

Consultation Question	TIFS Response
Q1: Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?	Yes. It embeds the expectation and mindset (outcomes focussed) of boards / committees more explicitly firmly into the Code.
Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?	In principle, yes. However, the key question is the expected impact of this change. At present, many companies already publish their climate targets as well as actions they are taking to meet those targets. Therefore it is unclear whether this change is intended to drive further details to be disclosed.
Q3: Do you have any comments on the other changes proposed to Section 1?	We disagree with the proposed requirement to report the outcomes of engagement which have taken place between the Committee chairs and shareholders. We do not think a mandatory requirement to engage is meaningful, as most of shareholder engagements are already in place with the CEO, the CFO and the investor relations function. Separate engagements between Committee chairs and shareholders are not common, and are not necessarily essential for shareholders to engage with the company on governance-related matters. We do not think these proposed requirements will have a constructive and meaningful impact and improvement to the current practice, and will only lead to more boiler-plate disclosures.
Q4: Do you agree with the proposed change to Code Principle K (in Section 3 of the Code), which makes the issue of significant external commitments an explicit part of board performance reviews?	No. Companies are generally already disclosing the other board memberships that the directors hold. We do not understand what the additional sentence " <i>The annual performance review should consider each director's commitments to other organisations, and their ability to discharge their responsibilities effectively</i> " is meant to drive, and are doubtful whether any disclosures on this will be meaningful. Many companies may just state that in their view the directors have ability to discharge their responsibilities effectively. In our view, the process for selecting and appointing directors and the regular board effectiveness review are already sufficient in addressing this point.
Q5: Do you agree with the proposed change to Code Provision 15, which is designed to encourage greater transparency on directors' commitments to other organisations?	Please see response to Q4 above.
Q6: Do you consider that the proposals outlined effectively strengthen and support existing regulations in this area, without introducing duplication?	-
Q7: Do you support the changes to Principle I moving away from a list of diversity characteristics to the proposed approach which aims to capture wider characteristics of diversity?	Agreed. At present the focus has been primarily on gender.
Q8: Do you support the changes to Provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments?	-

<p>Q9: Do you support the proposed adoption of the CGI recommendations as set out above, and are there particular areas you would like to see covered in guidance in addition to those set out by CGI?</p>	<p>-</p>
<p>Q10: Do you agree that all Code companies should prepare an Audit and Assurance Policy, on a 'comply or explain' basis?</p>	<p>-</p>
<p>Q11: Do you agree that amending Provisions 25 and 26 and referring Code companies to the Minimum Standard for Audit Committees is an effective way of removing duplication?</p>	<p>Yes, we agree.</p>
<p>Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?</p>	<p>This needs to be carefully considered. Some of the disclosures in the annual report should be considered by the Board as a whole, not just specifically by the audit committee – for instance, key business matters, issues relating to company strategies, sustainability matters etc. TI, like many other companies, has a separate ESG Steering Committee under the Board which oversees the reporting of ESG matters, and therefore the remit for ESG and sustainability reporting falls into that committee. Inclusion of broader business and sustainability matters within the remit of the audit committee can create unnecessary issues when these have already been identified as within the remit of other bodies.</p>
<p>Q13: Do you agree that the proposed amendments to the Code strike the right balance in terms of strengthening risk management and internal controls systems in a proportionate way?</p>	<p>We strongly disagree. We think the proposed amendments set the bar too high (especially the requirement for continuous effectiveness of controls and expansion of scope beyond reporting controls). The availability of the option to "explain" instead of "comply" should not be the reason for introducing high bars. The FRC should also consider what is proportionate for in-scope UK companies overall, not just based on what the very largest of companies can achieve. Furthermore, there are already many operational and financial challenges that UK companies need to deal with under the current climate, a costly requirement which does not provide proportionate value is undesirable.</p> <p>Please see further comments below.</p>
<p>Q14: Should the board's declaration be based on continuous monitoring throughout the reporting period up to the date of the annual report, or should it be based on the date of the balance sheet?</p>	<p>We strongly oppose the proposal to base the board's declaration on effectiveness throughout the period up to the date of the annual report. We think this will be excessively onerous particularly in driving the assurance activities. The US SOX framework focuses on the balance sheet date, and it is already difficult and very costly to maintain. With internal control attestation being relatively new for UK companies, we think this will be too demanding, especially with other business and financial challenges and priorities companies will need to address in the currently challenging environment.</p> <p>Designing an assurance and testing programme to support an attestation for continuous effectiveness will be very costly and its scale, compared to a balance sheet date attestation, will be disruptive to the business. The requirement to</p>

declare based on effectiveness throughout the year will result in burden of remediation into essentially at least quarterly processes in order to avoid an un-remediated reportable deficiency, which is unrealistic. In addition, control failures do occur and therefore significant effort and cost will be needed to continuously assess whether controls have been effective throughout the period. The process involves testing, remediation, retesting and tracking, every time. In our view, this is unnecessary and may drive voluminous and excessive reporting of various control issues noted during the year. For many UK companies, this is unrealistic and many steps too far.

We think the value of the balance sheet date attestation is that it drives a sense of urgency and timeline into the process of risk assessment and remediation which is difficult otherwise to achieve.

Considering the state and circumstances of UK companies currently in terms of internal control assurance activities, the reform should focus on building good governance and driving good practice over time in a **proportionate** manner, instead of striving for a zero failure rate tolerance at all time.

We also do not agree with the notion that just because the Code is on a “comply or explain” basis, the FRC should then introduce very high bars and assume that companies can always just “explain”. Excessively high requirements entail (disproportionately) high cost of operation and maintenance, as well as obligation to conduct a correspondingly high level of assurance activities. In addition, the appetite for “explain” is significantly overestimated by the FRC, and the impact on market and investor perception is not sufficiently considered. UK companies generally strive to comply with all relevant requirements and do not favour reporting exceptions. Given the fundamental nature of internal controls, any exception reporting (due to overly high bar being set as standards) will not be well received, and therefore it is critical that the FRC sets the right bar at the proportionate level, before forcing companies to “comply or explain” excessively high requirements.

Q15: Where controls are referenced in the Code, should ‘financial’ be changed to ‘reporting’ to capture controls on narrative as well as financial reporting, or should reporting be limited to controls over financial reporting?

In principle, we agree with expanding from ‘financial’ to ‘reporting’ controls.

However, we disagree with the expansion of scope to also include operational and compliance controls. Whilst the theoretical basis may seem sensible to some, the practical implementation is very challenging. The determination of which operational and compliance controls to include is highly judgemental, and can easily amass a large number of controls within scope, resulting in a very significant and costly programme to assess, test, evaluate and maintain them. Given the range of operational areas a company deals with and manages, this can even be much broader (and more unstructured) than internal controls over financial reporting.

	<p>The reluctance demonstrated by the FRC in public webcasts to provide further guidance on this area, leaving all judgement to management, is very unhelpful. This being a new area, requires detailed guidance to help directors make the appropriate judgements.</p> <p>We are strongly of the view that in the initial years of internal control attestations, focus should be on reporting controls. When this has matured, and with further detailed guidance, we can consider if it will be appropriate and proportionate to also expand into operational and compliance controls.</p> <p>With this proposed expansion of scope only publicised in May by the FRC, we as a company will find it extremely challenging to be ready by 2024. We think the current proposal is too demanding and disproportionate, particularly in the context of many other areas that UK companies now need to face and address.</p> <p>The FRC should also ensure that companies have enough sufficient time for the guidance to be adopted. In our view, the consultation process thus far has been pushing too hard on timing of implementation (whilst a lot of time has been taken for consultation to be issued and considered). Effective implementation from 1 January 2025 is now a significant challenge for many companies.</p>
<p>Q16: To what extent should the guidance set out examples of methodologies or frameworks for the review of the effectiveness of risk management and internal controls systems?</p>	<p>The FRC repeatedly maintains that the new internal control attestation requirement is not the same as US SOX. However, apart from high-level principles in the Code, the FRC (currently) shies away from providing further guidance. In our view, detailed guidance is needed to set out methodologies and framework for review of effectiveness of risk management and internal controls systems, to help directors make the right judgement that meet the expectation of the FRC, and to drive certain level of consistency with other UK companies. This will also avoid situations whereby the FRC later outlines their expectations of how the internal control assessment should be done, in their reviews of corporate reporting, which are significantly different to management judgement.</p> <p>At present, except for the lack of requirement for an external audit of the internal control attestation, many people view the proposed changes as more onerous than US SOX due to the requirement for 'continuous effectiveness through the period to the date of the annual report' and expansion of scope to include operational and compliance controls.</p>
<p>Q17: Do you have any proposals regarding the definitional issues, e.g. what constitutes an effective risk management and internal controls system or a material weakness?</p>	<p>The current proposed working definition of material weakness (<i>"A fault, deficiency or failure in the design or operation of the risk management and internal control framework, such that there is a reasonable possibility that the company's ability to identify, assess, respond to or monitor risks to its strategic, operational, reporting and</i></p>

	<i>compliance objectives is adversely affected</i> ") is too broad, and does not take into account materiality. Arguably this sentence can be applied to all control failures – they all have certain adverse effect. Therefore we think more specific and useful guidance is needed.
Q18: Are there any other areas in relation to risk management and internal controls which you would like to see covered in guidance?	-
Q19: Do you agree that current Provision 30, which requires companies to state whether they are adopting a going concern basis of accounting, should be retained to keep this reporting together with reporting on prospects in the next Provision, and to achieve consistency across the Code for all companies (not just PIEs)?	Yes
Q20: Do you agree that all Code companies should continue to report on their future prospects?	-
Q21: Do you agree that the proposed revisions to the Code provide sufficient flexibility for non-PIE Code companies to report on their future prospects?	-
Q22: Do the proposed revisions strengthen the links between remuneration policy and corporate performance?	-
Q23: Do you agree that the proposed reporting changes around malus and clawback will result in an improvement in transparency?	-
Q24: Do you agree with the proposed changes to Provisions 40 and 41?	-
Q25: Should the reference to pay gaps and pay ratios be removed, or strengthened?	-
Q26: Are there any areas of the Code which you consider require amendment or additional guidance, in support of the Government's White Paper on artificial intelligence?	-