

The UK Corporate Governance Code

– changes to enhance governance in UK businesses

On 27 May 2010 the FRC issued the UK Corporate Governance Code, which is the end result of a year of consultation and reflection on the state of governance in UK businesses.



The FRC emphasises the necessity of companies to pay attention to the spirit of the Code as well as to its letter. Complying with the Code's provisions cannot guarantee effective board behaviour – rather boards are encouraged to think deeply, thoroughly and on a continuing basis, about their overall tasks and the implications of these for the roles of their individual members.

The FRC has changed the 'tone' of the Code by focusing on board behaviours which, it is hoped, will promote greater clarity and understanding with regard to the tasks of a board and ensure more effective communication with shareholders. In an effort to discourage boiler plate disclosure and to provide investors with a clearer picture of the steps that boards have taken to operate effectively, chairmen are now encouraged to report personally in their annual statements on how the principles relating to the role and effectiveness of the board have been applied.

Over the last few years the role of shareholder engagement has been widely discussed and the FRC has highlighted the need for better engagement of shareholders in monitoring the Code's application. To facilitate this, the FRC has assumed responsibility for the Stewardship Code that will provide guidance on good practice for investors. The outcome of the consultation on the Stewardship Code is expected shortly.

The financial crisis has necessitated close scrutiny of how boards manage risk and the FRC has clearly laid the responsibility for determining the nature and extent of the significant risks that a company is willing to take on the whole board. However, the new Code does fall short of Walker's recommendation for board risk committees and the appointment of a chief risk officer.

Main changes:

- To enhance accountability to shareholders, there is now a recommendation that all directors of FTSE 350 companies be subject to annual re-election. While this may increase the accountability of board members, both companies and shareholders need to be conscious that it might drive short term behaviour.
- To ensure the board is well balanced and challenging, there are new principles on the leadership of the chairman, the roles, skills and independence of non executive directors and their level of time commitment.
- To ensure that directors have the skills to discharge their duties effectively the chairman should regularly review and agree with each director their training and development needs.
- To enhance the board's performance and awareness of its strengths and weaknesses, board evaluation reviews should be externally facilitated at least every three years and the chairman should hold regular development reviews with each director.
- To improve risk management, there is a new principle on the board's responsibility for and handling of risk.
- To encourage more 'useful' disclosure and to provide more 'context' for investors, it is now recommended that companies disclose information on the company's business model. Companies are encouraged to include this information within the Business Review and should refer to the ASB's OFR Guidance, paragraphs 30 to 32, for direction on what types of matters should be included. Information that may be relevant could include a description of the markets that a company operates within and the significant features of the legal, regulatory, macro-economic and social environment that influence the business.



Implementation of the Code

The new Code applies to accounting periods beginning on or after 29 June 2010 and, as a result of the new Listing Regime introduced in April 2010, applies to all companies with a Premium Listing of equity shares regardless of whether they are incorporated in the UK or elsewhere.

Contact us

Audit Committee Institute

Tel: 020 7694 8855

e-Mail: auditcommittee@kpmg.co.uk

Web Site: www.kpmg.co.uk/aci

For the press release and a full version of The UK Corporate Governance Code please visit www.frc.org.uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2010 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative, a Swiss entity.

Designed and produced by KPMG LLP (UK)'s Design Services.

Publication name: ACI UK Corporate Governance Code – changes to enhance governance in UK businesses

Publication number: RRD-201221

Publication date: May 2010