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Dear FRC

Thank you for the opportunity to participate in the consultation on the proposed changes to the UK Corporate Governance Code ('Code').

Smiths Group plc ("Smiths") is a FTSE100 constituent that has been pioneering progress by improving the world through smarter engineering for over 170 years. We serve millions of people every year, to help create a safer, more efficient and better-connected world, across four major global markets: Energy, General Industry, Security & Defence, and Aerospace. Listed on the London Stock Exchange, we employ c.15,000 colleagues in over 50 countries. We firmly support the Government's objective of strengthening the UK's reputation and have a strong interest in protecting the UK's position as a world-class destination for investment, not least via trusted audit and corporate governance. In that context, we are pleased to submit the following response to the consultation.

Overall, we are supportive of the revision to the Code. However, the changes must allow companies to be proportionate and flexible in how they apply the Code. In addition, there are a number of areas that are too broad in scope. There is also a risk of over-regulation, with some proposals risking duplication and inconsistency with other legislation and/or regulation. In that context, our main feedback relates to the following matters, with our full response set-out in Appendix 1 to this letter:

- Climate ambitions and transition planning is already required under Listing Rules and (in due course) will be required by the mandatory transition plan regime. Therefore, we do not think it is necessary to include this in the Code. Having this requirement in multiple legislative and regulatory areas leads to duplication, inconsistency and ultimately an unnecessary increasing disclosure burden on UK companies.

- We do not think it is realistic for companies to provide detailed reporting on each director's ability to manage their time in respect of individual company appointments and that, instead, this is likely to lead to boilerplate reporting. It is also intrusive for individual directors. Including this assessment in the annual Board performance review would be sufficient as in reality this occurs in any event. Regardless of any additional disclosure narrative, many commentators will simply apply their existing methodology regarding the number of appointments and whether a particular director has missed Board or Committee meetings during the period.

- Companies should have maximum flexibility to establish appropriate oversight of ESG arrangements, metrics and performance assurance by the Board Committees of their choice, rather than require it to be mandated to the Audit Committee. For example, environmental matters are considered by our Science, Sustainability and Excellence Committee. Social metrics relating to people are reviewed and agreed by the Remuneration & People

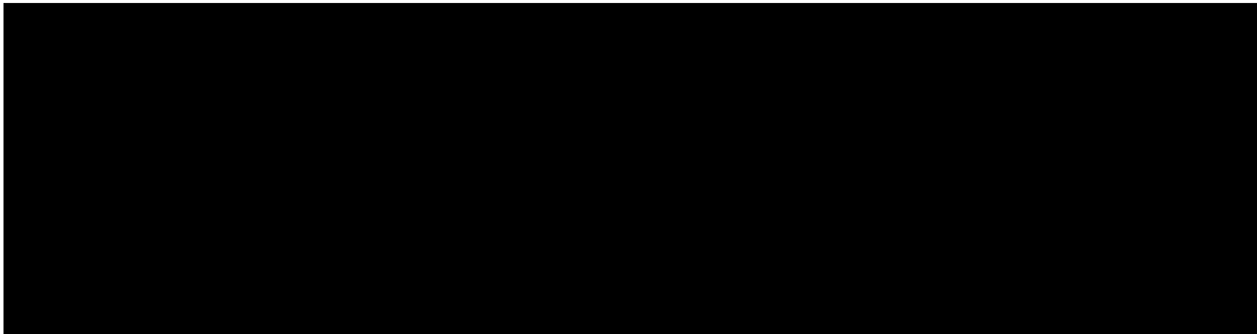
Committee. Controls around our non-financial data are reviewed by the Audit & Risk Committee. This works well for Smiths.

- The Board's declaration should be based on control effectiveness at the balance sheet date. In addition, we favour the term 'regular monitoring' as opposed to 'continuous monitoring'. Supporting guidance should clarify expectations on the minimum baseline of what directors need to do to make the declaration. Our concern is that directors will have increased obligations on the additional declarations, which in turn will create increased burden for companies as they will need to provide enhanced processes, internal support (and also external assurance) to allow directors to meet those obligations.

- The FRC should offer clarity and provide guidance regarding the concept/definition of "materiality" to facilitate more effective reporting practices and ensure proportionality. Preferably, this should maintain close linkage to financial materiality.

We would be happy to discuss this in more detail.

Yours sincerely



On behalf of Smiths Group plc

Appendix 1

Specific comments the questions raised:

Q1: Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?

We are supportive of changes to Principle D. This will encourage outcomes-based reporting on governance activity.

Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?

Smiths does not consider that the changes to Provision 1 which includes reference to *'climate ambitions and transition planning'* as necessary. These are duplicative to other legislation and regulation in force. For example, section 172(1) of the Companies Act requires directors to take into account environmental and social matters as part of their decision making. Climate ambitions and transition planning is already required under Listing Rule 9.8.6(8) and (in due course) will be required by the mandatory transition plan regime.

Q3: Do you have any comments on the other changes proposed to Section 1?

Yes, Smiths considers that the amendment in Provision 3 which replaces *"seek engagement"* with *"engage"* should not be included in the Revised Code as shareholders generally do not engage with companies and Committee chairs on many issues. Where a position or event was sufficiently material then Committee chairs would engage. However, in the ordinary course of business, investors and other stakeholders have not requested this. It also adds unnecessarily to the responsibilities of Chairs and boilerplate reporting where non-compliance is being 'explained'.

Q4: Do you agree with the proposed change to Code Principle K (in Section 3 of the Code), which makes the issue of significant external commitments an explicit part of board performance reviews?

Smiths agrees that assessing the ability of a director to commit sufficient time to the role should form part of the annual board performance review, as is already the case in practice. It is important that companies have discretion to determine what is "significant", as this is very much dependent on the company and the individual circumstances of the relevant director.

Q5. Do you agree with the proposed change to Code Provision 15, which is designed to encourage greater transparency on directors' commitments to other organisations?

Smiths is unclear how we would fulfil the requirement to explain how a director has time to undertake the role (and whether that assessment is based on a snapshot in time, for example, when drafting the annual report). We do not think it is realistic for us to provide detailed reporting on each director's ability to manage their time and that instead this is likely to lead to boilerplate reporting. It is also intrusive for individual directors. The Code requires directors to seek approval before accepting any external appointment and so there are already a number of opportunities throughout the year for a director's 'commitment' to be assessed. Regardless of any additional disclosure narrative, many commentators will simply apply their existing methodology regarding the number of appointments and whether a particular director has missed Board or Committee meetings during the period.

Q6: Do you consider that the proposals outlined effectively strengthen and support existing regulations in this area, without introducing duplication?

Smiths considers that a number of the proposals around diversity are duplicative of the FCA Listing Rules and requests the FRC to consider removal, to avoid unnecessary duplication.

Q7: Do you support the changes to Principle I moving away from a list of diversity characteristics to the proposed approach which aims to capture wider characteristics of diversity?

Smiths supports an approach that promotes diversity beyond gender, social and ethnic backgrounds, particularly as boards need to reflect the wider organisation and the communities they serve. However, we are concerned that the reference to "protected characteristics and non-protected characteristics including cognitive and personal strengths" is too broad. Directors may also not like to disclose this highly sensitive information to companies and therefore the data that companies have would not be reflective of reality. We suggest that instead the Code states:

"They should promote equal opportunity and contribute to a diverse and inclusive board and senior management team."

Q8: Do you support the changes to Provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments?

Smiths is not supportive of this change. Due to the highly sensitive and often commercially restrictive nature of succession plans, disclosure around succession planning will inevitably be high level and boilerplate to avoid any conclusions being drawn about individuals. Investors want to understand that there is a process in place but are not focussed on the level of detail which the revised Provision 40 includes. The requirement to include 'the gender balance of those in the senior management and their direct reports' is acceptable as the definition of senior management aligns with the listing rules. In the current code it does not, so this is a welcome change.

A further reason for not amending the existing Provision 24 is that there is duplication between the amended Provision 24 and the Listing Rule requirements LR 9.8.6 (10).

Q9: Do you support the proposed adoption of the CGI recommendations as set out above, and are there particular areas you would like to see covered in guidance in addition to those set out by CGI?

As a general matter, Smiths is concerned that the guidance which is intended to support companies instead becomes unhelpful due to the sheer volume of guidance being produced, and the fact that it is often difficult to find. As part of this Consultation, we would welcome the guidance becoming more accessible, more concise and linked to the Code (whilst making clear that it is guidance and does not form part of the Code itself).

Q10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?

Smiths is supportive of companies preparing an Audit and Assurance Policy. However, Smiths is concerned about the concept of an advisory shareholder vote, as it is unlikely that shareholders would meaningfully engage on audit and assurance matters and it adds an additional layer to an already time-consuming annual reporting process. Shareholder engagement could be more efficiently strengthened through the Stewardship Code than by a new requirement to consult with shareholders and/or have the policy voted on.

Q11: Do you agree that amending Provisions 25 and 26 and referring Code companies to the Minimum Standard for Audit Committees is an effective way of removing duplication?

Yes, Smiths agrees that duplication should be reduced as far as possible.

Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?

At Smiths ESG matters are dealt with by different Board/Committees depending on the subject matter. For example, environmental matters are considered by our Science, Sustainability and Excellence Committee. Social metrics relating to people are reviewed and agreed by the Remuneration & People Committee. Controls around our non-financial data are reviewed by the Audit & Risk Committee. This works well for Smiths. We consider that companies should continue to be afforded maximum flexibility to manage narrative (including sustainability) assurance and reporting and do not think that the Code should specify which Committee. Instead, there should be an explicit carve-out where such matters are reserved for the board or another committee of the board.

Q13: Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal controls systems in a proportionate way?

Smiths consider that the revisions to section 4 of the Code will inevitably have significant cost and resource implications for companies due to the level of internal and external assurance that directors will require in order to provide the declaration set out in provision 30. A few historic instances of corporate failure should not be taken as a proxy for the quality of existing internal control frameworks at UK listed companies. Proportionality must therefore be a guiding principle or we risk inadvertently adopting a US Sarbanes-Oxley like approach.

Q14: Should the board's declaration be based on continuous monitoring throughout the reporting period up to the date of the annual report, or should it be based on the date of the balance sheet?

Smiths' view is that directors should be able to give a declaration based on control effectiveness at the balance sheet date to avoid confusion around cut-off. This aligns with the rest of the declarations and disclosures in the Annual Report. It is also unclear what extent of continuous monitoring would be required in order to give the directors confidence to make a declaration that controls were effective at every point throughout the period and the cost implications of this. We suggest that monitoring should be clearly defined and performed at statistical and judgemental intervals rather than on a continuous basis. Many directors will be unwilling to give such a statement without having a significant level of assurance from management, and potentially also external assurance from advisors. Obtaining this level of assurance between the balance sheet date and Annual Report sign-off would place significant additional burden on companies.

The removal of "financial" and replacement with "reporting" broadens the nature of the statement being given by the directors, which in turn expands the obligations of the directors as regards "monitoring and reviewing". We consider that the existing wording of "financial, operational and compliance controls" should be retained. Broadening to "reporting" will inevitably result in increased costs for companies and burden on directors.

Q15: Where controls are referenced in the Code, should 'financial' be changed to 'reporting' to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?

The removal of "financial" and replacement with "reporting" broadens the nature of the statement being given by directors especially due to the increasing scale of non-financial information disclosures required in the future, some of which may not be material. This in turn expands the obligations of directors as regards the monitoring and reviewing, leading to an increase in costs as we will need to provide more internal support (and also external assurance) to allow directors to meet those obligations. We suggest that Provision 30 should continue to reference financial, operational and compliance controls.

Q16: To what extent should the guidance set out examples of methodologies or frameworks for the review of the effectiveness of risk management and internal controls systems?

Supporting guidance should clarify expectations on the minimum baseline of what directors need to do make the declaration of continuous monitoring. Examples would be helpful to ensure that interpretation of the requirement is consistent.

Q17: Do you have any proposals regarding the definitional issues, e.g. what constitutes an effective risk management and internal controls system or a material weakness?

It is important that the FRC offers clarity and guidance regarding the concept of "materiality", especially in relation to non-financial information, to facilitate more effective reporting practices and ensure proportionality. Preferably, the guidance should maintain a close link to financial materiality.

Q18: Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?

It would be helpful to be provided with guidance on the expectations in relation to reporting and operational controls and how it is linked to materiality and the assentation required by the Directors.

Q19: Do you agree that current Provision 30, which requires companies to state whether they are adopting a going concern basis of accounting, should be retained to keep this reporting together with reporting on prospects in the next Provision, and to achieve consistency across the Code for all companies (not just PIEs)?

Yes. Smiths supports this proposal.

Q20: Do you agree that all Code companies should continue to report on their future prospects?

Yes. It is helpful for investors/stakeholders to understand the direction of the business.

Q21: Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects?

Smiths offers no comment on this question as Smiths is a PIE.

Q22: Do the proposed revisions strengthen the links between remuneration policy and corporate performance?

Smiths is concerned that the reference to ESG objectives in Principle P '*Remuneration outcomes should be clearly aligned to company performance, purpose and values, and the successful delivery of the*

company's long-term strategy including environmental, social and governance objectives.' could be interpreted as making ESG conditions a mandatory part of remuneration arrangements, thereby restricting a company's ability to properly align incentives and strategy. There is already a reference to ESG in new Provision 43 *'The Remuneration Report should include an explanation of how the strategic rationale for executive directors' remuneration policies, structures and any performance metrics supports company strategy and environmental, social and governance objectives'.* Smiths considers it would afford a greater degree of flexibility to companies and allow them to compete more effectively in the global market if ESG is addressed in Provision 43 only, and not in Principle P (as the Principles are not 'comply or explain').

Q23: Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?

Smiths welcomes the approach taken to malus and clawback which allows companies to tailor their malus and clawback policies to their particular needs. Smiths considers a one-year look back to be most appropriate.

Q24: Do you agree with the proposed changes to Provisions 40 and 41?

Smiths welcomes the deletion of the existing Provision 40 and the removal of the consequential reporting requirement in Provision 41. We consider that this will remove a lot of unnecessary boilerplate reporting from remuneration reports.

Q25: Should the reference to pay gaps and pay ratios be removed, or strengthened?

Smiths considers that references to pay gaps and pay ratios are duplicative of existing statutory reporting requirements and should be removed.

Q26: Are there any areas of the Code which you consider require amendment or additional guidance, in support of the Government's White Paper on artificial intelligence?

Smiths considers it premature and unnecessary to make any amendment to the Code in relation to AI.