

UK Corporate Governance Code: a summary of proposed revisions

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Foreword

The much-awaited consultation, proposing revisions to the 2018 UK Corporate Governance Code, was published on 24 May 2023. The consultation forms an important step in the implementation of the Government's audit and corporate governance reforms. We have provided a high-level factual summary of the Financial Reporting Council (FRC) proposals in this document, and we will be providing our thoughts on particular points raised by the consultation in due course. There is also an [Appendix](#) to this summary, which looks at the proposals against the questions asked by the consultation.

We recently hosted a webcast with Mark Babington from the FRC to discuss the proposals in more detail, you can access the recording [here](#). Feel free to get in touch with your usual EY contact or any of the contacts listed below who would be happy to discuss the proposals.

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The consultation

The consultation does not propose a wide-ranging review of the existing Code. Its objective is to address the policy issues asked of the FRC by the Government's response in May 2022 on ['Restoring Trust in Audit and Corporate Governance'](#).

The consultation closes on 13 September 2023 and the FRC intends to finalise the new Code by the end of the year. The proposed application date of the new Code is for accounting years commencing on or after 1 January 2025, thereby giving companies about a year to plan and prepare.

The changes are focused largely on the following areas: i) risk management and internal controls and ii) the wider responsibilities of boards and audit committees (AC) for narrative reporting and non-financial metrics, including assurance over these matters. Most of the changes are in Section 4 of the Code i.e., Audit, Risk and Internal Control.

The proposed structure of the Code and its five sections remain unchanged.

The overall approach i.e., that companies must apply the Code's Principles, and comply or explain against the Provisions that support these Principles is retained. Whereas previously covered in the preface, a new Principle (Principle D) has been added to emphasise the importance of clear explanations where there are departures.

At a glance

Proposed changes covered in the consultation

1. Risk management and internal controls

- ▶ Emerging risks will need to be described.
- ▶ The reference to boards needing to 'establish procedures to manage risk and oversee the internal control framework' has been removed.
- ▶ Boards need not only to 'establish' an effective risk management and internal control framework, covering operational, compliance and reporting (replaces 'financial') controls, but also to 'maintain' such a framework.
- ▶ Directors need to: make a declaration on whether they can reasonably conclude that risk management and internal control systems have been effective throughout the period and up to the date of the annual report and accounts (ARA); set out the basis for that declaration, along with a description of any material weaknesses or failures identified, the remedial actions being taken and over what time frame.
- ▶ The Guidance on Risk Management and Internal Control will be updated to provide clarity on definitions, e.g., of a material weakness; assistance on how to report against these requirements and the processes to evidence/underpin this reporting; frameworks/standards used to evaluate effectiveness and the focus on dynamic and continuous monitoring rather than 'a point in time' exercises.

2. Interaction with the Government's secondary legislation on proposed reporting measures

- ▶ ACs of companies subject to the Code need to develop, implement and maintain an Audit and Assurance Policy (AAP).
- ▶ The ARA should describe the approach to the AAP and the annual implementation report.
- ▶ Provisions related to Going Concern and Viability Statements have effectively been maintained, with the intention that 750:750 companies producing a Resilience Statement (RS) under the secondary legislation will be deemed to comply with these provisions.

3. Narrative reporting and non-financial metrics

- ▶ The board's reporting (in the ARA) of how opportunities and risks to the future success of the business have been considered and addressed, has been expanded to require a description of how environmental and social matters have been taken into account, including climate ambitions and transition planning.
- ▶ The AC's remit has been expanded to include monitoring the integrity of narrative reporting, including sustainability matters and reporting on related significant issues.
- ▶ In addition to the current requirement for aligning remuneration outcomes with purpose, values and delivery of long-term strategy, remuneration committees are to now consider alignment with performance and ESG objectives.

4. Director appointments, succession plans and board performance reviews

- ▶ Significant director appointments to other organisations are to be detailed in the ARA with an explanation of how each director has sufficient time to undertake their role effectively in light of these commitments.
- ▶ Boards' annual performance review needs to specifically consider these commitments.
- ▶ Appointments and succession plans should promote equal opportunities, and diversity and inclusion of protected and non-protected characteristics.
- ▶ Diversity and inclusion initiatives should contribute to succession plans.

5. Remuneration

- ▶ As noted above under the narrative reporting and non-financial metrics heading, an explanation in the ARA should be provided of how directors' remuneration supports strategy and ESG objectives.
- ▶ Requirement to report on whether malus and clawback provisions are in place; the minimum conditions in which these would apply; the minimum period for applying them (and the rationale for this choice), and whether such provisions have been used in the last reporting period and the last five years and, used has been introduced if so, why.

6. Other changes

- ▶ Reporting on governance activity should focus on outcomes.
- ▶ A specific provision in the body of the Code covers the importance of clear explanations if companies do not comply, whereas previously, it was only in the preface to the Code.
- ▶ Culture reporting needs to cover how effectively the desired culture has been embedded.

Key points

Risk management and internal control

The FRC's policy approach on risk management and internal controls – one of the most widely debated proposals – is to make clearer the board's accountability for risk management and internal controls and to enhance the transparency of reporting whilst recognising that the requirements need to be flexible and proportionate to allow companies to tailor arrangements to their own circumstances. The proposed changes aim to provide a stronger basis for reporting on and evidencing the effectiveness of the framework of risk management and internal controls (covering operational, compliance and reporting controls) during the reporting period and potentially up to the date of the ARA. Under the revised Code, boards will not be required to report on whether they intend to obtain external assurance over the effectiveness of the company's risk management and internal control framework – this will be a matter to determine when setting the AAP.

However, the revised Guidance on Risk Management and Internal Control may set out circumstances in which external assurance might be considered appropriate.

Narrative reporting and non-financial metrics

The FRC notes the increased importance placed on such information by investors as an influencing factor when making capital allocation decisions and hence the need for it to be as reliable as financial information, underpinned by robust evidence.

It notes that companies are building expertise in these matters in different ways at management and board level (e.g., through specialist advice at board level, different executive and board committees, key management roles), and therefore it has decided not to recommend that companies should have sustainability committees. However, it notes that the expertise of ACs in financial reporting positions them well to oversee narrative reporting and non-financial metrics and the underpinning controls and process, as well as assurance. It also notes that AC's role over the AAP and the RS means that it will need to consider wider sustainability matters anyway.

Audit and Assurance Policy

The FRC recognises that some companies, which are subject to the Code, but which would not fall into the new 750:750 company category, will not be required under law to produce an AAP. As a reminder, secondary legislation to introduce new disclosure requirements for companies with more than 750 employees and £750mn of turnover on resilience, fraud, the audit and assurance policy and distributions, is currently being drafted.

The consultation proposes that all companies reporting against the Code should consider producing an AAP on a 'comply or explain' basis. In their view, a single requirement covering all Code companies will ensure consistency of approach for all ACs will be easier to comply with and monitor against.

Other connected developments to be aware of

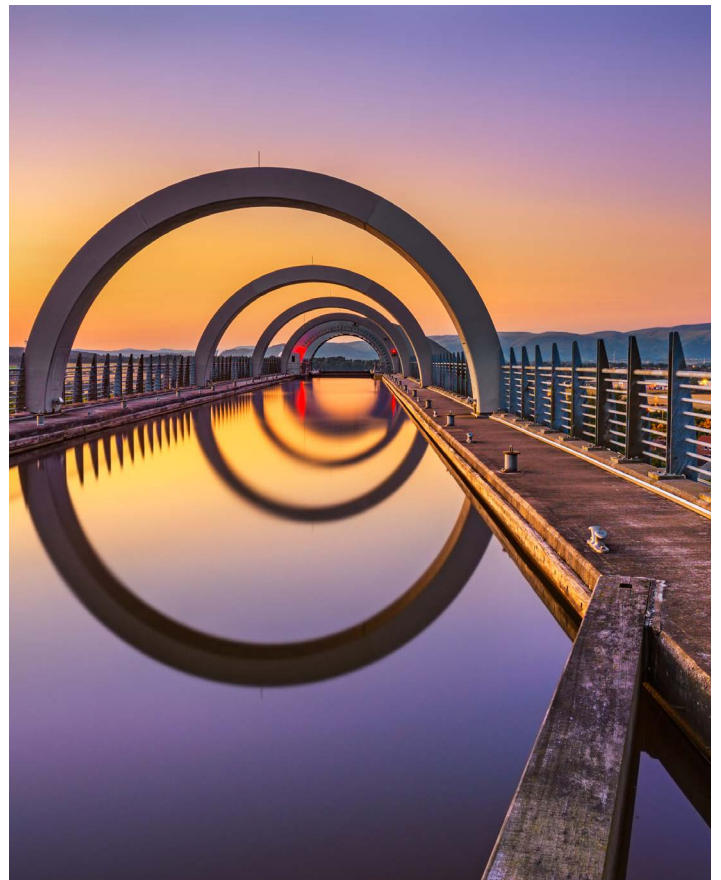
The Financial Conduct Authority's [consultation \(CP23/10\) on Primary Market Effectiveness](#), which proposes collapsing the two equity segments on the Main Market (premium and standard) into a single segment for commercial companies, means more companies would potentially be required by the Listing Rules to follow the Code.

The FRC is working in parallel to revise various guidance supporting the Code, including Guidance on Audit Committees, Guidance on Board Effectiveness and Guidance on Risk management and internal control. These will be issued when the Code is finalised.

The broader reform agenda

This consultation is one part of the Government's broader audit and governance reform programme set out in the May 2022 response. The Code falls within the existing remit of the FRC, and therefore it has the authority and ability to progress, through revisions to the Code, a number of new measures that do not require legislation. In terms of the reforms that require legislative intervention:

- ▶ Primary legislation to form the Audit, Reporting and Governance Authority (ARGA) and introduce remedies to improve competition and choice in the audit market, is expected to follow in due course, subject to parliamentary time.
- ▶ The Government will also introduce via primary legislation a new category of public interest entity (PIE), expanding the current scope of the definition to (most types of) entities which have both a high level of employees (750 or more) and turnover (£750mn or more). UK-incorporated companies (i.e., in legal form), which meet this threshold will be subject to the new reporting requirements via secondary legislation, as noted above. The secondary legislation requirements can take effect prior to primary legislation being enacted. Appendix C of the FRC's consultation document provides a summary of the draft secondary legislation.



Appendix

Details of proposed changes and consultation questions

1. Risk management and internal controls

Explanation of the FRC's policy approach: Given the Government's decision that there should not be a legislative approach to reporting on internal controls, the FRC's proposed approach is to make clearer the board's accountability for risk management and internal controls and to enhance transparency while recognising that the requirements need to be flexible and proportionate such that companies are able to tailor their arrangements to their own circumstances.

The proposed changes aim to increase transparency by providing a stronger basis for reporting on, and evidencing the effectiveness of, the framework of risk management and internal controls (covering operational, compliance and reporting controls) during the reporting period and potentially up to the date of the ARA.

Changes to requirements	Relevant consultation questions
<p>The requirement in current Principle O for boards to 'establish procedures to manage risk and oversee internal control framework' has been removed.</p> <p>Instead, existing Principles C and O in relation to establishing risk management and internal control systems have been merged into a new Principle N, which now makes boards responsible not only for 'establishing' but also 'maintaining' an effective risk management and internal control framework.</p>	<p>Q13: Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal controls systems in a proportionate way?</p>
<p>Provision 29 has changed the scope of material controls from 'operational, compliance and financial' to 'operational, compliance and reporting.' It also introduces three new reporting requirements, which are covered individually below.</p> <p>The change from 'financial' to 'reporting' controls has been made to recognise the importance of narrative reporting, given the increased use of such reporting by investors for capital allocation decisions.</p>	<p>Q15: Where controls are referenced in the Code, should 'financial' be changed to 'reporting' to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?</p>
<p>The requirement in existing Provision 29 to monitor and at least annually carry out a review of the effectiveness of the RM and IC systems and report on that review has been expanded. The ARA will need to include a declaration of whether the board can reasonably conclude that the company's risk management and internal control systems have been effective throughout the reporting period and up to the date of the ARA.</p>	<p>Q14: Should the board's declaration be based on continuous monitoring throughout the reporting period up to the date of the annual report, or should it be based on the date of the balance sheet?</p>



Changes to requirements	Relevant consultation questions
<p>Continuous monitoring: The FRC emphasises that a one-off review exercise is not sufficient, and that the declaration will require continuous monitoring.</p> <p>Effectiveness throughout the reporting period (and potentially to the date of the ARA): The FRC notes that reporting on how risk management and internal controls systems have performed throughout the year strengthens their focus on maintaining effectiveness and gives shareholders a clearer picture of a company's ability to address shortcomings, thereby enhancing investor confidence.</p> <p>Guidance to be developed later in the year will, amongst other things, cover the difference between continuous monitoring and a review and areas that the board should consider when carrying out its review of the effectiveness.</p>	<p>Q16: To what extent should the guidance set out examples of methodologies or frameworks for the review of the effectiveness of risk management and internal controls systems?</p>
<p>Existing Provision 29 has been expanded to include a requirement for the board to explain in the ARA the basis for its declaration, including how it has monitored and reviewed the effectiveness of these systems.</p> <p>Guidance developed later in the year will, amongst other things, provide assistance on how to report against this requirement, which may include a description of the process undertaken and the role and work of the board and its committees. It may also include identifying the framework or standard used to evaluate effectiveness.</p>	<p>Q18: Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?</p>
<p>Existing Provision 29 has been expanded to include a requirement for the board to describe in the ARA any material weaknesses or failures identified and the remedial action being taken, and over what timeframe.</p> <p>The working definition (which is in line with other existing definitions) of material weakness being considered is: 'A fault, deficiency or failure in the design or operation of the risk management and internal control framework, such that there is a reasonable possibility that the company's ability to identify, assess, respond to or monitor risks to its strategic, operational, reporting and compliance objectives is adversely affected'.</p>	<p>Q17: Do you have any proposals regarding the definitional issues, e.g., what constitutes an effective risk management and internal controls system or a material weakness?</p>
<p>Existing Provision 28 has been updated to require a description of emerging risks, in addition to the existing requirement on how these are being identified and managed.</p> <p>Guidance developed later in the year will, amongst other things, cover procedures to identify and manage emerging risks, emphasising the importance of the risk assessment being a continuous and dynamic process rather than a one-off exercise during the year.</p> <p>Reference to describing how emerging risks are being mitigated has been removed.</p>	<p>n/a</p>

Appendix

Details of proposed changes and consultation questions

2. Interaction with the Government's proposed secondary legislation on reporting measures

Explanation of the FRC's policy approach: As noted in the Government's response, secondary legislation is expected to introduce an AAP and a RS for 750:750 companies.

- ▶ AAP – The FRC recognises that some companies which are subject to the Code but which are not 750:750 companies will not be required under law to produce an AAP. It proposes that all companies reporting against the Code should consider producing an AAP on a 'comply or explain' basis. In its view a single requirement covering all Code companies is easier to comply with and monitor against.¹
- ▶ RS – In a similar vein to above, some Code reporting companies are not 750:750 companies and will therefore not be required to produce a RS. In the FRC's view, this will leave a gap in reporting on future prospects – an area of interest to investors – and therefore, the existing viability statement requirement has been retained (with amendments as noted below). Code companies that produce a RS under legislation will, in effect, be deemed to have met the Code's requirements on the viability statement.

Changes to requirements	Relevant consultation questions
<p>New Provision 25 expands the roles and responsibilities of the AC to include developing, implementing and maintaining the AAP and engaging on the approach to that policy with shareholders and other stakeholders.</p> <p>The AAP is not defined within the draft Code but cross-referenced to the draft secondary legislation as a guide.</p>	<p>Q10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?</p>
<p>Existing Provision 27, which sets out which aspects of the AC's work should be described in the ARA has been extended to cover its approach to developing the triennial AAP and the annual implementation report.</p> <p>There is no explicit requirement to disclose the AAP or the implementation report; however, when commissioned by the board, the AC should also set out the assurance of environmental, social and governance (ESG) metrics and other sustainability matters.</p>	<p>n/a</p>

¹ As noted in the summary of the draft secondary legislation contained in Appendix C of the FRC's consultation document, the AAP will need to state 'whether any external assurance over the next three years will be sought in respect of the resilience statement and the effectiveness of the company's internal controls over financial reporting'. Note here the reference to 'financial reporting' vs 'reporting' in the Code.



Changes to requirements	Relevant consultation questions
<p>Existing Provision 31 requiring a directors' statement on the going concern basis of accounting has remained unchanged.</p> <p>Companies which comply with the going concern element of the RS will also be compliant with this Provision.</p>	<p>Q19: Do you agree that current Provision 30, which requires companies to state whether they are adopting a going concern basis of accounting, should be retained to keep this reporting together with reporting on prospects in the next Provision, and to achieve consistency across the Code for all companies (not just PIEs)?</p>
<p>Existing Provision 31, commonly referred to as the 'viability statement', clarifies that reference to prospects relates to future prospects of the company. It continues to require reporting on the company's ability to meet its liabilities as they fall due over the assessment period, drawing attention to any qualifications or assumptions.</p> <p>Companies which comply with the requirements to prepare a RS will also be compliant with this Provision.</p> <p>The updated provision no longer requires an explanation of the period over which the future prospects have been assessed and why that period is considered to be appropriate. The board also no longer has to state whether it has a reasonable expectation that the company will be able to continue in operation.</p>	<p>Q20: Do you agree that all Code companies should continue to report on their future prospects?</p> <p>Q21: Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects?</p>

Appendix

Details of proposed changes and consultation questions

3. Narrative reporting and non-financial metrics

Explanation of the FRC's policy approach: The proposed changes address the wider responsibilities of the board and AC for narrative reporting and non-financial metrics – referred to in the consultation as either 'environmental, social and governance reporting' or 'sustainability matters' without further definition. The FRC also incorporate considerations relating to assurance over this reporting in accordance with the aforementioned AAP and Implementation report.

The FRC notes the increased importance placed on such information by investors as an influencing factor when making capital allocation decisions, which means it needs to be as reliable as financial information, underpinned by robust evidence.

It notes that companies are building expertise on these matters in different ways at management and board level (e.g., through specialist advice at board level, different executive and board committees and key management roles etc), and therefore it has decided not to recommend that companies should have sustainability committees. However, it notes that ACs' expertise in financial reporting position them well to oversee narrative reporting and non-financial metrics and the underpinning controls and process as well as assurance. It also notes that the AC's role over the AAP and the RS means it will need to consider wider sustainability matters anyway.

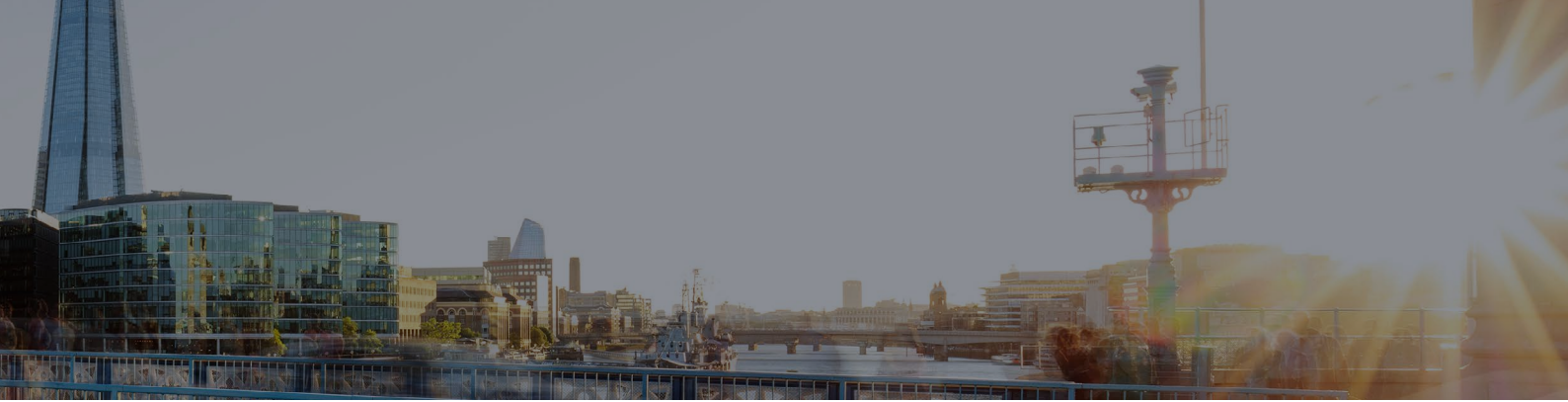
Changes to requirements

Provision 1 has been expanded to require a description of how environmental and social matters are taken into account in the delivery of strategy, including a company's climate ambitions and transition planning.

Reference to setting out how governance contributes to the delivery of strategy has been removed. However, Principle D (see below) introduces a focus on outcomes when reporting on the board's governance activities.

Relevant consultation questions

Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?



Changes to requirements	Relevant consultation questions
<p>Existing Provision 25 expands the roles and responsibilities of the AC to include monitoring the integrity of narrative reporting, including sustainability matters, and reviewing any significant reporting judgements.</p> <p>Reflecting the above, existing Provision 26 has been expanded to require that the description of the work of the AC includes the significant issues that were considered relating to narrative reporting, including sustainability matters, and how these issues were addressed.</p> <p>The term 'sustainability matters' is not defined in the Code.</p>	<p>Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and, where appropriate, ESG metrics, where such matters are not reserved for the board?</p>
<p>Existing Provision 27 has been updated to reference the AAP and implementation report, as discussed earlier.</p>	<p>n/a</p>
<p>The requirement in existing Provision 41 for an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics has been expanded to include a description of how these support the company's strategy and ESG objectives.</p> <p>Changes to Section 5 on remuneration are covered in more detail below.</p>	<p>n/a</p>

Appendix

Details of proposed changes and consultation questions

4. Director appointments, succession plans and board performance reviews

Explanation of the FRC's policy approach: Responding to increased concern from investors about the number of board positions held by executive and non-executive directors of UK PLCs, the changes to the Code are aimed at strengthening processes and disclosures that assess whether directors have sufficient time to discharge of their duties.

In line with the recommendations of the Chartered Governance Institute (CGI) review on the effectiveness of the independent board evaluations in the UK-listed sector (2021), the FRC has replaced the term 'board evaluation' with 'board performance review' to address the erroneous perception that externally facilitated reviews are intended as a backwards-looking assurance function, whereas the value of such reviews is in informing a continual process of self-improvement for boards.

Changes to requirements	Relevant consultation questions
Existing Principle K has been updated to reference that annual evaluations of the board need to consider the board's performance and each director's commitments to other organisations, and their ability to discharge their responsibilities effectively.	Q4: Do you agree with the proposed change to Code Principle K, which makes the issue of significant external commitments an explicit part of board performance reviews?
Existing Provision 15 has been expanded to require that all significant director appointments are set out in the ARA, with a description of how each director has sufficient time to undertake their role effectively in light of commitments to other organisations. This should describe any actions taken as a result of this assessment.	Q5: Do you agree with the proposed change to Code Provision 15, which is designed to encourage greater transparency on directors' commitments to other organisations?



Changes to requirements	Relevant consultation questions
<p>Existing Principle J has been updated to require that appointments and succession plans should promote equal opportunity, and diversity and inclusion (note that reference to inclusion is new) not just of cognitive and personal strengths, but of protected characteristics² and non-protected characteristics.</p> <p>Additionally, recognising that companies are working towards the targets set out in the FCA's Diversity Listing Rule or targets from any additional voluntary initiatives, existing Provision 17 now requires that diversity and inclusion initiatives, along with any targets set, should contribute to the succession plan. Reference to promoting diversity of gender, social and ethnic backgrounds has been removed.³</p> <p>NB: Under DTR 7.2.8A R(1), which was revised recently by the FCA, the corporate governance statement must contain a description of the diversity policy applied (...) with regard to aspects such as age, gender, ethnicity, sexual orientation, disability or educational, professional and socioeconomic backgrounds.</p>	<p>Q7: Do you support the changes to Principle I moving away from a list of diversity characteristics to the proposed approach, which aims to capture wider characteristics of diversity?</p> <p>Q6: Do you consider that the proposals outlined effectively strengthen and support existing regulations in this area, without introducing duplication?</p>
<p>In order to provide improved clarity on approaches to succession planning and appointments, as well as providing a better understanding of the role that any diversity targets or initiatives have, requirements in existing Provision 23 have been re-ordered without changing the substance.</p>	<p>Q8: Do you support the changes to Provision 24, and do they offer a transparent approach to reporting on succession planning and senior appointments?</p>
<p>In view of the maturity of the market to conduct board performance reviews, existing Provision 21 clarifies that the Chair should 'commission' an externally facilitated board performance review rather than 'consider' it.</p>	<p>n/a</p>
<p>The CGI also recommended that the FRC should issue guidance to listed companies on how to report against Provisions 21 and 23 of the existing Code in relation to board performance reviews. As a result, the FRC proposes to incorporate many aspects of the CGI's guidance into its own revised guidance.</p>	<p>Q9: Do you support the proposed adoption of the CGI recommendations as set out above, and are there particular areas you would like to see covered in guidance in addition to those set out by CGI?</p>

² Protected characteristics in accordance to Equality Act 2010: age, gender reassignment, being married or in a civil partnership, being pregnant or on maternity leave, disability, race including colour, nationality, ethnic or national origin, religion or belief, sex, sexual orientation.

³ The corporate governance statement must contain a description of: (a) the diversity policy applied to the issuer's administrative, management and supervisory bodies and the remuneration, audit and nomination committees of those bodies with regard to aspects such as, for instance, age, gender, ethnicity, sexual orientation, disability or educational, professional and socio-economic backgrounds;(b) the objectives of the diversity policy in (a);(c) how the diversity policy in (a) has been implemented; and(d) the results in the reporting period. If no diversity policy is applied by the issuer, the corporate governance statement must contain an explanation as to why this is the case.

Appendix

Details of proposed changes and consultation questions

5. Remuneration

Explanation of the FRC's policy approach: Changes aim to strengthen the links between companies' remuneration policies and corporate performance in the wider sense, including ESG objectives. Through additional reporting on the use of malus and clawback arrangements, investors will have greater visibility of the mechanisms available to address scenarios involving serious failings⁴, and whether and how companies are making use of these. The White Paper proposed six minimum conditions for malus and clawback provisions that remuneration committees could be asked to adhere to, on a comply or explain basis, through the Code: material misstatement of results or an error in performance calculations; material failure of risk management and internal controls; misconduct, conduct leading to financial loss; reputational damage; unreasonable failure to protect the interests of employees and customers. These have not been included in the Code.

Changes to requirements

The content of existing Principles P, Q and R has been re-ordered to ensure a more logical flow but remains largely the same, with reference to 'executive remuneration' being replaced with 'remuneration outcomes' and explicit reference to workforce pay and conditions being one of the circumstances to take into account when exercising judgement and discretion.

In addition to aligning remuneration outcomes with purpose, values and delivery of long-term strategy, as required in the existing Code under Provision P, revised Provision O requires remuneration committees to now consider alignment with performance, as well as ESG objectives.

Provision 34 has been expanded and now stipulates that 'the remuneration policy should be clear, identify and mitigate risks associated with remuneration, and ensure outcomes are proportionate and do not reward poor performance.'

Relevant consultation questions

Q22: Do the proposed revisions strengthen the links between remuneration policy and corporate performance?

⁴ The Government's response proposed six minimum conditions for malus and clawback provisions that remuneration committees could be asked to adhere to, on a comply or explain basis, through the Code: material misstatement of results or an error in performance calculations; material failure of risk management and internal controls; misconduct, conduct leading to financial loss; reputational damage; unreasonable failure to protect the interests of employees and customers. These have not been included in the Code.



Changes to requirements	Relevant consultation questions
<p>The requirement for the ability to use discretion to override formulaic outcomes enshrined in existing Provision 37 has been maintained.</p> <p>Previous references to Provisions that would enable a company to recover and/or withhold sums or share awards are now explicitly labelled as 'malus and clawback'. Provision 39 now specifies that director contracts and/or other agreements or documents which cover director remuneration should include malus and clawback.</p> <p>New Provision 40 requires remuneration reports to include a statement on the following:</p> <ul style="list-style-type: none"> ▶ Whether the company has malus and clawback provisions in place ▶ The minimum conditions in which these would apply ▶ The minimum period for applying them and why the selected minimum period is best suited to the organisation ▶ Whether the company has used such provisions in the last reporting period (or the last five years) and if so, why? 	<p>Q23: Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?</p>
<p>As noted above, existing Provision 41 now additionally requires an explanation of how remuneration policies, structures and any performance metrics support the company's ESG objectives.</p> <p>Current Provision 40, describing factors which remuneration committees should address in setting executive remuneration, has been removed in its entirety and examples of how these factors have been addressed are no longer required.</p> <p>Current Provision 41 will no longer require remuneration committees to provide reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps, on the basis that there is increased access to gender pay gap reports and disclosures on company websites.</p>	<p>Q24: Do you agree with the proposed changes to Provisions 40 and 41?</p> <p>Q25: Should the reference to pay gaps and pay ratios be removed, or strengthened?</p>

Appendix

Details of proposed changes and consultation questions

6. Other changes

There are a number of other proposed changes that encompass enhancements to reporting requirements and removing potential duplication.

Changes to requirements	Relevant consultation questions
<p>New Principle D states that reporting on governance activity should focus on outcomes in order to demonstrate the impact of governance practices and how the Code has been applied.</p> <p>Furthermore, the concept of comply or explain i.e., providing explanations where a company doesn't comply with a particular Provision has now been built into this Principle – whereas previously it had been included in the Code's preface.</p>	<p>Q1: Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?</p>
<p>Existing Provision 2 expands the requirement for the board to assess and monitor culture to additionally include reporting on how effectively the desired culture has been embedded.</p>	<p>n/a</p>
<p>In line with expectations relating to reporting on how directors have discharged of their s172 duties, Provision 3 has been expanded to include a requirement to report in the ARA on the outcomes of the engagement with shareholders.</p> <p>Furthermore, the roles of the AC set out in existing Provision 25 have been expanded to include engaging with shareholders and other stakeholders on the role of the AC, the scope of work of the external auditor, and, as previously noted, the approach to the AAP.</p>	<p>n/a</p>



Changes to requirements	Relevant consultation questions
<p>Existing Provisions 25 and 26 have been amended to remove reference to most matters now covered in the Audit Committee and External Audit: Minimum Standard issued in May 2023 (the Minimum Standard).</p> <p>The Minimum Standard is already effective and will operate on a comply or explain basis until such time that ARGA is created with the power to mandate compliance. At least initially, it applies to ACs of FTSE 350 companies only, and the FRC does not anticipate any need for additional systems or new resource. Non-FTSE 350 should view the Minimum Standard as good governance practice and, therefore, apply it on a 'comply or explain' basis.</p>	<p>Q11: Do you agree that amending Provisions 25 and 26 and referring Code companies to the Minimum Standard for Audit Committees is an effective way of removing duplication?</p>
<p>In March 2023, the Government published a White Paper on artificial intelligence (AI), setting out its vision for an AI-enabled country.</p> <p>No changes have been proposed to the Code, but the FRC is asking for views from stakeholders as to whether any changes would be needed to support progress in this area.</p>	<p>Q26: Are there any areas of the Code which you consider require amendment or additional guidance, in support of the Government's White Paper on artificial intelligence?</p>

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