



FRESNILLO PLC

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Submitted by email to: [codereview@frc.org.uk](mailto:codereview@frc.org.uk)

Dear Mr. Styles,

**Response to consultation on revisions to the UK Corporate Governance Code**

We welcome the opportunity to comment on the proposed revisions to the UK Corporate Governance Code (the Code). The proposals form an important aspect of enhancing corporate governance and need to be considered in the context of maintaining the attractiveness of the London capital markets as a listing destination. Below, we set out our views on proposed changes related to risk management and internal controls – as we anticipate these would have the biggest impact on our organisation. Our perspectives are influenced by being a company listed in London but with operations solely in Mexico.

In principle, we support the FRC's proposals to introduce a declaration on the effectiveness of risk management and internal controls. We consider that it will make the board's accountability clearer and should drive positive change by requiring stronger evidence of effectiveness. We also support expanding the scope of internal controls covered by the Code from purely financial reporting controls to financial and non-financial reporting controls. However, in order for the changes to drive meaningful improvements, we strongly encourage the FRC to:

- Acknowledge the difference in maturity of non-financial reporting controls as compared to other areas of risk management and internal controls and give companies more time to prepare for the expansion and for making a declaration on their effectiveness.
- Recognise the need for the UK framework to be fully compatible with international practices relating to risk management and internal controls. We would therefore support explicit reference to the COSO framework in the guidance. The FRC should consider that a declaration based on anything but COSO is unlikely to get the same level of international recognition as a US SOX confirmation – making the investment that companies will have to make much less attractive when, for example, seeking a secondary capital raise. To avoid confusion around cut-off and creating inconsistencies with the US SOX regime, we advocate that the declaration should be based on control effectiveness as at the balance sheet date.

- Take into consideration the cost and complexity of introducing a requirement for continuous monitoring. Controls are already monitored on a regular basis – it is unclear what step up would be required to move to continuous monitoring. We consider that this would be practically difficult to implement and extremely costly, with unclear benefits to us as a business. As such we support a balance sheet date for the declaration, made on the basis of, amongst others, regular monitoring of internal controls.

The Code should remain principles-based; however, it is imperative that the guidance has a degree of granularity that provides direction for companies, especially in respect of internal controls over financial reporting. Directors will require some clarity on the minimum baseline of activities/processes that must be undertaken in order to make a declaration of effectiveness. Without such a baseline, the ambiguity faced by companies trying to determine how much is enough could drive unnecessary cost and effort, which will impact on resource and capital allocation and ultimately UK competitiveness and growth. This guidance should have been issued at the same time as the proposed revisions to Code – this did not however happen. We now strongly encourage the FRC to share a draft of this guidance promptly and provide companies the opportunity to review and comment before it is officially issued.

This guidance also needs to clarify what constitutes a risk management framework as compared to an internal controls framework considering that the declaration is to cover both aspects. Whilst these terms are often used in combination and there is a degree of overlap, there are actually important distinctions between the two. We would also recommend that the guidance provides examples of activities that would constitute external assurance over the risk management system, in addition to assurance over internal control systems.

Should you have any questions or require further information, please do not hesitate to let us know at the following email address: [REDACTED]

Yours sincerely

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