

An aerial photograph of London, England, featuring the Tower Bridge in the foreground, the River Thames, and the modern city skyline in the background, including The Shard. A large yellow graphic overlay is on the left side of the image.

# UK Corporate Governance Code proposals

13 July 2023

# Presenters

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Code proposals

Overall

# What would you like to get out of today's session?



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# What benefits and opportunities do you see for your organisation?



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# What areas will your organisation find most challenging?



# Objectives

- ▶ Sharing of points of view
- ▶ Influence whether/how you respond to the consultation



# Agenda

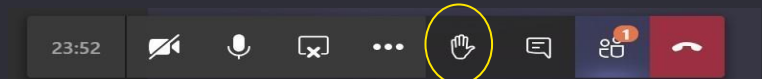
## Discussion on:

1. Risk management and internal controls
2. Narrative reporting and non-financial metrics
3. Interaction with the Government's secondary legislation on proposed reporting measures

Not covering - Director appointments, succession plans, board performance reviews and remuneration

## Making the most of this session

- ▶ Contribute with your experiences and thoughts - Chatham House rules apply.
- ▶ Join on video if possible
- ▶ When you first speak please introduce - name, company, your role.
- ▶ Please use 'raise hand' function



# 1. Risk management and internal controls

## Overview

- ▶ Framework
  - ▶ Establish and maintain
  - ▶ Scope: material operational, compliance and reporting controls
- ▶ Reporting
  - ▶ Declaration that risk management and internal control systems effective throughout the year (and potentially to date of report)
  - ▶ Basis for this declaration
  - ▶ Material weaknesses and approach to remediation
- ▶ Reporting will need to change
- ▶ Processes will need to evolve

## Discussion points

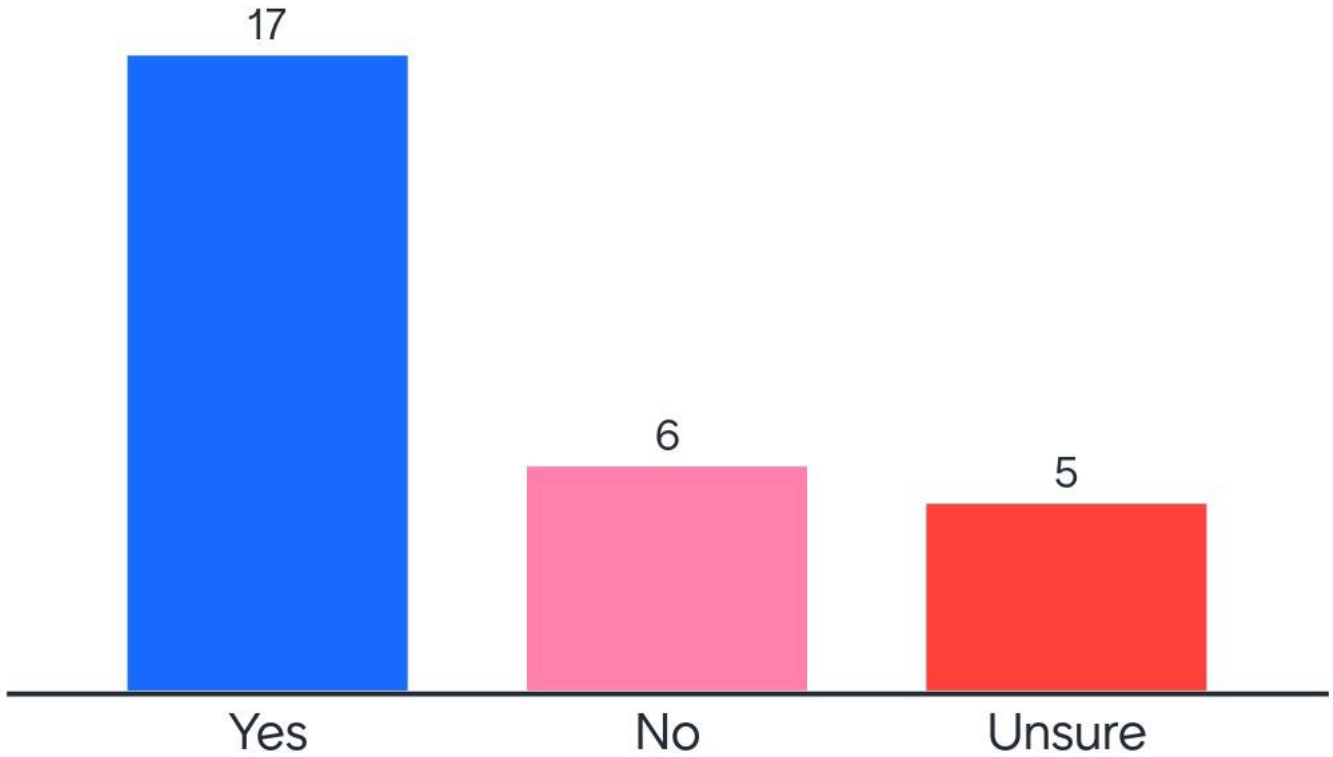
- ▶ Phased/staggered approach - first ICFR then the rest?
- ▶ One declaration or split by component?
- ▶ Flexible or confusion on "how much is enough?"
- ▶ Level of detail in guidance?
- ▶ Support for expansion from financial to reporting controls? Boundaries of reporting?
- ▶ Balance sheet date or ARA date?
- ▶ Alignment with US SOX?



# Do you support the expansion from "financial" controls to "reporting" controls?

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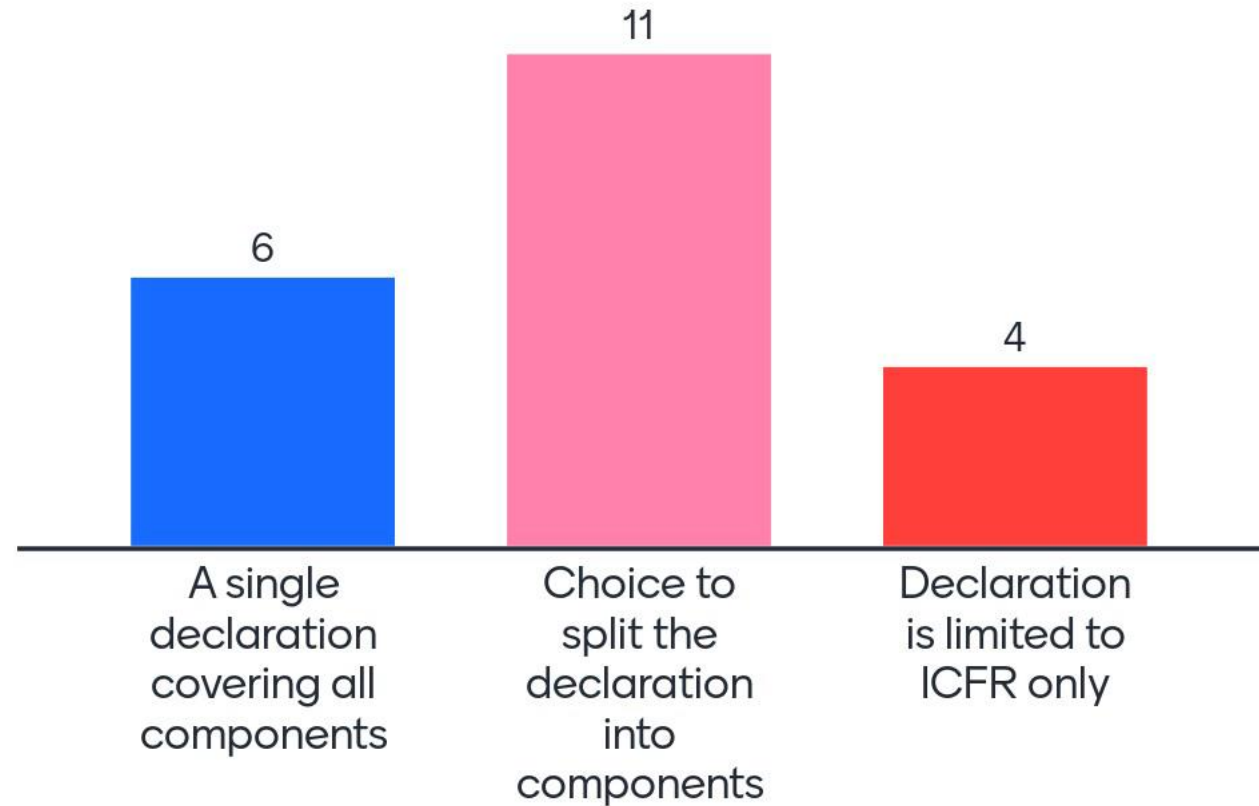
Risk Management & Internal Controls



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Risk Management &  
Internal Controls

# How do you think the declaration should be made?



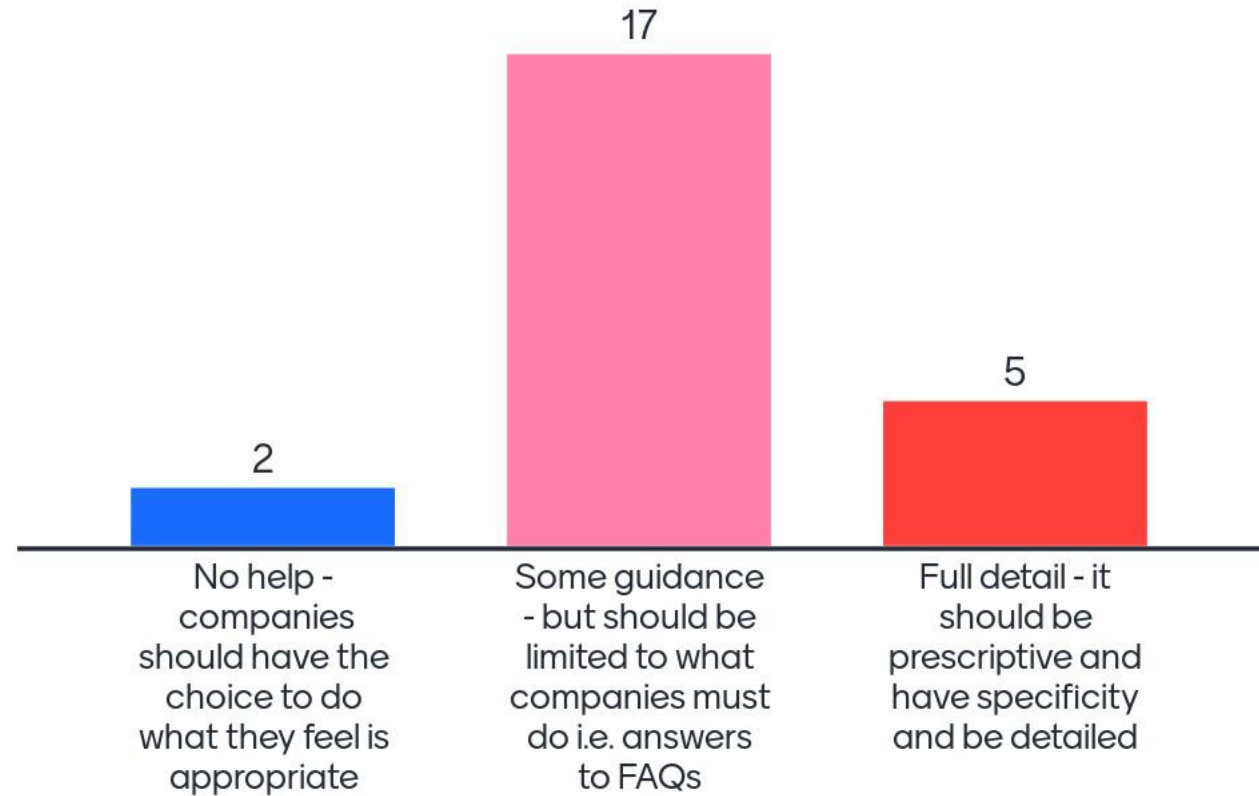
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Risk Management &  
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Building a better  
working world

# Should the guidance should be comprehensive and detailed?



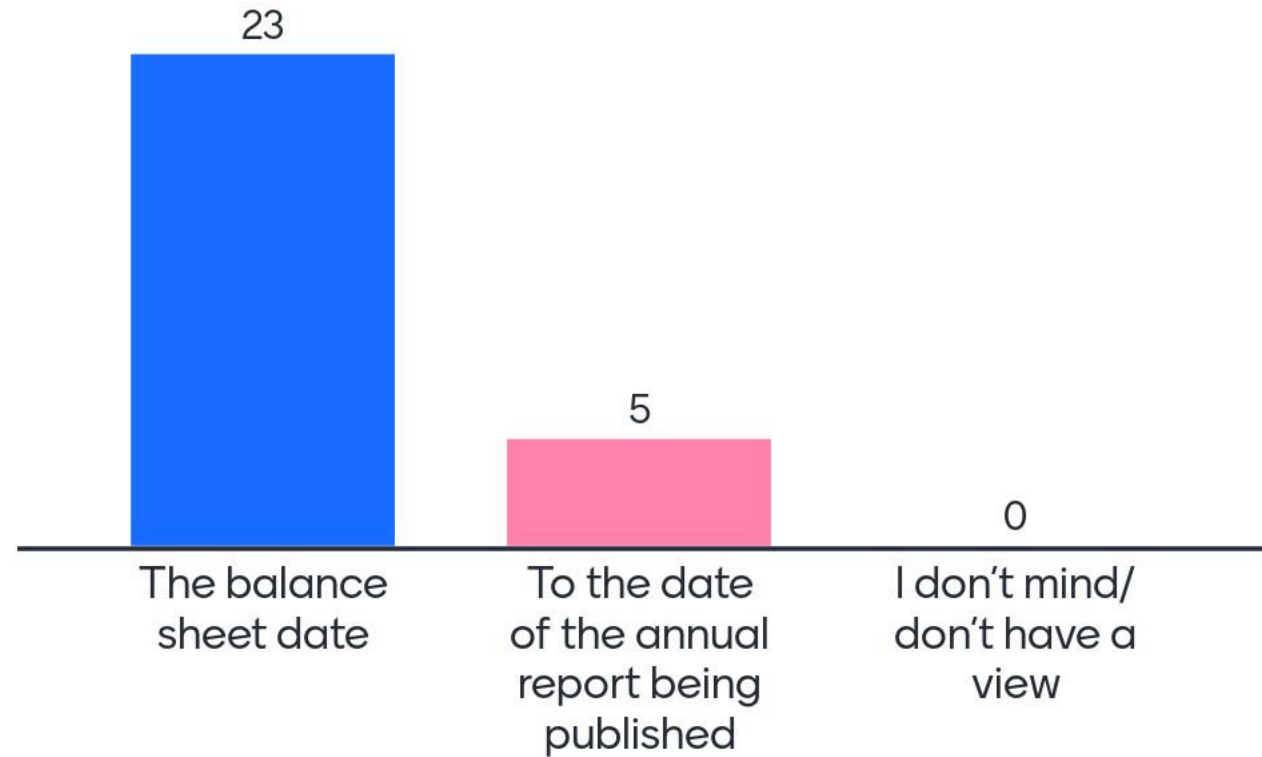
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# Is your preference that declaration is made at:



## 2. Narrative reporting and non-financial metrics

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### Overview

- ▶ Expanded role of the AC
  - ▶ Monitoring integrity of narrative reporting, including sustainability matters
  - ▶ Developing AAP and implementation report
- ▶ Board
  - ▶ Describe how impact of environmental and social (E&S) matters considered in delivery of strategy, focussing on climate ambitions and transition planning
- ▶ Remuneration
  - ▶ How this supports E&S objectives

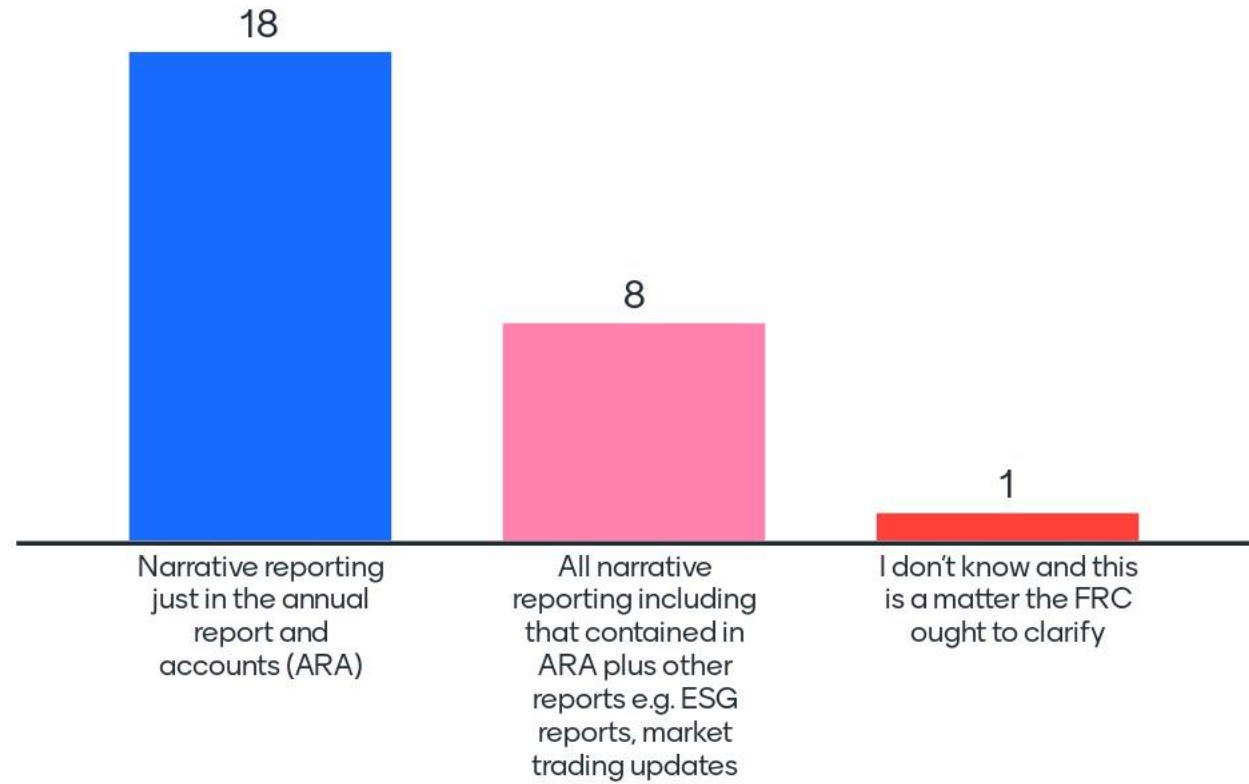
### Discussion points

- ▶ Current role of the AC over Annual Reports and Accounts
- ▶ Prescription
  - ▶ Why the AC?
  - ▶ Focus on climate ambitions and transition planning
- ▶ Scope of 'narrative reporting'

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Narrative reporting

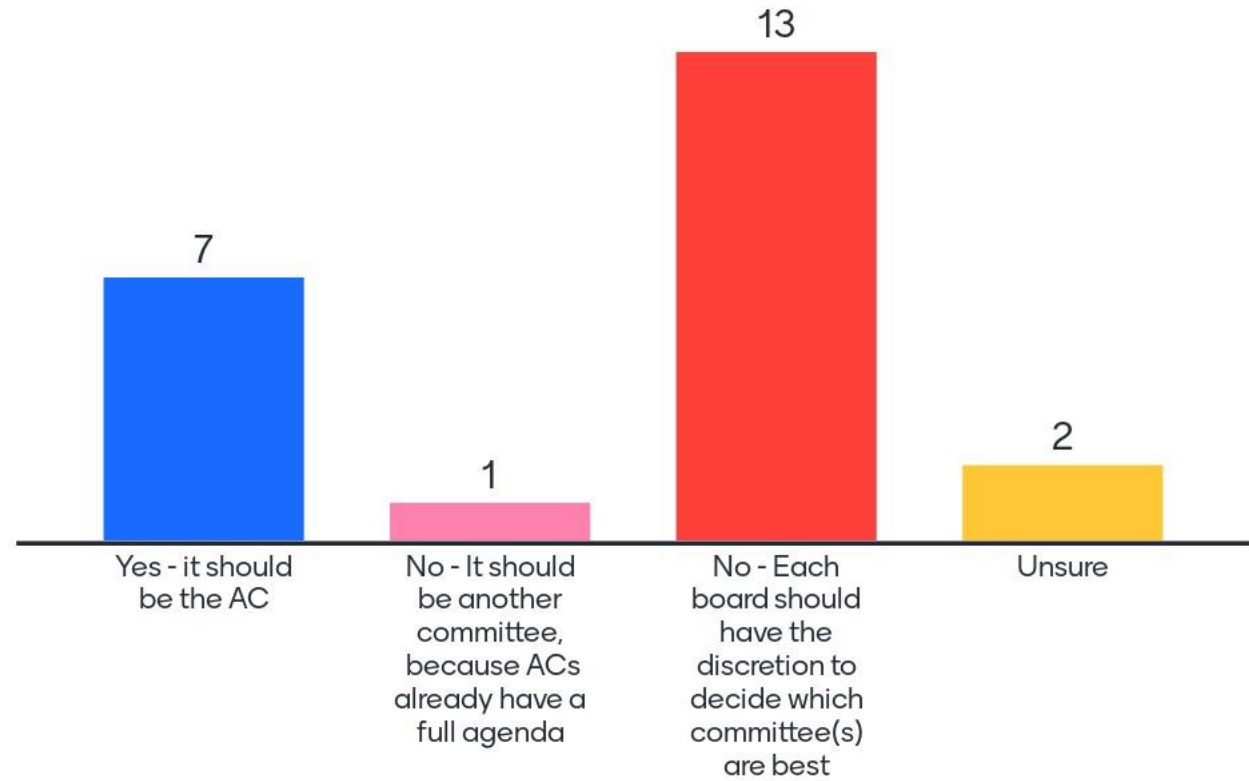
The Code does not specify the “boundary” of narrative reporting which the AC is responsible for. What do you think the boundary should be?



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Narrative reporting

Should the audit committee (AC) be responsible for monitoring the integrity of narrative reporting including sustainability matters?



### 3. Interaction with UK Government's secondary legislation on proposed reporting measures

#### Overview

- ▶ Four reporting measures i.e., Audit and Assurance Policy (AAP), Resilience Statement (RS), statements on fraud and distributions
  - ▶ 750:750 companies
- ▶ AAP
  - ▶ Companies subject to the Code to develop one
  - ▶ Audit Committee (AC) to set out assurance over environmental, social and governance (ESG) metrics
  - ▶ Non-audit services caps and services permissibility
- ▶ Resilience Statement
  - ▶ Going concern and viability statement (VS) provisions maintained
  - ▶ Producing RS addresses the VS Provisions

#### Discussion points

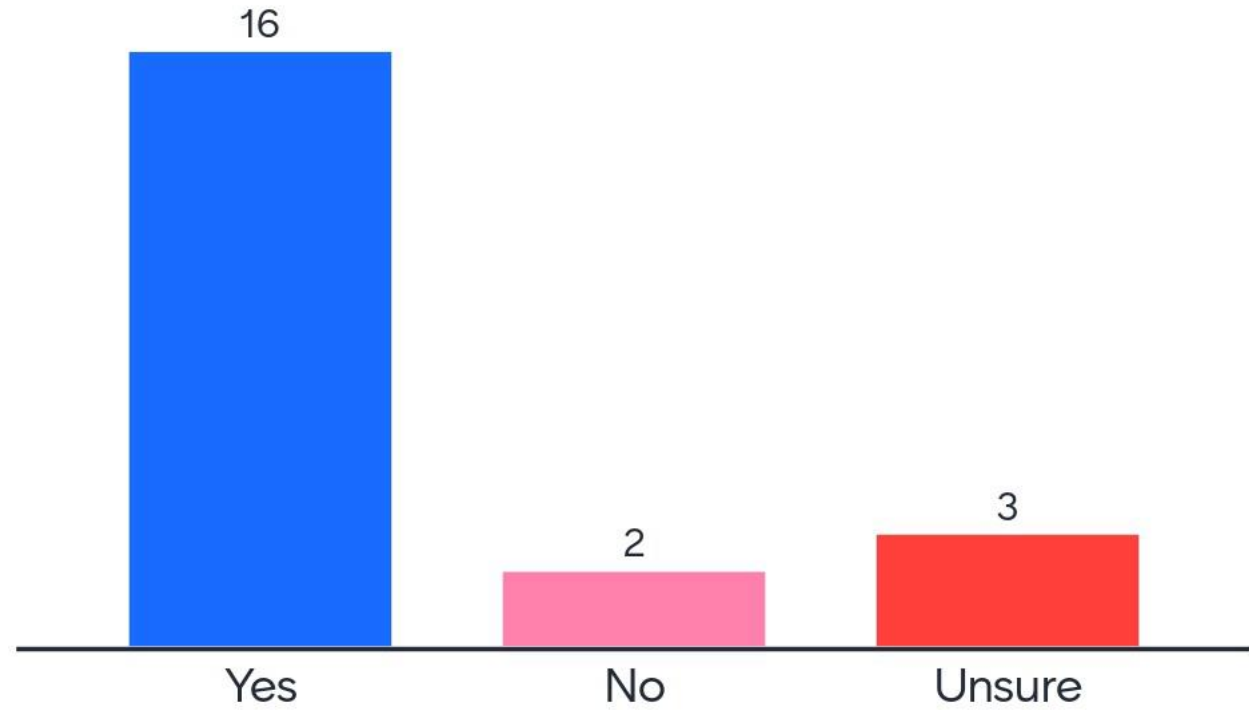
- ▶ Support for introducing UK legislation in internationally recognised Code?
- ▶ Reporting burden and complicated scoping - balance with UK attractiveness and competitiveness?
- ▶ Are VS provisions weakened with amendments?



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Interaction with  
secondary legislation

Do you support the FRC incorporating impending  
legislative requirements (e.g. Audit and Assurance  
Policy)?

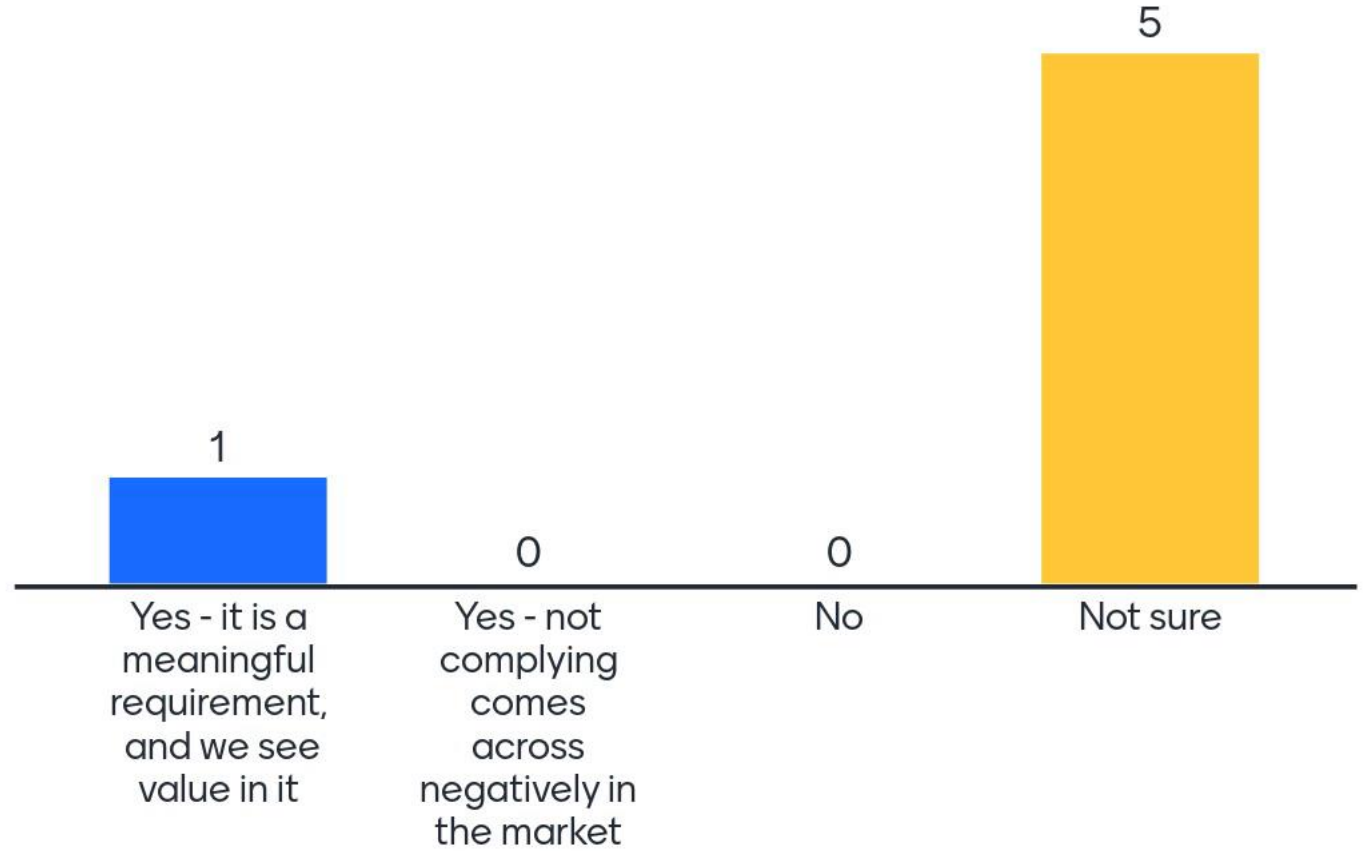


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Interaction with  
secondary legislation



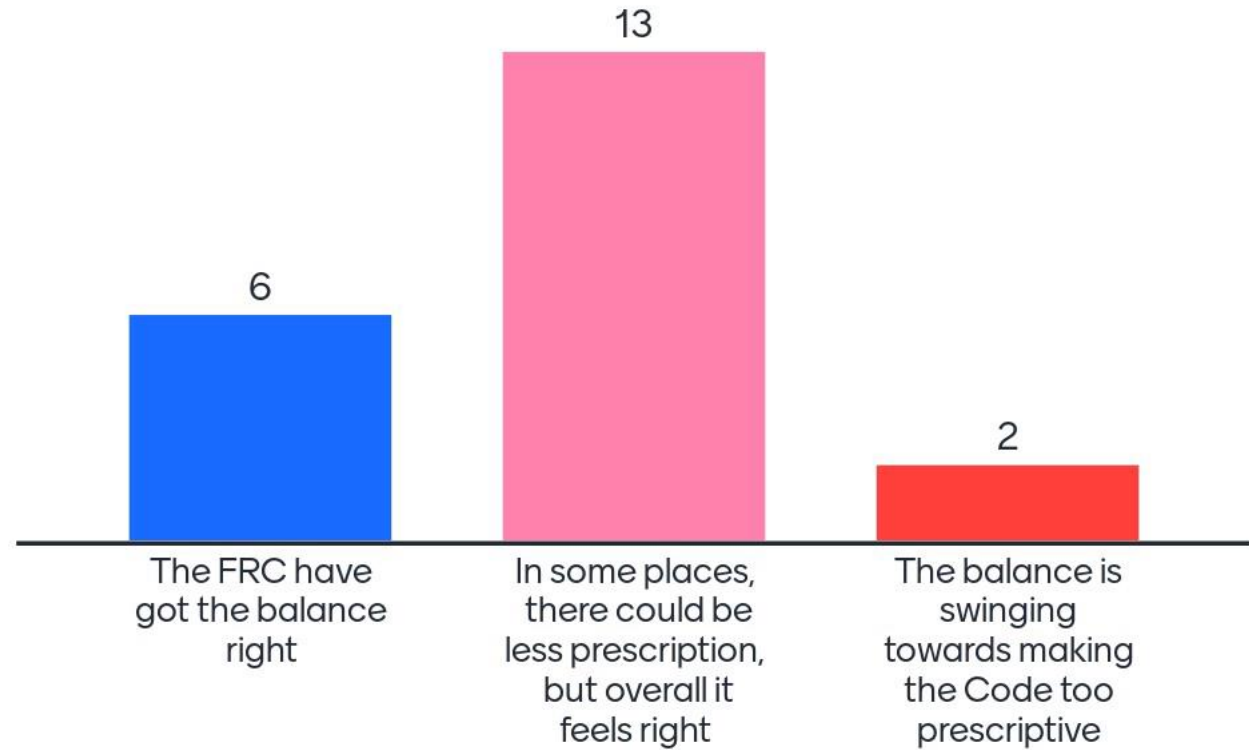
If your company doesn't fall into the 750:750 threshold proposed by Government would you prepare an AAP?



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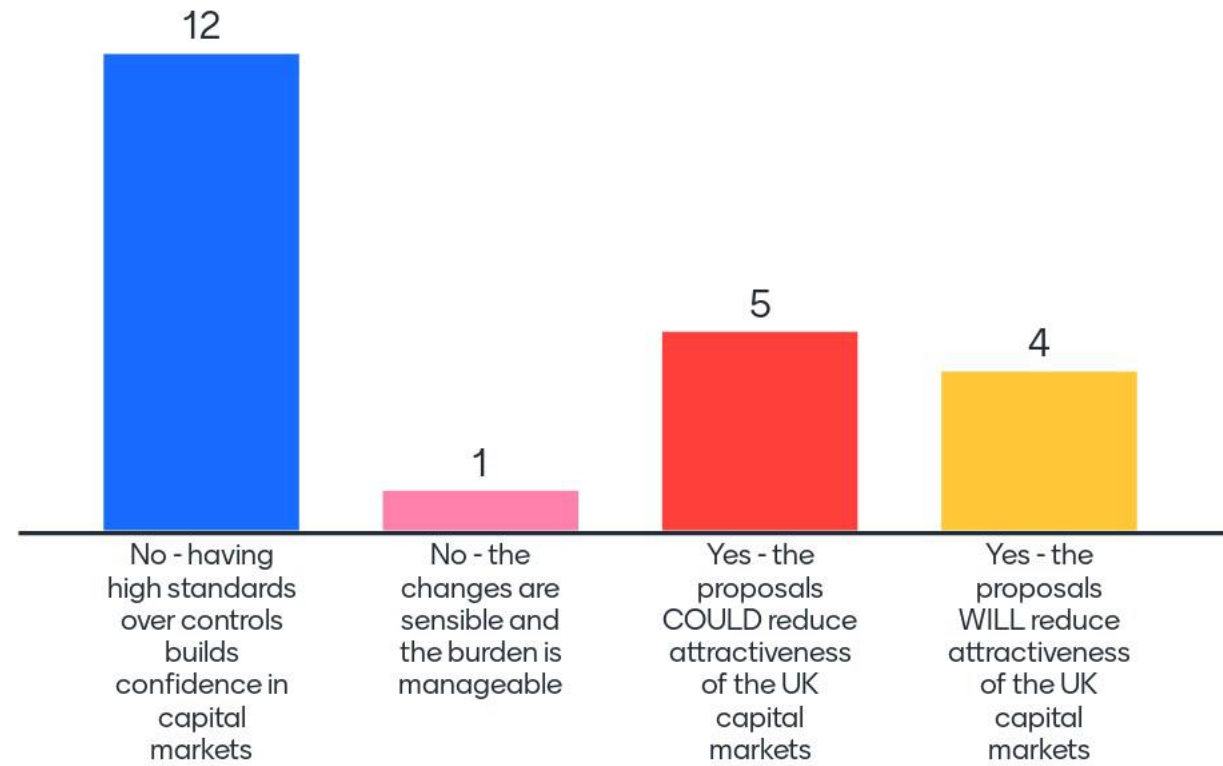
Overall, what is your view on whether the proposed changes maintain the right balance in what is fundamentally a principles-based Code?



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# Do you think that the proposals will have an impact on UK attractiveness and competitiveness?



## Which issues will you prioritise in your response to the FRC?

14 Responses

Timeline and recommendation for a phased approach

An extension to the timeline

Scope, focus on risk management systems and point in time reporting

Scope and timeline

fixing a Material Weakness during the year but having to disclose it?!

Scope re operational controls and timeline

Clarity on scope for example consolidated accounts that meet the threshold.

Clarity on risk and internal control guidance ASAP

Phased implementation on controls declaration

Internal controls. Unattractiveness of becoming an Audit Committee member given the huge increase in personal risk.

Phased approach for declaration

Provide prescriptive requirements to ensure clarity of disclosure requirements. Provide disclosure examples.

Bring guidance out concurrently/ a bit disingenuous not to.

Without external attestation how does UK plc gain assurance of consistency of quality and diligence across companies?

# Closing

- ▶ Overall discussion Qs
  - ▶ Comply or explain approach
  - ▶ Principles based vs level of prescription
- ▶ Summary of key discussion points
- ▶ Responding to the consultation

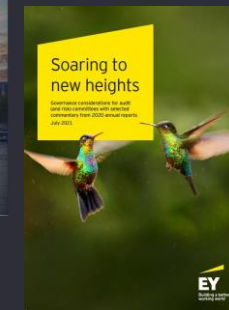
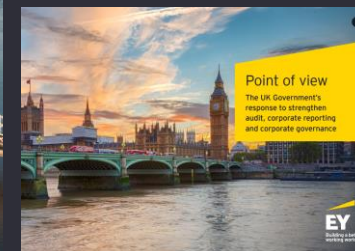
## Useful resources:

- ▶ Our detailed [summary](#) & [FAQ document](#)
- ▶ UK Corporate Reform May webcast [recording](#) (18 May)
- ▶ Webcast [recording](#) on proposed Code changes with Mark Babington from the FRC (6 June)
- ▶ [LI blog](#) summarising our webcast

For anymore information or support please contact [eyukcorporatereform@uk.ey.com](mailto:eyukcorporatereform@uk.ey.com).



Common question	The UK CG Code proposal	Practical advice
From when will the proposed Code changes be effective?	The revised Code is expected to apply to reporting periods beginning on or after 1 January 2024.	Write into all the details of the Governance Statement for 2023, the proposed changes to the Code, set out over 18 months to plan, prepare and get ahead of the game.
How do I ensure my company is compliant with the proposed Code changes?	• Review the proposed changes to the Code and identify any areas of non-compliance. • Review the proposed changes to the Code and identify any areas of non-compliance. • Review the proposed changes to the Code and identify any areas of non-compliance.	A review of the proposed changes to the Code should be undertaken to identify any areas of non-compliance. The review should be undertaken by the board or a committee of the board, and should be completed by the end of the reporting period for 2023.
Do you still recommend IAC members, and how to structure them?	• Making IACs a requirement for all companies. • Making IACs a requirement for all companies. • Making IACs a requirement for all companies.	ACI members will need to be appointed by the board or a committee of the board, and should be independent of the company and its related parties.
Does the new definition of director cover the effectiveness of internal controls only?	No. The new definition of director covers the effectiveness of internal controls, including operational, financial and compliance systems.	Companies also need to understand and ensure that internal controls cover the effectiveness of internal controls, including operational, financial and compliance systems.
Is an IAC that is not a committee of the board, but a committee of the board, still required?	Yes. The new definition of director covers the effectiveness of internal controls, including operational, financial and compliance systems.	It is a requirement for all companies to have an IAC, which should be a committee of the board.
What should we do if we are currently reporting our controls and risk management to the board?	• If a company is currently reporting its controls and risk management to the board, it should continue to do so until the end of the reporting period for 2023.	The revised Code will require companies to report on the effectiveness of internal controls, including operational, financial and compliance systems, in their annual reports for 2024.



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