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Consultation on the Wates Corporate Governance Principles for Large Private Companies

13 June 2018

The Financial Reporting Council, on behalf of James Wates CBE, has published a **consultation on corporate governance principles for large private companies**. Development of the principles follows the Government's 2016 Green Paper and the BEIS Select Committee's report of April 2017 which considered the need for improved transparency and accountability in this area.

Known as the Wates Corporate Governance Principles for Large Private Companies, the principles are the result of significant debate and exploration, including a review of similar codes in other countries and consultation with experts and representative bodies. Large private companies will be encouraged to follow six principles to inform and develop their corporate governance practices and adopt them on an 'apply and explain' basis.

James Wates CBE, Chair of the Coalition Group that developed the principles, said,

> "Good business well done is good for society. Private companies are a significant contributor to the UK economy, providing tax revenue and employing millions of people. They have a significant impact on people's lives, and it is important they are well-governed and transparent about how they operate.
>
> "These principles will provide a flexible tool for companies of all sizes, not just those captured by the new legislative reporting requirement, to understand good practice in corporate governance and, crucially, adopt that good practice widely. The principles are about fundamental aspects of business leadership and performance."

Business Minister, Andrew Griffiths, said:

> "The vast majority of our largest companies get their responsible business practices right and help contribute to our deserved reputation around the world as one of the best places to work, invest and do business.
>
> "This Government-backed consultation was launched as part of our corporate governance reforms and its results will help to improve how large companies are run, strengthening our robust business environment."

Paul George, FRC Executive Director, Corporate Governance and Reporting Division, said,

> "These principles pave the way for more clarity of purpose and positive corporate behaviours amongst this significant sector of the business community. This work has the potential to help restore trust in business and contribute to long-term sustainable growth in the UK economy. It is therefore important that you respond to the consultation and help in the finalisation of the principles. The FRC is pleased to be working with James as part of the Coalition and in providing the secretariat."

The six principles are:

Purpose – An effective board promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Composition – Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

Responsibilities – A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge.

Opportunity and Risk – A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establish oversight for the identification and mitigation of risk.

Remuneration – A board should promote executive remuneration structures aligned to sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.

Stakeholders – A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good relationships based on the company's purpose.

The consultation is open until 7 September 2018. Responses should be sent to **corporategovernanceprinciples@frc.org.uk** address. The final version of the Wates Principles for Corporate Governance will be published in December 2018.

Notes to editors:

1. The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

On 11 June 2018 The Companies (Miscellaneous Reporting) Regulations 2018 were laid in Parliament **http://www.legislation.gov.uk/ukdsi/2018/9780111170298/contents**. These include a new corporate governance reporting requirement for all companies that do not have an existing corporate governance reporting requirement and satisfy either or both of the following conditions:

more than 2000 employees;

a turnover of more than £200 million, and a balance sheet of more than £2 billion.

This new reporting requirement will apply to financial years beginning 1 January 2019 with reporting to start in 2020.

Companies will be able to apply the Wates Corporate Governance Principles for Large Private Companies and meet the requirement.

2. In January 2018, the Secretary of State for Business, Energy and Industrial Strategy, the Rt Hon Greg Clark, appointed James Wates CBE as Chairman of the Coalition Group, with the FRC providing secretariat support. Membership of the Coalition includes representation from the FRC, the Institute for Family Business, the Institute of Directors, Confederation of British Industry, the Institute of Business Ethics, British Private Equity and Venture Capital Association, the Investment Association, the Climate Disclosure Standards Board, ICSA: the Governance Institute, and the Trades Union Congress.

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