The UK Corporate Governance Code: A Focus on Reporting

Article by Dr. Gary Martin
Examiner in Professional 1 Corporate Governance

In the context of corporate governance issues examined in the P1 Corporate Laws and Governance paper, the UK Corporate Governance Code, published by the Financial Reporting Council (FRC), is a very important document, given its application to Irish listed companies on the Main Securities Market (MSM) of the Irish Stock Exchange (ISE).

Though recently updated in September 2014, the 2012 version of the Code is examinable for the 2015 diet of exams: this is due to the fact that the 2014 Code's application date was 1 October 2014, as per the communication from the ISE on October 8, 2014[1]. As the ISE October document remarks, the principal changes to the 2014 Code focused on: going concern, risk management and internal control; remuneration; shareholder engagement; and other matters, specified by the Financial Reporting Council as being concerned with the board's role in setting the tone at the top in relation to the values and culture of the organisation, consideration of the role constructive challenge plays in the functioning of the board and board diversity issues in the context of strategic succession planning[2].

Returning to the 2012 version of the Code, it clearly states, in the Preface, that 'Chairmen are encouraged to report personally in their annual statements how the principles relating to the role and effectiveness of the board (in Sections A and B of the Code) have been applied. Not only will this give investors a clearer picture of the steps taken by boards to operate effectively but also, by providing fuller context, it may make investors more willing to accept explanations when a company chooses to explain rather than comply with one or more provisions'[3].

In addition to this overarching purpose, this aspect of the 2012 Code sought to tackle the issue of 'boilerplate' reporting, defined by the FRC (2011)[4] as information contained in the annual report, year after year that is of little or no value and should be simply removed. As another report has highlighted: '*What has to be avoided is tying the production of an*

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[1] http://www.ise.ie/Media/News-and-Events/2014/Revised-UK-corporate-governance-code-for-ISE-listed-companies.html
[2] https://frc.co.uk/News-and-Events/FRC-Press/Press/2014/September/FRC-updates-UK-Corporate-Governance-Code.aspx
[3] Financial Reporting Council (2012) UK Corporate Governance Code, London: Financial Reporting Council.
[4] Financial Reporting Council (2011) Cutting Clutter: combating clutter in annual reports, London: Financial Reporting Council.

integrated report so closely to legal requirements and possible liabilities that mere boilerplate statements are created'[5].

A joint report, published by CIMA and PwC – Report Leadership – suggests 'simple, practical proposals for better reporting for corporate governance'[6]. The report diagnoses some of the characteristics of narrowly focused, 'boilerplate' governance reports, these being: isolated from the narrative setting out developments and challenges within the business; overly concerned with narrow, process driven compliance description of procedure; and the last place investors will look for key corporate information. The report therefore asks: how do directors avoid boilerplate reporting? ; and how can reporting help build the trust between investors, companies and the wider community? Faced with such a series of issues, the further question therefore needs to be posed – how can we achieve better governance reporting?

There is a range of reports that we can consult to help us deal with this issue of how we can achieve more effective governance communication. These include:

- The 2014 Financial Reporting Council Report 'Towards Clear and Concise Reporting'[7]. This report sets out the progress companies have made in relation to: the effectiveness of different channels of communication in meeting the needs of users of annual reports; concentrating on information content that investors value most; materiality; and enhancing report layout with reference to helpful indicators of how reports can be continuously improved;

- The 2011 Financial Reporting Council discussion paper 'Cutting Clutter'[8] which sets out 'three calls for action': dealing with the encouragement of a debate around materiality issues; investigating explanatory material published in annual reports; and stakeholder engagement in relation to information requests; and

- The findings that emerged from the CIMA/PwC report[9] referred to earlier which concluded with suggestions relating to: integrating key governance information with

[5] van der Lugt, C. and Malan, D. (Eds.) (2012) Making Investment Grade: New trends in capturing and communicating strategic value, Cape Town: United Nations Environment Programme, Deloitte and the Centre for Corporate Governance in Africa (University of Stellenbosch Business School).
[6] http://www.pwc.com/en_GX/gx/corporate-reporting/assets/report-leadership-governance-reporting.pdf
[7] Financial Reporting Council (2014) Towards Clear and Concise Reporting: Lab Insight Report, London: Financial Reporting.
[8] Financial Reporting Council (2011) Cutting Clutter: combating clutter in annual reports, London: Financial Reporting Council.
[9] http://www.pwc.com/en_GX/gx/corporate-reporting/assets/report-leadership-governance-reporting.pdf

wider business reporting; demonstrating how governance principles are applied and communicated; telling the 'governance story' whilst demonstrating compliance explicitly.

It is suggested that these source reports, all available online, offer an effective approach to meeting the governance challenge first posed in the 2012 UK Corporate Governance Code[10], namely how to best deal with, in the words of the FRC, 'the fungus of "boilerplate" which is so often the preferred and easy option in sensitive areas but which is dead communication'.

[10] Financial Reporting Council (2012) UK Corporate Governance Code, London: Financial Reporting Council.