

The background of the slide features a series of concentric circles. The outermost ring is a light lime green. Inside this is a white ring, followed by a thick lime green ring. The center of the slide is composed of several concentric blue circles of varying shades, ranging from a very light blue to a dark navy blue. The text is centered within the darkest blue circle.

AFM Code reporting good practice Autumn 2020



EXECUTIVE SUMMARY

- There has been active adoption of the ‘apply and explain’ approach contained in the six principles of the AFM Corporate Governance Code.
- Some of the most effective reports have been tabular, with short descriptions of how the principles have been applied (e.g. 2 to 4 pages), with additional information separate.
- Many members began planning their report in the autumn, and this has enabled them to develop a coordinated and effective approach.
- In terms of the style and form of narrative, many have consciously focused the commentary on different stakeholders. The language used though tends to be complex and not well suited to the audience.
- Board composition remains a stark problem, with many long-serving directors, shortfalls in the number of iNEDs, and diversity issues.

Agenda



1. Nature
of the Code

2. Planning

3. Structure

4.
Application

5. Narrative
writing

6. Next
steps

With focus sections on:

- board composition/ diversity
- ESG reporting
- AGMs

I. AFM CORPORATE GOVERNANCE CODE IS FOCUSED ON 6 PRINCIPLES



Purpose & Leadership



Board Composition



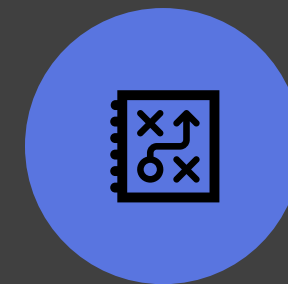
Director Responsibilities



Opportunity and Risk



Remuneration



Stakeholder
Relationships and
Engagement

APPLY AND EXPLAIN

Our expectations were:

- Members should demonstrate how they apply each of the six principles.
- Provide a supporting statement for each principle in the directors' report
- Written in a way designed to appeal to the interests of all key stakeholders
- The guidance in the Code gives non-exhaustive aspects to consider
- Auditor review likely
- AFM to consider lessons learned later in the year

2. PLANNING FOR NEW-STYLE REPORTING

POSITIVES

- The new Code represented a significant change in the format of corporate governance reporting.
- Firms that started a review in September for a December year-end found the changes were readily accommodated.
- Setting out early what a good outcome would be, helped focus the work needed.
- Involving the Board early in the process helped.
- The Code focuses on transparency, so even if the full Report and Accounts are published on the website, the Corporate Governance report should be, asap

NOT SO POSITIVE

- Members that had not maintained a regular review of governance changes had more work to do: some reports referred to the 'Combined Code' which disappeared in the terminology in 2010.
- Lack of forward planning made producing the apply and explain statements more cumbersome, particularly with the lockdown.
- Treating the exercise as a compliance responsibility, rather than an opportunity to engage with stakeholders.

3. STRUCTURE OF THE REPORT

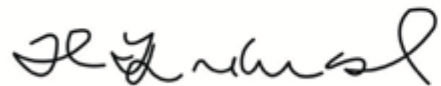
- Most members adopted a simple structure, setting out bullets under each principle to demonstrate how they had applied it.
- The commentary varied in length, from a one-page table, to ten or more pages, where evidence was interdispersed to reinforce the statements. A short and concise approach seems most effective.
- The application statements were generally followed by other governance issues (such as diversity, board structure etc), as has been the case in the past.
- The more effective reporting gave greater focus to all stakeholders (customers, members, employees, the community etc), which made the report more readable and relevant.

<div><div><div>Purpose & leadership</div><div><div>How we apply the principle</div><div>The Board holds a two-day strategic seminar each year.</div><div>We have a strong values framework and work hard to make sure a positive culture pervades our Society.</div><div>We've continued to review our systems and controls to make sure we have a strong control framework.</div></div><div><div>This contributes to good governance because...</div><div>The 2019 event gave the Board an opportunity to take time out from standard agenda items to focus on strategy, purpose and business model.</div><div>Employee pay awards are linked to objectives and to values-led behaviours. 86% of staff were successful in achieving a bonus payment in 2019. We gained two-star status in our 2019 Best Companies staff survey, improving on our 2018 one-star result, demonstrating that our people feel more involved and engaged in the business.</div><div>Rule changes agreed at our Conference in 2019 introduced a 'consequences framework' for members, Branch members and Directors. This means that, in common with our staff, there are implications for anyone behaving in a way that's not in line with our values or the regulatory code of conduct, or which could bring the Society into disrepute. This framework underlines the emphasis we place on maintaining a positive culture.</div><div>Our improved risk framework, policy framework and conflicts of interest processes have led to more transparency and accountability.</div></div></div></div>		
Principle	Applied	How Applied
1. Purpose and leadership: An effective board promotes the purpose of an organisation, and ensure that its values, strategy and culture align with that purpose.	Yes	<div>The Society's rolling 5 year Strategic Plan sets out the purpose, future focus and direction of the Society. It is actively reviewed and managed by the Board of Management ("Board") and the Senior Management Team. Progress is shared with employees, through team meetings, and with members through these Financial Statements.</div> <div>The Society's culture is implemented internally and externally through its defined values, adopted by the Board and all employees.</div> <div>Behaviours are also defined, aligned, and measured for Non-executive Board members and employees as part of the annual appraisal process.</div> <div>The Governance Framework is the Society's implementation and control structure.</div>

4. APPLICATION OF THE PRINCIPLES

Chairman's Statement on Corporate Governance

It is my responsibility to ensure that the Society applies the Principles of the Code across the business appropriately. The Committee aims to apply the spirit of the Principles of the Code and it is the Committee's intention to adopt the highest standards of corporate governance for an organisation of our scale and in the best interests of our members.



Stephen Hindmarsh
Chairman

- Referencing the guidance in the Code to reinforce application of the principles.
- Positive examples of things that have been done
- Against the apply statements, confirmation they have been applied
- Explanations: not very evident, but omissions or shortcomings should be confessed, with an action plan to address
- A summary by the Chair provides a good overview and the chance to reinforce the commitment to high standards.



FOCUS ON BOARD COMPOSITION/ DIVERSITY

Some AFM members have signed up to the 30% target, and various rule changes may evolve in time

The evidence suggests still plenty of scope for improvement:

- **Gender:** 23% of NEDs female; 35% of iNEDs recruited in last five years female
- **Racial:** 100% of iNEDs recruited in last five years were white
- **Age:** 2% of iNEDs recruited under the age of 45
- **Longevity:** over 20%/ up to a third of NEDs are long-serving
- **Independence:** on a fifth of boards fewer than half of NEDs are independent (or less than two iNEDs in non-directives)

* sources: AFM survey, and NEDonBoard survey of 15 AFM members and 53 iNED appointments in last five years

Grade	Score	Reading age	Which is like
4	100+	9 to 10	<i>This sign</i>
5	90	10 to 11	Most comic books
6	80	11 to 12	<i>Harry Potter</i>
7	70	12 to 13	Large chunks of The Writer's website
8	65	13 to 14	Many of Obama's speeches
9	60	14 to 15	BBC news website
10	50	Start of college (high school)	<i>The Financial Times</i>
11	40	End of college	Most of William Shakespeare
12	30	University	<i>Harvard Law Review</i>

5. NARRATIVE WRITING

- Adopting clear and effective language to explain governance arrangements
- Messages targeted at particular stakeholders to improve relevance
- Include context, examples and references
- Reports reviewed had a Flesch-Kincaid reading ease score of between 25 and 48, which makes the typical report comparable to reading the works of Shakespeare*.

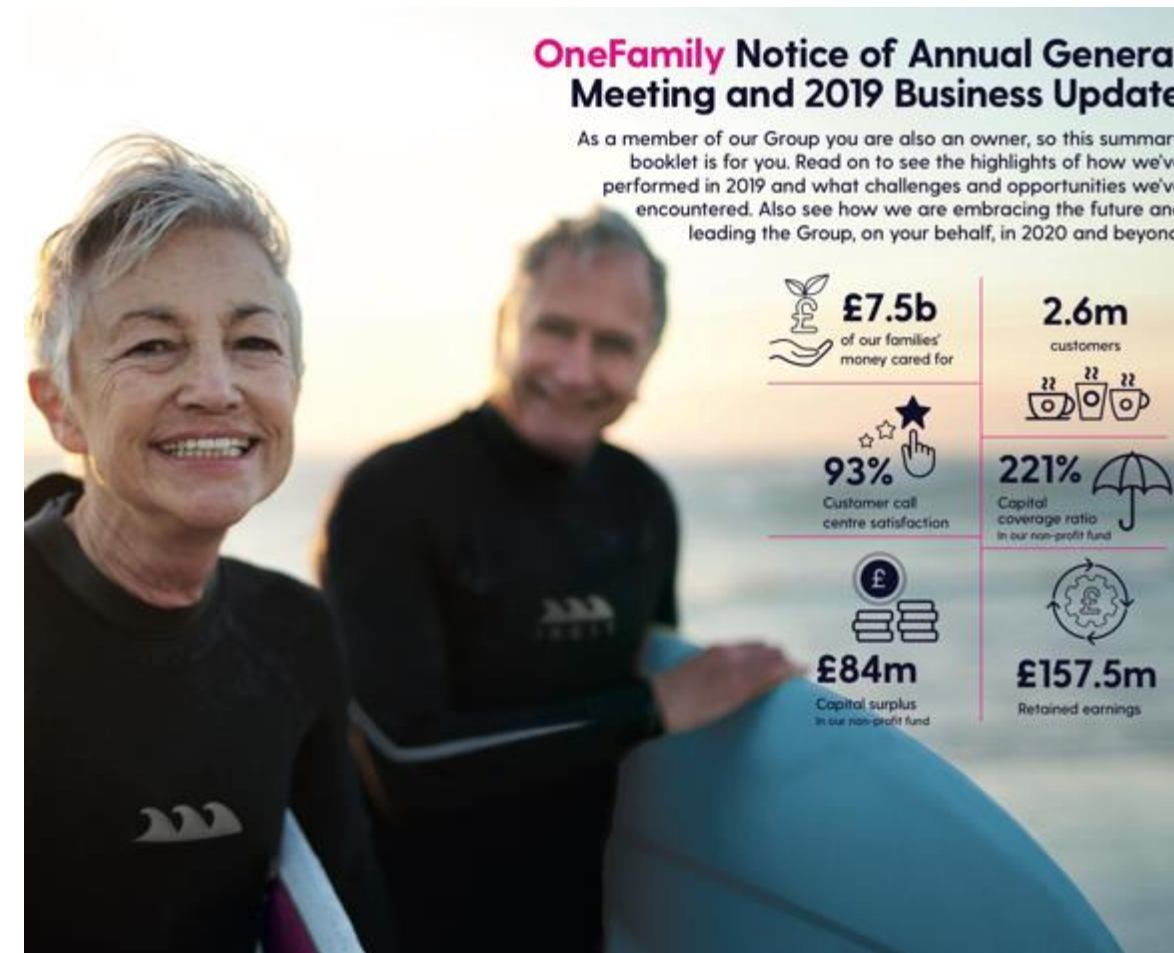
*source: www.thewriter.com



Help us to help you

– the Metfriendly Community Panel

During this period of uncertainty, we believe the Metfriendly Community Panel has an even bigger role to play, and we are keen to find out more about your needs and concerns.



SUMMARY STATEMENTS ARE AN EFFECTIVE WAY OF PROVIDING KEY MESSAGES TO MEMBERS:

FOCUS ON ESG REPORTING

PRA's new requirements to embed approach to managing the risks of climate change by end of 2021

The Code asks members to consider how its governance approach affects all stakeholders, and also links with PRA expectations on governance and climate change:

- **Environment disclosures:** most were rudimentary in 2019 accounts; indicating that the firms' approach was under review and/ or there was a dialogue with asset managers
- **Social:** there was greater evidence that organisations are considering their affect on society at large, and greater focus on involvement in local community and charitable support
- **Governance:** rising standards on stakeholder (employee) engagement, but some continuing challenges on composition

Evaluating Performance

In 2018, we reported on the outcomes of the external review of Board effectiveness and noted that it had highlighted some areas where changes might improve Board performance. We're happy to say we've made significant progress in addressing the outcomes. Where work hasn't yet been completed, we have documented action plans and trackers in place:

Area for change	Progress made
Reducing the size of the Board while keeping necessary skills, experience and diversity.	At our next Conference in 2020, the Board hopes to put forward a change to the Society's rules which will reduce the size of the Board from 14 to 12. The Board also hopes to put forward a proposal to introduce three-year rotation for non-executive Board members.
Reviewing the balance between matters reserved for Conference, the Board and the Society Executive.	This is part of an ongoing review of the Society's rules and the delegation by Conference (through changes to the rule book) and by the Board (through changes to internal policies). A key proposal to Conference 2020 will be a rule change allowing the Board to set the Society's contribution rate.
Improving oversight of subsidiary companies.	We've done a great deal of work in 2019 to clarify oversight arrangements. Reporting has become more focused through a 'subsidiary dashboard'. We've appointed an Independent Non-Executive Director with specific healthcare management experience. The Board has been working closely with Benenden Hospital Trust to set

Stakeholder Report

Chairman's Statement	002	Financial Summary	012
Chief Executive's Review	006	Operational Highlights	013
Corporate Social Engagement (CSE)	011	Adding Value for Our Members	014



We are hugely passionate about our West Midlands' roots and about supporting the fantastic organisations across the region.

Causes we support

We have pledged our support to a number of organisations, across a diverse range of sectors including education and sport. These charities, not-for-profits and organisations not only share many of our core values, but they are also dedicated to bringing very tangible benefits to our community.



Organisations we support include:

- Sponsorship of the Baroness Rachael Heyhoe Flint Accessible Lounge' at Wolverhampton Wanderers FC
- Sponsorship of the Faculty of Engineering & Biosciences Award at the University of Wolverhampton
- Founding patrons of The Way – Youth Zone, Wolverhampton
- Midlands Air Ambulance Charity


Plus a variety of local sports teams and clubs, including:

- Wednesfield Ladies FC
- Tettenhall Tigers
- Libra Lea Netball Club
- Penn Cricket Club

We are also proud to be Motherwell FC's official Health & Wellbeing Partner.

FOCUS ON AGMS

The legislation, due to expire on 30 September, has since been extended to 31 December, so GMs until the year-end continue to benefit from flexibility



- AGMs this year held in extraordinary circumstances, with most being delayed and delivered virtually.
- Some members live streamed the event, others were recorded.
- Metfriendly reported a 19% increase in proxy voting this year (a record 14.7% voted this year)
- Cirencester also reported an increase, up 6.5%

6. NEXT STEPS

As it has for everything else, 2020 has not been a standard year for corporate reporting

AFM to review again after 30 September deadline to identify any members who haven't reported, to offer more support

Need for more transparency: reports not always accessible on public pages of a member's website

Members to consider changes for 2020 year-end and future governance arrangements

Include s172 declarations in 2020 year end report, if not already adopted; see extract in the pane below and follow [this link](#) for good practice:

"1. A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a) The likely consequences of any decision in the long term;
- b) The interests of the company's employees;
- c) The need to foster the company's business relationships with suppliers, customers and others;
- d) The impact of the company's operations on the community and the environment;
- e) The desirability of the company maintaining a reputation for high standards of business conduct; and
- f) The need to act fairly as between members of the company".