



The Risk Coalition response to the FRC consultation on its proposed changes to the UK Corporate Governance Code ('Code') 2023

The @RiskCoalition is pleased to respond to the FRC's 2023 Code review consultation. We have tried to be aware of and familiar with many of the other public responses entered. These have included our IoD and ICAEW memberships, also our involvement in independent board member and risk & audit professional groups including ACCIF and others, where the FRC team is often represented.

We have also hosted our own debating groups for this topic of Board Risk Chairs, Chief Risk Officers, also Co Secs and others directly involved or accountable for governance. We often blog on these debates (under Chatham House rule) and consider the implications of proposed Code changes for our own 'Raising the Bar' (RtB) risk guidance for Boards, Board Risk Committees, CROs and Risk Functions. This was originally launched 4 years ago with FRC support at their offices and is now being updated.

At all times we have made efforts to be aware of the UK, European and International regulatory environment which the Code exists within and aims to complement. While there has always been a strong focus on financial services, we work more widely across all commercial and NFP sectors.

In parallel to our Board Risk Chair, CRO and Co Sec groups we have arranged regular working meetings for the timely improvement of Raising the Bar guidance. A new cross sector version, consistent with Wates Principles and supported by Sir James Wates himself, should be widely available in draft shortly after the FRC's consultation concludes. A separate update to the existing Raising the Bar guidance will appear after the cross-sector version and after year end 2023. This has been more FS focused and is already used extensively by leading organisations in the UK and internationally.

The @riskcoalition has previously engaged with the FRC specifically to achieve some level of alignment between the FRC's Audit Committee (and Audit Controls) guidance and the @RiskCoalition's Risk Committee (and Risk function / CRO) Guidance, which might be appropriate where those committees are combined, separated or where other governance structures have been put in place by the board. Currently separated risk-oversight committees may include operations, cyber, technology, ESG etc. In many cases various Risk oversight activities only come together at the board, with only financial risk within the audit committee remit, although there is a clear trend towards a separated board risk committee and appointment of an independent Chief Risk Officer.

For more detailed responses on the FRC risk-related questions, we would refer the reader to the consultation submission from ██████████ of Halex Consulting, a key contributor to this submission.

The @riskcoalition has set out to develop guidance which is also Principles based, to fit the UKs comply or explain approach, supporting this with self-assessment tools (GABI – Gap Analysis and

Benchmarking Insights) and 'we could do better at' checklists to focus improvement efforts against the best practices of others.

While we make initial consultation response comments in this document, we are very aware that they may not fit readily under the sub-section headings or in response to specific questions, so we were pleased to already benefit from an FRC offer to meet the @riskcoalition team and potentially some active members, to discuss our comments, reasoning, and joint opportunities in more depth.

During the working group calls we have always emphasised the FRC's efforts to engage and their stated interest to fully consider and respond to consultation responses. We hope that our contacts will support the responses of their professional bodies (often Chartered in the Public Interest) and will have entered individual supplements where they have specific or separate comments to add to the consultation process. Most have noted that the FRC remains open to ongoing discussions.

We also recognise that while the Code is aimed primarily at UK Listed businesses, it is known and used in other ways including for independent board and governance reviews, versions for businesses of other sizes and types (e.g., QCA guidance for AIM companies), also in the courts where stakeholders take their own cases for judicial consideration.

We recognise that UK Government, with support from FRC's efforts, aims to make the UK attractive to listed (and other) businesses. Also, to limit complexity and cost while reducing business failures and increasing the confidence of stakeholders and availability of resources including funding, skills, supply chain partners and much more. These are very credible outcomes that we would support.

However, we note some important constraints which result from the FRC's limited remit, which mean that the Code, also Audit regulations, can only ever be part of the necessary solution, such that the FRC must work closely with others to optimise its effectiveness and the achievement of outcomes.

The FRC has previously recognised that approach has been needed with efforts such as the formation and hosting of Culture Coalition, a successful contribution which the FRC didn't need to own in full.

We propose that the FRC should make greater reference in the Code to best practices in risk, including our own industry-developed risk guidance for boards and board risk committees.

Our stakeholder communities could work more closely with the FRC (perhaps through the FRC lab or other working groups) to ensure guidance assists boards with the wide variety of risk governance structures and implementations, for example combined with audit committees, separated, or integrated in other ways (including with the topical use of ESG, cyber and technology committees).

The @riskcoalition offers to explore ways this could be achieved, whether through simple cross referencing or from joint working on practical guidance and existing better practice examples.

As a Not-For-Profit the @riskcoalition has limited funding but is motivated to maximise impact with others. Many technical points are already planned to be included in our own RtB revisions, to be reviewed next year to sit alongside the code. We would welcome greater engagement and cross-referencing from the FRC, as would our own stakeholder groups.

It is noticeable that, unlike the PRA and FCA, the FRC has no direct supervisory or enforcement powers alongside the Code, leaving stakeholders to hold boards to account. Unfortunately, it is often

minorities that are harmed most and these generally do not have the resources to use the courts. While the @riskcoalition has no specific position on this, it is noticeable from our working groups that FS professionals can often gain board attention and appropriate resources more readily than non-FS organisations, which in turn may remove potential mitigations to failure in other sectors.

The FRC has a clear remit for Audit and accounting-qualified professional audit chairs, a result of which appears to be that the code and associated powers (regulation, guidance, supervisory and enforcement) are leveraged to gain effect on Risk and Assurance capabilities in a secondary manner.

For example, the audit committee is increasingly required to be accountable for all controls, whether financial or non-financial risk related, even where the board has the Code's approval to structure its risk governance approaches in such a way that these come together within a risk committee, or at board level, rather than via the audit or combined audit and risk committee. We note the ACCIF's comments on this matter, where financial assurance is probably better defined than risk and risk assurance. Risk is perhaps more unique to the sector and situation than financial audit requirements. Risk matters also develop in understanding as ESG, technology (including AI and Cyber) continues to mature.

Our guidance is supportive in explaining the well-matured 'three lines' model in support of the delivery of reliable assurance. This model is strongly advocated by the Institute of Internal Auditors and acknowledged and applied by @riskcoalition. Our guidance aims to address the developing roles of internal audit and the common use of the independent Chief Risk Officer, which we recognise has been less common in non-FS firms. We note that the Code doesn't mention the three lines model but could usefully cross reference these complementary guidance materials. Our stakeholders have introduced case studies and exemplary experiences which offer a practical and principles-based alternative to greater regulation and workloads via FRC audit powers alone.

Having reviewed the already available consultation input online, we see that some responses are perhaps idealist in nature, while others (especially those at the points of real accountability) challenge the proposed changes and identify where considerable additional work may be needed.

The @riskcoalition is perhaps in a unique position, given its direct access to stakeholder groups leading professionals, examples and experiences, to engage with the FRC through its already offered meetings to develop practical approaches which will help deliver the required outcomes in a timely and practical manner. A professional-led approach should also have far less dependence upon government intervention and competition for scarce parliamentary time whether within the scope of this government or the next.

We look forward to working with the FRC team through the remainder of 2023 and beyond.

Yours sincerely,



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The Risk Coalition is a network of not-for-profit professional bodies and membership organisations committed to raising the standards of risk management in the UK www.riskcoalition.org.uk