

Corporate Governance – Financial Reporting Council

High quality corporate governance helps to underpin long-term company performance. The UK has some of the highest standards of corporate governance in the world, which makes the UK market attractive to new investment.

The UK Corporate Governance Code has been instrumental in spreading best boardroom practice throughout the listed sector since it was first issued in 1992. It operates on the principle of 'comply or explain'. It sets out good practice covering issues such as board composition and effectiveness, the role of board committees, risk management, remuneration and relations with shareholders.

Listed companies are required under the Listing Rules either to comply with the provisions of the Code or explain to investors in their next annual report why they have not done so. If shareholders are not satisfied they can use their powers, including the power to appoint and remove directors, to hold the company to account. In turn, investors are encouraged to sign up to the Stewardship Code, which sets standards for monitoring and engaging with the companies in which they invest.

There are a number of advantages to the 'comply or explain' approach. Its inherent flexibility means that it is possible to set more demanding standards that can be done through hard rules. Experience has shown that the vast majority of companies attain these standards. In addition, requiring companies to report to shareholders rather than regulators means that the decision on whether a company's governance is adequate is taken by those in whose interest the board is meant to act. The Stewardship Code similarly makes investors more accountable to their clients and beneficiaries, as well as helping companies.

A detailed explanation of the code-based approach, and how it fits into the UK's overall regulatory framework, can be found in [The UK Approach to Corporate Governance](#). Both Codes are normally updated every two years to ensure they stay relevant. Any changes are subject to extensive consultation and dialogue with the market.

In addition to the UK Corporate Governance Code the FRC publishes a series of guidance notes intended to assist companies address specific aspects of governance and accountability. They cover board effectiveness, risk management and internal control, the role of audit committees, and assessing and reporting on whether the business is a going concern.

Source: <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx>

