Reporting on the new Corporate Governance Code is a mixed picture

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The revised UK Corporate Governance Code provides an opportunity for companies to report to their stakeholders in a way that allows them to communicate high-quality information about the way in which their governance functions to deliver a company's purpose and strategy. Although some companies have embraced the opportunities the revised Code offers, the FRC has found in its **Review of Corporate Governance Reporting** that this was not consistent across the board.

Unfortunately, some companies continue to treat the Code as a box-ticking exercise. Where this happens, reporting is formulaic and companies do not seize the opportunity to meaningfully explain why they do not comply with its provisions.

The Code was revised to emphasise the wider benefits of good governance for the economy and society. It calls on companies to establish a purpose which is aligned with its culture and strategy, and forge strong relationships with key stakeholders. The FRC's review found that corporate governance reporting failed to live up to stakeholder expectations. For example, many companies stated the importance of diversity at board level and in the succession pipeline but offered little explanation to set out what they are doing to deliver that.

It was pleasing to see better reporting on stakeholder engagement, but the FRC is concerned that some companies continue to rely on the reporting process rather than substance. The review highlights the need to demonstrate consideration of feedback to the board and outcomes, such as the influence on decision-making. In many cases, it was not clear how issues were raised to the board level, and how that then affected decision-making.

The review has allowed the FRC to set out expectations for improvement in the following areas:

> Companies should provide clear and meaningful explanations of how they achieve good governance standards in line with the flexibility offered by the Code.

Clearly showing the impact of engagement with stakeholders, including shareholders, on decision-making, strategy and long-term success

Better assessment and monitoring of culture, including consideration of methods and metrics used

Demonstrating commitment to diversity and inclusion through actions, such as improved succession planning and recruitment from diverse talent pools.

Sir Jon Thompson CEO of the FRC said:

> *“Today’s review highlights many examples of excellent reporting but it’s clear that some companies are continuing to take a formulaic approach to corporate governance driven by compliance, rather than focusing on outcomes, supported by high quality and transparent evidence. This reviews sets out clear expectations to address where company reporting falls short, so that it can better meet the interests of not only a company’s shareholders but its wider stakeholders as well.”*

The review is made up of a random sample of 100 companies which included both FTSE 100 and 250 companies, as well as Small Cap companies. It also considered third party reports on governance and draws on statistics from external sources to show the broader context. To enhance the FRC’s work on diversity, remuneration policies and workforce engagement, the FRC has commissioned a series of external research projects which will all be published by the end of the year.

Notes to editors:

The FRC’s purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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