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Dear Ms Horton

**Virgin Money response to Financial Reporting Council consultation paper  
*Proposed revisions to the UK Corporate Governance Code***

We welcome the opportunity to respond to the Financial Reporting Council consultation paper *Proposed Revisions to the UK Corporate Governance Code* which sets out a range of proposals to enhance the UK's corporate governance framework.

The UK is already an established international leader in standards of corporate governance. This is a huge strength for the UK economy which helps make the UK an attractive destination for businesses to base themselves and invest. However, as both the Government and FRC recognise, to maintain this position requires policy-makers to periodically examine whether there is a need to build upon the very strong foundations provided by the existing code and update some of the principles and provisions.

We therefore welcome the fact that the FRC has undertaken a comprehensive review of the code to ensure that it remains "fit for purpose and continues to promote improvement in the quality of governance". Furthermore, we welcome the fact that the Code remains Principles-based and believe it is important to maintain this approach in the future.

We support the broad thrust of the FRC's proposals set out in the consultation paper. In particular, we welcome the introduction of new measures on employee engagement as well as the proposals to strengthen and broaden existing requirements around diversity.

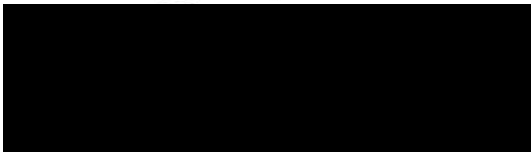
We support the broad thrust of the FRC's proposals set out in the consultation paper. In particular, we welcome the introduction of new measures on employee engagement as well as the proposals to strengthen and broaden existing requirements around diversity.

We see the increased prominence given to promoting diversity – not just in the boardroom but also in the executive pipeline – as very positive. Our commitment to increasing diversity is demonstrated by the fact we are a founder signatory of the HM Treasury Women in Finance Charter and have committed ourselves to the ambitious goal of a 50-50 gender balance by 2020 throughout the organisation. In addition, we will achieve board gender parity in March 2018 and have also implemented the central recommendation of the Parker Review – namely, that FTSE boards should have at least one director from an ethnic minority background.

Please find attached our comments on the proposals in the consultation paper in the Appendix to this letter. We have restricted our comments in this response to those parts of the consultation on the Code where we believe we have something distinctive to add to the debate. In addition, we have not commented on the initial proposals around the future direction of the UK Stewardship Code. However, we fully intend to engage on this when the FRC publishes its detailed consultation paper on specific changes to the Stewardship Code later this year.

We would be happy to discuss any aspect of our response with you in greater detail if this would be of use.

Yours sincerely



↳ **Glen Moreno**  
**Chairman**



## **Employee engagement**

### ***Flexibility with respect to the mechanisms companies use to engage with employees***

1. We agree that good corporate governance goes beyond the relationship between the owners and senior managers of a business and that well-run and successful companies will have strong relationships with a broader range of stakeholders. We therefore support the proposed change to the Code to include a specific Code Principle (Principle C) setting out the board's responsibility for considering the needs and views of a wider range of stakeholders. To this end, we also support the FRC's objective of strengthening meaningful engagement between boards and the workforce.
2. We continue to believe that companies should themselves be able to select the mechanisms most appropriate for their business, and explain why they have been chosen.
3. Provision 3 of the revised code sets out three ways to achieve 'engagement' – "This would normally be a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director. However, we do not believe that the three proposed 'engagement' mechanisms proposed by the FRC exhaust the list of ways in which firms could engage with their workforce.
4. Indeed, with the advent of technology we are already seeing some companies adopt creative and imaginative ways to engage with their workforce. We are therefore pleased that the FRC recognises this with the Revised Guidance on Board Effectiveness stating that "these are not the only possible methods and boards should be open to innovative alternatives if they believe these would be as or more effective".
5. As a result, we believe that Provision 3 should be more explicit that the three options as set out are just that – and that firms are free to choose other 'engagement' mechanism and explain why they believe these are more suitable and/or will result in greater levels of engagement with their workforce. Our concern is that unless this is stated more clearly in Provision 3, firms will simply choose some combination of the three mechanisms and that this could potentially inhibit the establishment of newer more innovative forms of engagement that, over the longer-run, could be far more effective in ensuring meaningful engagement.

### ***The importance of feedback in ensuring genuine dialogue and meaningful engagement***

6. We believe that effective colleague engagement and participation requires at a minimum three stages:
  - A process by which employees/workforce can collate and express their views;
  - A mechanism for the board to hear and act on those views; and
  - A feedback loop for the board to communicate to employees.

7. We believe that the FRC's proposals would benefit from setting out these three stages more clearly and, in particular, providing more guidance on the feedback loop for the board to communicate to employees. This would, in our view, ensure that firms focus not just on stage one of the process, but on all three stages – and we believe help result in more meaningful engagement and a genuine dialogue.

### **Shareholder engagement and significant votes against resolutions**

#### ***The threshold for action on encountering significant shareholder dissent***

8. The Code stresses the importance of regular engagement with major shareholders, including engagement with shareholders when they receive significant votes against any resolution. To this end, we welcome the FRC's aim of providing greater clarity as to what is expected of companies where they receive significant votes against resolutions at their annual general meeting.
9. The FRC has proposed that "when more than 20 per cent of votes have been cast against a resolution, the company should explain, when announcing voting results, what action it intends to take to consult with shareholders in order to understand the reasons behind the result". We agree with the FRC that companies should be required to provide an explanation in these circumstances and are supportive of the FRC's proposal that companies should publish an interim update no later than six months after the result with a final summary being provided in the next annual report.
10. We are also supportive of the FRC's intention to introduce a "significant dissent" threshold although we disagree with the proposal to set this at 20% of votes cast. This could allow disproportionate influence on board and company policy by a large minority shareholder or single proxy agency. We believe that 30% would be a more sensible and representative threshold.

### **Building diversity in the boardroom**

#### ***Extending the focus of the Code beyond gender diversity as well as to the executive pipeline***

11. We believe that greater diversity will improve decision-making and governance in companies. We strongly endorse the increased prominence given to diversity issues in the revised Code. In particular, the emphasis in the revised Code not just on gender diversity, but also on ethnicity and social background is to be welcomed.
12. We believe that the importance of diversity extends beyond the boardroom. As a result, we also welcome the broadening the focus of the Code to encourage companies to oversee the development of a diverse pipeline for future succession to board and senior manager appointments.
13. We also support the decision of the FRC to take forward the Hampton-Alexander recommendation that all FTSE 350 companies disclose in their Annual Reports the gender balance on the Executive Committee and Direct Reports to the Executive Committee. This measure is particularly welcome as it significantly enhances transparency but also facilitates far greater comparability of the progress different companies and sectors are making in this area. We see no logical reason to limit



such disclosure to FTSE 350 companies only and would therefore support the extension of this requirement to companies outside the FTSE 350.

14. In summary, we believe that the package of proposals put forward by the FRC in Section 3 of the revised Code will lead to greater action and impetus to build greater diversity not just in the boardroom, but as importantly in the executive pipeline and in the company as a whole.

### ***Reporting against ethnicity***

15. We agree with the principle of encouraging companies to report on levels of ethnicity across their organisation and in senior management positions. There are, however, some practical difficulties which will make such reporting more difficult and less reliable than is the case with respect to gender.
16. Employees are not under any legal obligation to disclose their ethnicity to their employers. For example, at Virgin Money we ask our employees to disclose their ethnicity voluntarily which does not provide a complete record. Further, it would be wrong for a HR team to judge an individual's ethnicity. This contrasts with gender where there is a legal requirement to disclose an employee's gender (male or female are the only permitted classifications) to HMRC.

### **Remuneration**

#### ***Expanding the remit of the remuneration committee***

17. It is clear that there is heightened public concern about rising levels of executive remuneration, especially where it appears unrelated to company performance or to levels of pay growth in the rest of the organisation. We therefore agree that it is important for remuneration committees to have oversight of remuneration policies and practices across an organisation's employee population.
18. Indeed this is already largely the case at Virgin Money where the remuneration committee's duties and responsibilities currently include (amongst other responsibilities):
  - the development of Remuneration Strategy for all colleagues;
  - oversight of major changes in employee benefits structures;
  - establishing parameters for annual salary reviews and bonus plans and making recommendations for Board approval; and
  - monitoring and reviewing the level and structure of remuneration of senior executives in the context of the remuneration policies as a whole.

We believe that incorporating such practice in the Code more widely across FTSE companies would be beneficial.

19. We note the use of the term "workforce" rather than "employee". Our view is that there are better mechanisms than the Code to resolve concerns relating to employment status. The proposed definition of "workforce" is likely to create confusion in terms of who is captured. We would suggest that Committees' responsibilities extend only as far as contracted employees.

### ***Remuneration Committee Chair***

20. We also note the FRC's proposal that "before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least twelve months". We believe this Provision is unnecessary and that companies should continue to have the flexibility to appoint the individual they believe is best for the role – regardless of whether they have previously served on a remuneration committee for twelve months.

### ***Long-term Incentive Plans (LTIPs)***

21. The consultation paper also asks whether there are other ways in which the Code could support executive remuneration that drives long-term sustainable performance. The 2017 Department for Business Green Paper explored LTIPs in this context. In our response to that consultation, we stated:

*We share the Government's concerns that LTIPs can be highly complex and we have considerable sympathy with those investors who have called for simpler and more transparent ways of incentivising long-term performance.*

*We agree that consideration should be given to "restricted share" awards as an alternative to LTIPs and that this could lead to better and clearer alignment between senior executives and shareholders. We would welcome further dialogue with relevant parties as to how this could best be achieved.*

22. As well as "restricted share" awards we are also open to other alternative options. We continue to believe that there is merit in dialogue on this issue with a view to longer-term change. To this end, we believe that the FRC may be well-placed to use its convening power to reinvigorate the debate on this important issue.