

Corporate Governance Developments

Company Secretaries Forum,
September 2018



← Organisational culture

Topics to cover

- Latest AFM Corporate Governance Report
- New developments in governance
- Updating AFM's governance Code
- Next steps

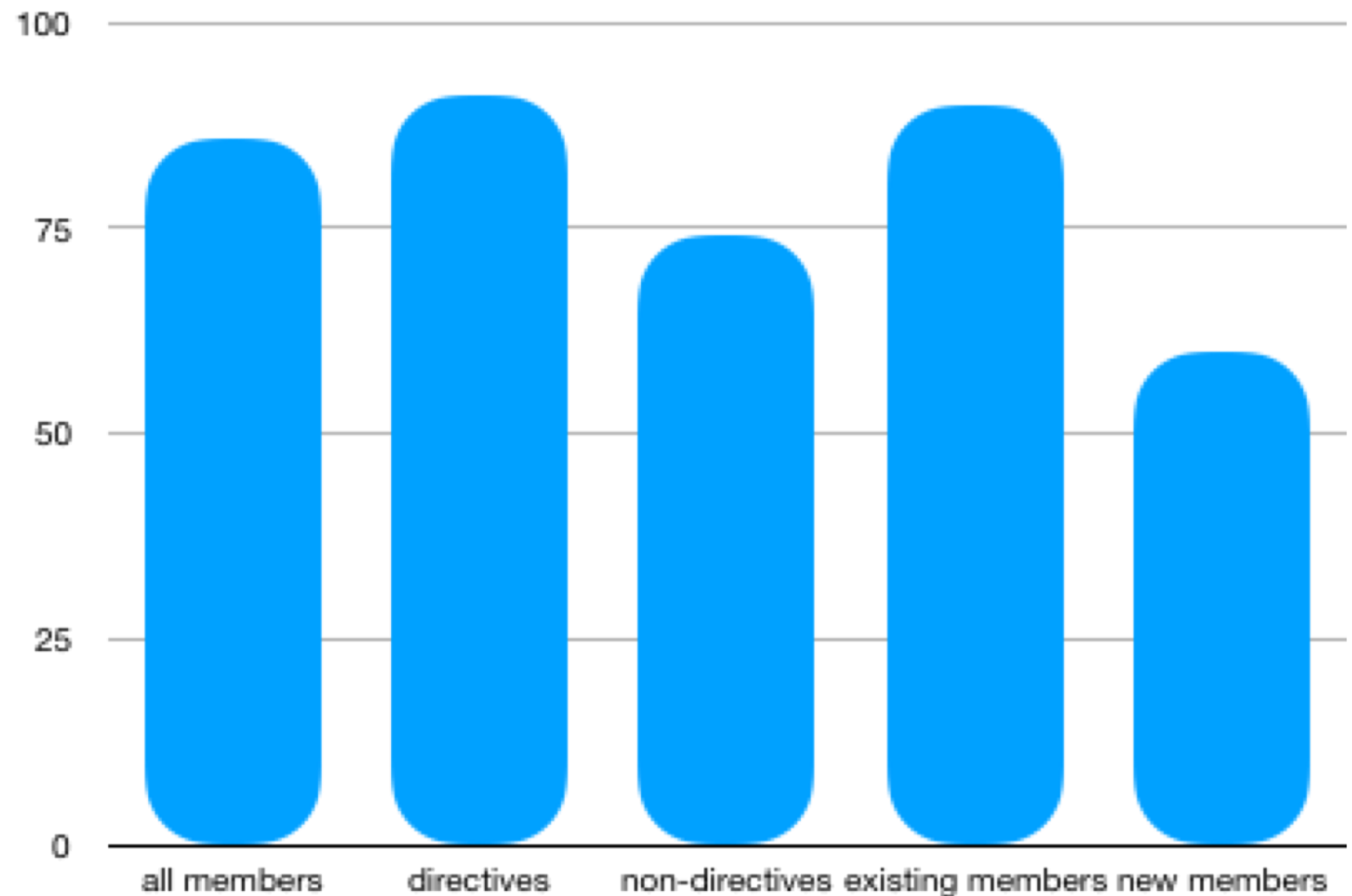
Association of Financial Mutuals

Corporate Governance Report 2018

- Just published
- Looks at compliance with UK Corporate Governance Code, annotated for mutual insurers
- 37 members completed compliance exercise
- Data on Code compliance, board structure, board remuneration and gender pay gap

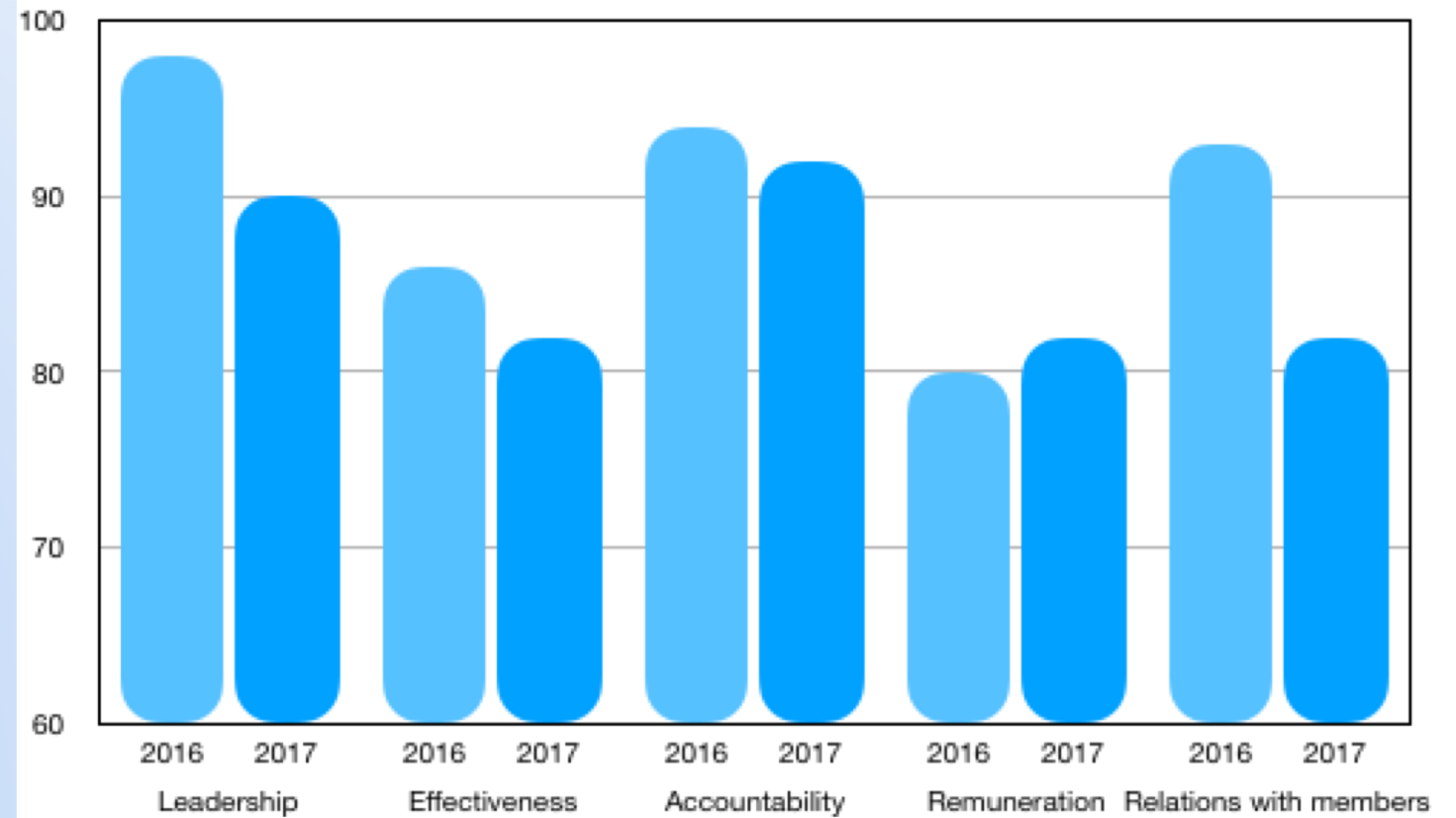
Overall results

- In 2017, members on average complied with 86% of the 54 Code provisions
- Compared to 95% compliance in 2016
- Main difference was the lower results from newer members.



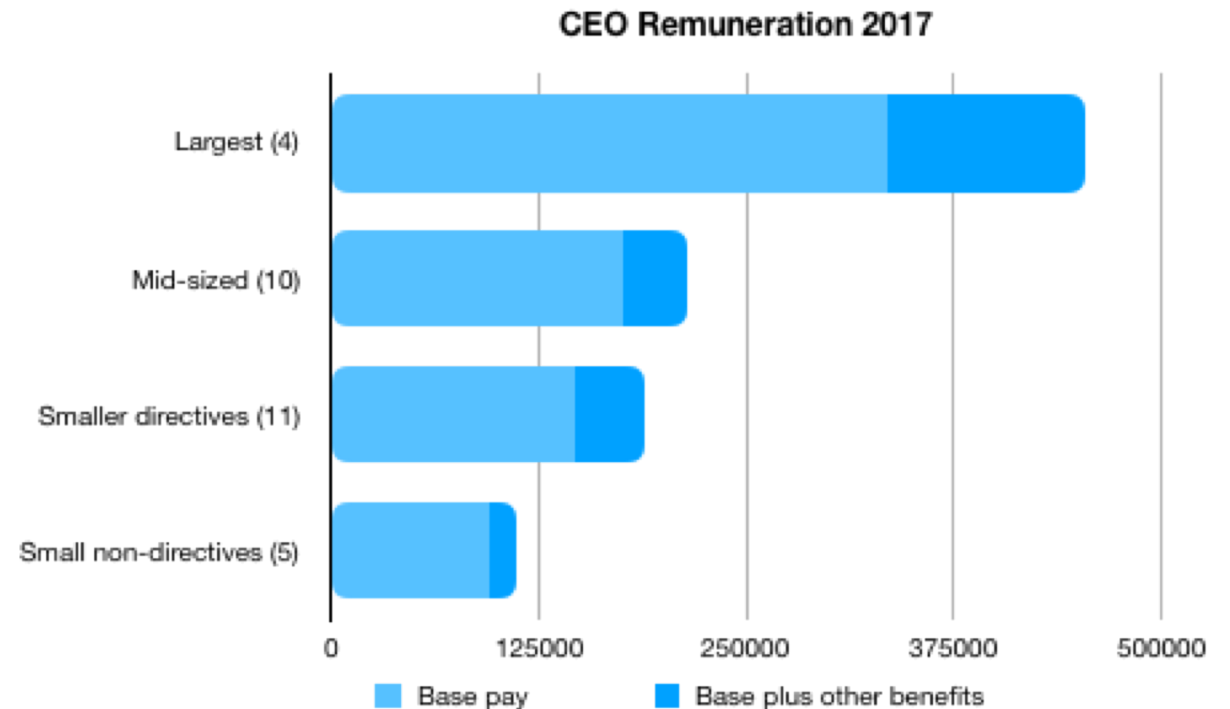
Results by section

- Accountability and Leadership scored highest, but down on 2016
- Only Remuneration section higher than 2016
- Changes in the Code, new survey format and new members all affected results



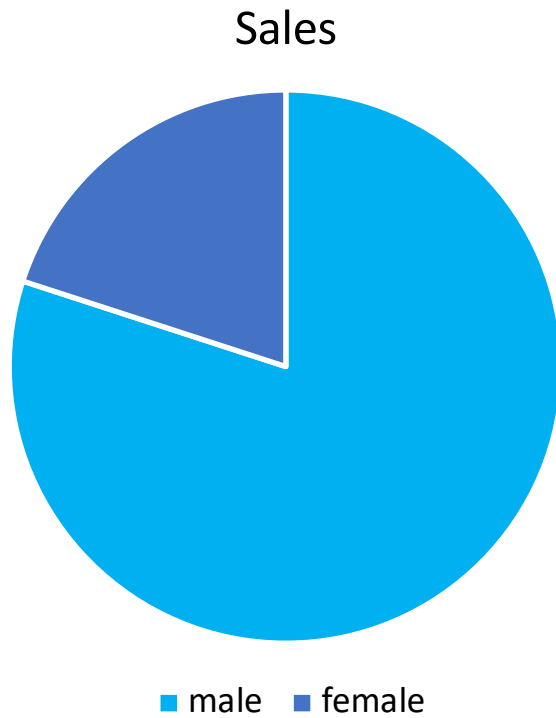
Board remuneration

- Data collected on two best paid executives, Chair and Board as a whole
- Differences between size of business less marked
- Full report by Robert Wharton on AFM website



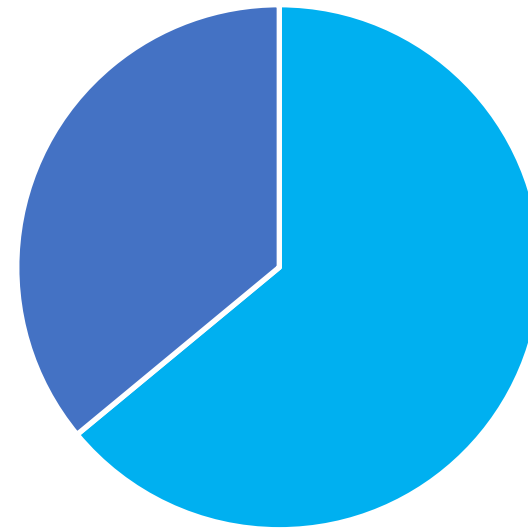
Gender reporting

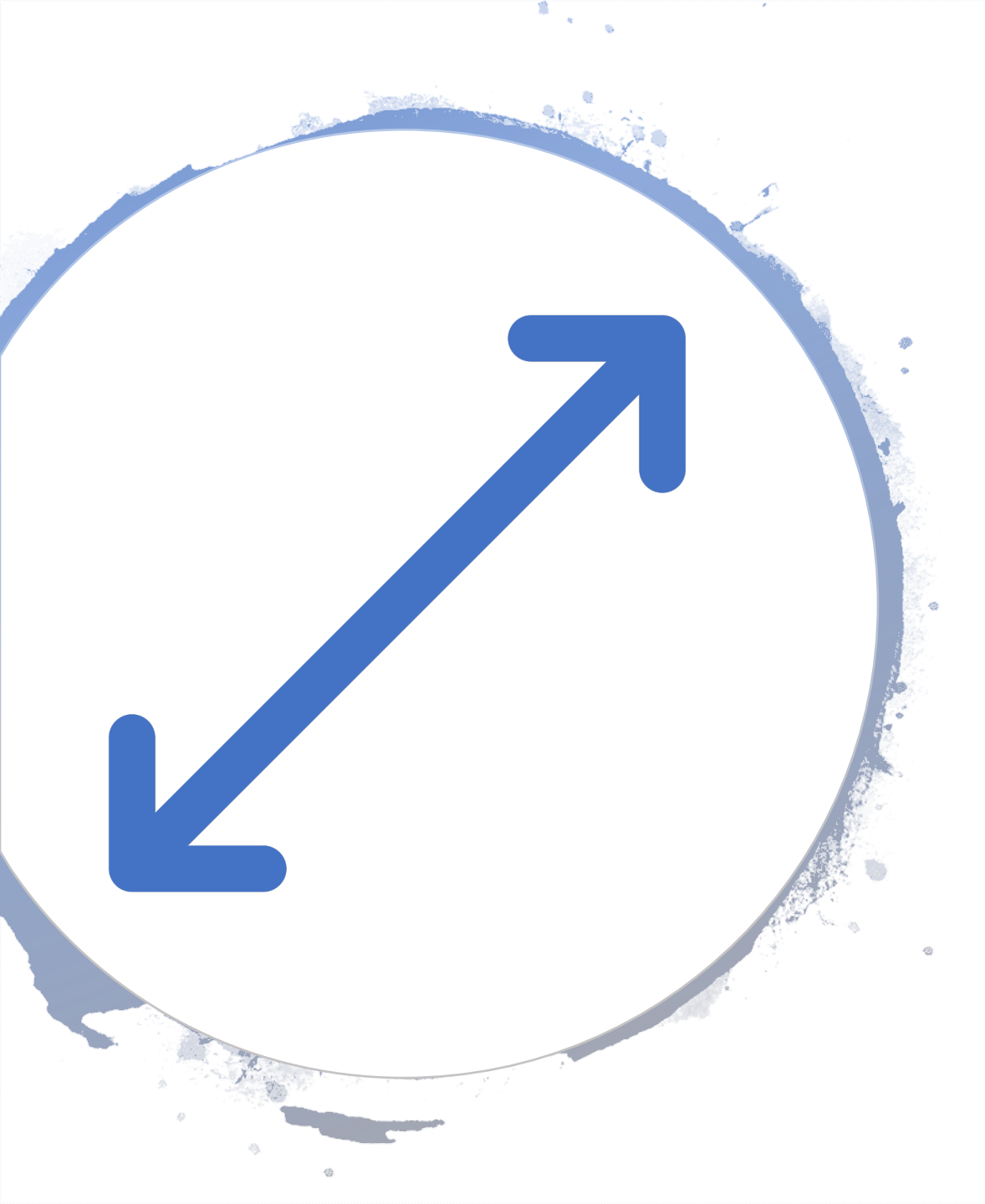
Board diversity improving



Gender pay disparities

Average mean hourly pay gap





Areas for improvement

- AGM turnouts are low in some organisations
- narrative reporting should provide a compelling account of the performance of the business
- gender pay gap reporting
- the longevity of service of some NEDs

Developments in corporate governance

- Government green paper in 2017 covered range of areas of concern about way companies are lead
- Gender pay gap reporting for larger companies from March
- New FRC Code for listed companies launched in July 2018
- Consultation on Code for private companies by FRC this summer
- AFM research on board culture and leadership
- PRA's Board Responsibilities updated in July to reflect SM&CR introduction

Developments in corporate governance

Corporate governance

+ Add to myFT

Five issues in UK's corporate governance revamp

- Board independence
- Executive pay
- Financial reporting
- Diversity drive
- Contribution to society



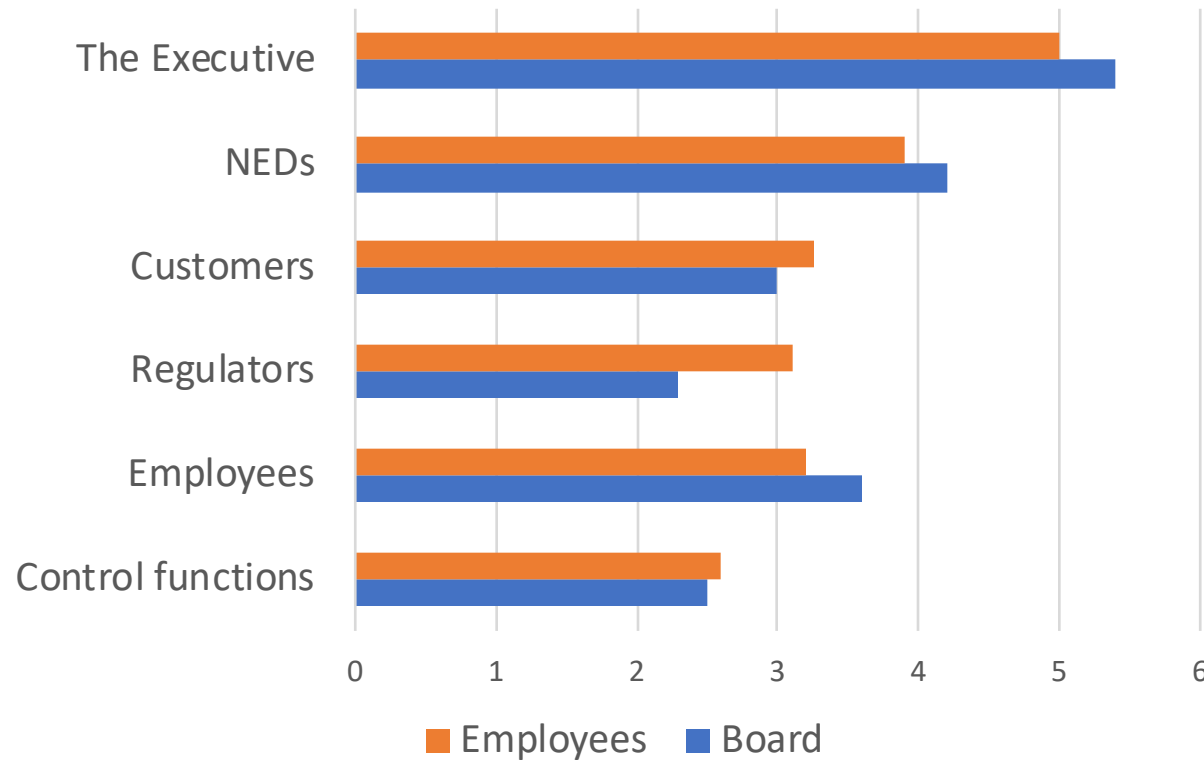
Financial Reporting Council

Revised UK Corporate Governance Code 2018 highlights

- Culture
- Views of the workforce
- Succession and diversity
- Length of service of board/
chair

Who influences culture and purpose?

Who influences culture most?



- Staff believe the regulators influence culture more, but the Board sees employees as much more influential.
- The Board considers customers are employees are consulted on the purpose of the business much more than do staff (39% versus 22%)

Updating AFM's corporate governance code

- Learn from and adopt good practice in corporate governance elsewhere;
- Ensure we do not place undue barriers on compliance, or conflict with regulatory or statutory requirements;
- Ensure new standards for our members are proportionate to their size; and
- Reflect the range of business models we support, in a way that is relevant for all our members.

UK Corporate Governance Code, 2018

5 sections	18 principles	41 provisions
Board leadership and company purpose		
Division of responsibilities		
Composition, success and evaluation		
Audit, risk and internal control		
Remuneration		

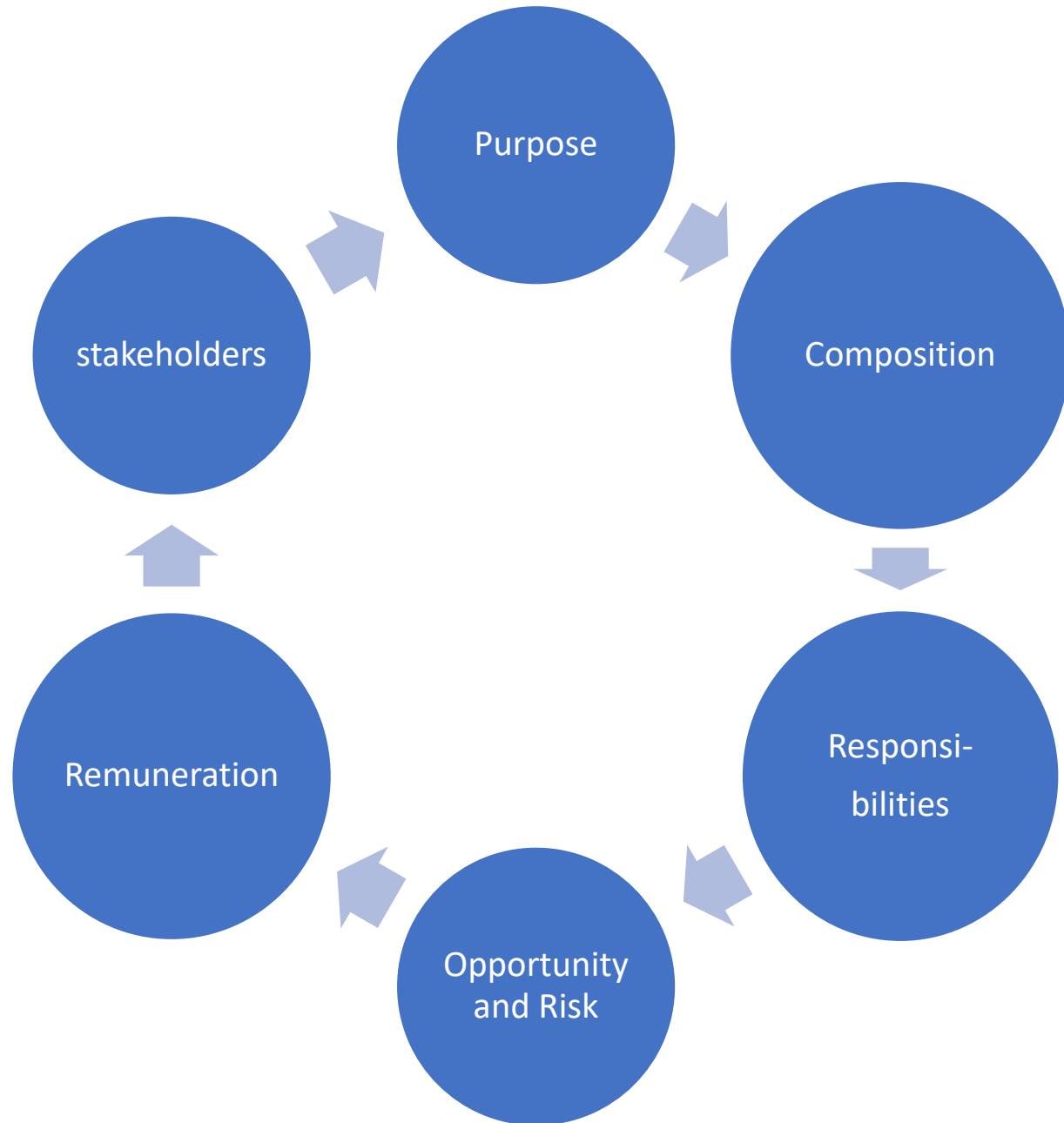
UK Corporate Governance Code, 2018

Listed Cos. Code sections	Listed Code principles	Current AFM Code	Private companies	PRA responsibilities	
Board leadership and company purpose					
Division of responsibilities					
Composition, success and evaluation					
Audit, risk and internal control					
Remuneration					

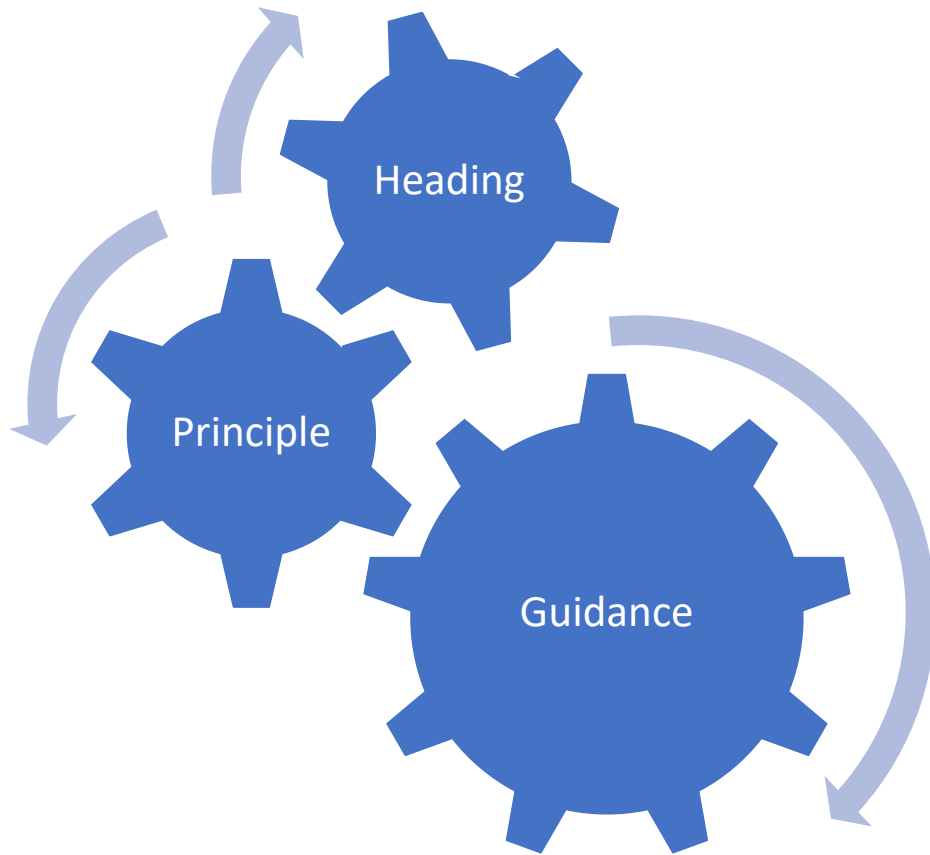
The right benchmarks?

	UK corporate governance code	Principles for private companies
Target audience	Compulsory for all companies with a premium listing, such as FTSE 350 companies	Voluntary adoption for larger private companies, to comply with The Companies (Miscellaneous Reporting) Regulations 2018
Structure	5 overarching sections, supporting by 18 principles and 41 provisions	6 high-level principles
Guidance	Range of guidance provided along with reviews, along with separate stewardship code	22 supporting paragraphs with guidance to consider
Compliance	A combination of transparency and 'comply or explain': as part of their corporate governance statement, firms are expected to provide an explanation for any of the 41 provisions with which they have not complied	Transparency, with an 'apply and explain' approach: adopters are expected to comply with all 6 principles, and to set out in their report and accounts how they have applied them over the previous 12 months
Relevance to mutuals	Principles are broadly recognised good practice and generally applicable. Provisions are geared to a listed company model, and some are difficult to apply	The principles apply in a similar fashion, and are amplified by the guidance in a less formal manner

Proposed
approach
mirrors private
companies
approach



Structure



Purpose

An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.

4 guidance paragraphs, on:

- well-defined purpose
- Behaviours of employees
- Strategy and business model
- Healthy corporate culture

Apply and explain

- Members apply overall principle in full.
- Provide a supporting statement for each principle in directors' report within their report and accounts
- Guidance gives non-exhaustive reference for points to cover.



Next steps

- Consultation launch via AFM Conference, 15 October
- One month for responses to 15 November
- Stakeholder engagement to include PRA/ FCA/ FRC/ Treasury
- Final code issued in December or January
- Applied from 1 January 2019
- 2019 compliance exercise based on current Code and questionnaire;
2020 based on new Code

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