

**Present:**

Will Pomroy (Chair)	Hermes Investment Management Limited	WP
Tracy Gordon (Deputy Chair)	Deloitte LLP	TG
Edward Beale	Western Selection PLC	EB
Jo Chattle	Norton Rose Fullbright	JC
Jonathan Compton	BDO LLP	JCO
Louis Cooper	Non-Executive Directors Association	LC
Sarah Hassan	Thomson Reuters	SH
David Hicks	Charles Russell Speechlys	DH
Julie Keefe	Norton Rose Fullbright	JK
Kamalprit Lally	Wedlake Bell LLP	KL
Darius Lewington	LexisNexis	DL
Sahul Patel	FIT Remuneration Consultants	SP
Jack Shepherd	CMS	JS
Jaqueline Tees	Vistra Limited	JT
Kerin Williams	Prism Cossec	KW
Tim Ward	Quoted Companies Alliance	TW
Anthony Robinson	Quoted Companies Alliance	AR
Jack Marshall	Quoted Companies Alliance	JM

**In attendance:**

Sanu De Lima	BEIS	SL
Sana Mirza-Awan	BEIS	SM
Chris Thresh	BEIS	CT

- Welcome to Sanu De Lima, Chris Thresh and Sana Mirza-Awan, Deputy Directors of Corporate Governance Reform at the Department for Business, Energy and Industrial Strategy, as guest speakers to give an update on the priorities of BEIS that are of relevance to smaller companies.**

WP welcomed SL, SM and CT to the Corporate Governance Expert Group meeting.

First Corporate Governance package

SM outlined the main elements of the first corporate governance reform package, which included:

- New provisions that require boards to use one of three mechanisms to support effective engagement with employees.

- A requirement for companies to provide information on executive pay that demonstrates alignment over time with pay through the rest of the company.
- Large companies to report on how directors have complied with section 172 of the Companies Act.
- The development of corporate governance practices for large private companies (Wates Corporate Governance Principles for Large Private Companies).
- Exemptions to smaller companies on UK Corporate Governance Code have been maintained.

BEIS are currently monitoring the way in which companies are responding.

#### Insolvency and corporate governance

Further to the green papers consulted upon in light of recent company failures, such as the collapse of Carillion, and investigations into the conduct of directors at BHS, BEIS are seeking to improve the quality of board effectiveness, strengthen the dividend framework and streamline group structures. Ongoing initiatives include:

- Commissioning ICSA to, with industry, develop a code of practice for independent board evaluations;
- Commissioning the ICAEW to review relevant guidance and provide advice on whether a distributable reserves disclosure requirement would be necessary (this is due to be completed in September); the IA to investigate if companies are making disproportionate use of interim dividends in the absence of a final dividend (therefore without formal shareholder approval); and
- Have initiated a workstream to examine options for streamlining the dissolution of redundant companies.

#### Current priorities

BEIS are making progress with the recommendations of the independent review of the FRC that do not require legislation, for example, recruitment for the new regulator is well underway and they are reviewing responses to the initial consultation, as well as preparing a further consultation on the more complex issues.

They are working to publish the Government's response to the CMA's Market Study, which determined that the statutory audit market falls short of what is required.

Finally, Sir Donald Brydon's review into the quality and effectiveness of audit is due to have an initial report submitted by the end of this year.

#### Independent review of the FRC

BEIS cited several questions which they are contemplating:

- Recommendation 27 – should the regulators' Corporate Reporting Review be limited to Public Interest Entities (PIE)?
  - Concern was raised that the existing definition of a PIE may be considered too narrow, one consequence of which might be to create a regulatory gap with the likes of AIM companies not covered. It was suggested that the definition of a PIE could be revised in order to focus on the nature of the company and not its listing status.
- Recommendation 51 – should the UK internal control framework be strengthened?
  - There were mixed views expressed on the merits of adopting a stricter rules-based framework such as that required through Sarbanes Oxley.

- Recommendation 28 – should the new regulator introduce a pre-clearance procedure and if so would this would be of value?
  - Scepticism was expressed over the practicability of such a framework as well as the potential costs of such a procedure.
- Recommendation 42 – the appropriateness of the approach taken to revising the UK Stewardship Code
  - It was agreed that informed shareholder dialogue was essential to for the corporate governance system to function effectively. To that end, concerns with the influence of proxy advisors was cited and greater focus on Fund level rather than firm level disclosures.

### Leadership diversity

It was mentioned that BEIS were currently undertaking two reviews into leadership diversity: the Hampton-Alexander Review and the Parker Review. The Hampton-Alexander Review has established that the FTSE 100 and FTSE 250 are on track to reach the 33% target on the representation of women in boards by 2020. The FTSE 350, however, is somewhat behind. The review is due to publish its findings on the gender data of companies Executive Committees in the FTSE 350 in November.

The Parker Review is attempting to make progress on improving diversity in terms of the representation of ethnic minorities on boards across the FTSE 100 and FTSE 350. As of August 2018, 54 FTSE 100 companies did not have any directors of colour on their boards.

### Discussion

A question was asked about how BEIS intended to align the three audit-related reviews in order to bring together into one coherent package. It was explained that everything would be brought together early next year. However, there have already been some developments, such as the appointment of the Chair of ARGA nearing completion and interviews being undertaken for the other positions, all of which will be subject to a BEIS committee pre-appointment hearing. Current political pressures will be an impediment to the process as it may be difficult to get primary legislation through parliament due to the current political climate.

In terms of developments to the UK's internal control framework, and despite the potential benefits for larger companies, the adoption of something similar to the US's Sarbanes-Oxley Act would be detrimental to smaller companies, particularly in terms of costs. There is, however, potential to incorporate exemption provisions for smaller companies, as well as family-owned businesses, such as in the US. It is important to establish a reasonable revenue level both for AIM companies and smaller listed companies.

In regards to the pre-clearance procedure, the consensus was that the FRC was not well resourced enough to carry out such a function. As such, it is likely that significant issues of practicality and implementation would materialise. The extent of demand for the pre-clearance function is difficult to assess, but there has been some sort of demand for it evident within the consultation. It is likely that if a pre-clearance procedure is introduced, it will be an expensive and technical procedure, whereas larger companies will be more equipped. This will disproportionately limit the ability of certain entities to use the function.

WP thanked SL, SM and CT for their time. SL, SM and CT left the meeting.

## **2. APOLOGIES**

Apologies for absence were received from John Beresford-Peirse, Nigel Brown, Amanda Cantwell, Richie Clark, Edward Craft, Ed Davies, Tamsin Dow, Peter Fitzwilliam, David Fuller, Nick Gibbon, Nick Graves, Ian Greenwood, Alexandra Hockenhull, David Isherwood, Daniel Jarmna, Colin Jones, Damien Knight, Peter Kohl, Kalina Lazarova, James Lynch, Efe Odeka, Philip Patterson, Julie Stanbrook, Carmen Stevens, Peter Swabey, Melanie Wadsworth and Deborah Wilcher.

### 3. MINUTES OF LAST MEETING (14 May 2019)

The minutes of the last meeting were approved.

### 4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	<p><b>Corporate Governance Expert Group 2019/20 look ahead</b></p> <p>Section 172 statements were cited as posing a potential challenge for all companies and would lead to additional boiler-plate.</p> <p>A question was raised about whether the QCA should be monitoring its Corporate Governance Code and the quality of it further. It was mentioned that an award for good corporate governance reporting could be set up for companies who apply the code in order to identify and demonstrate examples of good practice. A strong view was that there should be multiple rewards, alongside a 'winner' to highlight a range of good practice examples.</p>	<p><b>JM</b> to arrange conference call in order to discuss CGEG look ahead.</p>
c)	<p><b>Future meetings and speaker priorities for 2019.</b></p> <p>This was not discussed, but a conference call will be set up in order to determine the speaker priorities.</p>	<p><b>JM</b> to invite potential guest speakers.</p>

### 5. COMMUNICATIONS AND FUTURE MEETINGS

	ITEM	ACTION
a)	<p><b>The results of the biannual QCA/YouGov <i>Small &amp; Mid-Cap Sentiment Index</i> has been published. The latest edition reveals that small and mid-cap companies remain positive about their own prospects, despite this optimism being at its lowest point since 2012. Many companies cite Brexit and political uncertainty as continuing to contribute to the neutral outlook on the economy. The key findings are as follows:</b></p> <ul style="list-style-type: none"> <li><b>i. 76% of small &amp; mid-caps are expecting to increase jobs, but 19% anticipate decreasing employment – up from 10% six months earlier.</b></li> <li><b>ii. 37% of surveyed companies are planning to raise capital - down from 47% when asked six months earlier.</b></li> </ul>	<p>None.</p>

	<p><b>iii. Companies predict average sales growth of 17%, down from 19.2% a year earlier.</b></p> <p>This was tabled for information only and not discussed.</p>	
b)	<p><b>The project for updating the QCA Audit Committee Audit Guide is progressing and is on course for release over the summer.</b></p> <p>This was tabled for information only and not discussed.</p>	None.
c)	<p><b>YouGov are surveying companies that adopted the QCA Corporate Governance Code to identify any ways in which we might be able to improve the Code and see if we can find evidence that following the QCA Code has helped companies. This will be published over the summer.</b></p> <p>This was tabled for information only and not discussed.</p>	None.
d)	<p><b>Henley Business School have been commissioned by the QCA and Downing LLP to undertake a research project to understand the role that NEDs play in smaller growth companies. The results are planned to be released in September.</b></p> <p>This was tabled for information only and not discussed.</p>	None.

## 6. ANY OTHER BUSINESS

None.

## 7. NEXT MEETING

Tuesday 12 September 2019, 9.00am – 10.30am (Venue: Wedlake Bell LLP, 71 Queen Victoria Street, London, EC4V 4AY)