investors and proxy advisors should pay due regard to the circumstances of particular companies and avoid a “mechanistic” assessment of compliance.

### **Key changes include the following:**

- There is an increased emphasis on the quality of relationships with a wider range of stakeholders. This includes a requirement for engagement with the workforce (which is defined broadly and may include, for example, agency workers). Engagement may be through one or a combination of a director appointed from the workforce, a formal workforce advisory panel, a designated non-executive director or other arrangements which are effective having regard to the circumstances of the company.
- Where 20 per cent. or more of votes have been cast against the board’s recommendation in relation to a resolution at a shareholder meeting, the company is required to announce what action it intends to take to consult shareholders to understand the reasons behind the result. An update on the feedback received and action taken should be published within six months of the shareholder meeting and a final summary included in the annual report and, if applicable, in the notes to the shareholder resolutions at the next shareholder meeting, stating what impact the feedback has had on the decisions the board has taken and actions and resolutions subsequently proposed.
- A greater focus on culture and ensuring that company culture is aligned with the company’s purpose, values and strategy.
- There is a maximum length of service for the chair of the company of nine years. This runs from the chair’s first appointment to the board. There is an ability to extend this tenure for a limited time to facilitate effective succession planning, particularly where the chair was an existing non-executive director on appointment.

- All directors are now subject to annual re-election. This is more stringent than the previous position which imposed annual re-election only on directors of FTSE 350 companies and non-executives who had held office for more than nine years.
- As part of its duties regarding succession, the nomination committee is required to oversee the development of a diverse pipeline. It is also required to report on the gender balance of senior management (the executive committee or the first layer of management below board level) and their direct reports.
- Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes where appropriate. The terms of individual contracts and scheme rules should not prevent the exercise of such discretion.
- The chair of the remuneration committee should have served on such a committee for at least 12 months before appointment.
- Rates of pension contributions for executive directors should be aligned with those available to the workforce.

The Code will apply to accounting periods beginning on or after 1 January 2019, although the provisions relating to shareholder votes will be relevant during 2019.