KCB | 40 YEARS of Excellence in Governance Education

Corporate Governance

Session 2 – Part One

Corporate Governance in the UK

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KCB | Agenda

1. UK law and governance
2. History of corporate governance in the UK
3. UK Corporate Governance Code 2024
4. UK Listing Regime
5. Corporate governance and large private companies

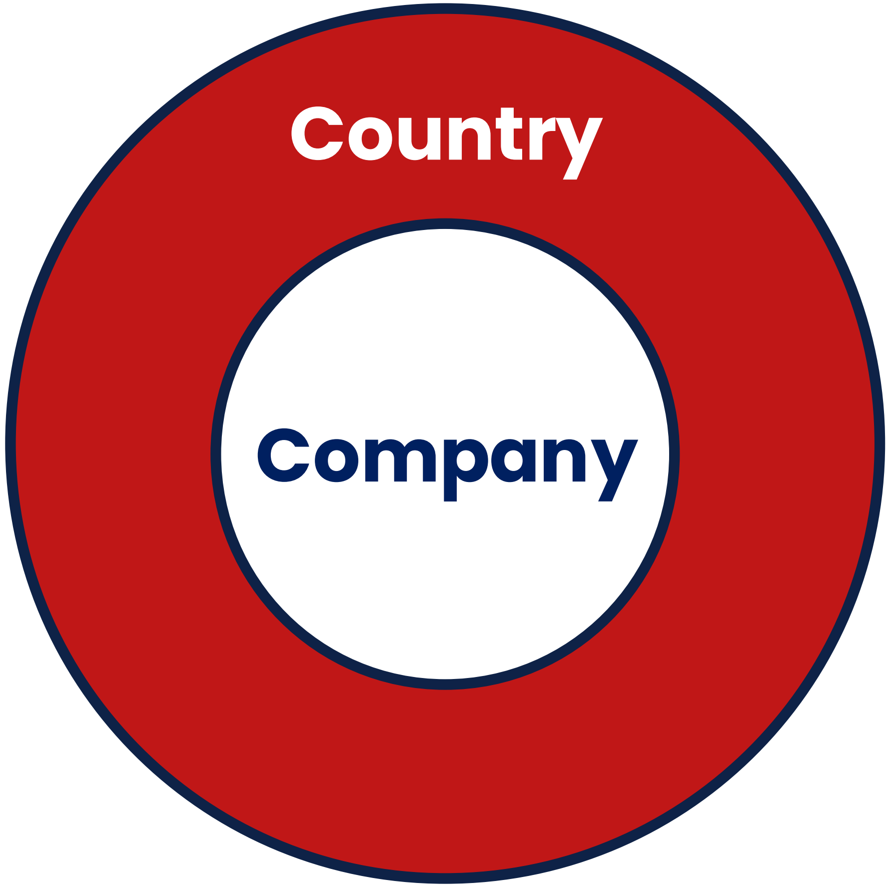
KCB | The Examination

Syllabus Area	Nov-25	Jun-25	Nov-24	Jun-24	Nov-23	Jun-23
Definition and issues	Q1. Weak governance practices (5 marks)	Q2. Shareholder Primacy (5 marks)	Q1. Difference between corporate governance and compliance (5 marks)	Q2. Difference between a rules-based and a principle-based approach to CG (5 marks)	Q3. Principles (5 marks)	Q1. 'Comply or Explain' (5 marks)
Corporate Governance in the UK						
Other governance issues					Q9a. Governance of family owned companies (10 marks)	Q8a. Governance of family owned companies (8 marks)
Role of the company secretary	Q6b. Role of CS (10 marks)	Q9b. Dual role of CS (10 marks)	Q4. Liability of the company secretary (5 marks) Q6a. Appointing a company secretary (13 marks)	Q6b. Dual role of CS (10 marks)	Q4. Appointment (5 marks)	Q4. Independence (5 marks)
Role and membership of the board of directors	Q2. Role of the SID (5 marks)		Q7a.Role and Appointment of the Chair (10 marks)		Q5. Matters Reserved for the board (5 marks) Q8a. Restructuring the board inc Chair v CEO (12 marks)	Q8b. Chair v CEO (8 marks)
Directors' duties and powers	Q8a. S175, s176 and s177 (13 marks)		Q5. D & O insurance (5 marks)	Q3. Explain s174 (5 marks)	Q7a. Conflict of interest (13 marks)	Q5. D&O Insurance (5 marks) Q8c. S172 (9 marks)
Board Composition and succession Planning	Q7a. Role of the Chair (12 marks)	Q7b. Benefits of a NED (13 marks) Q8a. Appointment of a new CFO (10 marks)	Q2. Re election of directors (5 marks)	Q6a. Board composition and reporting (15 marks) Q8a. Nomination Committee and appointments (15 marks)		Q7a. Recruitment of NEDs (12 marks)

01
Rules-based approach

02
Principles-based approach

03
Hybrid approach



Companies Act 2006

- Powers and duties of directors
- Shareholder rights
- Disclosure of information to shareholders
  - Directors' remuneration
  - Information required in the annual report and accounts
- Preparation and auditing of the annual financial statements

Amendments to the Companies Act 2006

The Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013

Requirement for companies (excluding small companies) to include a strategic report

The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013

Introduced mandatory Directors' Remuneration Report reforms, including a binding shareholder vote on remuneration policy every three years and an annual advisory vote on remuneration outcomes.

The Companies (Miscellaneous Reporting) Regulations 2018

Requirement for s.172 stakeholder engagement disclosure, CEO-pay ratio publication (CEO vs. UK workforce) and explanation of governance arrangements for large private companies

Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019

Requirement for greater transparency and comparability in pay reporting including additional disclosure on pay outcomes vs. performance, and reinforcing shareholder oversight of executive pay

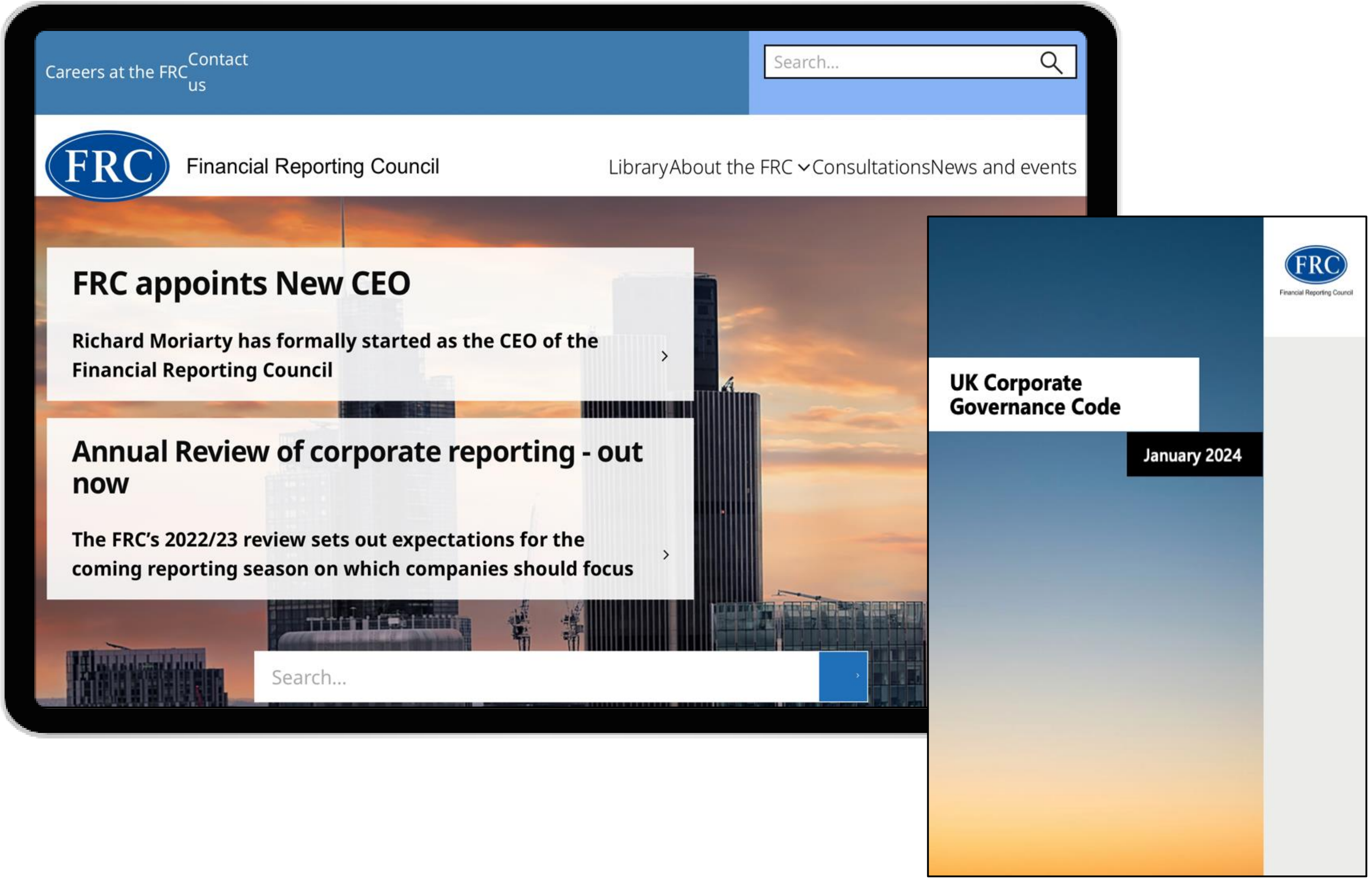
Other legislation

- **Insolvency Act 1986**. Contains options for companies with financial difficulties.
- **Company Directors Disqualification Act 1986:** Sets out the circumstances for the disqualification of a director.
- **Criminal Justice Act 1993 (Part V).** Creates the criminal offence of insider dealing.
- **Financial Services and Markets Act 2000 (FSMA 2000).** Established the Financial Conduct Authority (FCA) as the regulator for financial services.

History of UK Corporate Governance

- **1992 Cadbury Report:** Introduced the UK Code of Best Practice
- **1995 Greenbury Report:** Introduced rules on directors' pay, requiring remuneration committees of independent directors and greater disclosure
- **1998 Hampel Report:** Consolidated Cadbury and Greenbury into a single governance code
- **1999 Turnbull Report:** Required companies to have robust internal control and risk-management systems.
- **2003 Higgs Report :** Strengthened the role, independence, and appointment of non-executive directors
- **2003 Smith Report**: Enhanced audit committee responsibilities and stronger oversight of financial reporting and external auditors.
- **2006 Tyson Report:** Called for broader recruitment, training and evaluation of non-executive directors to diversify board talent beyond traditional networks.
- **2011 Davies Report:** Set a voluntary target for FTSE 100 boards to reach 25% women
- **2016 Parker Report:** Recommended all FTSE 100 boards have at least one director from an ethnic minority background
- **2016 Hampton-Alexander Report:** Raised gender targets to 33% women on FTSE 350 boards
- **2018 Kingman Review:** Proposed new regulator to replace the Financial Reporting Council (FRC)
- **2019 Brydon Review:** Made recommendations to improve the External audit
- **2022 FTSE Women Leaders Review:** Raised gender targets to 40% women on FTSE 350 boards

FRC UK Corporate Governance Code



- **Board leadership and company purpose**
  - the role and responsibilities of the board as a whole.
- **Division of responsibilities**
  - the division of responsibilities between the chair and the CEO, the make-up of the board and the role of the non-executive directors.
- **Composition, succession and evaluation**
  - the selection and appointment process for directors and committee members. It also outlines the requirements for annual evaluation of the board, its committees and individual members.
- **Audit, risk and internal control**
  - the internal and external audit functions and on the establishment of procedures to manage risk and oversee internal controls.
- **Remuneration**
  - the process for developing and overseeing a remuneration policy for directors and senior executives.

FCA Handbook

UK Listing Rules

Adherence with UK CG Code on
'Comply or Explain' basis

Disclosure Guidance and Transparency Rules

Inside Information
PDMRs
Periodic Financial Reporting
Continuing obligations
Corporate Governance

> Large companies should state which governance code they follow, if they deviate from the code provide an explanation.
>
> *The Companies (Miscellaneous Reporting) Regulations 2018*

Applies to companies with:

- More than 2,000 employees
- A turnover of more than £200 million, and a balance sheet of more than £2 billion.

Relates ONLY to CG Reporting requirement

The Wates Code

- Purpose and Leadership
- Board Composition
- Director Responsibilities
- Opportunity and Risk
- Remuneration
- Stakeholder Relationships and Engagement

Summary

Session 2 – Part One

- The UK has adopted a 'hybrid' approach to Corporate Governance
- The Companies Act 2006 covers important areas such as powers and duties of directors and shareholder rights
- The UK Corporate Governance Code 2024 provides the principles and provisions for FTSE350 companies to follow
- Under the UK Listing rules, the provisions of the Code must be adhered to on a 'Comply or Explain' basis
- Under the The Companies (Miscellaneous Reporting) Regulations 2018 large companies should state which governance code they follow, if they deviate from the code provide an explanation.
- The most widely used code for large limited companies is the Wates Code 2018