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UK Updates Corporate Governance Code

The UK's Financial Reporting Council (FRC) has released the UK Corporate Governance Code. According to Andrew Hill of the Financial Times the Code sets "a new high watermark for post-crises governance standards." Not all agree.

The annual election of every director is the most controversial issue. The majority of investors support this, while most corporations remain opposed. The Confederation of British Industry (CBI) and the Institute of Directors also oppose one-year director terms, citing fears that annual elections will lead to short-termism.

Lady Hogg, the incoming Chair of the FRC has said the most important change in the code is the clarification of board responsibility for risk management. The Governance Code places this responsibility firmly with boards. She is also keen to see more diversity in board rooms.

Companies must either comply with the Code's requirements or explain why they did not. In addition, the Code offers some non-binding recommendations (principles) to companies.

Comply or Explain

- Each director must be elected annually. (Common practice has been to elect a third of directors annually for 3-year terms).
- Boards should undergo an external review of effectiveness on at least a triennial basis.
- Using plain English, companies must explain their business model and how the company creates long-term value for shareholders in an annual report.

Principles (Non-Binding Recommendations)

- Directors should be selected "on merit, against objective

criteria, and with due regard for the benefits of diversity, including gender diversity.” (Only 12% of FTSE 100 directors are women).

- Performance-based pay should be aligned with the financial interests of the company.

The Code will be effective for fiscal years beginning on or after June 29, 2010, and applies to the largest 350 listed companies in the UK (the FTSE 350).

This summer, the FRC will release a Stewardship Code, outlining the responsibilities of shareholders. The Stewardship Code will be designed to complement the Governance Code.

Related Links:

Accountancy Age. Directors will face annual election under new governance rules.

<http://www.accountancyage.com/accountancyage/news/2263843/directors-face-annual-election>

Business Week. U.K. has new corporate governance code.

http://www.businessweek.com/globalbiz/content/may2010/gb20100528_500688.htm

Bloomberg. FTSE 350 boards should seek annual election, FRC says (Update2).

http://www.bloomberg.com/apps/news?pid=20601087&sid=a806soY_RIGA&pos=6#

Financial Director. Annual director re-election "raises eyebrows"

<http://www.financialdirector.co.uk/accountancyage/news/2263846/annual-director-election-raises>

People Management. New boardroom code stresses need for gender equality.

<http://www.peoplemanagement.co.uk/pm/articles/2010/05/new-boardroom-code-stresses-need-for-gender-equality.htm>

Financial Times. New code sets the high-water mark for governance.

<http://www.ft.com/cms/s/0/9a9f0856-69ef-11df-a978-00144feab49a.html>

Financial Times. Using steel and acumen to improve governance.

<http://www.ft.com/cms/s/0/0c7e9f7c-69f0-11df-a978-00144feab49a.html>

Financial Times. Directors must be re-elected annually.

<http://www.ft.com/cms/s/0/6fa115c2-69ef-11df-a978-00144feab49a.html>

Bloomberg. FTSE 350 boards should seek annual election, FRC says (Update2).

http://www.bloomberg.com/apps/news?pid=20601087&sid=a806soY_RIGA&pos=6#

Telegraph. Code overhaul set to shake-up UK boards.

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/7773338/Code-overhaul-set-to-shake-up-UK-boards.html>

The Times (London). Corporate governance code: A woman's place is in the boardroom.

http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article7138598.ece

Wall Street Journal. U.K. urges annual elections for company board members.

http://online.wsj.com/article/SB10001424052748704269204575270602746189006.html?mod=WSJ_latestheadlines
