



Governance in Brief

Your summary of the latest corporate governance developments

Headlines

- FRC seeking continuous improvement in the quality of corporate governance and reporting in the UK.
- Gender diversity on boards – the FRC consults on changes to the UK Corporate Governance Code.
- FRC issues a call for evidence on going concern and liquidity risk.
- DEFRA publishes consultation document on reporting of greenhouse gas emissions.
- ICSA issues updated guidance note on joining the right board.

FRC seeking continuous improvement in the quality of corporate governance and reporting in the UK

In Brief: In its Plan & Budget for 2011/12 the FRC has stated that it is considering a new vision of corporate reporting where directors' narrative reports, company accounts and audited financial information will each deliver greater value to investors and serve the public interest. This was set out in the "Effective Company Stewardship" document. The main proposals were:

- Reforms to the way that companies provide information to ensure it is timely, accessible and useful.
- Better quality reporting of business models, strategies and risk management.

- Improved communication between auditors and audit committees and greater clarity in the responsibilities of auditors across the full range of narrative and financial statements in the annual report.
- Greater transparency by audit committees on the way that they have discharged their responsibilities in relation to the integrity of the annual report and particular aspects of their remit (such as, for example, their oversight of the external audit process and the appointment of external auditors).
- More innovation in the audit and financial reporting markets to promote healthy competition and a high quality of service.

The FRC is now considering responses to this document and will seek to ensure that this and other current initiatives aimed at improving aspects of corporate reporting (including, for example, sustainability reporting) are properly joined-up from the perspective of users and preparers of accounts. It is important for directors to consider, and start to prepare for, the challenges being raised by the FRC.

Date: 9 May 2011

Source: Financial Reporting Council

Further info: <http://www.frc.org.uk/about/plans.cfm>

Gender diversity on boards – the FRC consults on changes to the UK Corporate Governance Code

In Brief: In response to the Lord Davies' report, "Women on Boards", which was published in February, the FRC has begun a consultation on whether the UK Corporate Governance Code should be revised to require listed companies to publish their policy on gender diversity in the boardroom and report against it annually.

Views are also sought on whether the Code should identify some of the key issues to be considered when boards carry out their regular effectiveness reviews, and on the timing of any changes that might be made to the Code as a result of the consultation.

Introducing the consultation document, FRC Chairman Baroness Hogg said:

"It was these concerns that led us to add a reference to the benefits of diversity in general, with specific reference to gender, when the UK Corporate Governance Code was updated last year. But as Lord Davies noted in his report, the rate of change in recent years has been glacial. That is why we are now responding to his proposal that boards should report on their gender diversity policy by consulting on whether it would be appropriate to add this to the Code."

As reported in the previous edition of Governance in brief (April 2011 Part II), the European Commission Green Paper on the corporate governance framework for listed companies, published in April 2011, asked whether listed companies should be required to disclose whether they have a diversity policy and report regularly on progress and/or required to ensure a better gender balance on boards.

The Department of Business, Innovation and Skills will be consulting separately on the recommendation that quoted companies should be required to disclose each year the proportion of women on the board, women in senior executive positions and female employees in the whole organisation.

Date: 5 May 2011

Deadline for comments: 29 July 2011

Source: Financial Reporting Council

Further info: <http://www.frc.org.uk/press/pub2574.html>

FRC issues a call for evidence on going concern and liquidity risk

In Brief: Earlier this year the FRC announced the launch of an inquiry led by Lord Sharman to identify lessons for companies and auditors addressing going concern and liquidity risks. The inquiry will draw on the experience of companies and auditors who have had to address these issues in times of difficulty, including during the credit crisis.

The Panel of Inquiry will recommend measures, if any, which are necessary to improve the existing reporting regime and related guidance for companies and auditors in relation to these matters.

Questions are asked under the following headings:

- transparency of going concern and liquidity risk;
- company assessment of going concern and liquidity risk;
- the auditor's approach to going concern and liquidity risk; and
- feedback on the Guidance for Directors of UK companies in respect of going concern and liquidity risk.

Date: 11 May 2011

Deadline for comments: 30 June 2011

Source: Financial Reporting Council

Further info:

<http://www.frc.org.uk/about/sharmaninquiry.cfm>

DEFRA publishes consultation document on reporting of greenhouse gas emissions

In Brief: DEFRA has published a consultation document seeking views on whether regulations should be introduced to make it mandatory for some UK companies to report on their greenhouse gas (GHG) emissions or whether the Government should continue to encourage measuring and reporting of GHG emissions on a voluntary basis.

Section 85 of the Climate Change Act 2008 requires the Government to make regulations, under the Companies Act 2006, by 6 April 2012 requiring the directors' report of a company to include information about GHG emissions as is specified in regulations, or to lay a report before Parliament explaining why no such regulations have been made.

No decision has yet been made. The consultation aims to inform Ministers' decision on whether to introduce regulations. The consultation document considers four different options designed to promote more widespread and consistent reporting by companies of GHG emissions.

The four options are as follows:

- Option 1: Enhanced voluntary reporting.
- Option 2: Mandate under Companies Act for all Quoted companies.
- Option 3: Mandate under Companies Act for all large companies (as defined in the Companies Act 2006).
- Option 4: Mandate under Companies Act for all companies whose UK electricity consumption exceeds a threshold (linking into the qualification criteria in the UK CRC Energy Efficiency Scheme).

An impact assessment accompanies the consultation document and provides further details, where information is available, on the costs and benefits of the four different options. Information on the wider benefits of measuring and reporting emissions was included in the recent DEFRA report to Parliament, 'Corporate reporting and emissions reductions: review of the contribution of reporting to GHG emissions reductions'.

Date: 11 May 2011

Deadline for comments: 5 July 2011

Source: Department for Environment, Food and Rural Affairs

Further info: <http://www.defra.gov.uk/consult/2011/05/11/ghg-emissions/>

<http://archive.defra.gov.uk/environment/business/reporting/pdf/corporate-reporting101130.pdf>

ICSA issues updated guidance note on joining the right board

In Brief: The Institute of Chartered Secretaries (ICSA) has published an updated version of its Guidance Note entitled 'Joining the right board – due diligence for prospective directors'. The revised guidance is designed to advise prospective directors on the due diligence process they should undertake prior to joining a company.

Key recommendations in the Guidance Note include:

- having pre-appointment meetings with a number of board members and the company secretary as well as certain external advisors, especially if the individual is taking on the role of the chairman of the company or chair of the audit or remuneration committee;
- discussing with the board the outcome of the last board evaluation process, and the plans to tackle any areas which were considered to be in need of development.

The Guidance Note includes a set of due diligence questions which prospective directors can draw on to help them assess the company in a number of areas. There is an increased focus on governance, the operation and behaviour of the board and the role of a non-executive director. Even if you are an existing board member, the Guidance Note raises some interesting questions that you could be asking of the board.

Date: 12 May 2011

Source: Institute of Chartered Secretaries and Administrators

Further info: [http://www.icsa.org.uk/resources/guidance#text\[tag\]\[cat\[Guidance_notes\]page\[1\]](http://www.icsa.org.uk/resources/guidance#text[tag][cat[Guidance_notes]page[1])

Time to take action

- Is there scope to improve the quality of your reporting on business models, strategies and risk management and, where permissible, to include more on your website rather than in your annual report and accounts.
- Consider the gender diversity issues that may affect your board.
- Take the opportunity to input to the consultations on greenhouse gas reporting and going concern.

On the horizon

- A paper responding to the Government's consultation on narrative reporting.
- The latest Deloitte CFO survey shows less optimism and more appetite for risk – it is important to take steps now to improve risk management practices and not to wait for regulatory change.

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