



David Styles
Director, Corporate Governance and Stewardship
Financial Reporting Council
Sent via email: codereview@frc.org.uk

Date: 13 September 2023

Dear Mr Styles

Re: Pension Protection Fund response to the UK Corporate Governance consultation

The Pension Protection Fund (PPF) welcomes the opportunity to provide comments on the review of the UK Corporate Governance Code.

The PPF is a statutory public corporation led by our Board and accountable to Parliament through the Secretary of State for the Department for Work and Pensions. It's our duty to protect people with an eligible defined benefit pension when an employer becomes insolvent. We protect millions of people who belong to defined benefit pension schemes in the UK and pay pension benefits to over 290,000 people. We are responsible for managing over £33bn of assets on behalf of our members.

The PPF believes that in order to fulfil this commitment and to protect and enhance the value of the investments in the Fund, it must act as a responsible and vigilant asset owner and market participant. Responsible investment (RI) is an important part of our overall strategic plan and our core investment principles and strategy. The goal of our RI strategy is to enhance the long-term value of our investments by managing environmental, social and governance (ESG) risks and exploiting opportunities. As an active owner, we exercise our voting rights and engage with the companies or issuers we invest in to make sure they are accountable and fulfil their obligations to shareholders and other stakeholders. In addition, we continuously monitor the ESG practices and stewardship activities of our fund managers.

Overview

The Pension Protection Fund broadly welcomes the consultation, particularly in light of the wider challenges facing the UK market, that include, but are not limited to the cost of living crisis, the friction existing between shareholders and boards and the widely discussed concerns relating to the UK equity market.

The UK Corporate Governance Code has for many years been seen as a leading light on how a 'comply or explain' corporate governance environment can operate. It has guided the creation and application of many other governance regimes around the world and we strongly support actions taken by the FRC to ensure the Code remains at the forefront of corporate governance globally. However, whilst the desire to move forward is strong, appreciation of the concerns noted above, along with the significant

Protecting People's Futures

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a body corporate, under the Pensions Act 2004

reporting and disclosure requirements already putting pressure on companies should be given sufficient weight in any outcome.

There are aspects of the proposals we are concerned about given the possibility for them to further support existing concerns around governance becoming a 'tick-box' exercise. We would strongly advocate that the emphasis on value creation for stakeholders and the board's focus on the long-term success of the company to remain as core drivers of the Code. Whilst outcomes of stewardship activities are obviously important and reporting these to wider stakeholders will increase transparency, the danger is that this provision could encourage a short-term outcomes focus, rather than boards focusing on the longer-term outcomes beneficial to value creation. Ensuring that quality triumphs over quantity should be a consideration when moving forward with the Code amendments.

We have provided specific comment on aspects of the consultation below for your consideration.

Wording of ESG issues

Whilst supportive of the amendments to Provision 1, we suggest that 'governance' should be reinstated and specifically how it contributes to delivering the company's strategy. We consider an emphasis on governance in the Code should be maintained.

In addition, given the variance of companies operations, we do not consider all ESG risks to be sufficiently material to be covered in company reporting. To this end, we would welcome the addition of the word 'material' when asking the board to consider ESG issues. Adding material throughout the document when referring to ESG issues will allow companies to consider and address issues more efficiently and avoid laundry lists of non-material ESG issues being covered for the sake of completeness.

Supporting Outcomes and activities based reporting

Whilst supportive of the proposed additional Principle D, we recognise that not every governance arrangement may have a direct outcome that can be reported on. Overall, we are supportive of the disclosures that allow the reader of the annual report to understand what has taken place and any outcome associated with that action. Ensuring a focus on quality reporting is essential for this to add value.

Director time commitments

An increased focus on ensuring directors have sufficient time to devote to a board position is welcomed. We note that the time commitment and expectation of a board role varies greatly and on this basis, agree that a maximum number of positions should not be introduced. However, it should be made clear that being 'overboarded' is a serious potential risk to an individual director and associated board. A board should have an established process for evaluating time commitments in place of individual director that can offer structured guidance if needed.

Fairness of pay and the workforce

The PPF recognises the value of fair pay across an organisation, assisting in the motivation of the workforce and achieving long-term financial performance of the company. Whilst supportive of the changes to the Code in Provision 35 (new) and Provision 43 in relation to engaging with the workforce and remuneration issues, we would like to see the reference to pay ratios and pay gaps from this Provision maintained.

The operation of shareholder meetings



The PPF recognises the value of shareholder meetings taking place in person, whilst allowing participation virtually by shareholders around the world. The increasing trend of companies holding shareholder meeting only in a virtual format is concerning and on this basis, would welcome Provision C being further strengthened to clarify the value of genuine engagement with shareholders at shareholder meetings.

The wording included in Principle 10 of the ICGN Global Governance Principles would be a welcome addition to the Code to cover this matter.

We appreciate the opportunity to provide the above feedback and would welcome further discussion on the points raised.

Yours sincerely,

