



Governance in Brief

Your summary of the latest corporate governance developments

Headlines

- Proposals to extend audit exemption to more small companies and certain subsidiaries.
- FRC announces future changes to the UK Corporate Governance Code to address boardroom diversity and strongly encourages early adoption.

Proposals to extend audit exemption to more small companies and certain subsidiaries

In Brief: At the time of the 2011 Budget, the Government's Plan for Growth announced proposals to exempt further small companies and certain subsidiaries from audit, taking advantage of provisions in European law. The government proposals were published in October 2011 and, if the law is changed, it is proposed that the exemptions would be available for periods ending on or after 1 October 2012.

Small companies

The government is proposing to extend the small company audit exemption to companies meeting any two of the three criteria to qualify as small (turnover <£6.5m, gross assets <£3.26m, employees <50). Currently, the Companies Act 2006 requires that both the turnover and balance sheet criteria are met. The government expects 36,000 additional small companies would be exempt compared to around 1.4 million that already take advantage of the exemption.

Subsidiaries

The government is proposing a new exemption for subsidiaries of EEA companies where the parent company is willing to guarantee a subsidiary's liabilities and the shareholders publicly agree to audit exemption. The guarantee would be on the public record and would be irrevocable until the subsidiary chooses to file audited accounts. In the consultation, the government is proposing that the guarantee would be of "debts" (contractual liabilities) rather than "liabilities" (which would also include contingent liabilities and claims in tort). The final rules on the guarantee will be very important and companies will not be in a position to take any further steps until the wording has been finalised. In any event, we encourage a measured approach to these exemptions following full consideration of the implications of granting guarantees.

In addition to the audit exemption for non-dormant subsidiaries, dormant subsidiaries would also be exempt from preparing and filing financial statements.

Who can take advantage of the exemptions?

All of these exemptions would be available to companies and limited liability partnerships. The government is, however, proposing that they would not be available to quoted companies or to entities involved in financial services or insurance.

Date: 6 October 2011

Source: Department for Business Innovation and Skills

Deadline for comment: 29 December 2011

Further info: <http://www.bis.gov.uk/Consultations/audit-exemptions-and-accounting-framework>

FRC announces future changes to the UK Corporate Governance Code to address boardroom diversity and strongly encourages early adoption

In Brief: Future amendments to the UK Corporate Governance Code will require listed companies to report annually on their boardroom diversity policy, including gender, and on any measurable objectives that the board has set for implementing the policy and the progress it had made in achieving the objectives. The FRC will also update the Code to include the diversity of the board, including gender, as one of the factors to be considered when evaluating its effectiveness.

The changes will be incorporated in an updated version of the Code to be published in 2012, following consultation on proposed changes to other parts of the Code, which will apply to financial years beginning on or after 1 October 2012. An implementation date of 1 October 2012 should also mean that the new requirements apply from the same date as the Government's proposed regulations requiring companies to disclose information about the percentage of women at different levels of the organisation.

In view of the importance of diversity to the effective functioning of boards, the FRC strongly encourages all companies voluntarily to apply and report on the intended additions to the Code with immediate effect.

Date: 11 October 2011

Source: Financial Reporting Council

Further info: <http://www.frc.org.uk/press/pub2645.html>

Time to take action

- Consider the potential impact of the BIS proposals. The final rules on subsidiary guarantees will be dependent on the outcome of this consultation, so companies are encouraged to respond.
- Review the proposed changes to the UK Corporate Governance Code on diversity and consider the extent to which these can be adopted early in your organisation.

On the horizon

- Further announcements from BIS in the early part of 2012 on the next steps to put the audit exemptions in place.
- Legislative proposals from the EC further to the Green Paper on corporate governance.

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