



Sir Win Bischoff

Chairman, Financial Reporting Council

25 years since Cadbury: the future of corporate governance in the UK

Thursday 2 March, 12.30pm-2.15pm

Mazars, Tower Bridge House, St Katherine's Way, E1W 1DD

Good afternoon.

I am delighted to be here today to talk about the UK Corporate Governance Code, of which the Financial Reporting Council has been custodian since 2003.

Even more so to be sitting alongside my old boss, Paul Myners when he was a Treasury Minister and held the 43% of Lloyds Banking Group of which I was asked to be Chairman post the HBOS acquisition.

With the publication of the Cadbury Report in 1992 and subsequent creation of the UK's Corporate Governance Code, the quality of corporate governance has been greatly enhanced and is now rightly globally renowned. A key reason why global investors commit their capital to UK listed companies is the trust and confidence the Code engenders, thereby benefiting UK society in the long-term through jobs, growth and prosperity.

In particular the 'Comply or Explain' approach has allowed the FRC to respond confidently and effectively to evolving market circumstances, which hard rules often cannot. Compliance with the Code's provisions is high but our monitoring shows that too many explanations when

Boards choose not to follow provisions are of poor quality. We have called for more oversight powers to address this.

As we look to the next 25 years, it is important that our framework of corporate governance continues to evolve. The demands are growing. The Prime Minister wishes to create an economy that works for everyone, and corporate governance is expected to contribute to this. Inevitably Brexit is also an issue. An overriding expectation is that investors will continue to look to the UK as a destination of choice. Businesses too, need to see the merit in being listed in the UK. A proportionate, principles-based framework for corporate governance will help to achieve these outcomes.

The Government's review, following well publicised failures of governance including at Sports Direct and BHS, has been a catalyst to focus the minds of both investors and businesses.

The FRC itself has proposed a series of measures in its response to the Green Paper consultation, including a fundamental review of the Code to consider both context of, and balance between, its principles, provisions and guidance.

If corporate governance is going to serve the needs of wider society it must be supported by a broad church of stakeholders. This is why we established our Stakeholder Panel. Its work is already underway and will ensure we can respond swiftly and boldly to the outcomes of the Government's public consultation and the report of the BEIS Select Committee.

The FRC has led in other ways. Our Culture report and Stewardship tiering are a good example. We have also responded rapidly to changing political expectations. We agree that

the current enforcement framework needs reviewing, stiffening even, and we have called for enhancements to our powers.

There have been over 400 responses to the Government's Green Paper, with many proposing solutions on which we are aligned and where the FRC has suggested or is already taking action.

We differ though with suggestions for the creation of a separate body to devise and oversee corporate governance in the UK. We question the merit in establishing yet another body with the potential to add to the complexity and burdens already faced by business and investors.

In that context there are certain principles underlying corporate governance in the UK which we feel must be retained.

They are:

1. The strength of the unitary board, strong shareholder rights and the “comply or explain” approach. These three have long delivered economic success. The law holds all directors equally responsible for the decisions of the board. But their responsibility now needs to be more closely aligned to the broader factors in section 172 of the Companies Act, and should be reported on and effectively monitored.
2. Application of the law. The regulatory framework is fragmented and enforcement is not fully effective at present. In the FRC's own area of financial reporting for instance, we have powers to sanction accountants, but not directors – who may be just as culpable when companies fail but happen not to be members of the profession. The gaps need to be closed.

Paul this morning on the TODAY programme opined that it would be better if the FRC got stronger, but that we might need legal change in a number of areas to be so.

3. Good performance is encouraged and rewarded appropriately. Any changes to the law should take account of this. Shareholder value is driven by external factors as well as by performance. Those who do well deserve reward, while those who perform poorly but benefit from rising markets do not. Boards must exercise judgement and use the discretion they have, and take greater responsibility for employee matters across the organisation. They should more clearly explain what they have done and why.

Twenty-five years after Sir Adrian Cadbury's report the UK remains in a good position globally, with high levels of trust and confidence among investors. Corporate governance must be such as to maintain that trust. It is clear that the Government expects businesses to help deliver fair outcomes across all of society as well as to investors. The FRC's policy proposals and those of the over 400 submissions to the consultation should help to attract goodwill and capital from across the globe. At a time when geopolitics and world economics look less certain, that will be ever more important.

Thank you for listening.