Governance reform and the impact on corporate reporting

Where do I start?

July 2020

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"Companies do not exist in isolation. Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders.

Introduction to UK Corporate Governance Code 2018

To view this document online, please scan this QR code.

Context and purpose of this document

In the wake of a number of high profile cases prior to the 2016 General Election there was significant political interest in the quality of corporate governance within larger UK companies. This led to a Government Green Paper (Corporate governance reform) in October 2016, the results of which were published in August 2017 (Government Response). Following a parallel inquiry, there was also an influential Department for Business, Enterprise and Industrial Strategy ('BEIS') Select Committee Report in March 2017.

The areas addressed in the Green Paper and by the Select Committee were principally:

- whether directors were carrying out their duties appropriately,
- executive pay, and
- the quality of governance in large private companies.

Directors' duties

The discussion of directors' duties has particularly focused on the responsibilities set out in section 172 of the Companies Act 2006, which establishes what is often referred to as the 'enlightened shareholder value' model. This model, much debated when the 2006 Act was introduced, sets out that a director must act in the way that he or she 'considers, in good faith, would be most likely to promote the success of the company for the benefit of its members [i.e. the shareholders] as a whole' but in doing so, 'have regard…to' a number of factors including the long-term consequences of their decision, and the interests of a range of stakeholders (such as employees, customers, suppliers and others). The balance between the interests of shareholders and those of other stakeholders has remained at the centre of the governance reform debate.

Executive pay

The focus on pay in this debate has been primarily about 'fairness', including the relationship between the pay of executives and the rest of the workforce, and the role of the remuneration committee in considering this.

Private companies

One of the highest profile cases that attracted political attention to governance was a large private company (as opposed to a listed company). The reform debate has therefore considered what should be done to address the issues that were perceived as having led to that situation. There have historically been few mandatory governance requirements (procedural or reporting) for even the largest private companies, and the debate has focused on what framework should be put in place.

The rest of this 'Where do I start?' guide summarises the initiatives and developments that have emerged directly from the governance reform debate, or that relate closely to it, and provides links to where more information can be found.

This paper is not intended to be a comprehensive guide or checklist to the various requirements. The full text of the relevant requirement should always be referred to.

Please note – there is complexity with some requirements when determining whether a company – public, private, subsidiary or LLP – is in scope or not and we therefore would encourage careful consideration of the legislation and consultation with technical experts when unsure.

Governance reform and related reporting changes

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
2018 UK Corporate Governance Code and revised Guidance on board effectiveness				
Major revision to the UK Corporate Governance Code and Guidance Includes reporting on how the board has engaged with a company's stakeholders in a way that is broadly consistent with the new Companies Act reporting Regulations set out on pages 6 and 7. The Code is supplemented with a significantly revised set of Guidance on board effectiveness. New emphasis on importance of Principles and reporting. Provisions continue to be on a comply-or-explain basis.	Premium listed companies.	Periods beginning on or after 1 January 2019.	Corporate governance statement.	FRC 2018 UK Corporate Governance Code FRC Guidance on Board Effectiveness FRC Guidance: Annual Review of the UK Corporate Governance Code (January 2020) PwC Guidance: Revised UK Corporate Governance Code PwC Guidance: Tackling the 2018 Code: A guide to applying and reporting on the 2018 UK Corporate Governance Code PwC Guidance: The shape of things to come – Tackling the corporate governance report under the 2018 Code

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
The Companies (Miscellaneous Reporting) Regulations 2018				
Section 172 (1) statement A statement which describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172. **Please note – there is complexity with this requirement when determining whether a company – public, private, subsidiary or LLP – is in scope or not and we therefore would encourage careful consideration of the legislation and consultation with technical experts when unsure.**	A company[1] that is 'large' under the Companies Act 2006, because it: • exceeds two of the following three thresholds (subject to smoothing arrangements where circumstances change): £36 million turnover; £18 million total balance sheet assets; 250 employees; or • does not exceed the thresholds but is excluded[2] from being treated as small or medium sized under s384 and s467 of the Companies Act 2006.	Periods beginning on or after 1 January 2019.	Strategic report. Unquoted[3] companies must also make the statement available on a website that is maintained by or on behalf of the company, and identifies the company in question.	Companies Act 2006, Section 172 The Companies (Miscellaneous Reporting) Regulations 2018 Corporate Governance: The Companies (Miscellaneous Reporting) Regulations 2018 – Q&A, June 2018 FRC Issues editorial updates to 2018 Guidance on the Strategic Report PwC Guidance: New Companies Act reporting regulations for 2019 PwC Guidance: Navigating the stakeholder agenda: Tackling the reporting challenge PwC Guidance: Tackling s.172 reporting – A brief guide for boards PwC Guidance: Emerging issues with reporting on Section 172 PwC Guidance: Tackling s172 and stakeholder reporting – a diagnostic for subsidiaries PwC Guidance: Smoothing arrangements for recent narrative reporting regulations, including section 172 of the Companies Act 2006: PwC In brief 2020-65

[1] Includes private and AIM companies. For Groups, the thresholds are two or more of the following: aggregate turnover – more than £36 million net (or £43.2 million gross); aggregate balance sheet total – more than £18 million net (or £21.6 million gross); and aggregate number of employees – more than 250.

[2] Section 414B of the Companies Act overrides this exclusion for certain small companies.

[3] 'Quoted' companies are UK incorporated entities with equity shares included in the official list.

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
The Companies (Miscellaneous Reporting) Regulations 2018				
Stakeholder engagement Engagement with employees A statement summarising: 1. how the directors have engaged with employees; and 2. how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year. The Regulations build on the existing Companies Act disclosure requirements on employees and are relatively detailed and prescriptive in this area. BEIS has been clear that this reporting is not intended to include only information that is strategically material.	A company[4] with over 250 UK employees.	Periods beginning on or after 1 January 2019.	Directors' report. (There is no requirement for this to be made available on a website).	The Companies (Miscellaneous Reporting) Regulations 2018 Corporate Governance: The Companies (Miscellaneous Reporting) Regulations 2018 – Q&A, June 2018 ICSA Guidance: The Stakeholder Voice in Board Decision Making PwC Guidance: New Companies Act reporting regulations for 2019 PwC Guidance: Navigating the stakeholder agenda: Tackling the reporting challenge PwC Guidance: Navigating the stakeholder agenda: A review of how reporting on stakeholder engagement in the FTSE 350 is developing PwC Guidance: Tackling s172 and stakeholder reporting – a diagnostic for subsidiaries PwC Guidance: Smoothing arrangements for recent narrative reporting regulations, including section 172 of the Companies Act 2006: PwC In brief 2020-65

[4] Includes private and AIM companies.

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
The Companies (Miscellaneous Reporting) Regulations 2018				
Stakeholder engagement Engagement with other stakeholders A statement summarising 'how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year'. BEIS has been clear that this reporting is not intended to include only information that is strategically material.	A company[5] that exceeds two of the following three thresholds (subject to smoothing arrangements where circumstances change): £36 million turnover; £18 million total balance sheet assets; 250 employees.	Periods beginning on or after 1 January 2019.	Directors' report. (There is no requirement for this to be made available on a website).	The Companies (Miscellaneous Reporting) Regulations 2018 Corporate Governance: The Companies (Miscellaneous Reporting) Regulations 2018 – Q&A, June 2018 ICSA Guidance: The Stakeholder Voice in Board Decision Making PwC Guidance: New Companies Act reporting regulations for 2019 PwC Guidance: Navigating the stakeholder agenda: Tackling the reporting challenge PwC Guidance: Navigating the stakeholder agenda: A review of how reporting on stakeholder engagement in the FTSE 350 is developing PwC Guidance: Tackling s172 and stakeholder reporting – a diagnostic for subsidiaries PwC Guidance: Smoothing arrangements for recent narrative reporting regulations, including section 172 of the Companies Act 2006: PwC In brief 2020-65

[5] Includes private and AIM companies. For Groups, the thresholds are two or more of the following: aggregate turnover – more than £36 million net (or £43.2 million gross); aggregate balance sheet total – more than £18 million net (or £21.6 million gross); and aggregate number of employees – more than 250.

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
The Companies (Miscellaneous Reporting) Regulations 2018				
Statement of private company governance arrangements A 'statement of corporate governance arrangements' which includes the following: which governance code has been applied, if any (or what other arrangements are in place); how the chosen code was applied; and any departures from it. Note: A coalition group under the chairmanship of James Wates and facilitated by the FRC has issued a set of governance principles that companies can use for the purposes of the Regulations. It is also intended that other companies could adopt (and report against) the Wates principles voluntarily.	A company[6] with **Either**: a) 2,000 or more global employees; **or:** b) a turnover over £200 million globally and a balance sheet over £2 billion globally. BEIS has been clear that large subsidiary businesses are expected to provide this new reporting, including the major UK operating subsidiaries of a number of international groups.	Periods beginning on or after 1 January 2019.	Directors' report. Unquoted[7] companies must also make the statement available on a website that is maintained by or on behalf of the company, and identifies the company in question.	The Companies (Miscellaneous Reporting) Regulations 2018 Corporate Governance: The Companies (Miscellaneous Reporting) Regulations 2018 – Q&A, June 2018 PwC Guidance: New Companies Act reporting regulations for 2019 FRC, The Wates Corporate Governance Principles for Large Private Companies, June 2018 PwC Guidance: Summary of Wates principles PwC Guidance: Private company governance reporting tips PwC Guidance: Smoothing arrangements for recent narrative reporting regulations, including section 172 of the Companies Act 2006: PwC In brief 2020-65

6 Includes private and AIM companies. Premium listed companies (but not their subsidiaries) are exempt.

7 'Quoted' companies are UK incorporated entities with equity shares included in the official list.

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
The Companies (Miscellaneous Reporting) Regulations 2018				
Amendment of Schedule 8 (quoted companies: directors' remuneration report) New CEO pay ratio to UK employees to be disclosed and explained; other new disclosures in policy report and Remuneration Committee Chair's introduction.	Quoted[8] companies with more than 250 UK employees.	Periods beginning on or after 1 January 2019.	Directors' remuneration report.	The Companies (Miscellaneous Reporting) Regulations 2018 Corporate Governance: The Companies (Miscellaneous Reporting) Regulations 2018 – Q&A, June 2018 PwC Guidance: New Companies Act reporting regulations for 2019

[8] 'Quoted' companies are UK incorporated entities with equity shares included in the official list.

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016				
Non-financial reporting regulations A non-financial information statement on areas including – '(a) environmental matters (including the impact of the company's business on the environment), (b) the company's employees, (c) social matters, (d) respect for human rights, and (e) anti-corruption and anti-bribery matters.' In relation to the above, the information must include a description of the company's policies and outcomes of these, relevant principal risks, and the impact of its activities.	A company with more than 500 employees (on average) in a financial year that is an EU Public Interest Entity, so is: • a traded company[9]; • a banking company; • an authorised insurance company; or • a company carrying on insurance market activity.	Periods beginning on or after 1 January 2017.	Strategic report.	The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 PwC Guidance: The non-financial reporting regulations What do they mean in practice? July 2017 PwC Guidance: Responding to the new non-financial reporting regulations What do they mean in practice, and is there more for companies to do in year two?

[9] A company any of whose transferable securities are admitted to trading on a regulated market.

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
FCA Disclosure Guidance and Transparency Rules Sourcebook				
Additional diversity reporting for companies under DTR 7.2.8A 1. 'The corporate governance statement must contain a description of: (a) the diversity policy applied to the issuer's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional 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. 2. If no diversity policy is applied by the issuer, the corporate governance statement must contain an explanation as to why this is the case.'	UK incorporated issuers of equity traded on a regulated market.	Periods beginning on or after 1 January 2017.	Corporate governance statement. In the UK context the requirements relate to the main board and the next level down, i.e. the executive committee or equivalent. Some of this information may therefore be outside the corporate governance statement, in which case appropriate cross-references should be provided.	Disclosure Guidance and Transparency Rules sourcebook Hampton-Alexander Review: FTSE Women Leaders Parker Review: A Report into the Ethnic Diversity of UK Boards

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Revised FRC Guidance on the Strategic Report				
Revised Guidance to reflect new regulations and developments The update to the Guidance has focused on: • incorporating the new requirements introduced by the Non-financial reporting Regulations and the section 172 reporting legislation; • strengthening the link between section 172 and the strategic report; and • reflecting changes in practice and other developments which had occurred since the 2014 Guidance was published. The Guidance has persuasive rather than mandatory force, so companies do not need to follow it or explain where they have not done so. The FRC does expect companies to have regard to it where applicable, however.	All companies preparing a strategic report.	Available now although some of the Guidance focuses on requirements that apply for periods beginning on or after 1 January 2019.	Strategic report.	FRC Revised Guidance on the Strategic Report FRC Issues editorial updates to 2018 Guidance on the Strategic Report PwC Guidance: FRC publishes revised Guidance on the Strategic Report PwC Guidance: Navigating the stakeholder agenda: Tackling the reporting challenge

Governance reform and related reporting changes (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Revisions to Alternative Investment Market (AIM) governance arrangements				
AIM Rule 26 Companies are required to disclose 'details of a recognised corporate governance code that the board of directors of the AIM company has decided to apply, how the AIM company complies with that code, and where it departs from its chosen corporate governance code an explanation of the reasons for doing so'.	Companies registered on AIM.	On website by 28 September 2018.	Website.	LSE: AIM Rules for Companies – March 2018 PwC Guidance: Changes to AIM Rules on corporate governance and revised QCA Corporate Governance Code
Quoted Companies Alliance ('QCA') Corporate Governance Code The AIM Rules do not define the term 'recognised code' but it is likely that most companies will choose either the FRC UK Corporate Governance Code or the QCA Corporate Governance Code. The QCA Code has been revised to reflect the stakeholder agenda and the changes to AIM Rule 26.	Those companies that chose to apply the QCA Code.	See AIM Rule 26.	Website and corporate governance report.	

Other recent reporting requirements

As well as the core governance and reporting developments above, there have been a number of other developments in recent years that are likely to be of interest to a company's stakeholders.

These are discussed in this next section.

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Modern Slavery Act				
Publish a 'slavery and human trafficking statement' each financial year, approved by the Board and signed by a Director, and disclose: • Either the steps the business has taken during the financial year to ensure that slavery and human trafficking are not taking place in the business's own operations and in the business's supply chain; or • That the business have taken no such steps.	Public and private companies, and partnerships, where global turnover is over £36m; and business, or part of the business is carried on in any part of the United Kingdom.	Financial periods ending on or after 31 March 2016.	On the website with a link in a prominent place on the homepage.	PwC Guidance: The Modern Slavery Act website

Other recent reporting requirements (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Gender Pay Gap				
Companies have to disclose: • The mean and median hourly pay gap. • The mean bonus pay gap as well as the proportion of male and female employees who receive a bonus. • The number of women and men in each quartile of their pay distribution. A confirmation that the above figures are accurate.	Private and voluntary sector employers with 250 or more relevant employees.	Analysis of the data for the pay period covering 5 April 2017 and disclosure annually from April 2018 onwards.	In a prominent place on the company's website (where applicable).	PwC Guidance: Mandatory UK gender pay reporting website

Other recent reporting requirements (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Prompt Payment Policy				
Disclosures need to cover both statistical and narrative data, including: • Standard payment terms, including any changes to these in the last reporting period. • Average time taken to pay. • Proportion of invoices paid beyond agreed terms. • Proportion of invoices paid in 30 days or less, paid between 31 and 60 days, and paid beyond 60 days. (There is a maximum 60 day payment term in the Government's voluntary Prompt Payment Code).	Any companies and LLPs that exceed at least two of the following three thresholds in the current and preceding financial year: • £36m annual turnover. • £18m balance sheet assets total. • 250 employees.	Regulations apply for financial years starting on or after 6 April 2017, and must be reported every 6-months (specific reporting dates depend on financial year end date).	The information needs to be published on a government website, which can be viewed by others (Companies House log-on required).	PwC Guidance: Payment practices and performance reporting website

Other recent reporting requirements (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
UK Tax Strategy				
Statements covering four areas required by legislation and HMRC guidance as below: 1. Approach to risk management and governance arrangements in relation to UK tax. 2. Attitude to tax planning. 3. The level of risk in relation to UK tax that you are prepared to accept. 4. Working with HMRC. The statement does not need to include amounts of tax paid or commercially sensitive information.	Relevant for any company, partnership, group or sub-group, that in the previous tax year had one or both of a: • turnover above £200 million • balance sheet over £2 billion (including permanent establishments in the threshold test) **or** UK companies or groups that are part of a Multinational Group ('MNE Group') with over EUR 750m worldwide turnover.	The deadline for publication is by the end of first period beginning on or after 15 September 2016 (for MNE Groups, use the foreign parent year-end).	Any publicly available website.	PwC Guidance: Shaping the tax transparency debate – Trends in voluntary reporting

Other recent reporting requirements (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Taskforce on Climate-related Financial Disclosures (TCFD)				
A voluntary disclosure framework on the impact of climate change. The core disclosure recommendations are based on the broad themes of governance, strategy, risk management, and metrics and targets. The UK government has indicated that it intends listed companies to report in line with the TCFD framework by 2022 and the FCA's consultation on this ends 1 October 2020.	All companies with listed debt or equity, plus asset managers and asset owners. The TCFD has also identified 8 priority sectors for which additional guidance has been produced: energy, materials and buildings, transportation, agriculture, food and forest products, banks, insurers, asset owners and asset managers.	TCFD recommendations released in June 2017.	In the 'mainstream financial filing', which is the annual report in the UK.	Recommendations of the Task Force on Climate-related Financial Disclosures PwC Guidance: TCFD Final Report A summary for business leaders PwC Guidance: Reporting tips – responding to the recommendations of the Task Force on Climate – related Financial Disclosures (TCFD) BEIS Green Finance Strategy FCA Feedback statement – FS19/6: Climate change and green finance FCA Consultation – CP20/3: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

Other recent reporting requirements (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018				
Streamlined Energy and Carbon Reporting ('SECR') The new requirements for reporting by quoted and unquoted companies are as follows. The existing requirements relating to GHG emissions also continue for quoted companies. Quoted companies • Underlying global energy use that is used to calculate GHG emissions, including prior year comparatives (in the first year, prior year figures are not required). • What proportion of energy consumption and emissions relate to emissions and energy consumption in the UK (including offshore area). • Information about energy efficiency action taken in the organisation's financial year.	A quoted company. An unquoted company or LLP that exceeds two of the following three thresholds[10] (subject to smoothing arrangements where circumstances change): £36 million turnover; £18 million total balance sheet assets; 250 employees.	Periods beginning on or after 1 April 2019. (The period used for the SECR information can be different from the rest of the directors' report, subject to certain conditions.)	Directors' report. (Where energy usage and carbon emissions are of strategic importance to the company, disclosure of the relevant information could be included in the strategic report instead of the directors' report.)	SI 2018/1155 The Companies (Directors' Report) and Limited LiabilityPartnerships (Energy and Carbon Report) Regulations 2018 Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance March 2019 PwC Guidance: Streamlined energy and carbon reporting: In brief UK2019-29 PwC Guidance: Smoothing arrangements for recent narrative reporting regulations, including section 172 of the Companies Act 2006: PwC In brief 2020-65

[10] For unquoted groups, the thresholds are two or more of the following: aggregate turnover – more than £36 million net (or £43.2 million gross); aggregate balance sheet total – more than £18 million net (or £21.6 million gross); and aggregate number of employees – more than 250.

Other recent reporting requirements (Cont)

Summary of requirements	Applicable to	Date applicable	Where to report	Links to further guidance
Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (Cont)				
Streamlined Energy and Carbon Reporting ('SECR') continued Unquoted companies • UK energy use (to include as a minimum purchased electricity, gas and transport). • Associated Scope 1 emissions. • Associated Scope 2 emissions. • At least one intensity ratio. • Prior year comparatives (except in the first year). • Information about energy efficiency action taken in the organisation's financial year. • The methodology used.	Available exemptions include: • Reporting is not required where energy use is less than 40,000 kWh annually or when information would be seriously prejudicial or impractical to obtain. • A subsidiary is not required to report where it is included in a group SECR report. • In a group directors' report, information on a subsidiary is not required where the subsidiary would not be required to report on its own account.	Periods beginning on or after 1 April 2019. (The period used for the SECR information can be different from the rest of the directors' report, subject to certain conditions.)	Directors' report. (Where energy usage and carbon emissions are of strategic importance to the company, disclosure of the relevant information could be included in the strategic report instead of the directors' report.)	SI 2018/1155 The Companies (Directors' Report) and Limited LiabilityPartnerships (Energy and Carbon Report) Regulations 2018 Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance March 2019 Streamlined energy and carbon reporting (SECR): In brief UK2019-29

PwC contacts

Corporate governance and reporting

Mark O'Sullivan
mark.j.osullivan@pwc.com

Gurpreet Kaur
gurpreet.kaur@pwc.com

John Patterson
john.t.patterson@pwc.com

Stakeholder assurance

Alan McGill
alan.d.mcgill@pwc.com

Atul Patel
atul.a.patel@pwc.com

Specific aspects of the stakeholder agenda

Fair pay and workforce engagement

Marcus Peaker
marcus.peaker@pwc.com

Gender pay gap reporting

John Harding
john.l.harding@pwc.com

Private companies

Matt Timmons
matthew.j.timmons@pwc.com

Climate change reporting

Jon Williams
jon.d.williams@pwc.com

Risk management

Hayley-Beth Peters
hayley-beth.peters@pwc.com

UK Tax strategy reporting

Janet Kerr
janet.kerr@pwc.com

Stakeholder engagement

Mark Thompson
mark.z.thompson@pwc.com

Supplier payments

Stephen Tebbett
stephen.tebbett@pwc.com

pwc.co.uk

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