

The FRC has made a short response to the European Commission's online questionnaire on the mid-term review on CMU (Capital Markets Union).

The Mid-term Review aimed to:

- take stock of progress on the implementation of the CMU Action Plan;
- reframe actions in the light of work undertaken so far and evolving market circumstances;
- complement the CMU Action Plan with new measures which constitute an effective and proportionate response to key challenges.

Respondents were invited to provide feedback on questions raised in a Commission consultation document. This document included corporate governance and the FRC provided the following in its response:

Board accountability to shareholders is an essential part of good corporate governance. Companies are required to address specific reporting requirements, and “comply or explain” disclosures, at both the European and national levels. In the UK, the UK Corporate Governance Code provides important information to investors to assist them to make more informed decisions about the companies in which they invest. An investor should pay due regard to a company's individual circumstances when assessing explanations and may challenge companies where explanations are insufficient. “Comply or explain” gives companies flexibility and makes it possible to set more demanding standards than can be done through hard rules. Experience in the UK is that the “comply or explain” approach to reporting by investors has been key to encouraging better stewardship and assisting clients to discuss with their asset managers how their investment approach is in the best interests of the client, while avoiding the box-ticking that may result under mandatory reporting. It is important that reporting expectations reflect legitimate differences between markets. “Comply or explain” helps to achieve this. However, some investors have strong views on specific ownership and long-term investment issues, and for them, a further level of stricter standardisation, for example in relation to related party transactions, may be useful. As the European Commission recognised in the negotiations on the Shareholder Rights Directive, the difficulties faced by investors wishing to exercise their voting and other rights, and the short-term focus of some of those investors, are obstacles to integrated and sustainable capital markets.