Synthomer plc
45 Pall Mall
London
SW1Y 5JG

Tel: +44 1279 436211
Fax: +44 (0)207 321 2700
www.synthomer.com

Mr D Styles
Director, Corporate Governance and Stewardship
Financial Reporting Council
8th Floor, 125 London Wall
London
EC2Y 5AS

Email: codereview@frc.org.uk

13 September 2023

Dear Mr Styles,

Thank you for the opportunity to respond to the FRC consultation on proposed changes to the UK Corporate Governance Code. The Board of Synthomer plc acknowledges and supports developing UK Corporate Governance, including the enhancement of reporting on internal controls, which is an important area for us.

By background, Synthomer is a world-leading supplier of high-performance, highly specialised chemicals that are applied across key industries such as coatings, construction, adhesives, and healthcare. Through our agile approach, we collaborate with more than 6,000 customers to enhance our existing products and services, and create innovative tailor-made solutions. The Group generated more than £2.3b revenue in 2022, with over 4000 employees globally across 36 sites. The Group is headquartered in Harlow, UK; also has 3 manufacturing sites in the UK. The Company's shares have been listed on the London Stock Exchange, it is a constituent of the FTSE 250 and is the only chemical company retained the Green Economy mark on LSE due to its highly innovative and environmentally friendly solutions.

We set out our response to each of the consultation questions below, which reflect discussions we have had as a board and in our audit committee and with the benefit of reflections with other listed companies. We thought it might be useful to summarise our major areas of comment:

- As indicated above, we acknowledge and broadly support the aims of the proposed changes, in developing UK Corporate Governance, including the enhancement of reporting on internal controls.
- The current scope and scale of the proposed changes in the reporting and attestation of the effectiveness of (both financial and non-financial) compliance and operational internal controls are significant and the proposed timeline starting in January 2025 is extremely challenging, at a time when many other additional reporting requirements are being implemented.
- With no current implementation guidance and this consultation ongoing in September 2023, we believe that an implementation date of 1 January 2026 for financial reporting controls only is a practical way forward.
- We do not support including operational controls within the scope of the internal controls attestation requirements. In our view, this is appropriately and adequately covered in current risk reporting.
- We are concerned that there is very limited implementation guidance and we would also ask for early sight of practical implementation guidance or proposed market standards.
- We have also reflected on the impacts of both cost and resource implications for organisations such as ours and the expanding responsibilities being placed on Non-Executive Directors and welcome FRC support and recognition of this.

We are happy to expand on any of the points below and thank you again for the opportunity to comment.

Yours sincerely

On behalf of the Board of Directors of Synthomer plc

[redacted]

## Consultation - response

| | FRC question | Draft response |
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| **Q1 – Q3: Board Leadership and company purpose** | | |
| 1 | Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting? | Yes, we agree in principle, and it would be useful for guidance to encourage less need for detailed reporting on policies and procedures |
| 2 | Do you think the board should report on climate ambitions and transition planning, in the context of its the company's strategy, as well as the surrounding governance? | We already report on the governance and strategy of climate related risks and opportunities in the Annual Report, under TCFD reporting requirements. We support the revised wording to include specific reference to strategy and governance for climate ambitions and transition planning. However, any revisions should be considered in light of the extensive reporting requirements and changes already envisaged. The regulations and reporting standards in this area are complex and evolving, adding s significant burden for companies to manage - particularly for global organisations - around tight year- end reporting timescales. The value of additional disclosures must be weighed against the time and resource needed by companies to prepare them, which could be better directed at driving progress against net zero targets. |
| 3 | Do you have any comments on the other changes proposed to Section 1? | No other comments. |
| **Q4 – Q5: Division of Responsibilities** | | |
| 4 | 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? | We already reflect other non-listed commitments as part of our board performance reviews, so would support this change. |
| 5 | Do you agree with the proposed change to Code Provision 15, which is designed to encourage greater transparency on directors' commitments to other organisations? | See answer to 4. above. It would be helpful to have greater clarification around what is deemed 'significant' and we would caution against adding too much to the length of annual reports. |
| **Q6 – Q8: Composition, succession and evaluation** | | |
| 6 | Do you consider that the proposals outlined effectively strengthen and | We do not consider there to be duplication. |

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| | support existing regulations in this area, without introducing duplication? | |
| 7 | 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? | We support the approach to capture wider characteristics of diversity but would want to ensure gender and ethnicity remain a focus. Principle I could be amended to state: "They should promote equal opportunity and diversity and inclusion of those with protected (such as gender and ethnicity) and non-protected (such as cognitive and personal strengths) characteristics." |
| 8 | Do you support the changes to Provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments? | We support the changes to focus on key aspects of the succession planning work of the nomination committee – however, in our view, reporting against this provision would need to be at a high level given the commercial confidentiality of succession planning at this level. |
| **Q9: Board performance reviews** | | |
| 9 | 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 above, guidance around what is considered 'significant' in terms of external commitments would be beneficial (e.g. time required, organisational size, etc). |
| **Q10 – Q21: Audit, risk and internal control** | | |
| 10 | Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis? | n/a as we are a Public Interest Entity (PIE) and will be implementing an AAP on a statutory basis. |
| 11 | 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? | We agree the reference to a single source is sensible. |
| 12 | 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? | The proposals place an additional burden & emphasis on the Audit Committee. In our view, the Board should be free to determine how it wishes to design its governance structures. We also read into the proposals an underlying assumption that Audit Committees are already equipped with the skills and experience to satisfy the proposed new requirements with a very short implementation timeline – we would ask the FRC to reflect on this. |

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| | | We would also highlight the challenges faced by companies given both the short time frames for implementation and the complexity and volume of sustainability disclosures, legislation and number of frameworks involved, which are continuously evolving. This will be a significant challenge until market practice becomes more standardised. |
| 13 | 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? | We recognise the importance of internal controls and risk management and we continue to work on developing the formality and assurance therefor in our business. As we do this, we seek to prioritise those controls and assurance over the key risks to our business.<br><br>The scale and breadth of the current draft requirements (including operational, reporting and compliance controls) creates a huge challenge for all businesses. We would suggest that the proposed changes do not to include operational controls and that, at least initially, the requirements are focused on financial controls.<br><br>We strongly urge extending the implementation date on financial controls to 1 January 2026, given the consultation is still ongoing in September 2023. |
| 14 | 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? | We believe that the declaration should be based on the reasonable belief of control effectiveness, based on ongoing testing and monitoring programme throughout the financial year.<br><br>We would not support testing all material controls as at single balance sheet date. |
| 15 | 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? | We believe that the use of 'reporting' provides much less clarity around the requirements and could lead to confusion and different interpretations. In addition, extending the scope to a wider 'reporting' approach is very onerous due to, potentially, the much wider breadth of disclosure. This could, in turn lead to a potential risk of reduced useability of these disclosures to the users of the report. In our view, this |

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| | | should be introduced as financial reporting only, at least as a first step. |
| 16 | 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? | The guidance should set out clear examples that are practical to implement, with reasonable cost and resource implications. Guidance might include suggested coverage and materiality for both financial and non-financial risks, e.g. Health and Safety, examples of financial reporting frameworks, and initial expectations of non-financial reporting and compliance risks and controls in an organisation. |
| 17 | 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 will be important to provide some granular guidance and examples of what is considered to be a 'material weakness'. We would support a UK market standard approach and an agreed set of definitions around materiality for all in scope controls. |
| 18 | Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance? | No, and we would seek some reflection on the scope and timescales for implementation of the current proposals as set out above. |
| 19 | 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)? | As a PIE, we would continue to adopt a going concern basis of accounting. |
| 20 | Do you agree that all Code companies should continue to report on their future prospects? | As a PIE, we will report on future prospects, with going concern, resilience and viability statements. There is an opportunity we believe for some streamlining and consolidation of these requirements. |
| 21 | Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects? | n/a as we are a PIE. |
| **Q22 – Q25: Remuneration** | | |
| 22 | Do the proposed revisions strengthen the links between remuneration policy and corporate performance? | We believe companies should clearly align their reward frameworks with the company strategy and resulting objectives/measures (which will inevitably include environmental, social and governance objectives as set out in revised provision 1 of the Code). The |

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| | | current proposal as regards Remuneration seems to us to be too prescriptive in how this is done. In our view, environmental, social and governance objectives would be considered when setting performance measures rather than prescriptively being included, as the current proposal suggests. |
| 23 | Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency? | We support transparency on whether malus/ clawback provisions have been invoked but would seek to avoid excessive additional standard disclosures (minimum circumstances etc). |
| 24 | Do you agree with the proposed changes to<br>Provisions 40 and 41? | See answer to 23. above – it is also important to link this to the requirement around directors' discretion/ judgement. |
| 25 | Should the reference to pay gaps and pay ratios be removed, or strengthened? | We support the removal of the reference to pay gaps and pay ratios as there is other required reporting, as the consultation paper recognises. |
| **Q26: Other matters** | | |
| 26 | 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? | No other changes proposed. |