



Governance in brief

Your summary of the latest corporate governance developments

Headlines

- New UK Corporate Governance Code published

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In Brief: The UK Corporate Governance Code aims to help company boards become more effective and more accountable to their shareholders. Changes include a clearer statement of the board's responsibilities relating to risk, a greater emphasis on the importance of getting the right mix of skills and experience on the board, and a recommendation that all directors of FTSE 350 companies be put up for re-election every year.

Introducing the Code Baroness Hogg, the new FRC Chairman, said: "The changes we have made are designed to reinforce board quality, focus on risk and accountability to shareholders. In return, we look to see a step up in responsible engagement by shareholders under the Stewardship Code, on which we have consulted and aim to publish by the end of June."

Changes to the Code include:

- To improve risk management, the company's business model should be explained and the board should be responsible for determining the nature and extent of the significant risks it is willing to take.
- Performance-related pay should be aligned to the long-term interests of the company and its risk policy and systems.
- To increase accountability, all directors of FTSE 350 companies should be put forward for re-election every year.

- To promote proper debate in the boardroom, there are new principles on the leadership of the chairman, the responsibility of the non-executive directors to provide constructive challenge, and the time commitment expected of all directors.
- To encourage boards to be well balanced and avoid "group think" there are new principles on the composition and selection of the board, including the need to appoint members on merit, against objective criteria, and with due regard for the benefits of diversity, including gender diversity.
- To help enhance the board's performance and awareness of its strengths and weaknesses, the chairman should hold regular development reviews with each director and FTSE 350 companies should have externally facilitated board effectiveness reviews at least every three years.

The new edition of the Code will apply to financial years beginning on or after 29 June 2010 but we encourage boards to take positive and constructive early action. This should not be viewed as another compliance exercise. The Deloitte publication 'Setting the tone – a new focus for governance' provides suggested actions and questions to ask on a practical route to implementation.

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Source: Financial Reporting Council

Further info: <http://www.frc.org.uk/press/pub2282.html>

Deloitte publication *Setting the tone – a new focus for governance* available from <http://www.corpgov.deloitte.com/site/uk>

Time to take action

- Consider the implications of the new Code for your company
- Don't treat the new Code as merely a box-ticking exercise
- Identify how to ensure the longer term success of your company

On the horizon

- Issue of Stewardship Code for institutional investors
- Phase 2 of the review of the Higgs Guidance
- Revised Guidance for audit committees
- Review of Turnbull Guidance on internal control

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